

D. Exchange controls

The Basic Law of Hong Kong provides that the Hong Kong dollar will remain the legal tender in Hong Kong after July 1, 1997. The Basic Law also provides that no foreign exchange control policies will be applied in Hong Kong and that the Hong Kong dollar will be freely convertible. During the Asia regional economic crisis in 1998, however, the Hong Kong government intervened on several occasions in the foreign exchange market by purchasing the Hong Kong dollar and selling the U.S. dollar to support the value of the Hong Kong dollar.

There are no restrictions, either pursuant to our Articles, or pursuant to the laws of Hong Kong, on the rights of non-residents of Hong Kong or foreign persons to hold or exercise voting rights with respect to our ordinary shares, or export or import capital.

E. Taxation

The following provides a general outline of the material tax considerations that may be relevant to a decision to own or dispose of our American depositary shares or shares but does not purport to deal with the tax consequences applicable to all categories of investors. Prospective investors should consult their own professional advisers on the Hong Kong, United States and overall tax implications of investing, holding or disposing the American depositary shares or shares under the laws of the countries in which they are liable to taxation. The discussion below is applicable to both U.S. and non-U.S. citizens as an investor.

Hong Kong Taxation

Tax on dividends

No tax is payable in Hong Kong by withholding or otherwise in respect of dividends paid by HKTV.

Profits tax

No tax is imposed in Hong Kong in respect of gains from the sale of our shares and American depositary shares, unless all the following factors are present:

- (i) such profits are derived from or arise in Hong Kong;
- (ii) such profits are attributable to a trade, profession or business carried on in Hong Kong; and
- (iii) the property in question, such as shares and American depositary shares, are not capital assets of that trade, profession or business.

Taxable profits are subject to Hong Kong profits tax on corporations at the rate of 16.5% and on unincorporated businesses or individuals at the rate of 15%.

Profits from the sales of our shares, which are effected on the HKSE, will be considered to be derived from or arising in Hong Kong. Such profits are taxable if the shares are not held as capital assets and the profits are attributable to a business, trade or profession carried out in Hong Kong.

Profits from the sales of our American depositary shares will be considered to be derived from or arising in Hong Kong if the relevant purchase or sales contracts are effected in Hong Kong. In the event that those persons dealing or trading in the American depositary shares are doing so as part of their trade, profession or business that is being carried out in Hong Kong and the shares are not capital assets of such trade of business, then such profits will be subject to Hong Kong profits tax. In any case of an exchange of any American depositary receipts evidencing American depositary shares for certificates representing shares, any profit gained on subsequent disposition of such shares will be the difference between the initial price of American depositary shares and the market value of such shares at the date of disposition.

Stamp duty

The sale and purchase of shares is subject to Hong Kong stamp duty which is payable by both the seller and the purchaser. Both seller and purchaser must pay stamp duty at a rate of 0.1% each, totaling 0.2%, of the total value of the greater of (i) the consideration paid or (ii) the market value of the shares on the HKSE, or otherwise, on the date the contract note for the sale or purchase is executed. Where one of the parties to a transfer of the shares is not resident in Hong Kong and the stamp duty on either or both of the contract notes is not paid, the duty not paid will be assessed on the instrument of transfer (if any) and will be payable by the transferee. If the instrument is not stamped before or within the time for stamping such instrument, a penalty of up to 10 times the duty payable may be imposed. In addition, a fixed duty of HK\$5.00 is currently payable on any instrument of transfer of shares.

In addition to the depositary's charges, if any, the withdrawal of the shares upon the surrender of American depositary receipts evidencing American depositary shares, and the issuance of American depositary receipts evidencing American depositary shares upon the deposit of the shares, will be subject to Hong Kong stamp duty at the rate described above for sale and purchase transactions. In the event the withdrawal or deposit does not result in a change in the beneficial ownership of the shares under Hong Kong law, only the nominal fixed duty of HK\$5.00 will be payable. Investors are not liable for stamp duty on the issuance of the American depositary shares upon the initial deposit of shares issued directly to the depositary or for the account of the depositary. No Hong Kong stamp duty is payable upon the transfer of American depositary receipts evidencing our American depositary shares if such American depositary receipts are not maintained on a register in Hong Kong.

Tax treaty

There is currently no reciprocal tax treaty between Hong Kong and the U.S. regarding withholding.

United States Federal Income Taxation

The following discussion describes certain U.S. federal income tax consequences to U.S. Holders (as defined below) under present law of an investment in our American depositary shares or ordinary shares. This discussion applies only to U.S. Holders that hold the American depositary shares or ordinary shares as capital assets within the meaning of Section 1221 of the Internal Revenue Code of 1986, as amended (generally, property held for investment) and that have the U.S. dollar as their functional currency. This discussion is based on the tax laws of the United States as of the date of this annual report and on U.S. Treasury regulations in effect or, in some cases, proposed as of the date of this annual report, as well as judicial and administrative interpretations thereof available on or before such date. All of the foregoing authorities are subject to change, which change could apply retroactively and could affect the tax consequences described below.

The following discussion neither deals with the tax consequences to any particular investor nor describes all of the tax consequences applicable to persons in special tax situations such as:

- banks;
- certain financial institutions;
- insurance companies;
- regulated investment companies;
- real estate investment trusts;
- broker-dealers or other dealers or traders in securities;
- traders that elect to mark to market;
- U.S. expatriates;
- tax-exempt entities, "individual retirement accounts" and "Roth IRAs";
- persons liable for alternative minimum tax;
- persons holding an American depositary share or ordinary share as part of a straddle, wash sale, hedging, conversion or integrated transaction or persons entering into a constructive sale with respect to the American depositary shares or ordinary shares;
- persons that directly, indirectly or constructively own 10% or more of the total combined voting power of all classes of our voting stock;
- persons whose functional currency is not the U.S. dollar;
- persons holding American depositary shares or ordinary shares in connection with a trade or business conducted outside of the United States;
- persons who acquired American depositary shares or ordinary shares pursuant to the exercise of any employee share option or otherwise as compensation; or
- partnerships or pass-through entities, or persons holding American depositary shares or ordinary shares through such entities.

INVESTORS ARE URGED TO CONSULT THEIR TAX ADVISORS ABOUT THE APPLICATION OF THE U.S. FEDERAL TAX RULES TO THEIR PARTICULAR CIRCUMSTANCES AS WELL AS THE STATE, LOCAL, NON-U.S. AND OTHER TAX CONSEQUENCES TO THEM OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF AMERICAN DEPOSITORY SHARES OR ORDINARY SHARES.

The discussion below of the U.S. federal income tax consequences to “U.S. Holders” will apply to you if you are the beneficial owner of our American depository shares or ordinary shares and you are, for U.S. federal income tax purposes:

- an individual who is a citizen or resident of the United States;
- a corporation (or other entity treated as a corporation for U.S. federal income tax purposes) created or organized in the United States or under the laws of the United States, any State thereof or the District of Columbia;
- an estate, the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust that (1) is subject to the primary supervision of a court within the United States and the control of one or more U.S. persons for all substantial decisions or (2) has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

If you are a partner in a partnership or other entity taxable as a partnership that holds American depository shares or ordinary shares, your tax treatment will depend on your status and the activities of the partnership. If you are a partner in such a partnership, you should consult your tax advisor.

The discussion below assumes the representations contained in the deposit agreement are true and the obligations in the deposit agreement and any related agreement have been and will be complied with in accordance with their terms. If you own American depository shares, you should be treated as the owner of the underlying ordinary shares represented by those American depository shares for U.S. federal income tax purposes.

The U.S. Treasury has expressed concerns that intermediaries in the chain of ownership between the holder of an American depository share and the issuer of the security underlying the American depository share may be taking actions that are inconsistent with the beneficial ownership of the underlying security (for example, pre-releasing American depository shares to persons that do not have the beneficial ownership of the securities underlying the American depository shares). Accordingly, the creditability of any foreign taxes and the availability of the reduced tax rate for any dividends received by certain non-corporate U.S. Holders, including individual U.S. Holders (as discussed below), could be affected by actions taken by intermediaries in the chain of ownership between the holders of American depository shares and our Company if as a result of such actions the holders of American depository shares are not properly treated as beneficial owners of underlying ordinary shares.

Passive Foreign Investment Company

Based on the market price of our American depository shares, the value of our assets, and the composition of our income and assets, we believe we were a PFIC for U.S. federal income tax purposes for our taxable year ended December 31, 2014. A non-U.S. corporation will be a PFIC for U.S. federal income tax purposes for any taxable year if either:

- at least 75% of its gross income for such year is passive income, or
- at least 50% of the value of its assets (based on an average of the quarterly values of the assets) during such year is attributable to assets that produce passive income or are held for the production of passive income.

For this purpose, we will be treated as owning our proportionate share of the assets and earning our proportionate share of the income of any other corporation in which we own, directly or indirectly, at least 25% (by value) of the stock.

A separate determination must be made after the close of each taxable year as to whether we were a PFIC for that year. Because the value of our assets for purposes of the asset test will generally be determined by reference to the market price of our American depository shares and ordinary shares, our PFIC status will depend in large part on the market price of our American depository shares and ordinary shares, which may fluctuate significantly. Based on the market price of our American depository shares and ordinary shares, and the composition of our assets during the taxable year ended December 31, 2014, we believe we were a PFIC for such year. In addition, we believe there is a significant risk we will be a PFIC for the taxable year ending December 31, 2015 and for future taxable years, unless the market price of our American depository shares increases or we reduce the amount of cash and other passive assets we hold relative to the amount of non-passive assets we hold. If we are a PFIC for any taxable year during which you hold American depository shares or ordinary shares, we generally will continue to be treated as a PFIC with respect to you for all succeeding years during which you hold American depository shares or ordinary shares, unless we cease to be a PFIC and you make a “deemed sale” election with respect to the American depository shares or ordinary shares. If such election is made, you will be deemed to have sold American depository shares or ordinary shares you hold at their fair market value on the last day of the last taxable year in which we qualified as a PFIC, and any gain from such deemed sale would be subject to the consequences described in the following two paragraphs. After the deemed sale election, your American depository shares or ordinary shares with respect to which the deemed sale election was made will not be treated as shares in a PFIC, and you would not be subject to the rules described below with respect to any “excess distribution” you receive from us or any gain from an actual sale or other disposition of the American depository shares or ordinary shares, unless we subsequently become a PFIC. **The rules dealing with deemed sale elections are complex. You are encouraged to consult your tax advisor as to the possibility and consequences of making a deemed sale election if we cease to be treated as a PFIC and such election becomes available to you.**

For each taxable year that we are treated as a PFIC with respect to you, you will be subject to special tax rules with respect to any “excess distribution” you receive and any gain you recognize from a sale or other disposition (including a pledge) of the American depository shares or ordinary shares, unless you make a “mark-to-market” election as discussed below. Distributions you receive in a taxable year that are greater than 125% of the average annual distributions you received during the shorter of the three preceding taxable years or your holding period for the American depository shares or ordinary shares will be treated as an excess distribution. Under these special tax rules:

- the excess distribution or recognized gain will be allocated ratably over your holding period for the American depository shares or ordinary shares,
- the amount allocated to the current taxable year, and any taxable years in your holding period prior to the first taxable year in which we were a PFIC, will be treated as ordinary income, and
- the amount allocated to each other taxable year will be subject to the highest tax rate in effect for individuals or corporations, as applicable, for each such year, and the interest charge generally applicable to underpayments of tax will be imposed on the resulting tax attributable to each such year.

The tax liability for amounts allocated to taxable years prior to the year of disposition or excess distribution cannot be offset by any net operating losses for such years, and gains (but not losses) realized on the sale or other disposition of our American depository shares or ordinary shares cannot be treated as capital, even if you hold the American depository shares or ordinary shares as capital assets.

If we are treated as a PFIC with respect to you for any taxable year, to the extent any of our subsidiaries are also PFICs or we make direct or indirect equity investments in other entities that are PFICs, you may be deemed to own shares in such lower-tier PFICs that are directly or indirectly owned by us in that proportion which the value of the American depository shares or ordinary shares you own bears to the value of all of our American depository shares and ordinary shares, and you may be subject to the adverse tax consequences described in the preceding two paragraphs with respect to the shares of such lower-tier PFICs that you would be deemed to own. You should consult your tax advisor regarding the application of the PFIC rules to any of our subsidiaries.

Alternatively, a U.S. Holder of “marketable stock” (as defined below) in a PFIC may make a mark-to-market election for such stock to elect out of the PFIC rules described above regarding excess distributions and recognized gains. If you make a mark-to-market election for our American depository shares or ordinary shares, you will include in income for each year we are a PFIC an amount equal to the excess, if any, of the fair market value of the American depository shares or ordinary shares as of the close of your taxable year over your adjusted basis in such American depository shares or ordinary shares. You will be allowed a deduction for the excess, if any, of the adjusted basis of the American depository shares or ordinary shares over their fair market value as of the close of the taxable year. However, deductions will be allowable only to the extent of any net mark-to-market gains on the American depository shares or ordinary shares included in your income for prior taxable years. Amounts included in your income under a mark-to-market election, as well as gain on the actual sale or other disposition of the American depository shares or ordinary shares, will be treated as ordinary income. Ordinary loss treatment will also apply to the deductible portion of any mark-to-market loss on the American depository shares or ordinary shares, as well as to any loss realized on the actual sale or other disposition of the American depository shares or ordinary shares, to the extent the amount of such loss does not exceed the net mark-to-market gains previously included for such American depository shares or ordinary shares. Your basis in the American depository shares or ordinary shares will be adjusted to reflect any such income or loss amounts. If you make a mark-to-market election, any distributions we make would generally be subject to the rules discussed below under “Dividends and Other Distributions on the American Depository Shares or Ordinary Shares,” except the lower rate applicable to qualified dividend income would not apply.

The mark-to-market election is available only for “marketable stock,” which is stock that is regularly traded on a qualified exchange or other market, as defined in applicable U.S. Treasury regulations. Our American depository shares are listed on the Nasdaq, which is a qualified exchange or other market for these purposes. Consequently, if the American depository shares continue to be listed on the Nasdaq and are regularly traded, and you are a holder of American depository shares, we expect the mark-to-market election would be available to you if we were to become a PFIC. Because a mark-to-market election cannot be made for equity interests in any lower-tier PFICs that we own, a U.S. Holder may continue to be subject to the PFIC rules with respect to its indirect interest in any investments held by us that are treated as an equity interest in a PFIC for U.S. federal income tax purposes. You should consult your tax advisor as to the availability and desirability of a mark-to-market election, as well as the impact of such election on interests in any lower-tier PFICs.

[Table of Contents](#)

If a non-U.S. corporation is a PFIC, a holder of shares in that corporation may avoid taxation under the PFIC rules described above regarding excess distributions and recognized gains by making a “qualified electing fund” election to include in income its share of the corporation’s income on a current basis. However, you may make a qualified electing fund election with respect to your American depository shares or ordinary shares only if we agree to furnish you annually with certain tax information, and we currently do not intend to prepare or provide such information.

Unless otherwise provided by the U.S. Treasury, each U.S. Holder of a PFIC is required to file an annual report containing such information as the U.S. Treasury may require. You should consult your tax advisor regarding any reporting requirements that may apply to you.

You are strongly urged to consult your tax advisor regarding the application of the PFIC rules to your investment in American depository shares or ordinary shares.

Dividends and Other Distributions on the American Depository Shares or Ordinary Shares

Subject to the PFIC rules discussed above, the gross amount of any distributions we make to you (including the amount of any taxes withheld) with respect to our American depository shares or ordinary shares generally will be includible in your gross income as dividend income on the date of receipt by the depository, in the case of American depository shares, or by you, in the case of ordinary shares, but only to the extent the distribution is paid out of our current or accumulated earnings and profits (as determined under U.S. federal income tax principles). Any such dividends will not be eligible for the dividends-received deduction allowed to corporations in respect of dividends received from other U.S. corporations. To the extent the amount of the distribution exceeds our current and accumulated earnings and profits (as determined under U.S. federal income tax principles), such excess amount will be treated first as a tax-free return of your tax basis in your American depository shares or ordinary shares, and then, to the extent such excess amount exceeds your tax basis in your American depository shares or ordinary shares, as capital gain. We currently do not, and we do not intend to, calculate our earnings and profits under U.S. federal income tax principles. Therefore, a U.S. Holder should expect that a distribution will generally be reported as a dividend even if that distribution would otherwise be treated as a non-taxable return of capital or as capital gain under the rules described above.

With respect to certain non-corporate U.S. Holders, including individual U.S. Holders, dividends may be taxed at the lower capital gains rate applicable to “qualified dividend income,” provided (1) the American depository shares or ordinary shares are readily tradable on an established securities market in the United States, (2) we are neither a PFIC nor treated as such with respect to you (as discussed above) for the taxable year in which the dividend was paid and the preceding taxable year, and (3) certain holding period requirements are met. Under U.S. Internal Revenue Service authority, American depository shares are considered for purposes of clause (1) above to be readily tradable on an established securities market in the United States if they are listed on Nasdaq, as are our American depository shares. However, based on existing guidance, it is not entirely clear whether dividends you receive with respect to the ordinary shares will be taxed as qualified dividend income, because the ordinary shares are not themselves listed on a U.S. exchange. As discussed above in “—Passive Foreign Investment Company,” we believe we were a PFIC for the taxable year ended December 31, 2014. You should consult your tax advisor regarding the availability of the lower capital gains rate applicable to qualified dividend income for any dividends paid with respect to the American depository shares or ordinary shares.

Any dividends will constitute foreign source income for foreign tax credit limitation purposes. If the dividends are taxed as qualified dividend income (as discussed above), the amount of the dividend taken into account for purposes of calculating the foreign tax credit limitation will in general be limited to the gross amount of the dividend, multiplied by the reduced tax rate applicable to qualified dividend income and divided by the highest tax rate normally applicable to dividends. The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. For this purpose, dividends distributed by us with respect to our American depository shares or ordinary shares will generally constitute “passive category income” but could, in the case of certain U.S. Holders, constitute “general category income.”

Disposition of American Depository Shares or Ordinary Shares

Subject to the PFIC rules discussed above, you will recognize taxable gain or loss on any sale, exchange or other taxable disposition of an American depository share or ordinary share equal to the difference between the amount realized for the American depository share or ordinary share and your tax basis in the American depository share or ordinary share. The gain or loss generally will be capital gain or loss. If you are a non-corporate U.S. Holder, including an individual U.S. Holder, that has held the American depository share or ordinary share for more than one year, you may be eligible for reduced tax rates. The deductibility of capital losses is subject to limitations. Any gain or loss you recognize on a disposition of American depository shares or ordinary shares will generally be treated as U.S. source income or loss for foreign tax credit limitation purposes.