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)

RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 30 JUNE 2002

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

The directors of Phoenix Satellite Television Holdings Limited (the "Directors") collectively and individually accept full responsibility for this announcement which includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange for the purpose of giving information with regard to Phoenix Satellite Television Holdings Limited. The Directors confirm, having made all reasonable enquires, that to the best of their knowledge and belief, (i) the information contained in the announcement are accurate and complete in all material aspects and not misleading; (ii) there are no other facts the omission of which would make any statement herein misleading; and (iii) opinions expressed in this announcement have been arrived at after due and careful consideration on the bases and assumptions that are fair and reasonable.

FINANCIAL SUMMARY

- Revenue slightly decreased by 4.0% to approximately HK$685,043,000, mainly due to the worldwide economic downturn.

- Operating costs increased by 19.3% to HK$850,056,000, reflecting the impact of the operating costs of Phoenix Infonews and Phoenix North America Chinese channels for the full 12-month period and Phoenix Chinese News & Entertainment Channel for eight months.

- Consolidated loss attributable to shareholders was approximately HK$199,716,000, which included the impairment charge of goodwill arising from the acquisition of Phoenix Chinese News & Entertainment Limited amounting to approximately HK$44,700,000.

- Loss per share was HK4.05 cents as compared to earnings per share of HK1.10 cents for the previous financial year.

- Revenue for the 3 months ended 30 June 2002 increased by 16.0% over the previous quarter and by 12.0% over the 3 months ended 30 June 2001.

Results

	Year ended 30 June		
	2002	2001	2000
	$'000	*$'000*	*$'000*
Revenue	**685,043**	713,687	511,342
Operating (loss) profit	**(165,013)**	1,292	40,768
(Loss) Profit attributable to shareholders	**(199,716)**	53,984	50,315
(Loss) Earnings per share, Hong Kong cents	**(4.05)**	1.10	1.22
Operating (loss) profit by business			
Phoenix Chinese & Movies channels	**165,760**	248,081	157,689
Phoenix InfoNews, North America Chinese and Chinese News & Entertainment channels	**(211,754)**	(105,474)	–
Other businesses	**(18,092)**	(41,846)	(893)
Management overheads	**(100,927)**	(99,469)	(116,028)
(Loss) Profit from operations	**(165,013)**	1,292	40,768

Note: Due to changes in the arrangement with Shenzhou Television Company Limited, our advertising agent in the PRC, certain items in year ended 30 June 2001 had been reclassified for comparison purposes.

CHAIRMAN'S STATEMENT

I am pleased to present to you the 2001/2002 annual results for Phoenix Satellite Television Holdings Limited (the "Company") and its subsidiaries (collectively the "Group" or "Phoenix").

BUSINESS OVERVIEW

Television broadcasting

During the 2001/2002 financial year, the Group directed its efforts towards consolidating the five channels which now provide Phoenix with global reach. Phoenix Chinese Channel and Phoenix Movies Channel were respectively the first foreign free-to-air and subscription channels to receive official approval to be distributed through the Pearl River Delta cable system in Guangdong. The potential for Phoenix North America Chinese Channel was further expanded by entering the platform of EchoStar, the second largest direct-to-home broadcaster in the United States, which operates in tandem with our pre-existing distribution by DirecTV. The Group's 70% interest in Phoenix Chinese News and Entertainment Channel ("Phoenix CNE Channel"), which broadcasts to Europe, was formally acquired. The broadcast of Phoenix InfoNews Channel in Hong Kong through i-Cable and the overruling of the suspension of InfoNews' preparatory licence in relation to its application for landing rights in Taiwan have further underscored that channel's potential to serve the interests of Chinese across the Greater China region. Although the new channels' contribution to revenue was marginal, they were performing well in building up their brand names and expanding viewership.

Phoenix also consolidated its international position as a leading Chinese-language broadcaster of television news and entertainment. It's comprehensive coverage of the terrorist attacks in the United States and the subsequent war against terrorism, including sending a team to Afghanistan to report on the allied offensive against the Taliban, identified Phoenix as a unique global media service providing comprehensive Chinese-language reporting on major international developments.

The Channels

Phoenix Chinese Channel

Phoenix Chinese Channel remained the flagship of the Group, contributing 91.2% of its total revenue. On the programming side, the channel continued to create original programmes with Phoenix's distinctive appeal, such as the popular Pole-to-Pole Expedition, which involved a film crew traveling the length of the American continent from Antarctica to the Arctic. The channel will have a major production featuring China towns in different parts of the world in the near future.

Phoenix Movies Channel

The Phoenix Movies Channel is now in its fourth year of operation and continues to operate as an encrypted pay-television service providing mainstream movie entertainment to the Chinese audiences. Revenue of the Channel remained relatively stable.

Phoenix InfoNews Channel

InfoNews remains the premier television channel providing 24-hour news and financial information in Mandarin across Asia.

InfoNews was officially launched on 1 January 2001, and has so far been carried by cable systems in both Japan and Hong Kong and has enjoyed considerable success. Although it was only inducted into the Hong Kong i-Cable network in February 2002, InfoNews has already out-performed CNN and CNBC in Hong Kong, according to the surveys conducted by AC Nielsen.

InfoNews' performance in Hong Kong underscores its potential to do well in other markets. InfoNews' application for landing rights in Taiwan has reached the final stage. We have concluded an agreement with a cable distributor to promote the channel in Taiwan and are also actively exploring the prospects of broadcasting it on cable and by direct-to-home distribution in Southeast Asia. Phoenix will continue to work towards obtaining the relevant landing rights to broadcast InfoNews in Mainland China.

Phoenix Chinese News and Entertainment Channel

Phoenix CNE Channel, which now broadcasts to Chinese audiences in 44 countries across Europe, made a significant advance on 1 July 2002, when it extended its daily airtime from eight to twenty-four hours. This step will not increase the operating costs of the Group because the programming for both Phoenix CNE and Phoenix North America Chinese channels is now carried out by a unified signal from Hong Kong.

Phoenix North America Chinese Channel

Phoenix North America Chinese Channel is now broadcast on the two largest direct-to-home operators in the United States, EchoStar and DirecTV. Subscription figures are improving gradually.

Shenzhen Production Centre

The construction of the Shenzhen Production Centre has been delayed as a consequence of the 深圳市規劃與國土資源局 (Shenzhen Planning and State Resources Bureau) unilaterally proposing to change the plot ratio and the area of the site. This proposed change if put into effect would require the Group to redesign the project which will lead to further delay. Negotiation has been going on and the management believes that the matter will soon be resolved.

Internet Development

The Phoenix website, www.phoenixtv.com, continues to be popular with Chinese internet users. In response to the growing interest in Phoenix displayed by foreign investors we have recently created an English section in the website which is providing a basic profile of Phoenix. We envisage that the English website will provide a regular flow of information on developments at Phoenix, as well as an avenue for interested non-Chinese speakers to make enquiries about Phoenix.

Phoenix Weekly

The Phoenix Weekly provides a steady flow of high quality features, profiling contemporary Chinese cultural, political and commercial figures as well as exploring some of the lesser-known aspects of the modern Chinese experience. Advertising revenue has increased steadily.

PROSPECTS

The double-digit growth in revenue in the quarter ended 30 June 2002 as compared with the previous quarter as well as the same period last year was mainly due to the increase in advertising sales related to the World Cup. This has demonstrated Phoenix's ability to take advantage of the commercial opportunities offered by major international events.

Both Phoenix Chinese Channel and InfoNews Channel have the potential to make greater inroads into other markets, especially in South-East Asia, which is home to the largest collection of Mandarin-speaking Chinese outside the Greater China region. At the same time, we are conscious that the mainland Chinese television industry is becoming increasingly competitive, and that we need to remain focused on producing original programming that will not only retain but also expand Phoenix's position in the Chinese market. Furthermore, the process of restructuring the Chinese television industry that is now underway should provide further opportunities for Phoenix in China.

ACKNOWLEDGEMENT

On behalf of the Board, I would like to thank the staff of Phoenix for their dedication and enthusiasm during a difficult year. They have not only maintained the high standards that Phoenix set during its first two years of operation as a listed company, but have also displayed considerable initiatives in responding to new and at times unexpected challenges.

I would also like to take this opportunity to express my personal belief that Phoenix is fulfilling the role of "the Chinese connection", both connecting Chinese around the world and connecting the Greater China region to the world. This is the mission that I envisaged Phoenix performing when I began to work towards the establishment of Phoenix in the mid 1990s. I am therefore excited by the promising prospects that the coming years will offer and look forward to the Group's continued operation success.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

According to the business objectives as stated in the prospectus of the Company dated 21 June 2000 (the "Prospectus") for the period July – December 2001	Actual business progress for the period July – December 2001
Channel development	
Continue to strengthen coverage and content for the InfoNews Channel	Phoenix was highly acclaimed for its real-time coverage of the terrorist attacks on the United States and its subsequent reporting from Afghanistan. Phoenix has also strengthened its news coverage through its international news bureaus.
Increase production hours to enhance the programming for the Phoenix Chinese Channel	Phoenix sought to improve the quality of programming while maintaining a similar level of production hours
Explore the feasibility of and prepare for the launch of the Cantonese Channel	Phoenix has postponed pursuing this objective in order to concentrate resources on improving the quality and coverage of existing channels
Expand penetration of the North America Channel through alternative delivery medium e.g. by developing DTH platform	Phoenix officially began in January 2002 (trial-run in December 2001) to broadcast through EchoStar, the second largest direct-to-home satellite operator in the United States, thereby expanding Phoenix North America Chinese Channel's access to the US audiences
Continue to create brandname awareness of "Phoenix" through various promotional activities	Phoenix has continued to consolidate brand name awareness by a stream of promotional functions launching new programmes or marking cooperative arrangements with other media groups
Continue to enhance the functions of correspondence stations for the InfoNews Channel in connection with news and information for better content enhancement	Phoenix has eight international news bureaus, their contribution being clearly demonstrated by their role in Phoenix's coverage of the war against terrorism

Internet strategy

Begin to implement broadband services in phases in major cities	Phoenix focused on consolidating its existing *www.phoenixtv.com* website, no new investment in broadband services or e-commerce was made
Further explore e-commerce opportunities with business partners	Same as above
Continue to monitor the market for new trends and technologies	Phoenix monitored new technologies and market trends but made no substantial expenditure
Selectively invest in key strategic content or solution partners to explore other business opportunities	Phoenix has so far not identified commercially viable investment opportunities but will continue to explore in this area

Business objectives as stated in the Prospectus for the period January – June 2002	**Actual business progress for the period January – June 2002**
Channel development	
Production centre becomes fully operational and will be further strengthened to accommodate increasing programming demands for the Phoenix Channels	Production centre in rental premises in Shenzhen is operating in full scale. Construction of production centre on self-acquired land was delayed due to the re-negotiation of site area and plot ratio initiated by the Shenzhen Planning and State Resources Bureau.
Continue to increase programme production capacity to 10 hours per day from current capacity	Phoenix InfoNews Channel alone produces live news reports and programmes of approximately 18 hours per day utilising in-house studios. Other channels of Phoenix are maintaining a stable programme production capacity utilising in-house production facility.

Strengthen sales teams in Europe and North America	The advertising and marketing sales team in Europe had increased to 7 from 5 staff at the same time last year. The sales team in North America had increased to 12 full-time and about 10 part-time staff from 5 staff at the same time last year.
Launch the Cantonese Channel	The Group has postponed pursuing this objective in order to concentrate resources on improving the quality and coverage of existing channels.
Continue to create brand name awareness of "Phoenix" through various promotional activities	Phoenix personnel participated in a number of conferences and other public activities that enhanced the Phoenix brand name.
Continue to enhance the functions of correspondents and news bureaus for the InfoNews Channel in connection with news and information for better content enhancement	Rather than establishing new bureaus overseas, Phoenix has sent reporters to cover specific international issues as they have arisen, such as the war in Afghanistan, the independence of East Timor, and the official state visits by senior Chinese leaders.
Internet strategy	
Launch broadband services in major cities and second tier cities	Due to the downturn of Internet business, the Group has not made any investment in broadband business but has continued to consolidating and improving its existing website, *www.phoenixtv.com.*
Further research on media product and content sales market and suggest B2B service strategies	The Group will continue to explore areas that will complement and enhance our existing businesses.
Become the infotainment centre for the global Chinese community	Phoenix's website, reaching an average number of pageviewers of 5,000,000 per day, reinforces Phoenix as an infotainment centre among the Chinese speaking community.

USE OF PROCEEDS

The Group raised approximately HK$732,588,000 upon the listing of the Company and approximately HK$83,726,000 pursuant to the exercise of an over-allotment option.

Comparison of the use of proceeds as stated in the Prospectus with actual application

The use of proceeds as stated in the Prospectus	Application of proceeds from the initial share offer on 30 June 2000 to 30 June 2002
• approximately HK$260 million for the enhancement of the programme production capability for Phoenix and its content development, including the establishment of a production centre in Shenzhen	• approximately HK$22 million for the acquisition of facilities and equipment for the new production centre in Shenzhen • approximately HK$29 million for the deposit on and part payment for the land use right in Shenzhen
• approximately HK$185 million for the development of new channels, including the North America Channel, the InfoNews Channel and the Cantonese Channel	• approximately HK$54 million for capital expenditure of the two new channels, namely Phoenix InfoNews Channel and Phoenix North America Chinese Channel • approximately HK$313 million for operating expenditure of the two new channels*
• approximately HK$148 million for the development of the *www.phoenixtv.com* website into an "Infotainment" vertical Chinese portal, aiming to capitalize on the synergies between Phoenix's television content and the Internet's capacity to distribute programming	• approximately HK$8 million for capital expenditure of the website • approximately HK$51 million for operating expenditure of the website*
• approximately HK$37 million for the development of the Group's magazine, the *Phoenix Weekly*, to be distributed in the PRC	• approximately HK$30 million for operating expenditure of *Phoenix Weekly**
• the balance of approximately HK$109 million for strategic investments and additional general working capital of Phoenix	• the remaining net proceeds have been deposited in licensed banks in Hong Kong and will be used for strategic investments and general working capital

**Note:* Operating expenditures of the two new channels, the website and the magazine were partly financed by the income of the Phoenix Group generated during the relevant periods.

During the year ended 30 June 2002, the Group had incurred the following expenses to achieve the business objectives as set out in the Prospectus:

- Approximately HK$6,491,000 (2001: HK$15,934,000) for acquisition of facilities and equipment for the production centre in Shenzhen.

- Approximately HK$6,416,000 (2001: HK$47,363,000) for capital expenditure on Phoenix InfoNews Channel and Phoenix North America Chinese Channel and approximately HK$202,279,000 (2001: HK$110,421,000) for operating expenditure thereof.

- There was no capital expenditure (2001: HK$7,676,000) on the *www.phoenixtv.com* website.

- Approximately HK$12,350,000 (2001: HK$38,341,000) for operating expenditure of the website.

- Approximately HK$13,932,000 (2001: HK$15,842,000) for operating expenditure of *Phoenix Weekly*.

- The remaining net proceeds were deposited in licensed banks in Hong Kong.

FINANCIAL REVIEW

Revenue of the Group for the year ended 30 June 2002 was approximately HK$685,043,000 (2001: HK$713,687,000), which was down by 4.0% as compared with the previous financial year, mainly due to the worldwide economic downturn. On a quarter-to-quarter comparison, revenue of the Group for the three months ended 30 June 2002 increased by 12.0% to approximately HK$191,404,000 when compared with the same period last year, and an increase of 16.0% as compared with the previous quarter. Such increase was mainly attributable to the increase in advertising sales related to the World Cup.

Operating costs for the year ended 30 June 2002 were approximately HK$850,056,000 (2001: HK$712,395,000), representing an 19.3% increase, which was in line with our expectation: this year included the operating costs for the full year of both Phoenix InfoNews Channel and Phoenix North America Chinese Channel, while last year only reflected the operating costs of these two channels for the first six months after their establishment. Moreover, this year also included the operating costs for eight months of Phoenix Chinese News and Entertainment Limited ("PCNE"), in which the Group acquired majority ownership on 1 November 2001.

The Group recorded a net loss attributable to shareholders for the year ended 30 June 2002 of approximately HK$199,716,000 as compared to a net profit attributable to shareholders of approximately HK$53,984,000 for the year ended 30 June 2001. The loss was mainly attributable to additional operating costs of Phoenix InfoNews Channel, Phoenix North America Chinese Channel and Phoenix CNE Channel, which only contributed marginal revenue. In addition, the figures included impairment charge of goodwill arising from the acquisition of PCNE amounting to approximately HK$44,700,000.

Loss per share for the year ended 30 June 2002 was recorded at HK4.05 cents (2001 earnings per share: HK1.10 cents).

DIVIDEND

The Board does not recommend the payment of a dividend in order to allow for cash for future business development (2001: Nil).

PROSPECTS

Both Phoenix Chinese Channel and Phoenix InfoNews Channel have the potential to make greater inroads into other markets, especially in South-East Asia, which is home to the largest collection of Mandarin-speaking Chinese outside the Greater China region. At the same time, the Group is conscious that the mainland Chinese television industry is becoming increasingly competitive, and that we need to remain focused on producing original programming that will not only retain but also expand Phoenix's position in the Chinese market. Furthermore, the process of restructuring the Chinese television industry that is now underway should provide further opportunities for Phoenix in China.

COMMENTS ON SEGMENTAL INFORMATION

Operating (loss) profit by business

The table below shows the comparison of operating results of our businesses for the financial year ended 30 June 2002 and 2001, respectively.

	Year ended 30 June 2002 ***HK$'000***	Year ended 30 June 2001 *HK$'000*
Phoenix Chinese & Movies channels	**165,760**	248,081
Phoenix InfoNews, North America Chinese and CNE channels	**(211,754)**	(105,474)
Other businesses	**(18,092)**	(41,846)
Management overheads	**(100,927)**	(99,469)
(Loss) Profit from operations	**(165,013)**	1,292

Revenues from television broadcasting, including both advertising & subscription revenue, continue to be the main revenue source of the Group, and amounted to approximately HK$667,166,000 (2001: HK$704,237,000) or accounted for 97.4% of the total revenue for the year ended 30 June 2002. Compared with last year's broadcasting revenue, there was a decrease of 5.3%, mainly due to the contraction of the advertising market and advertising revenue accounted for 94.2% of our television broadcasting revenue.

For the year ended 30 June 2002, revenue of Phoenix Chinese Channel decreased by 7.8% to approximately HK$624,648,000 (2001: HK$670,569,000) as compared to the previous year, representing 93.6% of the total television broadcasting revenue. For the same period, income of Phoenix Movies Channel slightly decreased by 2.2% to approximately HK$27,296,000 (2001: HK$27,896,000), representing 4.1% of the total television broadcasting revenue. Performance of the subscription-based Movies Channel was relatively more stable than Chinese Channel, which is mainly depends on advertising sales. Phoenix InfoNews, North America Chinese Channel and Phoenix CNE Channel made marginal contributions to the Group's revenue but achieved steady growth. Revenue of these three channels represented 2.3% of the total television broadcasting revenue for the year ended 30 June 2002 (2001: 0.8%). These channels are still in the process of developing their inspective brandnames and expanding viewership. The management is of the view that the new channels have the potential to generate substantial revenue.

The segmental result for television broadcasting recorded a loss of approximately HK$89,920,000 for the year ended 30 June 2002, as compared to a profit of approximately HK$145,749,000 in the previous year. The downturn was mainly due to the decrease in revenue as explained above, the operating costs for the new channels, Phoenix InfoNews Channel, Phoenix North America Chinese Channel and Phoenix CNE Channel, and the provision for impairment charge of goodwill of PCNE.

Revenue from programme production and ancillary services was approximately HK$17,507,000 for the year ended 30 June 2002, which represented a 12.6% increase as compared to previous year. The increase was mainly attributable to the expansion of ancillary services performed for third parties.

Despite the increase in revenue, the segmental result for programme production and ancillary services recorded a loss of approximately HK$1,196,000 for the year ended 30 June 2002 (2001: a profit of approximately HK$1,113,000). The costs of this year were relatively stable as compared with last year but a full year's costs were recorded for this year. The Directors expect that production efficiency will increase eventually when it achieves economies of scale.

Revenue from other activities, including advertising & subscription revenue from the magazine and internet operations, increased to approximately HK$16,326,000, or by 79.3% compared with the previous year. This increase was mainly the result of the increase in advertising revenue of the magazine.

Segment loss for other activities was approximately HK$17,686,000 for this year, compared with a loss of approximately HK$42,822,000 in the previous year, representing a decrease of 58.7%. Such improvement was mainly attributable to the increase in revenue of the magazine and the reduction of operating costs of the Internet.

Please refer to note 3 of the notes to the accounts for a detailed analysis on segmental information and the television broadcasting section under the "Business Review" in the Annual Report for commentary of our core business.

ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

The acquisition of PCNE by the Group was completed in November 2001 whereby PCNE has become a 70% owned subsidiary of the Phoenix Group. Goodwill arising from the acquisition of PCNE was approximately HK$46,241,000. The continuous global economic downturn during the eight months after the acquisition had increased the uncertainty on the recoverability of the goodwill in the near future. The Directors therefore decided to make a full provision for impairment on the unamortised goodwill in the year of acquisition.

Other than acquisition of PCNE, the Group had no material acquisitions or disposals of subsidiaries and affiliated companies during the year ended 30 June 2002.

LIQUIDITY AND FINANCIAL RESOURCES

The liquidity and financial resources of the Group as at 30 June 2002 were similar to those of the Group as at 30 June 2001. The aggregate outstanding borrowings of the Group as at 30 June 2002 were approximately HK$28,741,000 (2001: HK$17,913,000), representing current accounts with related companies which were unsecured and non-interest bearing. Such minor fluctuation was within the normal pattern of operations of the Group.

The gearing ratio of the Group, based on total liabilities to shareholders' equity, was 21.7% (2001: 14.5%) as at 30 June 2002. Accordingly, the financial position of the Group has remained very liquid.

As most of the Group's monetary assets are denominated in Hong Kong dollars, US dollars and Renminbi, with minimal balances in UK pounds and Taiwan dollars, the exchange rate risks of the Group is considered to be minimal.

CHARGE ON ASSETS

As at 30 June 2002, deposits of approximately HK$2,900,000 (2001: nil) were pledged with a bank to secure a banking guarantee given to the landlord of a subsidiary.

Other than the above, the Group did not have any charge on its assets as at 30 June 2002 and 30 June 2001.

CAPITAL STRUCTURE

During the year ended 30 June 2002, other than the exercise of share options granted (detail as per note 19 of the accounts), there is no change in the Company's share capital. As at 30 June 2002, the Group's operations were financed mainly by shareholders' equity.

STAFF

As at 30 June 2002, the Group employed 487 full time staff (2001: 461), at market remuneration with employee benefits such as comprehensive medical coverage, insurance plan, defined contribution pension schemes, discretionary bonus and employee share option scheme. Staff costs for the year ended 30 June 2002 had increased to approximately HK$182,283,000 (2001: HK$137,427,000). The increase in staff costs was attributable to the fact that this year included the full year effect for staff serving the new channels and new businesses, while last year reflected only a six-month period.

The Group did not experience any significant labour disputes or substantial change in the number of its employees that led to the disruption of its normal business operations. The Directors consider the Group's relationship with its employees to be good.

SIGNIFICANT INVESTMENT

The Group has not held any significant investment for the year ended 30 June 2002.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND EXPECTED SOURCE OF FUNDING

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

Other than disclosed herein, the Group did not have any plan for material investments and acquisition of material capital assets.

CONTINGENT LIABILITIES

Other than disclosed in note 24 to the accounts, the Group had no material contingent liabilities as at 30 June 2002 and 30 June 2001 respectively.

DIRECTORS' REPORT AND ACCOUNTS

The Directors submit their report together with the audited accounts of Phoenix Satellite Television Holdings Limited (the "Company") and its subsidiaries (collectively the "Group" or "Phoenix Group") for the year ended 30 June 2002.

PRINCIPAL ACTIVITIES AND OPERATIONS

The principal activity of the Company is investment holding. The activities of its subsidiaries are set out in note 13 to the accounts.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 3 to the accounts.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated profit and loss account on page 36.

RESERVES

Movements in reserves of the Group and of the Company during the year are set out in note 21 to the accounts.

DONATIONS

Charitable donations made by the Group during the year amounted to approximately HK$98,000 (2001: HK$21,000).

FIXED ASSETS

Details of movements in fixed assets of the Group are set out in note 10 to the accounts.

SHARE CAPITAL AND SHARE OPTIONS

Details of the movements in share capital and share options of the Company are set out in note 19 and note 20 respectively to the accounts.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 30 June 2002, calculated under the Companies Law (Revised) of the Cayman Islands, amounted to approximately HK$830,969,000 (2001: HK$829,056,000).

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 72.

DIRECTORS

The Directors during the year were:

Executive Directors:

LIU, Changle	(Alternate Director to CHUI, Keung)
CHUI, Keung	(Alternate Director to LIU, Changle)

Non-executive Directors:

MURDOCH, James Rupert	
CHURCHILL, Bruce Barrett	(Alternate Director to LAU, Yu Leung John and CHEUNG, Chun On Daniel)
LAU, Yu Leung John	(Alternate Director to MURDOCH, James Rupert, CHURCHILL, Bruce Barrett and CHEUNG, Chun On Daniel)
CHEUNG, Chun On Daniel	(Alternate Director to MURDOCH, James Rupert, CHURCHILL, Bruce Barrett and LAU, Yu Leung John)
XU, Gang	
CHEUNG, San Ping	(Alternate Director to LIU, Changle and CHUI, Keung)

Independent Non-executive Directors:

LO, Ka Shui
KUOK, Khoon Ean

Alternate Director:

GONG, Jianzhong	(Alternate Director to XU, Gang)

In accordance with the Articles of Association of the Company, MURDOCH, James Rupert, LO, Ka Shui and KUOK, Khoon Ean, who have been longest in office, will retire and, being eligible, offer themselves for re-election at the forthcoming Annual General Meeting of the Company.

DIRECTORS' SERVICE CONTRACTS

Each of the Executive Directors of the Company has entered into a service contract with the Company commencing from 30 June 2000. The term of each agreement will be for a term of three years commencing from 30 June 2000 and thereafter may be terminated by either party giving to the other not less than three months' written notice.

Save as disclosed above, none of the Directors who are proposed for re-election at the forthcoming Annual General Meeting has a service contract with the Company which is not terminable by the employing company within one year without payment of compensation other than statutory compensation.

The terms of office of each of the Executive Directors, Non-Executive Directors and Independent Non-executive Directors are subject to retirement by rotation in accordance with the Company's Articles of Association.

DIRECTORS' INTERESTS IN SECURITIES

As at 30 June 2002, the interests of the Directors and chief executive in the share capital of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")), as recorded in the register maintained under Section 29 of the SDI Ordinance or as notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") were as follows:

Name	Type of interest	Number of ordinary shares
LIU, Changle*	Corporate interests	1,854,000,000

Note: Mr. LIU, Changle is the beneficial owner of approximately 93.3% of the issued share capital of Today's Asia Limited, which in turn is interested in approximately 37.6% of the issued share capital of the Company as at 30 June 2002.

* *Being an executive director of the Company.*

Save as disclosed herein, as at 30 June 2002, none of the Directors or chief executives of the Company, had any personal, corporate or other interests in the share capital of the Company or its associated corporations as recorded in the register maintained under Section 29 of the SDI Ordinance or as notified to the Company and the Stock Exchange.

SHARE OPTION SCHEMES

(A) Share option scheme of the Company

On 7 June 2000, two share option schemes of the Company were approved by the shareholders of the Company ("Shareholders"), namely Pre-IPO Share Option Scheme and Share Option Scheme. In order to enhance the flexibility in the implementation of the Pre-IPO Share Option Scheme and the Share Option Scheme, the committee of four Directors established for the administration of the share option schemes (the "Committee") approved certain amendments to the terms of the Pre-IPO Share Option Scheme and the Share Option Scheme on 14 February 2001. Such amendments have been pre-approved by the Stock Exchange.

(1) Pre-IPO Share Option Scheme

The following is a summary of the principal terms of the Pre-IPO Share Option Scheme as at 30 June 2002:

Purpose of the scheme

The purpose of the scheme, though not explicitly stated in the scheme document, is to recognise the contribution of certain employees to the growth of the Group and/or to the listing of shares of the Company ("Shares") on the Growth Enterprise Market of the Stock Exchange ("GEM").

The participants of the scheme

Employees of any member of the Company, including any executive Directors of any member of the Group who have commenced working for the Group for not less than one month prior to the date of grant of an option and spent not less than twenty hours per week in providing services to the Group may take up options to subscribe for Shares.

The total number of securities available for issue

The total number of Shares available for issue under options which may be granted under the Pre-IPO Share Option Scheme and any other schemes must not in aggregate exceed 10% of the issued share capital of the Company as at the date of listing of the Shares on GEM on 30 June 2000 (the "Listing Date").

The total number of Shares in respect of which options are issuable under the scheme is 484,706,000 Shares, representing 10% and 9.8% of the issued share capital of the Company as at the Listing Date and as at 3 September 2002 respectively.

The maximum entitlement of each participant under the scheme

No options may be granted to any eligible person which, if at the relevant time exercised in full, would result in the total number of Shares the subject of such option, when added to the number of Shares which may be subscribed by that eligible person under any outstanding options granted to that eligible person and to the number of Shares previously subscribed by the eligible person under any options granted to the eligible person under the scheme exceeding 25% of the aggregate number of Shares available for subscription under the scheme at that time.

Time of exercise of option

An option may be exercised in accordance with the terms of the scheme at any time during the period commencing one year from the date of grant of the option and expiring ten years after the date of grant of the option in accordance with the following schedule:

Date of exercise of an option	**Percentage of Shares comprised in options which is exercisable**
between the date of grant of an option and less than 12 months following the date of grant of an option	zero
between the period falling 12 months or more but less than 24 months from the date of grant of an option	up to 25%
between the period falling 24 months or more but less than 36 months from the date of grant of an option	up to 50%
between the period falling 36 months or more but less than 48 months from the date of grant of an option	up to 75%
any time falling 48 months from the date of grant of an option and thereafter	100%

Minimum holding period

As stated above, no option can be exercised within the first twelve months following the date of grant of an option.

The amount payable on acceptance of the option

The date by which the option must be applied for being a date not more than three days from (and including) the date on which the letter of offer of the grant of option is issued by the Company ("Offer Date"). Upon acceptance of the option, the option holder shall pay HK$1 to the Company as consideration of the grant.

The basis of determining the exercise price

Same as the offer price for the Shares as set out in the prospectus of the Company dated 21 June 2000 (the "Prospectus").

The remaining life of the scheme

The scheme period expires upon the listing of the Company on the GEM, for which the option expires when the vesting period ends.

The details of share options granted by the Company under the Pre-IPO Share Option Scheme to the Directors of the Company and the employees of the Phoenix Group to acquire Shares were as follows:

				Number of share options			
Type and number of remaining grantees	**Date of grant**	**Vesting period**	**Exercise price per Share**	**Balance as at 1 July 2001**	**Lapsed during the year**	**Exercised during the year**	**Balance as at 30 June 2002**
			HK$				
2 Executive Directors:							
LIU, Changle	14 June 2000	14 June 2001 to 13 June 2010	1.08	5,320,000	–	–	5,320,000
CHUI, Keung	14 June 2000	14 June 2001 to 13 June 2010	1.08	3,990,000	–	–	3,990,000
118 other employees	14 June 2000	14 June 2001 to 13 June 2010	1.08	48,026,000	(4,174,000)	(138,000)	43,714,000
Total: 120 employees				57,336,000	(4,174,000)	(138,000)	53,024,000

During the year ended 30 June 2002, 4,174,000 options granted to twenty employees were lapsed when they ceased their employment with the Phoenix Group and 138,000 options were exercised by three employees. The weighted average closing price of the Shares immediately prior to the date on which the options were exercised was HK$1.16.

Save as disclosed above, no options have been exercised, cancelled or lapsed during the year.

Save as stated above, no options have been granted to the directors, chief executive, management shareholders, substantial shareholders, or their respective associates, or to the suppliers of goods or services under the Pre-IPO Share Option Scheme. No participant was granted any option in excess of the individual limit as set out in the GEM Listing Rules or under the Pre-IPO Share Option Scheme.

(2) Share Option Scheme

The following is a summary of the principal terms of the Share Option Scheme as at 30 June 2002:

Purpose of the scheme

The purpose of the scheme, though not explicitly stated in the scheme document, is to recognise the contribution of certain employees of the Group and/or to the listing of Shares on GEM.

The participants of the scheme

Employees of any member of the Company, including any Executive Directors of any member of the Phoenix Group, in the full-time employment of the Company (or its subsidiaries) may take up options to subscribe for Shares.

The total number of securities available for issue

(a) The total number of Shares available for issue under options which may be granted under the Share Option Scheme and any other schemes must not in aggregate exceed 10% of the issued share capital of the Company from time to time unless Shareholders' approval has been obtained pursuant to paragraphs (b) and (c) below.

(b) The Company may seek approval by Shareholders in general meeting to refresh such limit.

(c) The Company may seek separate Shareholders' approval in general meeting to grant options beyond the limit as referred to in the above paragraph (a) provided that (i) the total number of Shares subject to the scheme and any other schemes does not in aggregate exceed 30% of the total issued share capital of the Company and (ii) the options in excess of the said limit are granted only to participants specified by the Company before such approval is sought.

(d) For the purpose of the above paragraph (a) there shall be excluded from the calculation (i) any Shares issued upon the exercise of any options under the scheme and any other share option schemes of the Company; and (ii) any pro rata entitlements to further securities issued in respect of those securities mentioned in (i) above. Options that have been lapsed under the terms of the scheme and any cancellation of options granted but not exercised will not be counted as part of the total number of Shares subject to the scheme and any other schemes.

The maximum entitlement of each participant under the scheme

No options may be granted to any eligible person which, if at the relevant time exercised in full, would result in the total number of Shares the subject of such option, when added to the number of Shares which may be subscribed by that eligible person under any outstanding options granted to that eligible person and to the number of Shares previously subscribed by the eligible person under any options granted to the eligible person under the scheme exceeding 25% of the aggregate number of Shares available for subscription under the scheme at that time.

Time of exercise of option

An option may be exercised in accordance with the terms of the scheme at any time during the period commencing one year from the date of grant of the option and expiring ten years after the date of grant of the option in accordance with the following schedule:

Date of exercise of an option	**Percentage of Shares comprised in options which is exercisable**
between the date of grant of an option and less than 12 months following the date of grant of an option	zero
between the period falling 12 months or more but less than 24 months from the date of grant of an option	up to 25%
between the period falling 24 months or more but less than 36 months from the date of grant of an option	up to 50%
between the period falling 36 months or more but less than 48 months from the date of grant of an option	up to 75%
any time falling 48 months from the date of grant of an option and thereafter	100%

Minimum holding period

As stated above, no option can be exercised within the first twelve months following the date of grant of an option.

The amount payable on acceptance of the option

The date by which the option must be applied for being a date not more than twenty one days from (and including) the Offer Date. Upon acceptance of the option, the option holder shall pay HK$1 to the Company as consideration of the grant.

The basis of determining the exercise price

The subscription price for the Shares under the scheme shall be determined by the Committee and will be no less than the highest of (a) the closing price of Shares as stated in the Stock Exchange's daily quotation sheets on the Offer Date which must be a business day, (b) the average closing price per Share as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the Offer Date and (c) the nominal value of the Share.

The remaining life of the scheme

The scheme will remain in force for a period of ten years commencing on the date of the adoption of the scheme. Upon termination, no further options may be granted under the scheme.

To reflect the recent amendments to Chapter 23 of the GEM Listing Rules, the Shareholders adopted certain amendments to the Share Option Scheme on 6 August 2002. A summary of the amended Share Option Scheme is set out in the Appendix.

The details of share options granted by the Company under the Share Option Scheme to the employees of the Phoenix Group to acquire Shares were as follows:

Type and number of remaining grantees	Date of grant	Vesting period	Exercise price per Share	Number of share options				
				Balance as at 1 July 2001	Granted during the year	Lapsed during the year	Exercised during the year	Balance as at 30 June 2002
			HK$					
2 employees	15 February 2001(i)	15 February 2002 to 14 February 2011	1.99	2,900,000	–	(1,200,000)	–	1,700,000
20 employees	10 August 2001(ii)	10 August 2002 to 9 August 2011	1.13	–	13,860,000	(1,000,000)	–	12,860,000
Total: 22 employees				2,900,000	13,860,000	(2,200,000)	–	14,560,000

(i) During the year ended 30 June 2002, 1,200,000 options granted to 1 employee were lapsed when he ceased employment with the Phoenix Group.

(ii) On 10 August 2001, 13,860,000 options were granted to 21 employees. The closing price of the Shares immediately prior to the date on which the options were granted was HK$1.11. Using the Black-Scholes option pricing model (the "Black-Scholes Model") in assessing the value of the options granted during the year, the options would have an aggregate value of approximately HK$8,870,000, representing a value of HK$0.64 per option. During the year ended 30 June 2002, 1,000,000 options granted to 1 employee lapsed when he ceased employment with the Phoenix Group.

Save as disclosed above, no options have been exercised, cancelled or lapsed during the year.

Save as stated above, no options have been granted to the Directors, chief executive, management shareholders, substantial shareholders, or their respective associates, or to the suppliers of goods or services under the Share Option Scheme. No participant was granted any option in excess of the individual limit as set out in the GEM Listing Rules or under the Share Option Scheme.

In assessing the value of the share options granted during the year ended 30 June 2002, the Black-Scholes Model has been used. The Black-Scholes Model is one of the most generally accepted methodology to calculate the value of options and is one of the recommended options pricing models as set out in Rule 23.08 of the GEM Listing Rules. The variables of the Black-Scholes Model include, risk-free interest rate, expected life of the options, and expected volatility and expected dividend of the Shares, if applicable.

The interest rate applied in the Black-Scholes Model is 6.02% per annum, representing the 10-year yield of the Hong Kong Exchange Fund Notes as at the date of grant of the share options (the "Measurement Date"). The volatility ratio of 33.08%, representing the standard deviation of the daily closing share prices of the Company for the last twelve months from the Measurement Date, is used in the Black-Scholes Model. It is assumed that, based on historical pattern, no dividend would be paid out during the vesting period.

The summary of variables used in the Black-Scholes Model for the valuation of 13,860,000 share options granted under the Share Option Scheme during the year ended 30 June 2002 and the value thereon is as follows:

Exercise price	HK$1.13
Time to expiry	10 years
Date of grant	10 August 2001
Stock price as at the Measurement Date	HK$1.11
Interest rate as at the Measurement Date	6.02% per annum
Volatility as at the Measurement Date	33.08%
Value of each share option granted as at the Measurement Date	HK$0.64
Aggregate value of 13,860,000 share options granted as at the Measurement Date (value of each share option x number of share options granted)	HK$8,870,000

It should be noted that the value of options calculated using the Black-Scholes Model is only an estimate of the value of share options granted during the year. Amongst other variables, it uses the time to expiry to determine a value based on the past performance of the share price as measured by the volatility factor. If, however, the Company's future financial and/or operating performance fluctuates, it is likely that the share price will be affected. In such case, the financial benefit accruing to the grantee of an option will be considerably different from the value determined under the Black-Scholes Model.

The summary of the treatment of forfeiture of option prior to the expiry date is set out in Appendix VI of the Prospectus under the section headed "Share Option Schemes."

(B) Share option scheme of a subsidiary of the Company

PHOENIXi PLAN

On 7 June 2000, PHOENIXi Investment Limited ("PHOENIXi"), a member of the Phoenix Group, adopted the PHOENIXi 2000 Stock Incentive Plan (the "PHOENIXi Plan"). The following is a summary of the principal terms of the PHOENIXi Plan as at 30 June 2002:

Purpose of the scheme

The purposes of the PHOENIXi Plan are to attract and retain the best available personnel, providing additional incentive to its employees and executive directors and promoting the success of its business.

The participants of the scheme

The employees of PHOENIXi, including any executive directors, in the full-time employment of PHOENIXi or the Company (or the subsidiaries of PHOENIXi) are eligible to take up options to subscribe for shares in PHOENIXi. In addition, to be classified as an eligible person, where the employee is employed by a holding company of PHOENIXi or a subsidiary of PHOENIXi, the employee must perform an executive role for PHOENIXi.

The total number of securities available for issue

(a) The total number of shares available for issue under options which may be granted under the PHOENIXi Plan and any other schemes of PHOENIXi, must not in aggregate exceed 10% of the issued share capital of PHOENIXi as at the Listing Date unless approvals of the shareholders of the Company and PHOENIXi have been obtained pursuant to paragraphs (b) and (c) below.

(b) PHOENIXi may seek approval by the shareholders of the Company and PHOENIXi in general meeting to refresh the 10% limit. However, the total number of shares available for issue under options which may be granted under the PHOENIXi Plan and any other schemes of PHOENIXi in these circumstances must not exceed 10% of the issued share capital of PHOENIXi at the date of approval of the refreshing of the limit.

(c) PHOENIXi may seek separate approval of the shareholders of the Company and PHOENIXi in general meeting to grant options beyond the 10% limit provided that (i) the total number of shares subject to the PHOENIXi Plan and any other schemes of PHOENIXi does not in aggregate exceed 30% of the total issued share capital of PHOENIXi and (ii) the options in excess of the 10% limit are granted only to participants specified by PHOENIXi before such approval is sought.

The maximum entitlement of each participant under the scheme

No options may be granted to any eligible person which, if at the relevant time exercised in full, would result in the total number of shares of PHOENIXi the subject of such option, when added to the number of shares already issued and/or issuable to him under the PHOENIXi Plan exceeding 25% of the aggregate number of shares of PHOENIXi in respect of which options are issuable under the PHOENIXi Plan.

Time of exercise of option

Generally, an option may be exercised at any time during a period of no more than ten years commencing from the date of grant. However, in the case of an Incentive Stock Option ("ISO") granted to a person, who at the time of the grant, owns shares in PHOENIXi representing more than 10% of the voting power of PHOENIXi, the Company or any subsidiary of the Company, the option period will be five years from the date of grant thereof.

Minimum holding period

As stated above, there is no minimum holding period for which an option can be exercised.

The amount payable on acceptance of the option

The date by which the option must be applied for being a date not more than twenty-one days from (and including) the Offer Date. Upon acceptance of the option, the option holder shall pay US$1 to the Company as consideration of the grant.

The basis of determining the exercise price

The price for the shares of PHOENIXi upon the exercise of an option under the PHOENIXi Plan will, in the case of:

(a) an ISO or a Non-Qualified Stock Option ("NQS"), where the grantee owns more than 10% of the shares of the Company, PHOENIXi or its subsidiaries (each a "Related Entity"), be equal to not less than 110% of the Fair Market Value (as referred to below) per share of PHOENIXi on the date of the grant.

(b) an ISO or NQS, where the grantee does not own more than 10% of the shares of PHOENIXi or a Related Entity, be equal to not less than the Fair Market Value per share of PHOENIXi on the date of the grant.

(c) an option which is neither an ISO nor a NQS but where the grantee owns more than 10% of the shares of PHOENIXi or a Related Entity, be equal to not less than the Fair Market Value per share of PHOENIXi on the date of the grant.

(d) an option which is neither an ISO nor an NQS but where the grantee does not own more than 10% of the shares of PHOENIXi or a Related Entity, be equal to not less than 85% of the Fair Market Value per share of PHOENIXi on the date of the grant, but if the shares of PHOENIXi are listed or if a Director of the Company or PHOENIXi or their associates participates in the PHOENIXi Plan, the per share price must not be less than the Fair Market Value per share of PHOENIXi on the date of the grant.

For the purpose of the above "Fair Market Value" means as of any date, the value of shares of the Company, PHOENIXi or any subsidiary of PHOENIXi (as the case may be) determined as follows:

(i) where the shares of PHOENIXi are listed on any stock exchange, the Fair Market Value shall be (a) no less than the higher of the closing price for a share on the date of the grant of an option which must be a business day, or (b) the average closing price of the share for the five business days immediately preceding the date of grant (the closing price shall be the price on the stock exchange on which the shares of PHOENIXi are listed) or (c) the nominal value of a share; or

(ii) in the absence of an established market for the shares of the type described in (i) above, the Fair Market Value thereof shall be determined by the Committee in good faith on a fair and reasonable basis but in a manner consistent with Section 260.140.50 of Title 10 of the California Code of Regulations but in any event must in no circumstances be less than the latest audited net tangible assets per share of PHOENIXi unless none of the Directors or their associates of PHOENIXi or the Company participate in the Plan, in which event, reference does not need to be made to the latest audited net tangible asset per share of PHOENIXi for the purpose of determining the Fair Market Value of the shares.

The remaining life of the scheme

The scheme will remain in force for a period of ten years commencing on the date of the adoption of the scheme. Upon termination, no further options may be granted under the scheme.

As at 30 June 2002, no options had been granted under the PHOENIXi Plan.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Under the terms of the Company's share option schemes approved by the Shareholders on 7 June 2000, the Committee may, at their discretion, invite any employee of the Company or any of the Phoenix Group companies, including any Executive Directors, to take up options to subscribe for Shares. The maximum number of Shares in respect of which options may be granted under the share option schemes may not exceed 10% of the issued share capital of the Company. Such terms were amended on 6 August 2002 and summary of the amended Share Option Scheme is set out in the Appendix.

The Company had received a waiver from the Stock Exchange regarding the strict compliance with Rule 23.02(2) of the Rules Governing the Listing of Securities on the Growth Enterprise Market ("GEM Listing Rules") so that the total number of Shares available for issue under the options granted may increase up to 30% of the issued share capital of the Company from time to time. Please refer to the paragraph "Share Option Schemes" under the section headed "Waivers from compliance with the GEM Listing Rules and Companies Ordinance" set out in the Prospectus.

Save as disclosed herein, and other than those in connection with the Phoenix Group reorganisation scheme prior to the Company's listing of Shares, at no time during the year was the Company or any of the companies comprising the Phoenix Group a party to any arrangement to enable the Company's Directors or their associates to acquire benefits by means of the acquisition of Shares in or debentures of the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Phoenix Group's business to which the Company or any of the companies comprising the Phoenix Group was a party and in which any of the Company's Directors or members of its management had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2002, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance showed that the following persons (other than a Director or chief executive of the Company) were, directly or indirectly, interested in 10% or more of the Company's issued share capital:

Name of Shareholder	Number of ordinary Shares
STAR Television Holdings Limited *(Note 1)*	1,854,000,000
Today's Asia Limited *(Note 2)*	1,854,000,000

Notes:

1. STAR Television Holdings Limited is a subsidiary of STAR Group Limited*. News Cayman Holdings Limited holds 100% of the ordinary voting shares of STAR Group Limited. News Publishers Investments Pty, Limited holds 100% of the ordinary voting shares of News Cayman Holdings Limited. News Publishers Investments Pty, Limited is a wholly-owned subsidiary of STAR US Holdings Subsidiary, LLC, which in turn is a wholly-owned subsidiary of STAR US Holdings, Inc. STAR US Holdings, Inc, is a wholly-owned subsidiary of News Publishing Australia, Limited, which in turn is owned approximately 91.76% by The News Corporation Limited. The remaining interests in News Publishing Australia, Limited, are held by companies which are ultimately owned by The News Corporation Limited.

By virtue of the SDI Ordinance, The News Corporation Limited, News Publishing Australia, Limited, STAR US Holdings, Inc, STAR US Holdings Subsidiary, LLC, News Publishers Investments Pty, Limited, News Cayman Holdings Limited and STAR Group Limited are all deemed to be interested in the 1,854,000,000 Shares held by STAR Television Holdings Limited.

* STAR Television Holdings Limited changed its name to STAR Group Limited on 14 January 2002.

2. Today's Asia Limited is beneficially owned by Mr. LIU, Changle and Mr. CHAN, Wing Kee as to 93.3% and 6.7% interests, respectively.

PRE-EMPTIVE RIGHTS

No pre-emptive rights exist under the Company's Articles of Association and the law in the Cayman Islands in relation to the issue of new Shares by the Company.

PURCHASE, SALE OR REPURCHASE OF SHARES

Neither the Company nor any of its subsidiaries had purchased, sold or repurchased any of the Shares during the year.

SPONSORS' INTERESTS

Bank of China Group Investment Limited, beneficially owned by Bank of China, the ultimate holding company of BOCI Asia Limited, indirectly owns the entire issued share capital of China Wise International Limited which in turn owns 412,000,000 Shares (approximately 8.35%) of the Company. One of the Non-Executive Directors of the Company, Mr. XU, Gang, who is also a Director of Bank of China Group Investment Limited and China Wise International Limited, has been nominated by China Wise International Limited and appointed as a Director of eighteen subsidiaries of the Phoenix Group, namely:

Phoenix Satellite Television Company Limited
Phoenix Satellite Television (Chinese Channel) Limited
Phoenix Satellite Television (Movies) Limited
Phoenix Satellite Television (Europe) Limited
Phoenix Satellite Television Trademark Limited
PCNE Holdings Limited
Phoenix Chinese News & Entertainment Limited
Phoenix Satellite Television Information Limited
Phoenix Satellite Television (B.V.I.) Holding Limited
Phoenix Satellite Television (InfoNews) Limited
Phoenix Weekly Magazine (BVI) Limited
Phoenix Satellite Television Development (BVI) Limited
Phoenix Satellite Television (Universal) Limited
Phoenix Satellite Television Development Limited
Phoenix Satellite Television Investments (BVI) Limited
Hong Kong Phoenix Satellite Television Limited
Phoenix Glow Limited
Phoenix Global Television Limited

Mr. GONG, Jianzhong, who is a director of China Wise International Limited, has been nominated by China Wise International Limited and appointed as Alternate Director to Mr. XU, Gang of the Company and the above eighteen subsidiaries of the Phoenix Group.

Save as disclosed above, each of BOCI Asia Limited and Merrill Lynch Far East Limited has confirmed:

(i) neither itself nor its associates has, or may have, any interest in any class of securities (including derivatives) of the Company, or any other company within the Phoenix Group (including options or rights to subscribe such securities);

(ii) no Director or employee or their associates of BOCI Asia Limited or Merrill Lynch Far East Limited who are involved in providing advice to the Company has or may have, any interest in any class of securities of the Company or any other company within the Phoenix Group (including options or rights to subscribe such securities but, for the avoidance of doubt, excluding interests in securities that may be subscribed by any such Directors or employee pursuant to the Public Offer);

(iii) neither itself nor its associates accrued any material benefit as a result of the successful outcome of the listing of the Shares on the GEM; and

(iv) no Director or employee or their associates of BOCI Asia Limited or Merrill Lynch Far East Limited has a directorship in the Company or any other company within the Phoenix Group.

CONNECTED TRANSACTIONS

1. The Stock Exchange has granted waivers to the Phoenix Group from the full disclosure requirements under Chapter 20 of the GEM Listing Rules in respect of connected transactions with Satellite Television Asian Region Limited, STAR TV Filmed Entertainment Limited and other subsidiaries or associates of STAR Television Holdings Limited, ATV Enterprises Limited and British Sky Broadcasting Limited:

   (a) Satellite Television Asian Region Limited ("STARL") is a subsidiary of STAR Television Holdings Limited, a major shareholder of the Company. The connected transactions are:

      (i) STARL provides technical and administrative services for the operations of the Phoenix Chinese Channel, Phoenix Movies Channel, Phoenix InfoNews Channel, Phoenix North America Chinese Channel and Phoenix CNE Channel. For the year ended 30 June 2002, the service charges paid/payable to STARL amounted to approximately HK$136,473,000, which was calculated under normal commercial terms in accordance with the executed service agreements and agreed rates between a subsidiary of the Company and STARL. Such amount did not exceed the annual cap of HK$178,000,000 approved under the relevant waiver.

(ii) STARL acts as an exclusive advertising agent for the Phoenix Group at all territories outside the People's Republic of China ("PRC"). For the year ended 30 June 2002, commission for advertising sales and marketing services paid/payable to STARL amounted to approximately HK$8,668,000, which was calculated based on 4-20% of the net advertising income generated and received by STARL on behalf of the Phoenix Group after deducting the relevant amount of the third party agency fees incurred by it. Such amount did not exceed the annual cap of HK$25,000,000 approved under the relevant waiver.

(iii) STARL acts as an agent to promote international subscription sales and marketing services for the Phoenix Group. For the year ended 30 June 2002, commission for international subscription sales and marketing services paid/payable to STARL amounted to approximately HK$2,040,000, which was calculated based on 15% of the subscription fees generated and received by STARL on behalf of the Phoenix Group. Such amount did not exceed the annual cap of HK$2,500,000 approved under the relevant waiver.

(b) STAR TV Filmed Entertainment Limited ("STAR Filmed") is an indirect wholly-owned subsidiary of STAR Group Limited, which holds 100% of STAR Television Holdings Limited, a major shareholder of the Company. The connected transaction relates to the granting of a non-exclusive licence to exhibit a selection of movies on Phoenix Movies Channel in the PRC for a term of 10 years commencing from 28 August 1998. For the year ended 30 June 2002, the film licence fees paid/payable to STAR Filmed amounted to approximately HK$20,403,000, which was charged according to the executed film rights licensing agreement between a subsidiary of the Company and STAR Filmed. Such amount did not exceed the annual cap of HK$23,000,000 approved under the relevant waiver.

(c) During the year ended 30 June 2002, the Phoenix Group acquired programme licences from certain subsidiaries of STAR Group Limited, a major shareholder of the Company. The programme licence fees paid/payable to the subsidiaries of STAR Television Holdings Limited in respect of this connected transaction amounted to approximately HK$753,000, which were charged under normal commercial terms and were negotiated on a case-by-case basis. Such amount did not exceed the annual cap of HK$55,000,000 approved under the relevant waiver.

(d) During the year ended 30 June 2002, decoder devices purchased from STARL amounted to approximately HK$1,688,000, which were charged based on terms mutually agreed upon between both parties. Such amount did not exceed the annual cap of HK$7,500,000 for the year ended 30 June 2002 approved under the relevant waiver.

(e) ATV Enterprises Limited, a wholly-owned subsidiary of Asia Television Limited ("ATV"), is a connected party by virtue of the fact that Mr. LIU, Changle and Mr. CHAN, Wing Kee beneficially own 93.3% and 6.7% respectively of Today's Asia Limited, which holds 100% of Vital Media Holdings Limited, which in turn holds 46% indirect interest in ATV. The connected transaction relates to the acquisition of certain television programme licences from ATV Enterprises Limited. For the year ended 30 June 2002, programme license fees paid/payable to ATV Enterprises Limited amounted to approximately HK$1,804,000 which, were charged under normal commercial terms and were negotiated on a case-by-case basis. Such amount did not exceed the annual cap of HK$57,500,000 approved under the relevant waiver.

(f) A 70% owned subsidiary of the Company has entered into a transponder rental agreement and an electronic programme guide ("EPG") services agreement with British Sky Broadcasting Limited ("BSkyB"), an associate of STAR Television Holdings Limited, which owns 37.6% interest in the Company. The connected transaction relates to the provision of transponder rental and uplinking services for Phoenix CNE Channel. Since the acquisition of the subsidiary by the Phoenix Group on 1 November 2001 and up to 30 June 2002, the transponder rental and uplink costs paid/payable to BSkyB amounted to approximately HK$1,862,000, which were charged in accordance with the service agreements with BSkyB. Such amount did not exceed the annual cap of HK$3,200,000 approved under the relevant waiver.

    On 26 June 2002, the 70% owned subsidiary had entered into a new transponder rental agreement and a new EPG services agreement with BSkyB due to the extension of broadcasting time from 8 hours to 24 hours and the expiry of the old EPG services agreement respectively.

2. A subsidiary of the Company has entered into an agreement with Fox News Network L.L.C. ("Fox"), an associate of STAR Television Holdings Limited, a major shareholder of the Company. The connected transactions relate to:

    (a) granting of non-exclusive and non-transferable licence to subscribe for Fox's news service;

    (b) leasing of office space and access to workspace, subject to availability; and

    (c) accessing Fox's camera hook up at the United Nations, interview positions in various places in the United States and live shots from Fox's satellite truck positions for events that Fox is already covering, subject to availability.

    These connected transactions have been approved by resolutions of independent shareholders passed on 26 July 2001 in compliance with Chapter 20 of the GEM Listing Rules.

    For the year ended 30 June 2002, the service charges paid/payable to Fox amounted to approximately HK$4,092,000, which were charged under the licensing agreement between a subsidiary of the Company and Fox. Such amount did not exceed the annual cap of HK$4,940,300 approved under the relevant resolutions.

3. For the year ended 30 June 2002, news footage and data transmission services were provided by ATV to a subsidiary of the Company. The service charges paid/payable to ATV amounted to approximately HK$556,000 which, were charged based on terms mutually agreed upon between both parties. This is a connected transaction but falls within Rule 20.25 of the GEM Listing Rules as the annual total consideration or value of

the transaction is less than the higher of HK$1,000,000 or 0.03% of the net tangible assets of the Phoenix Group. Such transaction is exempted from the reporting, announcement and shareholders' approval requirements of Chapter 20 of the GEM Listing Rules.

4. A subsidiary of the Company has leased certain office premises from STARL. For the year ended 30 June 2002, the office premises rental paid/payable to STARL amounted to approximately HK$6,372,000, which was calculated by reference to the area of space occupied by the Phoenix Group and was proportional to the rental payable by STARL in respect of the area occupied by it under its lease with the landlord. This lease is a connected transaction but falls within Rule 20.24 of the GEM Listing Rules as the annual total consideration or value of the transaction (when aggregated or treated on an individual basis) is less than the higher of HK$10,000,000 or 3% of the net tangible assets of the Phoenix Group. Such transaction is exempted from the reporting, announcement and shareholders' approval requirements of Chapter 20 of the GEM Listing Rules.

The independent Non-Executive Directors of the Company have reviewed the above transactions and have considered the procedures performed by the auditors of the Company in reviewing them and confirmed that at the time of the transactions:

(a) the transactions have been entered into by the relevant member of the Phoenix Group in the ordinary and usual course of its business;

(b) the transactions have been entered into on an arm's length basis and on normal commercial terms (to the extent that there are comparable transactions) or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, or terms not less favourable to the Phoenix Group than terms available to or from (as the case may be) independent third parties; and

(c) the transactions have been entered into in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

In addition, for those connected transactions the annual caps of which are greater than the higher of HK$10,000,000 or 3% of the net tangible assets of the Group, the Independent Non-executive Directors of the Company are of the opinion that the Group should continue with the agreements for such transactions.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of sales and programme purchases for the year attributable to the Group's major customers and suppliers are as follows:

	2002	2001
Sales		
– the largest customer	**2%**	4%
– five largest customers	**9%**	12%
Programme purchases		
– the largest supplier	**25%**	28%
– five largest suppliers	**55%**	63%

STAR Filmed is the largest programme supplier of the Phoenix Group referred to above. Details of the transactions between the Phoenix Group and STAR Filmed are set out in note 26 to the accounts. STAR Filmed is an indirect wholly-owned subsidiary of STAR Group Limited, which holds 100% of STAR Television Holdings Limited, a major shareholder of the Company.

ATV Enterprises Limited, a wholly-owned subsidiary of ATV, is one of the five largest programme suppliers of the Phoenix Group referred to above. Details of the transactions between the Phoenix Group and ATV Enterprises Limited are set out in note 26 to the accounts. Mr. LIU, Changle and Mr. CHAN, Wing Kee beneficially own 93.3% and 6.7% respectively of Today's Asia Limited, which in turn holds 46% indirect interest in ATV.

In the opinion of the Directors, such transactions were carried out on terms no more favourable than terms available to independent third parties.

Save as aforementioned, none of the Directors, their associates, or any Shareholders which, to the knowledge of the Directors, own more than 5% of the Company's share capital has a beneficial interest in any one of the Phoenix Group's top five customers and/or programme suppliers.

COMPETING INTERESTS

Today's Asia Limited, STAR Television Holdings Limited and China Wise International Limited have interest in approximately 37.6%, 37.6% and 8.4% of the share capital of the Company respectively. Today's Asia Limited, together with its shareholders, Mr. LIU, Changle and Mr. CHAN, Wing Kee, STAR Television Holdings Limited and China Wise International Limited are deemed to be the initial management shareholders of the Company as defined under the GEM Listing Rules.

STAR Television Holdings Limited, together with its ultimate parent company, The News Corporation Limited ("News Corporation"), are active in the television broadcasting industry worldwide. News Corporation's diversified global operations in the United States, the United Kingdom, Australia, Latin America and Asia include the production of motion pictures and television programming; television, satellite and cable broadcasting; the publication of newspapers, magazines and books; the production and distribution of promotional and advertising products and services; the development of digital broadcasting; the development of conditional access and subscriber management systems, and the creation and distribution of popular on-line programming. Currently, STAR Group Limited, the holding company of STAR Television Holdings Limited, owns and operates multimedia digital platforms, including satellite television, in the Asia Pacific region. STAR Group Limited and its subsidiaries (including STAR Television Holdings Limited) operate and broadcast a range of channels, such as STAR Movies and STAR Chinese Channel (which presently only broadcasts in Taiwan) and Channel [V]. The broadcasting coverage of Channel [V] includes China, Taiwan, Hong Kong, countries in South East Asia, the Indian sub-continent and the Middle East. STAR Group Limited announced on 19 December 2001 that it was granted landing rights for a new 24-hour Mandarin – language general entertainment channel in southern China by virtue of an agreement signed among STAR (China) Limited (STAR Group Limited's wholly-owned subsidiary), China International Television Corporation, Guangdong Cable TV Networks Co. Ltd. and Fox Cable Networks Services, L.L.C., an affiliate of STAR Group Limited.

Mr. LIU, Changle and Mr. CHAN, Wing Kee beneficially own 93.3% and 6.7% respectively of Today's Asia Limited, which holds 100% of Vital Media Holdings Limited, which in turn holds 46% indirect interest in Asia Television Limited, a Hong Kong based television broadcasting company. Asia Television Limited is deemed to be a connected person of the Company pursuant to the GEM Listing Rules. Primarily aiming at audiences in Hong Kong, Asia Television Limited broadcasts its programmes via terrestrial transmission through two channels, one in Cantonese and the other in English. Signals of such two channels can also be received in certain parts of Guangdong Province of the PRC. Asia Television Limited announced in August 2002 that it had received the approval from the authorities in China to broadcast its Cantonese and English channels through cable system in Guangdong.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference based upon the guidelines recommended by the Hong Kong Society of Accountants. The primary duties of the audit committee are to review the Company's annual report and accounts, half-yearly reports and quarterly reports and to provide advice and comments thereon to the Board of Directors. The audit committee has met four times a year to review with management the accounting principles and practices adopted by the Phoenix Group and to discuss auditing, internal control and financial reporting matters. The audit committee comprises one Non-Executive Director, namely Mr. LAU, Yu Leung John and two independent Non-Executive Directors, namely Dr. LO, Ka Shui and Mr. KUOK, Khoon Ean.

BOARD PRACTICES AND PROCEDURES

The Company has complied with Rules 5.28 to 5.39 of the GEM Listing Rules concerning board practices and procedures throughout the year.

AUDITORS

The accounts in respect of financial years ended 30 June 1999, 2000 and 2001 were audited by Arthur Andersen & Co.

Pursuant to the combination of the practice of Arthur Andersen & Co with PricewaterhouseCoopers effective 1 July 2002, the accounts for the year ended 30 June 2002 have been audited by PricewaterhouseCoopers. A resolution to re-appoint PricewaterhouseCoopers as auditors will be proposed at the forthcoming annual general meeting.

On behalf of the Board

LIU, Changle
Chairman

Hong Kong, 3 September 2002

AUDITORS' REPORT

TO THE SHAREHOLDERS OF PHOENIX SATELLITE TELEVISION HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)

We have audited the accounts on pages 36 to 71 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's Directors are responsible for the preparation of accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts and of whether the accounting policies are appropriate to the circumstances of the Company and of the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 30 June 2002 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 3 September 2002

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 30 June 2002

(Amounts expressed in Hong Kong dollars)

	Note	**2002** **\$'000**	2001 *\$'000* *(Note 27)*
REVENUE	2	**685,043**	713,687
OPERATING EXPENSES		**(709,700)**	(579,421)
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES		**(140,356)**	(132,974)
(LOSS) PROFIT FROM OPERATIONS		**(165,013)**	1,292
OTHER (EXPENSES) INCOME			
Provision for impairment of goodwill	9	**(44,700)**	–
Amortisation of goodwill	9	**(2,485)**	–
Exchange gain, net		**1,067**	2,091
Interest income, net		**12,875**	47,106
Other income, net		**4,027**	1,369
		(29,216)	50,566
(LOSS) PROFIT BEFORE TAXATION AND MINORITY INTERESTS	4	**(194,229)**	51,858
TAXATION	6	**(3,141)**	(1,608)
(LOSS) PROFIT BEFORE MINORITY INTERESTS		**(197,370)**	50,250
MINORITY INTERESTS		**(2,346)**	3,734
(LOSS) PROFIT ATTRIBUTABLE TO SHAREHOLDERS		**(199,716)**	53,984
ACCUMULATED DEFICIT, beginning of year		**(301,778)**	(355,762)
DIVIDENDS		**–**	–
ACCUMULATED DEFICIT, end of year		**(501,494)**	(301,778)
BASIC (LOSS) EARNINGS PER SHARE, Hong Kong cents	8	**(4.05)**	1.10
DILUTED (LOSS) EARNINGS PER SHARE, Hong Kong cents	8	**N/A**	1.09

A separate statement of recognised gains and losses is not presented because there were no recognised gains or losses other than the loss attributable to shareholders for the year.

CONSOLIDATED BALANCE SHEET

As at 30 June 2002

(Amounts expressed in Hong Kong dollars)

	Note	**2002**	2001
		$'000	*$'000*
			(Note 27)
Non-current assets			
Goodwill	9	**–**	–
Fixed assets, net	10	**83,799**	79,156
Purchased programme and film rights	11	**28,276**	36,515
Land deposit	12	**29,177**	29,177
Interest in an associated company	14	**–**	–
Loan to PCNE	9	**–**	41,093
		141,252	185,941
Current assets			
Cash and bank balances		**451,327**	665,403
Accounts receivable, net	15	**115,713**	122,645
Inventories		**1,513**	372
Prepayments, deposits and other receivables	16	**242,024**	160,190
Amounts due from related companies	17	**127**	825
Self-produced programmes		**27,355**	17,066
Purchased programme and film rights, current portion	11	**14,308**	10,645
		852,367	977,146

	Note	**2002**	2001
		$'000	*$'000*
			(Note 27)
Current liabilities			
Short-term bank loan, secured		**–**	(779)
Accounts payable, other payables and accruals	18	**(104,534)**	(80,866)
Deferred income		**(12,576)**	(12,355)
Advertising revenue received in advance		**(16,558)**	(28,462)
Amounts due to related companies	17	**(28,741)**	(17,913)
Profits tax payable		**(4,458)**	(1,356)
		(166,867)	(141,731)
Net current assets		**685,500**	835,415
Total assets less current liabilities		**826,752**	1,021,356
Non-current liability			
Deferred taxation	22	**(252)**	(252)
Minority interests		**(9,982)**	(5,019)
		816,518	1,016,085
Capital and reserves			
Share capital	19	**493,173**	493,159
Reserves	21	**323,345**	522,926
Total shareholders' equity		**816,518**	1,016,085

Approved by the Board of Directors on 3 September 2002 and signed on behalf of the Board by:

LIU, Changle
Director

MURDOCH, James Rupert
Director

BALANCE SHEET

As at 30 June 2002

(Amounts expressed in Hong Kong dollars)

	Note	**2002** **$'000**	2001 $'000
Non-current asset			
Interests in subsidiaries	13	**1,241,355**	1,214,837
Current assets			
Cash and bank balances		**82,862**	105,560
Prepayments, deposits and other receivables		**170**	1,820
		83,032	107,380
Current liability			
Other payables and accruals		**(245)**	(2)
Net current assets		**82,787**	107,378
		1,324,142	1,322,215
Capital and reserves			
Share capital	19	**493,173**	493,159
Reserves	21	**830,969**	829,056
Total shareholders' equity		**1,324,142**	1,322,215

Approved by the Board of Directors on 3 September 2002 and signed on behalf of the Board by:

LIU, Changle
Director

MURDOCH, James Rupert
Director

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 30 June 2002

(Amounts expressed in Hong Kong dollars)

	Note	**2002** **$'000**	2001 $'000
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	(a)	**(195,410)**	(104,150)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received from bank deposits		**12,923**	47,121
Interest paid		**(48)**	(15)
NET CASH INFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		**12,875**	47,106
INVESTING ACTIVITIES			
Loan to PCNE		**(11,099)**	(20,853)
Increase in land deposit		**–**	(29,177)
Purchase of fixed assets		**(23,862)**	(82,242)
Proceeds from disposal of fixed assets		**–**	326
Purchase of additional interest in a subsidiary		**(944)**	–
Net cash inflow from acquisition of PCNE	(b)	**2,418**	–
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		**(33,487)**	(131,946)
OVERSEAS TAXATION PAID		**(39)**	–
NET CASH OUTFLOW BEFORE FINANCING		**(216,061)**	(188,990)
FINANCING	(c)		
Proceeds from exercise of over-allotment of shares by underwriters		**–**	90,621
Proceeds from exercise of share options		**149**	673
Over-allotment, placements and public offering expenses paid		**–**	(8,996)
Capital contributions from minority shareholders		**2,615**	1,000
NET CASH INFLOW FROM FINANCING		**2,764**	83,298
DECREASE IN CASH AND CASH EQUIVALENTS		**(213,297)**	(105,692)
CASH AND CASH EQUIVALENTS, beginning of year		**664,624**	770,316
CASH AND CASH EQUIVALENTS, end of year		**451,327**	664,624
ANALYSIS OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**451,327**	665,403
Short-term bank loan, secured		**–**	(779)
		451,327	664,624

	2002	2001
	$'000	*$'000*
		(Note 27)
(a) RECONCILIATION OF (LOSS) PROFIT BEFORE TAXATION AND MINORITY INTERESTS TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES		
(Loss) Profit before taxation and minority interests	**(194,229)**	51,858
Interest expense	**48**	15
Interest income on bank deposits	**(12,923)**	(47,121)
Depreciation of fixed assets	**19,541**	7,429
Provision for impairment of goodwill	**44,700**	–
Amortisation of goodwill	**2,485**	–
Loss (Gain) on disposal of fixed assets	**792**	(111)
Decrease (Increase) in accounts receivable, net	**9,514**	(40,096)
(Increase) Decrease in inventories	**(1,141)**	63
Increase in prepayments, deposits and other receivables	**(80,759)**	(55,489)
Decrease (Increase) in amounts due from related companies	**698**	(705)
Increase in self-produced programmes	**(10,289)**	(2,561)
Decrease (Increase) in purchased programme and film rights	**7,862**	(10,649)
Increase in accounts payable, other payables and accruals	**17,929**	9,335
(Decrease) Increase in deferred income	**(1,190)**	3,192
Decrease in advertising revenue received in advance	**(11,904)**	(15,244)
Increase (Decrease) in amounts due to related companies	**13,456**	(4,066)
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	**(195,410)**	(104,150)

8(b) ACQUISITION OF PCNE

Net liabilities of PCNE acquired as at 1 November 2001:

	$'000
Fixed assets	1,114
Current assets:	
Cash and bank balances	2,418
Accounts receivable, net	2,582
Prepayments, deposits and other receivables	1,075
Amount due from a fellow subsidiary	2,628
Purchased programme and film rights	3,286
	11,989
Current liabilities:	
Accounts payable and accruals	(5,739)
Deferred income	(1,411)
	(7,150)
Net current assets	4,839
Total assets less current liabilities	5,953
Amounts due to a fellow subsidiary	(52,192)
Net liabilities acquired as at 1 November 2001	(46,239)
Consideration	(2)
Goodwill on acquisition of PCNE	46,241
	46,239
Analysis of net inflow of cash and cash equivalents in connection with the acquisition of PCNE:	
Cash consideration	–
Cash and bank balances acquired	2,418
Net inflow of cash and cash equivalents in connection with the acquisition of PCNE	2,418

(c) ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	2002				2001
	Share capital	**Share premium**	**Minority interests**	**Total**	Total
	$'000	***$'000***	***$'000***	***$'000***	*$'000*
Balance, beginning of year	**493,159**	**824,704**	**5,019**	**1,322,882**	1,243,318
Proceeds from exercise of over-allotment of shares	**–**	**–**	**–**	**–**	90,621
Share options exercised by employees	**14**	**135**	**–**	**149**	673
Over-allotment, placements and public offering expenses paid	**–**	**–**	**–**	**–**	(8,996)
Capital contributions from minority shareholders					
– cash	**–**	**–**	**2,615**	**2,615**	1,000
– non cash	**–**	**–**	**2**	**2**	–
Minority shareholders' share of results	**–**	**–**	**2,346**	**2,346**	(3,734)
Balance, end of year	**493,173**	**824,839**	**9,982**	**1,327,994**	1,322,882

NOTES TO THE ACCOUNTS

1. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA"). They have been prepared under the historical cost convention.

In the current year, the Group adopted the following Statements of Standard Accounting Practice ("SSAPs") issued by the HKSA which are effective for accounting periods commencing on or after 1 January 2001:

SSAP 9 (revised)	:	Events after the balance sheet date
SSAP 26	:	Segment reporting
SSAP 28	:	Provisions, contingent liabilities and contingent assets
SSAP 29	:	Intangible assets
SSAP 30	:	Business combinations
SSAP 31	:	Impairment of assets
SSAP 32	:	Consolidated financial statements and accounting for investments in subsidiaries

The accounting policies below have adopted these new standards.

(b) Group accounting

(i) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 30 June. Subsidiaries are those entities in which the Group controls. Control is normally evidenced when the Group has the power to govern the financial and operating policies of the subsidiary so as to benefit from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of the acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or goodwill taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(ii) *Associated company*

An associated company is a company, not being a subsidiary, in which an equity interest is held for the long-term and significant influence is exercised in its management.

The consolidated profit and loss account includes the Group's share of the results of the associated company for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated company.

Equity accounting is discontinued when the carrying amount of the investment in the associated company reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated company.

(iii) *Translation of foreign currencies*

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheet of subsidiaries and an associated company expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss is translated at an average rate. Exchange differences are dealt with as a movement in reserves.

(c) Fixed assets

(i) Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Fixed assets are depreciated at rates sufficient to write off their costs less accumulated impairment losses over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Leasehold improvements	15%
Furniture and fixtures	15% – 20%
Broadcast operations and other equipment	20%
Motor vehicles	20%

(ii) *Impairment and gain or loss on sale*

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets included in fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

(d) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary at the date of acquisition. It is amortised on a straight-line basis over 20 years.

Where an indication of impairment exists, the carrying amount of the goodwill is assessed and written down immediately to its recoverable amount.

(e) Purchased programme and film rights

Purchased programme and film rights and the related accruals are recorded at cost. The cost of purchased programme and film rights is charged to the profit and loss account either on the first and second showing of such purchased programme and film rights or amortised over the licence period if the licence allows multiple showings within the licence period. Purchased programme and film rights with a remaining licence period of twelve months or less are classified as current assets.

(f) Self-produced programmes

Self-produced programmes are stated at cost less provision for obsolescence where considered necessary by the Directors. Cost comprises the production costs of the programmes which consist of direct expenditures and an appropriate portion of production overheads. The production costs of the self-produced programmes are charged to the profit and loss account in accordance with a formula computed to write off the cost over their anticipated revenue pattern. Revenue estimates are reviewed periodically and amortisation is adjusted, if necessary.

(g) Inventories

Inventories, comprising decoder devices and digital receivers, are stated at the lower of cost and net realisable value.

Cost, calculated on the first-in, first-out basis, comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(h) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from date of investment and short-term bank loan.

(i) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

(j) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

(k) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

(l) Deferred taxation

Deferred taxation is accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

(m) Revenue recognition

Revenue mainly represents income from advertising sales and subscription sales.

Provided it is probable that the economic benefits associated with a transaction will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue and other income are recognised on the following bases:

(i) Advertising revenue

Advertising revenue represents the gross value of advertisements broadcast and is recognised when the relevant advertisements are broadcast.

(ii) Subscription revenue

Subscription revenue received or receivable from the cable distributors or agents is amortised on a time proportion basis. Unamortised portion is classified as deferred income.

(iii) Magazine advertising revenue

Magazine advertising revenue represents the value of advertisements printed on the magazines and is recognised when the magazine is published.

(iv) Magazine subscription revenue

Magazine subscription revenue represents subscription money received or receivable from magazine customers and is recognised when the respective magazine is sold.

(v) Interest income

Interest income from bank deposits is recognised on a time proportion basis on the principal outstanding and at the rate applicable.

(n) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

(o) Retirement benefit costs

The Group contributes to a defined contribution retirement scheme which is available to all employees. Contributions to the scheme by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to the profit and loss account represents contributions payable by the Group to the fund.

The Group's contributions to the defined contribution retirement scheme are expensed as incurred and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions.

The assets of the scheme are held separately from those of the Group in an independently administered fund.

(p) Borrowing costs

Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds. They are expensed as incurred.

(q) Subsequent events

Post-year-end events that provide additional information about the Group's position at the balance sheet date or those that indicate the going concern assumption is not appropriate, (adjusting events), are reflected in the accounts. Post-year-end events that are not adjusting events are disclosed in the notes when material.

(r) Segment reporting

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical segment as the secondary reporting format.

Unallocated expenses represent corporate expenses. Segment assets consist primarily of intangible assets, fixed assets, inventories, receivables and operating cash. Segment liabilities comprise operating liabilities. Capital expenditure comprises additions to intangible assets (note 9) and fixed assets (note 10), including additions resulting from acquisitions through purchases of subsidiaries.

In respect of geographical segment reporting, advertising sales or subscription sales are presented based on the country in which the customer is located. Total assets and capital expenditure are presented based on the country where the assets are located.

2. REVENUE

The Phoenix Group is principally engaged in satellite television broadcasting activities. An analysis of the Phoenix Group's revenue by nature is as follows:

	2002	2001
	$'000	*$'000*
Advertising sales	**628,322**	674,350
Subscription sales	**38,844**	29,887
Magazine advertising and subscription sales	**13,027**	7,821
Others	**4,850**	1,629
Total revenue	**685,043**	713,687

3. SEGMENT INFORMATION

(a) Primary reporting format – business segments

The Group is organised into three main business segments including:

(i) Television broadcasting – broadcasting of television programmes and commercials;

(ii) Programme production and ancillary services; and

(iii) Other activities – merchandising services, website portal, magazine publication and distribution, and other related services.

	2002				
	Television broadcasting *$'000*	**Programme production and ancillary services** *$'000*	**Other activities** *$'000*	**Inter-segment elimination** *$'000*	**Group** *$'000*
Revenue					
External sales	**667,166**	**1,551**	**16,326**	**–**	**685,043**
Inter-segment sales	**–**	**15,956**	**–**	**(15,956)**	**–**
Total revenue	**667,166**	**17,507**	**16,326**	**(15,956)**	**685,043**
Segment results	**(89,920)**	**(1,196)**	**(17,686)**	**–**	**(108,802)**
Unallocated expenses *(Note i)*					**(85,427)**
Loss before taxation and minority interests					**(194,229)**
Taxation					**(3,141)**
Loss before minority interests					**(197,370)**
Minority interests					**(2,346)**
Loss attributable to shareholders					**(199,716)**
Segment assets	**254,856**	**62,997**	**38,233**	**–**	**356,086**
Unallocated assets					**637,533**
Total assets					**993,619**
Segment liabilities	**(49,588)**	**(5,509)**	**(19,005)**	**–**	**(74,102)**
Profits tax payable					**(4,458)**
Unallocated liabilities					**(88,307)**
Deferred taxation					**(252)**
Total liabilities					**(167,119)**
Capital expenditure	**13,946**	**7,393**	**842**	**–**	**22,181**
Unallocated capital expenditure					**3,685**
					25,866
Depreciation	**(15,617)**	**(2,509)**	**(1,415)**	**–**	**(19,541)**
Amortisation of purchased programme and film rights	**(42,546)**	**–**	**–**	**–**	**(42,546)**
Amortisation of goodwill	**(1,541)**	**–**	**(944)**	**–**	**(2,485)**
Provision for impairment of goodwill	**(44,700)**	**–**	**–**	**–**	**(44,700)**

	2001				
	Television broadcasting *$'000*	Programme production and ancillary services *$'000*	Other activities *$'000*	Inter-segment elimination *$'000*	Group *$'000*
Revenue					
External sales	704,237	345	9,105	–	713,687
Inter-segment sales	–	15,202	–	(15,202)	–
Total revenue	704,237	15,547	9,105	(15,202)	713,687
Segment results	145,749	1,113	(42,822)	–	104,040
Unallocated expenses *(Note i)*					(52,182)
Profit before taxation and minority interests					51,858
Taxation					(1,608)
Profit after taxation					50,250
Minority interests					3,734
Profit attributable to shareholders					53,984
Segment assets	244,964	59,921	34,095	–	338,980
Unallocated assets					824,107
Total assets					1,163,087
Segment liabilities	(66,830)	(4,893)	(11,794)	–	(83,517)
Profits tax payable					(1,356)
Unallocated liabilities					(56,858)
Deferred taxation					(252)
Total liabilities					(141,983)
Capital expenditure	49,846	15,275	36,962	–	102,083
Unallocated capital expenditure					7,586
					109,669
Depreciation	(4,857)	(1,542)	(1,030)	–	(7,429)
Amortisation of purchased programme and film rights	(31,076)	–	–	–	(31,076)

Note:

(i) Unallocated expenses represent primarily:
- corporate staff costs;
- office rental;
- general administrative expenses; and
- marketing and advertising expenses that relate to the Phoenix Group as a whole.

(b) Secondary reporting format – geographical segments

	2002		
	Turnover	**Total assets**	**Capital expenditure**
	$'000	***$'000***	***$'000***
PRC (including Hong Kong)	**628,525**	**956,055**	**16,266**
United States	**8,759**	**17,520**	**2,131**
Europe	**4,157**	**17,574**	**7,356**
Other countries	**43,602**	**2,470**	**113**
	685,043	**993,619**	**25,866**

	2001		
	Turnover	Total assets	Capital expenditure
	$'000	*$'000*	*$'000*
PRC (including Hong Kong)	671,372	1,135,090	99,596
United States	7,998	21,562	8,169
Europe	11,192	–	–
Other countries	23,125	6,435	1,904
	713,687	1,163,087	109,669

4. (LOSS) PROFIT BEFORE TAXATION AND MINORITY INTERESTS

(Loss) Profit before taxation and minority interests is stated after crediting and charging the following:

	2002	2001
	$'000	*$'000*
Crediting:		
Gain on disposal of fixed assets	**–**	111
Net exchange gains	**1,067**	2,091
Interest income on bank deposits	**12,923**	47,121
Charging:		
Programme amortisation costs	**42,546**	31,076
Programme production costs	**108,564**	81,391
Transponder rental	**32,800**	26,785
Provision for doubtful debts	**39,293**	30,590
Staff costs (including Directors' emoluments)		
– salaries and allowances	**173,046**	131,239
– pension fund	**9,237**	6,188
Operating lease rental in respect of		
– Directors' quarters	**1,006**	956
– land and buildings of third parties	**8,579**	4,177
– land and buildings of a related company	**6,372**	7,376
Depreciation of fixed assets	**19,541**	7,429
Loss on disposal of fixed assets	**792**	–
Interest expense in respect of short-term bank loan	**48**	15
Auditors' remuneration	**1,685**	1,100

5. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

(a) Directors' emoluments

The aggregate amounts of emoluments paid/payable to Directors of the Company during the year are as follows:

	2002	2001
	$'000	*$'000*
Executive Director A:		
Fees	**4,292**	4,146
Salaries	**–**	–
Discretionary bonus	**–**	1,198
Quarters	**1,006**	956
Other allowance	**–**	114
Pension fund	**–**	–
	5,298	6,414
Executive Director B:		
Fees	**–**	–
Salaries	**2,488**	1,499
Discretionary bonus	**–**	761
Housing allowance	**134**	804
Other allowance	**–**	109
Pension fund	**163**	150
	2,785	3,323

During the year, no emoluments were paid/payable to the Non-executive Directors of the Company (2001: Nil) and approximately $400,000 (2001: $300,000) were paid/payable to two independent Non-executive Directors of the Company.

The emoluments of the Directors fell within the following bands:

	Number of Directors	
Emolument bands	**2002**	2001
$nil – $1,000,000	**8**	8
$2,500,001 – $3,000,000	**1**	–
$3,000,001 – $3,500,000	**1**	1
$3,500,001 – $4,000,000	**–**	1
$5,000,001 – $5,500,000	**1**	–
$6,000,001 – $6,500,000	**–**	1

There was no arrangement under which a Director waived or agreed to waive any remuneration during the year ended 30 June 2002.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2001: two) Executive Directors whose emoluments are reflected in the analysis presented in (a) above. The emoluments paid/payable to the remaining three (2001: three) individuals during the year are as follows:

	2002	2001
	$'000	*$'000*
Fees	**–**	–
Salaries	**4,017**	4,848
Discretionary bonus	**–**	2,173
Housing allowance	**3,088**	2,400
Quarters	**–**	–
Other allowance	**1,138**	–
Pension fund	**478**	486
	8,721	9,907

The emoluments of the remaining three (2001: three) individuals fell within the following bands:

	Number of individuals	
Emolument bands	**2002**	2001
$2,000,001 – $2,500,000	**1**	–
$2,500,001 – $3,000,000	**1**	1
$3,000,001 – $3,500,000	**1**	1
$3,500,001 – $4,000,000	**–**	1
$5,000,001 – $5,500,000	**–**	–
$6,000,001 – $6,500,000	**–**	–

During the year, no emoluments or incentive payments were paid or payable to any Director or the other employees amongst the five highest paid individuals as an inducement to join the Phoenix Group or as compensation for loss of office.

6. TAXATION

Hong Kong profits tax has been provided at the rate of 16% (2001: 16%) on the estimated assessable profit arising from or derived from Hong Kong. Overseas taxation has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the respective jurisdictions.

The amount of taxation charged to the consolidated profit and loss account represents:

	2002	2001
	$'000	*$'000*
Hong Kong profits tax	**3,102**	1,064
Overseas taxes	**39**	292
	3,141	1,356
Deferred taxation *(note 22)*	**–**	252
	3,141	1,608

There was no material unprovided potential liability for deferred taxation for the year (2001: nil).

As at 30 June 2002, certain subsidiaries of the Phoenix Group had estimated cumulative tax losses for Hong Kong profits tax purposes which, subject to the agreement by the Inland Revenue Department, can be carried forward indefinitely to be offset against future taxable profits. The potential deferred tax asset, subject to the agreement by the Inland Revenue Department of the amount of the tax losses, has not been recognised in the accounts of the Phoenix Group.

7. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders dealt with in the accounts of the Company amounted to approximately $1,778,000 (2001: $4,298,000).

8. (LOSS) EARNINGS PER SHARE

The calculation of basic (loss) earnings per share is based on consolidated loss attributable to shareholders of $199,715,943 (2001: profit of $53,984,944), and the 4,931,709,058 (2001: 4,926,394,652) weighted average number of ordinary shares outstanding during the year ended 30 June 2002.

For the year ended 30 June 2002, no diluted loss per share has been presented as the exercise of the Company's outstanding share options would have no dilutive effect on loss per share during the year.

For the year ended 30 June 2001, diluted earnings per share is computed by dividing consolidated profit attributable to shareholders for the year of $53,984,944 by the weighted average number of ordinary shares outstanding during the year adjusted for the effects of all dilutive potential ordinary shares (from exercise of share options). The effect of the dilution resulting from the outstanding share options on the weighted average number of ordinary shares on issue during the year ended 30 June 2001 is an additional 25,381,665 shares. These shares were deemed to be issued at no consideration on the date when the share options were granted.

The reconciliation of number of ordinary shares for the year ended 30 June 2001 was as follows:

	2001
Weighted average number of ordinary shares used in calculating basic earnings per share	4,926,394,652
Deemed issue of ordinary shares for no consideration	25,381,665
Weighted average number of ordinary shares used in calculating diluted earnings per share	4,951,776,317

9. GOODWILL

The Phoenix Group completed its acquisition of Phoenix Chinese News & Entertainment Limited ("PCNE") on 1 November 2001 upon signing of the final agreement. PCNE is engaged in the satellite broadcasting of the Phoenix CNE Channel in Europe.

Prior to the acquisition of PCNE on 1 November 2001, each of Phoenix Satellite Television (Europe) Limited ("PSTL"), a wholly-owned subsidiary of the Company, and Techvast Limited were issued one share of US$1 each at par of a newly established company, PCNE Holdings Limited. On 1 November 2001, pursuant to the acquisition agreement, PCNE Holdings Limited issued 699 new shares of US$1 each to PSTL at a consideration of US$699 and 299 new shares of US$1 each to Techvast Limited in exchange for the entire share capital of PCNE. Consequently, PSTL and Techvast Limited hold 70% and 30% of the issued share capital of PCNE Holdings Limited respectively. PCNE Holdings Limited, in turn, holds 100% of the issued share capital of PCNE.

The excess of the cost of acquisition over the Phoenix Group's interest in the fair value of the net identifiable liabilities of subsidiaries acquired as at the date of acquisition is approximately $47 million and was recorded as goodwill.

The global economic downturn, which has continued during the eight months since the acquisition, has increased the uncertainty about the recoverability of the goodwill in the near future. Accordingly, management of the Phoenix Group performed an assessment of the recoverable amount of its goodwill arising from the acquisition of PCNE. The assessment was based on the value in use of the asset using the present value of estimated future cashflows. As a result of this assessment, a provision for impairment of approximately $44,700,000 has been made for the year ended 30 June 2002.

The movement of goodwill of the Phoenix Group for the year ended 30 June 2002 is as follows:

	2002
	$'000
Balance, beginning of year	**–**
Additions	**47,185**
Amortisation charge	**(2,485)**
Impairment charge	**(44,700)**
Balance, end of year	**–**

10. FIXED ASSETS, NET

	2002				
	Leasehold improvements	Furniture and fixtures	Broadcast operations and other equipment	Motor vehicles	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*
Cost					
Beginning of year	**15,158**	**3,052**	**65,784**	**4.325**	**88,319**
Additions	**1,972**	**933**	**18,539**	**2,418**	**23,862**
Acquisition of a subsidiary	**123**	**170**	**6,073**	**207**	**6,573**
Disposals	**(81)**	**(151)**	**(4,337)**	**–**	**(4,569)**
Reclassification	**–**	**(494)**	**494**	**–**	**–**
End of year	**17,172**	**3,510**	**86,553**	**6,950**	**114,185**
Accumulated depreciation					
Beginning of year	**1,806**	**682**	**6,332**	**343**	**9,163**
Charge for the year	**2,566**	**485**	**15,393**	**1,097**	**19,541**
Acquisition of a subsidiary	**51**	**145**	**5,249**	**14**	**5,459**
Disposals	**(48)**	**(140)**	**(3,589)**	**–**	**(3,777)**
Reclassification	**–**	**(90)**	**90**	**–**	**–**
End of year	**4,375**	**1,082**	**23,475**	**1,454**	**30,386**
Net book value					
End of year	**12,797**	**2,428**	**63,078**	**5,496**	**83,799**
Beginning of year	**13,352**	**2,370**	**59,452**	**3,982**	**79,156**

11. PURCHASED PROGRAMME AND FILM RIGHTS

	2002	2001
	$'000	*$'000*
Balance, beginning of year	**47,160**	36,511
Additions	**41,203**	52,519
Disposals	**(3,233)**	(10,794)
Amortisation	**(42,546)**	(31,076)
Balance, end of year	**42,584**	47,160
Less: Purchased programme and film rights – current portion	**(14,308)**	(10,645)
	28,276	36,515

12. LAND DEPOSIT

On 11 June 2001, a subsidiary of the Company entered into an agreement with 深圳市規劃國土局 (The Shenzhen National Land Planning Bureau) to acquire a land use right on a parcel of land situated in Shenzhen, the PRC, for the development of a building for the Phoenix Group. The total consideration for the acquisition is approximately $57,354,000. Pursuant to the payment terms of the agreement, an amount of approximately $29,177,000 has been paid to the 深圳市規劃國土局 (The Shenzhen National Land Planning Bureau) as the first instalment. A final payment of approximately $28,177,000 (see note 25(e)) is to be paid no later than 13 June 2003. The land use right will be granted to the Phoenix Group only upon full and final payment.

13. INTERESTS IN SUBSIDIARIES

	Company	
	2002	2001
	$'000	*$'000*
Unlisted shares, at cost	**–**	–
Amount due from a subsidiary	**1,241,355**	1,214,837
	1,241,355	1,214,837

Amount due from a subsidiary is unsecured, non-interest bearing and has no fixed repayment terms.

The Company has undertaken to provide necessary financial resources to support the future operations of the subsidiaries. The Directors are of the opinion that the underlying value of the subsidiaries was not less than the carrying amount of the subsidiaries as at 30 June 2002.

Details of subsidiaries as at 30 June 2002 were as follows:

Name	Place and date of incorporation	Place of operation	Principal activities	Percentage of equity interest held by the Group	Issued and fully paid share capital/ registered capital
Hong Kong Phoenix Weekly Magazine Limited *(Note i)*	Hong Kong 29 November 1999	Hong Kong	Publishing and distribution of periodicals	77%	$100
Hong Kong Phoenix Satellite Television Limited	Hong Kong 19 January 2001	Hong Kong	Dormant	100%	$2
Phoenix Satellite Television (InfoNews) Limited	British Virgin Islands 6 September 1999	British Virgin Islands	Satellite television broadcasting	100%	US$1
Phoenix Satellite Television (B.V.I.) Holding Limited *(Note ii)*	British Virgin Islands 28 April 1998	British Virgin Islands	Investment holding	100%	US$1
Phoenix Satellite Television (Chinese Channel) Limited	British Virgin Islands 29 June 1998	British Virgin Islands	Satellite television broadcasting	100%	US$1
Phoenix Satellite Television Company Limited	Hong Kong 16 November 1995	Hong Kong	Provision of management and related services	100%	$20

Name	Place and date of incorporation	Place of operation	Principal activities	Percentage of equity interest held by the Group	Issued and fully paid share capital/ registered capital
Phoenix Satellite Television (Europe) Limited	British Virgin Islands 5 July 1999	British Virgin Islands	Investment holding	100%	US$1
Phoenix Satellite Television Information Limited	British Virgin Islands 1 September 1999	British Virgin Islands	Investment holding	100%	US$1
Phoenix Satellite Television (Movies) Limited	British Virgin Islands 26 June 1998	British Virgin Islands	Satellite television broadcasting	100%	US$1
Phoenix Satellite Television Trademark Limited	British Virgin Islands 8 January 1996	British Virgin Islands	Trademark holding	100%	US$1
Phoenix Weekly Magazine (BVI) Limited	British Virgin Islands 24 January 2000	British Virgin Islands	Investment holding	100%	US$1
PHOENIXi Investment Limited	British Virgin Islands 28 October 1999	British Virgin Islands	Investment holding	94.3%	US$123,976 (Ordinary Shares) US$7,500 (Series A Preferred Shares)
PHOENIXi, Inc.	The United States of America 3 June 1999	The United States of America	Internet services	94.3%	US$0.1
Phoenix Satellite Television Development (BVI) Limited	British Virgin Islands 6 January 2000	British Virgin Islands	Investment holding	100%	US$1
Phoenix Satellite Television Development Limited	Hong Kong 16 April 1999	Hong Kong	Investment holding	100%	$2
PCNE Holdings Limited	British Virgin Islands 5 January 2000	British Virgin Islands	Investment holding	70%	US$1,000
Phoenix Satellite Television (Taiwan) Limited	British Virgin Islands 100% 31 August 2000	British Virgin Islands US$1			
Phoenix Satellite Television (Universal) Limited	British Virgin Islands 18 July 2000	British Virgin Islands	Investment holding	100%	US$1
Phoenix Satellite Television (U.S.) Inc.	The United States of America 7 September 2000	The United States of America	Provision of management and promotional related services	100%	US$1

Name	Place and date of incorporation	Place of operation	Principal activities	Percentage of equity interest held by the Group	Issued and fully paid share capital/ registered capital
Phoenix Chinese News & Entertainment Limited (formerly known as Chinese News & Entertainment Limited) *(Note iii)*	The United Kingdom 12 November 1990	The United Kingdom	Satellite television broadcasting	70%	£9,831,424
Phoenix Global Television Limited	British Virgin Islands 8 October 2001	British Virgin Islands	Investment holding	100%	US$1
Phoenix Glow Limited	British Virgin Islands 14 March 2001	British Virgin Islands	Provision of agency services	100%	US$1
Phoenix Satellite Television Investments (BVI) Limited	British Virgin Islands 2 January 2001	British Virgin Islands	Dormant	100%	US$1
深圳鳳凰置業有限公司 Shenzhen Phoenix Real Estate Co. Limited	PRC 9 January 2002	PRC	Land development	90%	US$10,000,000
國鳳在線(北京)信息技術有限公司 Guofeng On-line (Beijing) Information Technology Company Limited	PRC 18 April 2000	PRC	Internet services	94.3%	US$500,000
鳳凰影視(深圳)有限公司 Phoenix Film and Television (Shenzhen) Company Limited	PRC 6 March 2000	PRC	Ancillary services for programme production	60%	$10,000,000
深圳市梧桐山電視廣播有限公司 Shenzhen Wutong Shan Television Broadcasting Limited	PRC 31 July 2001	PRC	Programme production	54%	RMB5,000,000

Note:

(i) During the year, Phoenix Weekly Magazine (BVI) Limited acquired an additional 22% equity interest in Hong Kong Phoenix Weekly Magazine Limited from a minority shareholder at a consideration of RMB1,000,000 (equivalent to approximately $944,000).

(ii) Phoenix Satellite Television (B.V.I.) Holding Limited is directly held by the Company, while all other subsidiaries are indirectly held by the Company through Phoenix Satellite Television (B.V.I.) Holding Limited.

(iii) The Phoenix Group completed its acquisition of 70% interest in PCNE on 1 November 2001 through PCNE Holdings Limited upon signing of the acquisition agreement.

14. INTEREST IN AN ASSOCIATED COMPANY

During the year, the Company invested in an associated company with an independent third party. The investment cost amounted to US$1 (equivalent to HK$8).

Details of the associated company are listed below:

Name	Place and date of incorporation	Place of operation	Principal activity	Percentage of equity interest indirectly held by the Company	Issued and fully paid share capital
China Global Television Limited (formerly known as Cyber Advantage Limited)	British Virgin Islands 18 October 2001	British Virgin Islands	Dormant	50%	US$2

The Directors are of the opinion that there is no impairment in the value of the interest in an associated company as at 30 June 2002.

15. ACCOUNTS RECEIVABLE, NET

	2002	2001
	$'000	*$'000*
Accounts receivable	**186,901**	158,580
Less: Provision for doubtful debts	**(71,188)**	(35,935)
	115,713	122,645

The Phoenix Group conducts its advertising sales primarily through an advertising agent in the PRC, which promotes the sales of the Group's advertising air-time and programme sponsorship and collects advertising revenues within the PRC on behalf of the Group (see Note 16). The Group generally grants a credit period of 60 days to 120 days to customers, and some customers are required to pay, in advance or cash on delivery. As at 30 June 2002, the aging analysis of the accounts receivable from customers is as follows:

	2002	2001
	$'000	*$'000*
0 – 30 days	**34,287**	39,804
31 – 60 days	**15,996**	18,178
61 – 90 days	**13,324**	14,147
91 – 120 days	**7,794**	543
Over 120 days	**115,500**	85,908
	186,901	158,580
Less: Provision for doubtful debts	**(71,188)**	(35,935)
	115,713	122,645

16. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Included in prepayments, deposits and other receivables is an amount of approximately $208,567,000 (2001 – $128,537,000) owing from an advertising agent in the PRC. The amount represents advertising revenue collected by the advertising agent on behalf of the Group.

17. AMOUNTS DUE FROM/(TO) RELATED COMPANIES

The outstanding balances with related companies are unsecured, non-interest bearing and have no fixed repayment terms.

18. ACCOUNTS PAYABLE, OTHER PAYABLES AND ACCRUALS

	2002	2001
	$'000	*$'000*
Accounts payable	**16,216**	14,048
Other payables and accruals	**88,318**	66,818
	104,534	80,866

As at 30 June 2002, the aging analysis of the accounts payable is as follows:

	2002	2001
	$'000	*$'000*
0 – 30 days	**9,558**	3,815
31 – 60 days	**653**	2,087
61 – 90 days	**128**	2,387
91 – 120 days	**657**	418
Over 120 days	**5,220**	5,341
	16,216	14,048

19. SHARE CAPITAL

	2002		2001	
	Number of shares	**Amount**	Number of shares	Amount
		$'000		*$'000*
Authorised:				
Ordinary share of $0.1 each	**10,000,000,000**	**1,000,000**	10,000,000,000	1,000,000
Issued and fully paid:				
Beginning of year	**4,931,592,000**	**493,159**	4,847,060,000	484,706
Exercise of over-allotment option	**–**	–	83,908,000	8,391
Exercise of share options	**138,000**	**14**	624,000	62
End of year	**4,931,730,000**	**493,173**	4,931,592,000	493,159

20. SHARE OPTIONS

The Company has several share option schemes under which it may grant options to employees of the Phoenix Group (including Executive Directors of the Company) to subscribe for shares of the Company, subject to a maximum of 30% at the nominal value of the issued share capital of the Company from time to time, excluding for this purpose, shares issued on exercise of options. The exercise price will be determined by the Company's Board of Directors, and will not be less than the higher of the closing price of the Company's shares as stated in the GEM daily quotations sheet on the date of grant, and the average closing price of the Company's shares as stated in the GEM daily quotations sheets for the 5 business days immediately preceding the date of grant and the nominal value of the Company's shares.

Movements of share options during the year ended 30 June 2002 were as follows:

			Number of options				
Date of grant	Exercise period	Subscription price	Beginning of year	Granted during the year	Exercised during the year	Lapsed as a result of termination of employment	End of year
		HK$					
14 June 2000	14 June 2001 to 13 June 2010	1.08	57,336,000	–	(138,000)	(4,174,000)	53,024,000
15 February 2001	15 February 2002 to 14 February 2011	1.99	2,900,000	–	–	(1,200,000)	1,700,000
10 August 2001	10 August 2002 to 9 August 2011	1.13	–	13,860,000	–	(1,000,000)	12,860,000
			60,236,000	13,860,000	(138,000)	(6,374,000)	67,584,000

21. RESERVES

Group

Movements in reserves of the Phoenix Group during the year were as follows:

	Share premium	Group Accumulated deficit	Total
	$'000	*$'000*	*$'000*
As at 1 July 2000	750,859	(355,762)	395,097
Profit attributable to shareholders	–	53,984	53,984
Proceeds from exercise of over-allotment options	82,230	–	82,230
Over-allotments, placements and public offering expenses paid	(8,996)	–	(8,996)
Exercise of share options	611	–	611
As at 30 June 2001	824,704	(301,778)	522,926

	Share premium $'000	Group Accumulated deficit $'000	Total $'000
As at 1 July 2001	**824,704**	**(301,778)**	**522,926**
Loss attributable to shareholders	**–**	**(199,716)**	**(199,716)**
Exercise of share options	**135**	**–**	**135**
As at 30 June 2002	**824,839**	**(501,494)**	**323,345**

Company

Movements in the reserves of the Company during the year were as follows:

	Share premium $'000	Company Retained earnings $'000	Total $'000
As at 1 July 2000	750,859	54	750,913
Profit attributable to shareholders	–	4,298	4,298
Proceeds from exercise of over-allotment options	82,230	–	82,230
Over-allotments, placements and public offering expenses paid	(8,996)	–	(8,996)
Exercise of share options	611	–	611
As at 30 June 2001	824,704	4,352	829,056

	Share premium $'000	Company Retained Earnings $'000	Total $'000
As at 1 July 2001	**824,704**	**4,352**	**829,056**
Profit attributable to shareholders	**–**	**1,778**	**1,778**
Exercise of share options	**135**	**–**	**135**
As at 30 June 2002	**824,839**	**6,130**	**830,969**

Note:

Pursuant to Section 34 of the Companies Law (Revised) of the Cayman Islands and the Articles of Association of the Company, share premium of the Company is available for distribution to shareholders. As at 30 June 2002, in the opinion of the Directors, the Company's reserves available for distribution to shareholders, comprising the share premium account and retained earnings, amounted to approximately $830,969,000 (2001: $829,056,000).

22. DEFERRED TAXATION

	2002	2001
	$'000	*$'000*
As at 1 July	**252**	–
Additions *(note 6)*	**–**	252
As at 30 June	**252**	252

Deferred taxation represents the taxation effect of timing differences arising from accelerated depreciation allowances.

23. RETIREMENT BENEFIT COSTS

The Group operates two defined contribution schemes. The employees are eligible to participate in either scheme.

a. The Group provides a defined contribution provident fund scheme for all employees and makes monthly contribution to the scheme based on 10% of the employees' basic salaries. Forfeited contributions made by the Phoenix Group are used to offset the employer's future contribution. For the year ended 30 June 2002, the aggregate amounts of employer's contribution made by the Group were approximately $7,936,000 (2001: $5,581,000). For the financial year ended 30 June 2002, the total amount of forfeited contributions, which are available to offset the contributions payable by the Phoenix Group in future years, was approximately $1,858,000 (2001: $554,000). Forfeited contributions totaling $1,858,000 (2001: $554,000) were fully utilised during the year.

   The assets of the scheme are held separately from those of the Group and are managed by independent professional fund managers.

b. Since 1 December 2000, the employees in Hong Kong can elect to join the Mandatory Provident Fund Scheme (the "MPF Scheme"). The MPF Scheme was introduced pursuant to the Mandatory Provident Fund legislation introduced in 2000. Under the MPF Scheme, the Phoenix Group and each of the employees make monthly contribution to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation.

   Both the employer's and the employees' contributions are subject to a cap of monthly earnings of $20,000 for each employee. For those employees with monthly earnings less than $4,000, the employees' contributions are voluntary.

   During the year, the aggregate amount of employer's contributions made by the Phoenix Group to the MPF Scheme was approximately $1,301,000 (2001: $607,000).

24. BANKING FACILITIES

As at 30 June 2002, the Group has banking facilities amounted to approximately $17,900,000 (2001: $10,000,000). Unused banking facilities as at the same date amounted to approximately $1,300,000 (2001: $6,100,000). The facilities are covered by counter indemnities from the Group.

As at 30 June 2002, deposits of approximately $2,900,000 (2001: nil) were pledged with a bank to secure a banking guarantee given to the landlord of a subsidiary.

25. COMMITMENTS

(a) Programme and film rights acquisition

As at 30 June 2002, the Group had aggregate outstanding programme and film rights related commitments of approximately $140,917,000 (2001: $163,664,000) of which approximately $138,608,000 (2001: $158,783,000) was in respect of a film rights acquisition agreement with STAR TV Filmed Entertainment Limited extending to 27 August 2008 and approximately $2,309,000 (2001: $4,881,000) was in respect of other programme acquisition agreements with third parties. Total programme and film rights related commitments are analysed as follows:

	2002	2001
	$'000	*$'000*
Not later than one year	**23,668**	24,559
Later than one year and not later than five years	**89,720**	91,187
Later than five years	**27,529**	47,918
	140,917	163,664

(b) Service charges

As at 30 June 2002, the Group had total committed service charges payable to Satellite Television Asian Region Limited of approximately $56,682,000 (2001: $112,485,000) in respect of a service agreement expiring on 30 June 2003. Total committed service charges payable to Satellite Television Asian Region Limited are analysed as follows:

	2002	2001
	$'000	*$'000*
Not later than one year	**56,682**	55,913
Later than one year and not later than five years	**–**	56,572
Later than five years	**–**	–
	56,682	112,485

As at 30 June 2002, the Group had committed service charges payable to Fox News Network L.L.C. ("Fox") of approximately $8,266,000 (2001: $11,540,000) in respect of a service agreement expiring on 25 June 2004. Total committed service charges payable to Fox are analysed as follows:

	2002	2001
	$'000	*$'000*
Not later than one year	**4,092**	3,420
Later than one year and not later than five years	**4,174**	8,120
Later than five years	**–**	–
	8,266	11,540

(c) Office premises rental

As at 30 June 2002, the Group had total committed office premises rental payable to Satellite Television Asian Region Limited of approximately $6,611,000 (2001: $13,010,000) in respect of a licence expiring on 14 July 2003. Total committed office premises rental payable to Satellite Televisions Asian Region Limited is analysed as follows:

	2002	2001
	$'000	*$'000*
Not later than one year	**6,372**	6,372
Later than one year and not later than five years	**239**	6,638
Later than five years	**–**	–
	6,611	13,010

(d) Operating lease

As at 30 June 2002, the Group had rental commitments of approximately $24,344,00 (2001: $11,774,000) under various operating leases extending to September 2011. Total future minimum lease payments payable under non-cancellable operating leases are as follows:

	2002	2001
	$'000	*$'000*
Not later than one year	**8,756**	5,128
Later than one year and not later than five years	**9,428**	6,646
Later than five years	**6,160**	–
	24,344	11,774

(e) Land use right

As explained in note 12, the Phoenix Group has an outstanding commitment to pay approximately $28,177,000 no later than 13 June 2003 in respect of a land use right on a parcel of land situated in Shenzhen, the PRC.

(f) Other operating and capital commitments

As at 30 June 2002, the Group had the following additional significant operating and capital commitments:

		2002 Total future minimum payments payable			2001
Details of commitments	Payee	Not later than one year	Later than one year and not later than five years	Total commitment	Total commitment
		$'000	*$'000*	*$'000*	*$'000*
Provision of news and data services	The Associated Press Television News Limited	**457**	**239**	**696**	1,108
Provision of sports news services	Sports News Television	**485**	**252**	**737**	1,181
Provision of market datafeed services	Stock Exchange Information Services Limited	**1,000**	**417**	**1,417**	2,417
Provision of programme production services	東森華榮傳播事業股份有限公司	**4,297**	**–**	**4,297**	4,645
Provision of satellite transmission services	中國國際電視總公司	**2,835**	**–**	**2,835**	–
Provision of data transmission services	PCCW-HKT Network Services Limited	**3,201**	**–**	**3,201**	–
Provision of optic fibre transmission services	Globalsat Communications, Inc.	**3,372**	**2,810**	**6,182**	–
Provision of transponder, uplinking, encoding and electronic programme guide services *(Note i)*	British Sky Broadcasting Limited ("BSkyB")	**4,995**	**10,048**	**15,043**	–
		20,642	**13,766**	**34,408**	9,351

Note i:

Pursuant to the new transponder and electronic programme guide services agreements ("New Agreements") signed between PCNE and BSkyB on 26 June 2002, BSkyB agreed to provide satellite transponder capacity, uplinking, encoding and electronic programme guide services to PCNE for a term of three years. The entering into the New Agreements constitute non-exempt continuing connected transactions under Rule 20.26 of the GEM Listing Rules. The transactions were subsequently approved by the Independent Shareholders at the Extraordinary General Meeting held on 6 August 2002.

26. SIGNIFICANT RELATED PARTY TRANSACTIONS

Parties are considered to be related to the Phoenix Group if the Phoenix Group has the ability, directly or indirectly, to exercise significant influence over the parties in making financial and operating decisions, or vice versa, or where the Phoenix Group and the parties are subject to common significant influence. Related parties may be individuals or entities. In the normal course of business, the Phoenix Group had the following significant transactions with the related parties:

	Notes	**2002** **$'000**	2001 *$'000*
Office premises rental paid/payable to Satellite Television Asian Region Limited	a, b	**6,372**	7,376
Service charges paid/payable to Satellite Television Asian Region Limited	a, c	**136,473**	113,145
Commission for advertising sales and marketing services paid/payable to Satellite Television Asian Region Limited	a, d	**8,668**	11,075
Commission for international subscription sales and marketing services paid/payable to Satellite Television Asian Region Limited	a, e	**2,040**	1,447
Purchase of decoder devices from Satellite Television Asian Region Limited	a, f	**1,688**	–
Film licence fees paid/payable to STAR TV Filmed Entertainment Limited	a, g	**20,403**	20,388
Programme licence fees paid/payable to other STAR TV group companies	a, h	**753**	920
Programme licence fees paid/payable to ATV Enterprises Limited	h, i	**1,804**	6,125
Service charges paid/payable to Asia Television Limited	i, j	**556**	–
Service charges paid/payable to Fox	k, l	**4,092**	715
Transponder rental and uplink costs paid/payable to BSkyB	m, n	**1,862**	–

Notes:

The Directors have confirmed that all of the above related party transactions have been carried out in the normal course of business of the Phoenix Group.

a. Satellite Television Asian Region Limited, STAR TV Filmed Entertainment Limited and other STAR TV group companies are wholly-owned subsidiaries of STAR Group Limited, which owns 100% of STAR Television Holdings Limited, a major shareholder of the Company.

b. Office premises rental paid/payable to Satellite Television Asian Region Limited was determined by reference to the area of space occupied by the Phoenix Group and was proportional to the rental payable by Satellite Television Asian Region Limited in respect of the area occupied by it under its lease with the landlord.

c. Service charges paid/payable to Satellite Television Asian Region Limited cover the following services provided to the Phoenix Group which are charged based on the terms as specified under various service agreements with rates agreed upon between both parties. Either fixed fees or variable fees are charged depending on the type of facilities utilised including the following:

   – transponder capacity;
   – network;
   – broadcast operations and engineering;
   – uplink and downlink; and
   – general administrative and other support including access to, and the use of, general office facilities, management information system and commercial traffic.

d. The commission for advertising sales and marketing services paid/payable to Satellite Television Asian Region Limited is based on 4% – 20% (2001: 20%) of the net advertising income generated and received by it on behalf of the Phoenix Group after deducting the relevant amount of the third party agency fees.

e. The commission for international subscription sales and marketing services paid/payable to Satellite Television Asian Region Limited is based on 15% (2001: 15%) of the subscription fees generated and received by it on behalf of the Phoenix Group.

f. Decoder devices purchased from Satellite Television Asian Region Limited are charged based on terms mutually agreed upon between both parties.

g. The film licence fees are charged in accordance with a film rights acquisition agreement with STAR TV Filmed Entertainment Limited.

h. The programme licence fees paid/payable to other STAR TV group companies and ATV Enterprises Limited are negotiated on a case-by-case basis.

i. ATV Enterprises Limited is a wholly-owned subsidiary of Asia Television Limited which is considered to be a connected party to the Company pursuant to the GEM Listing Rules. Mr. LIU, Changle and Mr. CHAN, Wing Kee, indirectly own approximately 46% of Asia Television Limited as at 30 June 2002.

j. Service charges paid/payable to Asia Television Limited cover news footage and data transmission services provided to the Phoenix Group which are charged based on terms mutually agreed upon between both parties.

k. Fox is an associate of STAR Television Holdings Limited.

l. Service charges paid/payable to Fox cover the following services provided to the Phoenix Group which are charged based on the terms specified in a service agreement:

- granting of non-exclusive and non-transferable licence to subscribe for Fox's news service;
- leasing of office space and access to workspace, subject to availability; and
- accessing Fox's camera hook up at the United Nations, interview positions in various places in the United States and live shots from Fox's satellite truck positions for events that Fox is already covering, subject to availability.

m. BSkyB is 36.3% owned by The News Corporation Limited which indirectly owns 100% of STAR Television Holdings Limited.

n. The transponder rental and uplink costs are charged in accordance with the service agreement with BSkyB.

27. COMPARATIVE FIGURES

(i) The accounts as at and for the year ended 30 June 2001 were audited and reported on by Arthur Andersen & Co, whose report dated 11 September 2001 expressed an unqualified opinion on those accounts.

(ii) Certain comparative figures have been reclassified to conform to the current year's presentation. The major reclassifications are as follows:

a. Certain expenses previously classified as selling, general and administrative expenses are now classified as operating expenses.

b. Certain programme production costs previously classified as prepayments, deposits and other receivables are now classified as self-produced programmes.

28. APPROVAL OF ACCOUNTS

The accounts were approved by the Board of Directors on 3 September 2002.

CONSOLIDATED RESULTS

Year ended 30 June

	2002	2001	2000	1999	1998
	$'000	*$'000*	*$'000*	*$'000*	*$'000*
Results					
Revenue	**685,043**	713,687	511,342	314,663	174,805
Operating expenses	**(709,700)**	(579,421)	(404,181)	(352,876)	(265,997)
Selling, general and administrative expenses	**(140,356)**	(132,974)	(66,393)	(49,768)	(42,171)
(Loss) Profit from operations	**(165,013)**	1,292	40,768	(87,981)	(133,363)
Other (expenses) income, net	**(29,216)**	50,566	9,140	9,515	2,258
(Loss) Profit before taxation and minority interests	**(194,229)**	51,858	49,908	(78,466)	(131,105)
Taxation	**(3,141)**	(1,608)	–	–	–
(Loss) Profit before minority interests	**(197,370)**	50,250	49,908	(78,466)	(131,105)
Minority interests	**(2,346)**	3,734	407	–	–
(Loss) Profit attributable to shareholders	**(199,716)**	53,984	50,315	(78,466)	(131,105)

CONSOLIDATED ASSETS AND LIABILITIES

As at 30 June

	2002	2001	2000	1999
	$'000	*$'000*	*$'000*	*$'000*
Total assets	**993,619**	1,163,087	1,033,935	200,286
Total liabilities	**(167,119)**	(141,983)	(146,379)	(606,363)
Minority interests	**(9,982)**	(5,019)	(7,753)	–
Shareholders' equity (deficit)	**816,518**	1,016,085	879,803	(406,077)

The results of the Phoenix Group for the years ended 30 June 1998 and 1999, and the balance sheet as at 30 June 1999 have been extracted from the Prospectus and prepared on a continued basis as if the Phoenix Group, which was established as a result of the Group Reorganisation completed on 16 June 2000, had been in existence since 1 July 1997 and throughout the accounting periods presented.

APPENDIX

The following is a summary of the principal terms of the Share Option Scheme amended on 6 August 2002:

Purpose of the scheme

The purpose of the scheme is to retain and provide incentives to the employees of the Group to achieve its business objectives.

The participants of the scheme

Employees of any member of the Company, including any executive Directors of any member of the Phoenix Group, in the full-time employment of the Company (or its subsidiaries) may take up options to subscribe for Shares.

The total number of securities available for issue

(a) The total number of Shares available for issue under options which may be granted under the scheme and any other schemes must not in aggregate exceed 10% (or such higher percentage as may be allowed under the GEM Listing Rules) of the issued share capital of the Company in issue as at the date of approval of the scheme unless shareholders' approval has been obtained pursuant to paragraphs (b) and (c) below.

(b) The Company may seek approval by its shareholders in general meeting to refresh such limit.

(c) The Company may seek separate shareholders' approval in general meeting to grant options beyond the limit as referred to in the above paragraph (a) provided that the total number of Shares subject to the scheme and any other schemes does not in aggregate exceed 30% of the relevant class of securities of the Company in issue from time to time.

(d) Shareholders' approval has been obtained on 6 August 2002 to refresh the 10% limit. The Directors may grant options for subscription of up to 493,173,000 Shares (which do not include those options that are outstanding, cancelled or lapsed), representing 10% of the issued share capital as at the date of the annual report.

The maximum entitlement of each participant under the scheme

Unless approved by shareholders, the total number of securities issued and to be issued upon exercise of the options granted to each participant (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the relevant class of securities of the Company in issue.

Time of exercise of option

An option may be exercised in accordance with the terms of the scheme at any time during the period commencing one year from the date of grant of the option and expiring 10 years after the date of the grant of the option in accordance with the following schedule:

Date of exercise of an option	Percentage of Shares comprised in options which is exercisable
between the date of grant of an option and less than 12 months following the date of grant of an option	zero
between the period falling 12 months or more but less than 24 months from the date of grant of an option	up to 25%
between the period falling 24 months or more but less than 36 months from the date of grant of an option	up to 50%
between the period falling 36 months or more but less than 48 months from the date of grant of an option	up to 75%
any time falling 48 months from the date of grant of an option and thereafter	100%

Minimum holding period

As stated above, no option can be exercised within the first twelve months following the date of grant of an option.

The amount payable on acceptance of the option

The date by which the option must be applied for being a date not more than twenty one days from (and including) the Offer Date. Upon acceptance of the option, the option holder shall pay HK$1 to the Company as consideration of the grant.

The basis of determining the exercise price

The subscription price for the Shares under the scheme shall be determined by the Committee and will be no less than the highest of (a) the closing price of Shares as stated in the Stock Exchange's daily quotation sheets on the Offer Date which must be a business day, (b) the average closing price per Share as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the Offer Date and (c) the nominal value of the Share.

The remaining life of the scheme

The scheme will remain in force for a period of ten years commencing on the date of the adoption of the scheme. Upon termination, no further options may be granted under the scheme.