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## REGULATORY OVERVIEW

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This section sets forth a summary of the most significant PRC laws and regulations that affect our business and the industry in which we operate.

### Laws and Regulations in relation to Foreign Invested Enterprises

On February 11, 2002, the State Council issued the Provisions on Guiding the Directions of Foreign Investment (《指導外商投資方向規定》), dividing foreign investments projects into four categories: encouraged, permitted, restricted and prohibited. Details as to the encouraged, restricted and prohibited categories are provided in the Guiding Catalog of Foreign Investment Industries (Amended in 2011) (《外商投資產業指導目錄》(2011年修訂)), which was jointly issued by the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會) (the “NDRC”) and the Ministry of Commerce of the PRC (中華人民共和國商務部) (the “MOFCOM”) on December 24, 2011. The Guiding Catalog became effective since January 30, 2012. Foreign investment projects that are not specifically provided in the Guiding Catalog are classified as permitted category.

Under the Guiding Catalog, the following business activities that we are engaged in or are associated with are classified as “encouraged” category:

- the operation and promotion of sports competitions and other sports events

The following business activities are classified as “restricted” category:

- the production of TV programs (limited to Chinese-foreign contractual joint ventures)

Our other business activities fall into the “permitted” category.

As for the approval of projects, the NDRC has promulgated two regulations: the Provisional Measures on the Administration of the Approval of Foreign Invested Projects (《外商投資項目核准暫行管理辦法》) on October 9, 2004, and the Notice of the NDRC on Delegating Powers on Approval of Foreign Investment Projects to Authorities at Lower Levels (《國家發展改革委關於做好外商投資項目下放核准權限工作的通知》) on May 4, 2010. Abiding by them, projects with total investment no less than US\$100 million that are within the encouraged or permitted categories of foreign investment, or projects with total investment no less than US\$50 million that are within the restricted category of foreign investment must be subject to the approval by the NDRC, with the rest subject to the approval by the local branches of the NDRC. Specifically, the encouraged and permitted foreign invested projects with total investment below US\$100 million must be subject to the approval by the local branches of the NDRC, unless approval of relevant department of the State Council is required under the Catalog of Investment Projects Approved by Government (《政府核准的投資項目目錄》).

### Laws and Regulations in relation to Foreign Exchange

#### Foreign Currency Exchange

Pursuant to the Foreign Currency Administration Rules of the PRC (《中華人民共和國外匯管理條例》) promulgated in 1996 and amended in 1997 and 2008 by the State Council and various regulations issued by the SAFE and other relevant PRC government authorities, payments for transactions that take place within the PRC must be made in Renminbi. The Renminbi is freely convertible only to the extent of current account items based on true and valid transactions, such as trade-related receipts and payments, interest and dividends. Capital account items, such as direct equity investments, loans and repatriation of investments, require the prior approval from, or registration with, the SAFE or its local counterpart. If required by the relevant state provisions, a domestic institution that issues negotiable securities overseas must first get the approval of, or archive the issue with, the competent department before handling the registration formalities.

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### Circular 75

The SAFE promulgated the SAFE Circular No. 75 (《國家外匯管理局關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》) on October 21, 2005, ruling:

- A PRC resident shall register with the local branch or department of the SAFE before establishing or controlling an overseas special purpose company (companies for the purposes of overseas equity financing including convertible debt financing), or the SPC;
- When the PRC resident contributes the assets or stock rights of a domestic enterprise it owns into a SPC, or engages in stock right financing abroad after contributing assets or stock rights into a SPC, such PRC resident shall register its net asset equities in the SPC and the variations thereof with the local branch of the SAFE;
- After a SPC accomplishes overseas financing, the PRC resident may, according to the plan on use of funds as stated in the letter of commercial plans or the prospectus, transfer the funds which ought to be arranged for use inside PRC into PRC; and
- When a SPC undergoes a material event outside of PRC, such as change in share capital or capital increase or decrease, the PRC resident shall register or archive such change with the local branch of the SAFE within 30 days from the occurrence of the major event.

Under SAFE Circular No. 75 and relevant SAFE rules, failure to comply with the registration procedures set forth above may result in restrictions on a PRC subsidiary's foreign exchange activities and its ability to distribute dividends to the SPC, and penalties on the PRC residents and/or the PRC subsidiary of the SPC.

### Dividend Distribution

The principal regulations governing distribution of dividends of foreign holding companies include the "Company Law of the PRC" (《中華人民共和國公司法》) promulgated by the National People's Congress Standing Committee in 1993 and amended in 1999, 2004 and 2005, the "Foreign Investment Enterprise Law of the PRC" (《中華人民共和國外資企業法》) promulgated by the National People's Congress Standing Committee in 1986 and amended in 2000, and the "Administrative Rules under the Foreign Investment Enterprise Law" (《中華人民共和國外資企業法實施細則》) promulgated by the State Council in 1990 and amended in 2001.

Under these laws and regulations, foreign investment enterprises in China may pay dividends only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, wholly-foreign-owned enterprises in China, like our PRC Subsidiary, are required to allocate at least 10% of their respective accumulated profits after tax each year, if any, to fund certain reserve funds unless these accumulated reserves have reached 50% of the registered capital of the enterprises. These reserves are not distributable as cash dividends.

### Laws and Regulations in relation to M&A Rules and MOFCOM Security Review Rules

#### Mergers and Acquisitions

The Provisions on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (《關於外國投資者併購境內企業的規定》) ("M&A Rules") jointly promulgated by MOFCOM, CSRC, the State-owned Assets Supervision and Administration Commission of the State Council, State Administration of Taxation, SAIC and SAFE on August 8, 2006 which became effective on September 8, 2006 and amended on June 22, 2009, govern, among other things, the purchase by foreign investors of equity interests in a domestic enterprise, the subscription by foreign investors of equity interests in a domestic enterprise, and the purchase and operation by foreign investors of the assets and business of a domestic enterprise.

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In addition, the M&A Rules contain provisions which purport to require an offshore special purpose vehicle (“SPV”) formed for listing purposes and controlled directly or indirectly by PRC companies or individuals, to obtain CSRC approval prior to the listing and trading of the SPV’s securities on an overseas stock exchange. On September 21, 2006, the CSRC published procedures specifying documents and materials to be submitted by SPVs seeking CSRC approval of overseas listings.

### MOFCOM Security Review Rules

In August 25, 2011, the MOFCOM promulgated the Implementation Rules of MOFCOM on the Security Review Rules regarding Merger of Domestic Enterprises by Foreign Investors (《商務部實施外國投資者併購境內企業安全審查制度的規定》) (“MOFCOM Security Review Rules”) which became effective on September 1, 2011.

Under the MOFCOM Security Review Rules, a national security review is required for certain mergers and acquisitions by foreign investors raising concerns about national defense and security. In addition, when deciding whether a specific merger or acquisition of a domestic enterprise by foreign investors is subject to the national security review, the MOFCOM will assess the substance and actual impact of the transaction. The MOFCOM Security Review Rules further prohibit foreign investors from circumventing the national security review requirement by structuring transactions through proxies, trusts, indirect investments, leases, loans, control through contractual arrangements or offshore transactions.

### Laws and Regulations in relation to Property

The properties which we lease and own in the PRC are subject to the Property Law (《中華人民共和國物權法》), promulgated by the Standing Committee of the National People’s Congress on March 16, 2007 and became effective on October 1, 2007. Under the Property Law, any creation, modification, transfer or termination of property rights shall become effective upon registration with the relevant government authorities. All lawful property of the State, collectives, and individuals are protected by law against embezzlement and encroachment. The Property Law also contains specific provisions relating to land contractual operation rights, construction land use rights, residential land use rights, easement rights and various security rights.

Under the Urban Real Estate Law (《中華人民共和國城市房地產管理法》) promulgated by the Standing Committee of the National People’s Congress on July 5, 1994 which became effective on January 1, 1995 and as amended on August 30, 2007 and the Measures for Administration of Leases of Commodity Properties (《商品房屋租賃管理辦法》) promulgated by the Ministry of Construction on December 1, 2010 and became effective on February 1, 2011, parties to a building lease should enter into a written lease contract and register the lease with the relevant real estate administration authority. Whenever a lease is signed, amended, extended or terminated, the parties are required to register the details with the relevant real estate administration authority. Parties will be subject to fines if they fail to register the details even after being ordered by the relevant authorities.

The Land Administration Law (《中華人民共和國土地管理法》) promulgated by the Standing Committee of the National People’s Congress on June 25, 1986 which became effective on January 1, 1987 and amended on December 29, 1988 and August 28, 2004, provides that a Land Use Certificate of State-Owned Land must be obtained from the land administrative department prior to usage of collectively-owned land. Violation of the Land Administration Law may result in the imposition of fines and confiscation of the land involved.

### Laws and Regulations in relation to Tax

#### Enterprise Income Tax

Under the PRC Enterprise Income Tax Law (《中華人民共和國企業所得稅法》), or the EIT Law, which became effective on January 1, 2008, the ordinary income tax rate for all PRC resident enterprises, including foreign-invested enterprises, is 25%. There was a transitional period for enterprises that

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previously received preferential tax treatments granted by relevant tax authorities. Enterprises that were subject to an enterprise income tax rate lower than 25% continued to enjoy the lower rate and gradually transitioned to the new tax rate within five years after implementation of the EIT Law.

Under the EIT Law, enterprises established outside of China whose “de facto management bodies” are located in China are considered “resident enterprises,” and are generally subjected to the uniform 25% enterprise income tax rate as to their global income. It is currently unclear under what situations an enterprise’s “de facto management body” would be considered to be located in China. Substantially all of our management is currently based in China. Therefore, we may be treated as a Chinese resident enterprise for enterprise income tax purposes.

### **Tax Collection for Share Transfer by Non-PRC Resident Enterprises**

Pursuant to the Notice on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-PRC Resident Enterprises (《國家稅務總局關於加強非居民企業股權轉讓所得企業所得稅管理的通知》) or SAT Circular 698, issued by the State Administration of Taxation on December 10, 2009 with retroactive effect from January 1, 2008, except for the purchase and sale of equity through a public securities market, where a foreign investor transfers its indirect equity interest in a PRC resident enterprise by disposing of its equity interests in an overseas holding company, or an Indirect Transfer, and such overseas holding company is located in a tax jurisdiction that: (i) has an effective tax rate less than 12.5% or (ii) does not tax foreign income of its residents, the foreign investor shall report to the competent tax authority of the PRC resident enterprise this Indirect Transfer. If the tax authority, upon examining the nature of the Indirect Transfer, deems that the Indirect Transfer has no reasonable commercial purpose other than to avoid PRC tax, the tax authority may disregard the existence of the overseas holding company that is used for tax planning purposes and re-characterize the Indirect Transfer.

### **Business Tax**

Pursuant to the Provisional Regulations of the PRC on Business Tax issued by the State Council (《中華人民共和國營業稅暫行條例》) and the implementation rules thereunder, a business tax is levied on all units and individuals engaged in taxable services, the transfer of intangible assets or the sale of immovable properties within the territory of the PRC. The tax rates range from 3% to 20% depending on the type of services provided.

### **VAT Tax**

Pursuant to the Interim Regulation on the Value Added Tax of the PRC (《中華人民共和國增值稅暫行條例》) promulgated by the State Council on December 13, 1993 and amended on November 10, 2008 (“VAT Regulation”), and its implementation rules, any entity or individual engaged in the sale of goods, the provision of specified services or the importation of goods in China is generally required to pay VAT on the added value derived during the process of manufacture, sale or service provided. Unless stated otherwise, for VAT payers who are selling or importing goods, and providing processing, repairs and replacement services in the PRC, the tax rate shall be 17%.

### **Dividends paid by the Company to our foreign investors and the gain on the sale of our Shares**

The EIT Law provides that an income tax rate of 20% will normally be applicable to dividends payable to investors that are “non-resident enterprises,” to the extent such dividends have their source within the PRC. The applicable tax rate has been reduced by the State Council to 10%. If we are considered a PRC “resident enterprise,” it is unclear whether the dividends we pay with respect to our Shares would be treated as income derived within the PRC and be subject to PRC tax. Similarly, under the EIT Law and Implementation Regulations issued by the State Council, any gain on the transfer of equity interests is

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subject to a 10% PRC income tax if such gain is regarded as income derived from sources within the PRC. PRC tax at a 20% rate may apply to dividends paid to and any gain realized by non-resident individual shareholders. If we are considered a PRC “resident enterprise,” it is unclear whether any gain realized from the transfer of our Shares by investors would be treated as income derived from a source within PRC and be subject to PRC tax.

### Laws and Regulations in relation to Advertising Services

#### Governance of the advertising industry

Pursuant to Advertising Law of the PRC (《中華人民共和國廣告法》) adopted in the 10th meeting of the Standing Committee of the 8th National People’s Congress of the People’s Republic of China on October 27, 1994 and became effective on February 1, 1995, the term “advertisers” refers to any legal persons, economic organizations or individuals that, directly or through certain agents, design, produce and publish advertisements for the purpose of promoting products or providing services. The term “advertisement operators” refers to those legal persons, economic organizations or individuals that are being consigned to provide advertisement content design, production and agency services. The term “advertisement publishers” refers to those legal persons or other economic organizations that publish advertisements for the advertisers or for those advertisement operators which are consigned by the advertisers. Advertisements shall not contain any false contents or misrepresent to or mislead the consumers. An advertisement should present distinct and clear specifications on the product’s function, place of origin, uses, quality, price, manufacturer, validity period, promises or the contents, forms, quality, price or promises of the services offered. The contents of advertisements for food, wine and cosmetics should comply with the requirements set by the health department and the use of medical terms or terms that are confusingly similar with medications is prohibited. The contents of advertisements for medications should be based on the instructions approved by the State Council or provincial public health administrative department. It is prohibited to advertise tobacco through media broadcast, films, television, newspaper or periodicals and no advertising is allowed for special drugs such as anaesthetics, psychotropic drugs, toxic drugs or radioactive drugs.

According to the Advertising Law of the PRC, data, statistics, survey results, excerpts or quotations addressed in an advertisement should be true and accurate, with the sources clearly indicated. For acts of publishing false advertisements to deceive or mislead consumers, thus causing damages to the lawful rights and interests of consumers who have bought the commodities or accepted the services, the advertisers shall bear civil responsibility and advertising agents and publishers who knew or should have known the falseness of the advertisements shall bear joint and several responsibility if they have participated in designing, producing or publishing the advertisements.

According to the Advertising Law of the PRC, it is prohibited to advertise with any patent application that has not been granted, or with any patent that has been terminated, cancelled or invalidated. Advertisers, advertising agents or advertisement publishers shall bear civil responsibility if they infringe on and use other’s patent rights, or use the names or images of others without prior consent.

Pursuant to Regulation on the Administration of Advertising (《廣告管理條例》) promulgated by the State Council on October 26, 1987 and became effective on December 1, 1987 and 《Detailed Rules for the Implementation of the Regulation on the Administration of Advertising》 (《廣告管理條例施行細則》) promulgated and amended by State Administration for Industry and Commerce (中華人民共和國國家工商行政管理總局) (the “SAIC”) which took effect on January 1, 2005, advertisement operators shall handle the registration according to the following procedures for enterprises engaging in the operation of advertising business, application for registration shall be made at the competent administration for industry and commerce and obtain the business license.

Pursuant to Notice Concerning the Certain Matters Regarding the Renewal of Advertising Business License (《關於換發〈廣告經營許可證〉有關問題的通知》) promulgated by the SAIC on December 10, 2004 and took effect on the same date, according to the provisions under Clause 2 of the Measures for the

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Administration of Advertising Business Licenses (《廣告經營許可證管理辦法》), radio stations, television stations, periodicals publishing entities, and other entities that are required to apply for the examination and approval in registering the operation of advertising business pursuant to other laws and administrative regulations shall renew their Advertising Business Licenses (《廣告經營許可證》). Other entities engaging in advertising operation business shall not renew their Advertising Business Licenses.

### **Policies governing the investment in the businesses of advertising by foreign investors**

Pursuant to the Provisions on the Administration of Foreign-Funded Advertising Enterprises (《外商投資廣告企業管理規定》) jointly promulgated by the SAIC and the MOFCOM on September 22, 2008 which took effect on October 1, 2008, the establishment of advertising enterprises by investors from Hong Kong, Macau and Taiwan in the Mainland shall follow the relevant provisions accordingly. For a foreign investor to establish a foreign-funded advertising enterprise, the following procedures should be followed: (1) the foreign investor shall apply to the SAIC or its authorized administration for industry and commerce at the provincial level and obtain the opinion on the examination and approval of foreign-invested advertising enterprise project issued by the SAIC or its authorized administration for industry and commerce at the provincial level; (2) the foreign investor shall apply to the Administrative Department for Commerce at the provincial level at the locality in which it intends to establish the enterprise, and obtain the Foreign-Invested Enterprise Approval Certificate issued by the Administrative Department for Commerce at the provincial level after examination and approval; and (3) the foreign investor shall follow the enterprise registration procedures of the SAIC or its authorized administration for industry and commerce competent at the local level for examining and approving the registration. In addition to compliance with the conditions required under relevant laws and regulations, the establishment of advertising enterprises is also required to satisfy the following conditions: (1) the investor should be an enterprise that is principally engaged in advertising business; and (2) the investor should have been set up and operating for more than three years.

Pursuant to the Several Opinions on Further Improving the services provided for the Development of Foreign Invested Enterprises by Fully Carrying out the Functions of Administration of Industry and Commerce (《關於充分發揮工商行政管理職能作用進一步做好服務外商投資企業發展工作的若干意見》) issued by the SAIC on May 7, 2010, which took effect on the same date, any provincial administration for industry and commerce shall be authorized to examine and approve projects on foreign-funded advertising enterprises, perfect approval requirement, set up filing system, and implement formatted examination and approval. Pursuant to the Notice of Authorizing the Administrations for Industry and Commerce of Provinces, Municipalities and Autonomous Regions to Conduct the Examination and Approval of Foreign-funded Advertising Enterprises (《關於授權省、自治區、直轄市工商行政管理局進行外商投資廣告企業項目審批工作的通知》), the SAIC authorizes the administrations of each provinces, municipalities and autonomous regions to conduct the examination and approval of the applications for the projects of foreign-funded advertising enterprises. The MOFCOM issued the Notice of the MOFCOM on Decentralizing the Examination and Approval Power for Foreign Investment (《關於下放外商投資審批權限有關問題的通知》) on June 10, 2010, which requires that in addition to those matters to be approved by the MOFCOM which has been set out under relevant laws and regulations, the establishment of foreign-funded enterprises related to the service sector and its changes (including the above of limit amount and the capital increase) should be approved and managed by the local approving authority. It also reaffirms and further clarifies the scope of approval applicable to the competent provincial commerce department for foreign-funded enterprises.

Pursuant to the Tentative Provisions on Investment within China by Foreign Investment Enterprises (《關於外商投資企業境內投資的暫行規定》) promulgated by the Ministry of Foreign Trade and Economic Cooperation and the SAIC on July 25, 2000 and effective as of September 1, 2000, investment within the PRC by foreign investment enterprises shall comply with State laws and regulations. Investment within the PRC by foreign investment enterprises shall be handled in accordance with the Directing of Foreign Investment Tentative Provisions and Foreign Investment Industrial Guidance Catalog. Foreign investment enterprises may not invest in fields in which foreign investment is prohibited.

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To invest in and establish a company in the encouraged or permitted category, a foreign investment enterprise shall submit an application and the materials set forth below to the company registration authority of the place where the invested company is to be located:

1. the unanimously adopted resolution of the foreign investment enterprise's board of directors concerning the investment;
2. the foreign investment enterprise's approval certificate and business licence (photocopies);
3. the capital contribution verification report issued by a statutory capital contribution verification institution attesting to the fact that the registered capital has been fully paid in;
4. the foreign investment enterprise's audited balance sheet;
5. documentation proving that the foreign investment enterprise has paid income tax or that it has had its income tax reduced or exempted; and
6. other materials specified in laws, regulations or rules.

To invest in and establish a company in the restricted category, a foreign investment enterprise shall submit an application and the materials to the provincial level authority for foreign trade and economic cooperation of the place where the invested company is to be located.

### **Laws and Regulations in relation to Sports Competitions and other Sports Events**

In this respect, the principal regulations include:

Pursuant to the Law of the People's Republic of China on Physical Culture and Sports (《中華人民共和國體育法》) promulgated by the Standing Committee of the NPC on August 29, 1995 and amended on August 27, 2009, The administrative department for physical culture and sports under the State Council shall be in charge of the work of physical culture and sports throughout the country. Other relevant departments under the State Council shall administer the work of physical culture and sports within their respective functions and powers. The administrative departments for physical culture and sports of the local people's governments at or above the county level or the organs authorized by the people's governments at the corresponding levels shall be in charge of the work of physical culture and sports within their administrative areas.

The State practices classified administration of sports competitions at different levels. Comprehensive national games shall be administered by the administrative department for physical culture and sports under the State Council or by the administrative department for physical culture and sports under the State Council in conjunction with other relevant organizations. National competition of an individual sport shall be administered by the national association of the said sport. Measures for the administration of local comprehensive sports games and local individual sports competitions shall be formulated by the local people's governments.

The principle of fair competition shall be followed in sports competitions. Organizers of competitions, athletes, coaches and referees shall abide by sportsmanship, and may not practice fraud or engage in malpractice for selfish ends. Use of banned drugs and methods is strictly prohibited in sports activities. Institutions in charge of testing banned drugs shall conduct strict examination of the banned drugs and methods. It is strictly forbidden for any organization or individual to engage in gambling activities through sports competitions.

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According to the “Guiding Opinions of the General Office of the State Council on Accelerating the Development of Sports Industry” (《國務院辦公廳關於加快發展體育產業的指導意見》), the government’s current key tasks in respect of sports are as follows:

- Vigorously developing the sports and fitness market;
- Developing the sports competitions and sports events market;
- Actively cultivating the sports agent market;
- Expanding and strengthening the sports goods industry;
- Vigorously promoting the trade of sports services;
- Promoting the interactive development of the sports industry and other relevant industries.

At the same time, the government intends to actively promote the healthy development of the sports industry through several specific measures, including increasing investment and financing support, improving the preferential tax policy, strengthening the construction and management of public sports facilities, supporting and standardizing the development of professional sports, enhancing the development and protection of the intangible assets of sports, accelerating the legalization and standardization process of the sports market, and expediting the cultivation of management talents of the sports industry.

According to the “Management Measures of the National Sports Competitions (Trial)” (《全國體育競賽管理辦法（試行）》), the Measures apply to any international or national sports games, individual sports competitions and sports performances at all levels and of all categories held within the PRC, approved by the sports administration department of the State Council and the sports administration departments of the local governments at the county level or above.

Sports events shall be determined by the sports administration department of the State Council. In order to launch a new sports event, it shall report to the sports administration department of the State Council, after the rules, procedures and plans of the event are examined and determined, the local sports administration departments may approve to hold all levels of sports competition of the event. The sports administration department of the State Council supervises national sports events. The sports administration departments of the local governments at the county level or above supervise sports events within their administrative regions.

Holding sports competitions is subject to examination and approval. National and international sports competitions held within the PRC require approval from the sports administration department of the State Council; the local sports competitions require approval from the local governments at the county level or above shall be responsible for the examination and approval of. At the end of each year, the sports administration department of the State Council and the sports administration departments of the local governments at the county level or above approve and plan the sports competitions of the next year, which will be managed, organized and implemented by the individual sports associations at all levels or the organizations authorized by the competent authorities.

### **Laws and Regulations in relation to the Operation and Production of TV Programs**

Pursuant to the Regulations on Broadcasting and Television Administration (《廣播電視管理條例》) promulgated by the State Council on August 11, 1997 and became effective on September 1, 1997, these regulations shall be applicable to such activities as the establishment of broadcasting stations and television stations and gathering and editing, making, broadcasting and transmitting broadcasting and TV programs within the territory of the People’s Republic of China.



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The department of broadcasting and television administration under the State Council shall be responsible for broadcasting and television administration across the country. The departments or agencies in charge of broadcasting and television administration of local people's governments at or above the county level shall be responsible for broadcasting and television administration within their respective administrative areas.

Broadcasting and TV programs shall be made by broadcasting stations, television stations and broadcasting and TV programs production and marketing units the establishment of which has been approved by the departments of broadcasting and television administration of people's governments at or above the provincial level. No broadcasting station or television station shall broadcast broadcasting and TV program produced by units without the acquisition of licenses for broadcasting and TV program production and marketing.

According to the "Provisions for the Administration of the Production and Distribution of Radio and TV Programs" (《廣播電視節目製作經營管理規定》), the State Administration of Radio, Film and Television (the "SARFT") is responsible for formulating development plans, arrangement and structure of the industry of national radio and TV programs production and for managing, guiding and supervising production and distribution activities of national radio and TV programs. Local radio, film and television administrative departments above the county level are responsible for the administration of the production and distribution activities of radio and TV programs within their administrative regions.

The state adopts a licensing system regarding the establishment of the institutions that produce and distribute radio and TV programs and engaging in production and distribution of radio and TV programs. License to Produce and Distribute Radio or TV Programs (the "License") shall be obtained for establishing institutions that produce and distribute radio and TV programs or engaging in production and distribution of radio and TV programs. As advised by our PRC legal advisers, pursuant to current PRC laws, the License to Produce and Distribute Radio or TV Programs is the only permit required for the production and operation of radio and TV programs, and the Group has met all the requirements to be eligible to apply for this license.

Work units at the central government level and organizations directly subordinate to them shall apply to SARFT for the License; other institutions, if they apply for the License, shall apply to the local radio, film and television administrative authority in the place they located, after being approved by each level, report to radio, film and television administrative departments on provincial level for approval. The examination and approval authority shall decide on whether or not to approve the application within 20 working days after it received the complete application materials. The examination and approval authority shall issue the License to applicants who satisfy the requirements of Article 6 and Article 7 of these Provisions. The examination and approval authority shall explain its reasons for disapproval to applicants in written. Radio, film and television administrative departments on provincial level shall submit the examination and approval information to SARFT for filing within a week as of the date on which they render the approval or disapproval decision. The License shall be uniformly printed by SARFT. Its validity period is two years. Enterprises which have obtained the License shall go through registration or business scope extension procedures with the administration of industrial and commercial.

According to the Administrative Measures for the Broadcasting of Radio and TV Advertisements (《廣播電視廣告播出管理辦法》), the length of broadcasting commercial advertisements in a one-hour program of a broadcasting institution shall be no more than 12 minutes. The total length for broadcasting commercial advertisements shall be no more than 18 minutes during the period from 11:00 to 13:00 on radio channels or from 19:00 to 21:00 on TV channels. The time for broadcasting commercial advertisements may be postponed accordingly under special circumstances.

According to the Supplementary Provisions on the Administrative Measures for the Broadcasting of Radio and Television Advertisements (2011) (《廣播電視廣告播出管理辦法》的補充規定), it is not allowed to insert any form of advertisements during the broadcast of a 45 minute television drama.

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### Laws and Regulations in relation to Intellectual Property

#### International conventions

China is a party to several international conventions on intellectual property rights, including the Agreement on Trade-Related Aspects of Intellectual Property Rights, upon its accession to the World Trade Organization in December 2001. China is also a party to the Paris Convention for the Protection of Industrial Property, the Berne Convention for the Protection of Literary and Artistic Works, the World Intellectual Property Organization Copyright Treaty, the Madrid Agreement concerning the International Registration of Marks, and the Patent Cooperation Treaty.

#### Trademarks

The PRC Trademark Law (《中華人民共和國商標法》) was promulgated by the Standing Committee of the National People's Congress on August 23, 1982 which became effective on March 1, 1983 and amended on February 22, 1993 and October 27, 2001. Under the Trademark Law, any of the following acts shall be an infringement upon the right to exclusive use of a registered trademark:

1. using a trademark which is identical with or similar to the registered trademark on the same kind of commodities or similar commodities without a license from the registrant of that trademark;
2. selling the commodities that infringe upon the right to exclusive use of a registered trademark;
3. forging, manufacturing without authorization the marks of a registered trademark of others, or selling the marks of a registered trademark forged or manufactured without authorization;
4. changing a registered trademark and putting the commodities with the changed trademark into the market without the consent of the registrant of that trademark; and
5. causing other damage to the right to exclusive use of a registered trademark of another person.

A trademark registrant may conclude a licensing contract authorizing use of its registered trademark by another person. Under the Trademark Law, the licensor shall supervise the quality of the commodities on which the trademark is used, and the licensee shall guarantee the quality of such commodities.

Violation of the Trademark Law may result in the imposition of fines, confiscation and destruction of the infringing commodities.

The Provisions on Recognition and Protection of Well-known Trademarks (《馳名商標認定和保護規定》) promulgated by the SAIC on April 17, 2003 which became effective on June 1, 2003, protect well-known trademarks, which are recognized on a case-by-case basis by the Trademark Review and Adjudication Board of the SAIC, the Trademark Office, or the PRC courts.

#### Domain names

On November 5, 2004, the MIIT promulgated the Measures for Administration of Domain Names for the Chinese Internet, or Domain Name Measures (《中國互聯網絡域名管理辦法》). The Domain Name Measures regulate the registration of domain names, such as the first tier domain name “.cn”. In February 2006, CNNIC issued the Measures on Domain Name Disputes Resolution (《中國互聯網絡信息中心域名爭議解決辦法》) and its implementing rules, pursuant to which CNNIC can authorize a domain name dispute resolution institution to decide disputes.

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## REGULATORY OVERVIEW

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### Laws and Regulations in relation to Labor Relationship and Social Security

Pursuant to the Labor Law of the People's Republic of China (《中華人民共和國勞動法》) promulgated by the Standing Committee of the NPC on July 5, 1994 which went into force on January 1, 1995, the employer shall pay laborers wages no lower than local standards on minimum wages. In addition, the employer shall abide by the rules on working hours, rests, and leaves.

In accordance with the Labor Contract Law of the People's Republic of China (《中華人民共和國勞動合同法》) promulgated by the Standing Committee of the NPC on June 29, 2007 which became effective from January 1, 2008 and the Regulation on the Implementation of the Employment Contract Law of the People's Republic of China (《中華人民共和國勞動合同法實施條例》) promulgated by the State Council which went into force on September 18, 2008, an employer establishes an employment relationship with an employee from the date when the employer puts the employee to work, and a written labor contract shall be concluded then. Employers shall also keep abiding by the law on issues including fulfillment, change or termination of the contract, etc.

Pursuant to the Social Insurance Law of the People's Republic of China (《中華人民共和國社會保險法》) promulgated by the Standing Committee of the NPC on October 28, 2010 which took effect on July 1, 2011 and other implementing regulations including the Interim Regulations Concerning the Levy of Social Insurance Fees (《社會保險費征繳暫行條例》) implemented from January 22, 1999 and the Interim Measures Concerning the Administration of the Registration of Social Insurance (《社會保險登記管理暫行辦法》) which became effective since March 19, 1999, employers in the PRC should register social insurance with the local social insurance authorities, and pay basic pension insurance, basic medical insurance, occupational injury insurance, unemployment insurance and maternity insurance fees for their employees.

Under the Regulation on Work-Related Injury Insurance (《工傷保險條例》), which took effect from January 1, 2004 and got amended on December 20, 2010, employers should pay occupational injury insurance fees for their employees.

In accordance with the Regulation on Unemployment Insurance (《失業保險條例》) promulgated by the State Council and went into force on January 22, 1999, enterprises and institutions in cities and towns shall pay unemployment insurance premium at a rate of 2% on the basis of the total amount of salaries. Staff and workers in enterprises and institutions in cities and towns shall pay unemployment insurance premium at a rate of 1% on the basis of their own salaries.

Pursuant to the Interim Measures Concerning the Maternity Insurance of Enterprises Employees (《企業職工生育保險試行辦法》) with effect from January 1, 1995, employers should pay maternity insurance fees for their employees.

According to the Regulation Concerning the Administration of Housing Fund (《住房公積金管理條例》), which got implemented since April 3, 1999 and amended on March 24, 2002, employers in the PRC must register with the housing fund management center. Employers will then need to open housing fund accounts with entrusted banks for their employees and contribute to the fund at a rate of not less than 5% of the employee's average monthly salary in the previous year.