LINKTONE LTD

ANNUAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 2013

CORPORATE PROFILE

Established in 1999, Linktone Ltd. develops and provides rich and engaging services and content to consumers and enterprises through a wide range of traditional and new media platforms in Mainland China, Indonesia, Singapore, Malaysia, and Hong Kong.

Backed by its strong in-house capabilities, Linktone focuses on media, entertainment, marketing, communication and edutainment products, which are promoted through the Group's various nationwide distribution networks, integrated service platforms, multiple marketing sales channels as well as through the networks of leading internet companies and mobile operators in Mainland China and Indonesia.

Linktone's shares are listed on the Australian Stock Exchange and quoted on the OTC Markets Group's OTC Pink.

CHAIRMAN'S MESSAGE

Dear Shareholders,

On behalf of the Board of Directors of Linktone Ltd. ("Linktone" and together with its subsidiaries, the "Group"), I am pleased to comment on the Group's progress and financial results for the fiscal year ended December 31, 2013.

In 2013, the Group witnessed significant shifts in the landscape of its operating markets due to rapid advances in technology, major changes in consumer preferences and stricter regulatory environment. These changes resulted in major challenges for our telecommunications value-added services (VAS) and home entertainment businesses, and led to Group revenue easing 7.6% to US$42.6 million. The difficult business conditions were further exacerbated by the weaker Indonesian Rupiah which resulted in the Group posting a net loss attributable to equity holders of the Company of US$15.1 million in 2013, compared to net income of US$20.2 million in 2012. To reduce our administrative cost structure moving forward, the Company delisted Linktone's American Depositary shares from the Nasdaq Global Select Market ("NASDAQ") following the successful listing of Linktone's CHESS Depositary Interests ("CDIs") on the Australia Stock Exchange ("ASX") on September 13, 2013. Going forward, we plan to proactively engage with institutional and other investors in the Australian market to build awareness and understanding of our business and enhance interest in our company's securities. Please note that the process for shareholders to convert their ADSs to ordinary shares or to CDIs or vice versa is posted on our website at www.linktone.com.

On a brighter note, we have been witnessing encouraging growth for our mobile games business, parenting portal in China and online news and entertainment portal in Indonesia. For a start, our mobile games business, Letang (which is our majority owned subsidiary), has gained further traction in the past year. Leveraging on Google Play, Letang has also extended its reach beyond China and gained popularity in markets such as Russia, Brazil, Mexico and South East Asia. Our aim is to elevate Letang into a first-tier mobile game developer and operator for both the domestic and overseas markets. Yuan Hang, a developer and operator of internet card games, also successfully upgraded its PC internet platform and launched a new mobile internet platform. Yuan Hang continues to maintain its market leadership in Shanxi province which has a population of 40 million.

We are also encouraged by the strong response to Fumubang.com, our parenting portal, in Beijing and Shanghai. Within a year of launching its mobile services, Fumubang.com achieved 2 million unique visitors per month; and our active parent subscriber base exceeds 120,000 and is growing at approximately 10% per month. We envision that our online to offline (O2O) business strategy (i.e., the use of online and mobile to drive offline local sales) will continue to fuel growth in the revenue and user base of this portal in 2014.

Our online news and entertainment portal in Indonesia, Okezone.com, is also showing exciting growth with over 2 million daily unique users and 7 million daily page views. According to a survey conducted by Marketeers and Markplus Insights, the number of internet users in the country reached 74.6 million in 2013, a jump of 22% from 61.1 million in 2012, thanks to its improved broadband infrastructure and relatively youthful population. This number is expected to surpass 100 million in 2015. Okezone.com produces 500 news articles per day and 50 video programs over 20 news categories, and we believe that it is on a strong trajectory to be the leading news and entertainment portal in this country of 250 million people.

For our media content business, we are optimistic about the prospects of this business in Indonesia. The Group distributes content to TV stations operated by PT Media Nusantara Citra ("MNC") group and also movies to cinemas in Indonesia. With only 800 cinema screens currently catering to the country's population of 250 million, we believe this space provides tremendous growth potential for the Group. To grow our media content business, we also adopted an Os2Os, or On Screen to Off Screen, expansion plan. By leveraging on our strength in entertainment content and relationships with film and music studios, we have successfully presented concerts and produced and staged branded family-focused events in popular shopping malls in Indonesia, Malaysia, Hong Kong and Singapore. With our media and entertainment heritage, we believe that we are in an advantageous position to develop a regional event studio to produce and stage entertaining and engaging events with franchise potential.

In addition to strengthening and growing existing businesses, our Group has been actively exploring value accretive and strategic acquisition opportunities in the region, particularly in Australia, China and selected ASEAN countries. Our focus will continue to be on the content, entertainment and internet sectors across traditional, PC, mobile and off screen platforms.

Looking ahead, the Group's growth strategy will most likely be powered by our mobile games and internet properties media content and branded events management businesses. With our concerted efforts to realise our strategic focus, we are confident that the Group will be able to further build on its market position across our multi-platform and multi-territory businesses. Although the Group's financial results in 2014 could be affected by the transition away from our China VAS business, we believe that the contributions from the rest of our businesses will grow progressively and the Group will be better positioned to enhance shareholder value over the long term. While our expansion plans could require certain investment costs, we will continue to maintain a close watch on our operational expenses to ensure our Group remains in a sound financial position.

In closing, I would like to thank my fellow directors for their valuable contributions. On behalf of the Board, I would also like to express our appreciation to our management and staff for their continuing support and commitment. Last but not least, we extend our sincere thanks and appreciation to our valued customers, shareholders, business partners and suppliers for their continued support and patronage.

Hary Tanosoedibjo

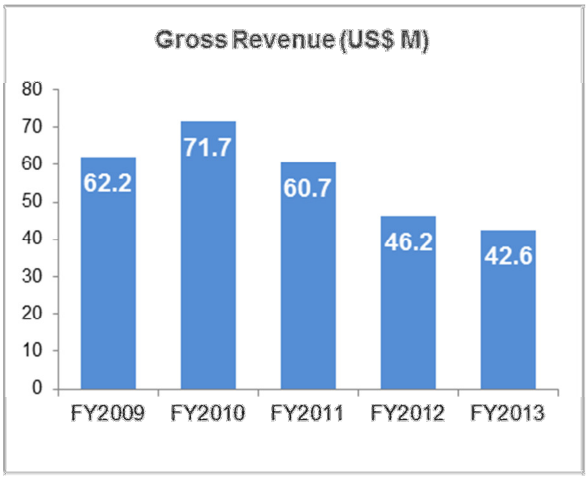
Chairman

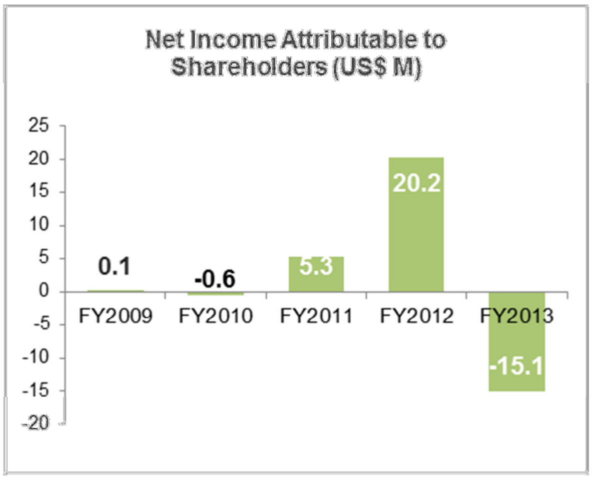
FINANCIAL HIGHLIGHTS

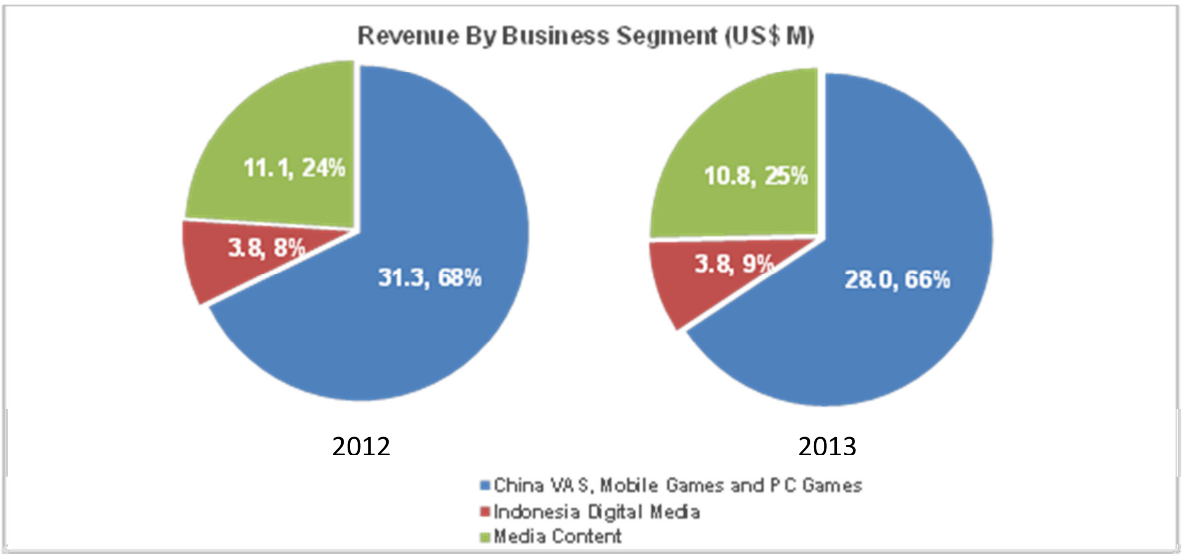
Financial year ended December 31,

(US$ million)	FY2012	FY2013	*Change*
Gross Revenue	46.2	**42.6**	*(7.6%)*
Gross Profit	16.2	**13.7**	*(15.7%)*
Total Operating Expenses	(34.7)	**(23.4)**	*(32.3%)*
Other Operating Income	39.4	**10.3**	*(73.9%)*
Operating Income	21.0	**0.5**	*(96.9%)*
Loss on foreign exchange – net	(5.6)	**(18.0)**	*226.2%*
Net Income / Loss Attributable to Ordinary Shareholders of the Company	20.2	**(15.1)**	*n.m.*
Per Share Data*			
Earnings / Loss Per Share (US$)	0.05	**(0.04)**	*n.m.*
Net Asset Value Per Share (US$)	0.38	**0.34**	*(9.3%)*

**Per Share Data is based on basic weighted average number of ordinary shares of 409,190,082 in FY2012 and 404,594,046 in FY2013*







OPERATIONS AND FINANCIAL REVIEW

The principal activities of the Group include (i) providing telecommunication value-added services ("VAS") in China and Indonesia, (ii) providing online PC and mobile game services in China, (iii) providing media content and audio distribution and related services in Singapore, Malaysia, Hong Kong and Indonesia, (iv) operating online news and entertainment and parenting portals in Indonesia and China respectively and (v) trading in quoted securities.

At the start of 2014, Linktone Ltd. ("Linktone" and together with its subsidiaries, the "Group") embarked on a strategic repositioning of our business focus to deliver higher value to shareholders. In view of significant shifts in the landscape of our operating markets, we made a strategic decision to move away from telecommunication value-added services ("VAS") in China and to sharpen our focus on our mobile games and internet properties, and media content and branded events management businesses which we believe have higher growth potential.

While this business transition away from the China VAS business could have an impact on the Group's financial results in 2014, we anticipate that revenue contributions from our remaining businesses will grow progressively to enhance shareholder value over the long term.

Although our China VAS business turned in a weaker set of financial results in 2013, we are encouraged by the improved performance of our mobile games business in China. Our new parenting portal, which currently targets users in Shanghai and Beijing, is also gaining traction and building an active parent subscriber base. Outside of China, we continue to channel our efforts into increasing the user traffic of our online news and entertainment portal in Indonesia. We believe that our initiatives to develop our mobile games and internet properties in China and Indonesia will enable the Group to further build on its market position across our multi-platform and multi-territory businesses in the coming years.

GROUP FINANCIAL REVIEW

For the year ended December 31, 2013 ("FY2013"), the Group recorded gross revenue of US$42.6 million, down 7.6% from US$46.2 million in for the year ended December 31, 2012 ("FY2012"). The decrease was due mainly to a decline in revenue from our China VAS business. This was partially offset by significant growth in sales generated from our mobile games business in China. Revenue from our Indonesia digital media and media content segments were relatively steady in FY2013 compared to the year before.

Gross profit declined 15.4% to US$13.7 million from US$16.2 million previously, which was primarily attributable to declining gross profit contributions from our China business division, which comprises China VAS, mobile games and PC games segments, and media content segment. The Group's gross profit margin narrowed to 32.1% as compared to 35.2% in FY2012. Our China business division's lower gross profit margin in FY2013 was due mainly to a change in revenue mix of our mobile games business, arising from a higher revenue contribution from single player games which have lower gross margin. Our media content segment also saw reduced gross profit margin as a result of lower than expected performance of our video and theatrical releases.

The Group's operating expenses in FY2013 amounted to US$23.4 million, down 32.4% from US$34.7 million last year, due to the fact that the Group incurred a provision for impairment in FY2012 which did not recur in FY2013 as well as reduced selling and marketing expenses. Selling and marketing expenses for China VAS declined in FY2013, in line with the lower revenue from China VAS. Product development expenses increased in FY2013 as a result of the development costs for our mobile games and PC games business segments as well as our new parenting portal.

Other operating income in FY2013 was US$10.3 million, a decrease of 73.9% from US$39.4 million in FY2012. Other operating income in FY2012 was boosted by a gain of US$29.0 million on sales of short-term investments comprised of quoted securities. In comparison, a smaller gain of US$5.7 million was recorded on sales of short-term investments in FY2013. In addition, the unrealised gain on marked-to-market valuation of the short-term investments was US$4.1 million at the end of FY2013, compared to unrealised gain of US$10.1 million recorded in FY2012. Consequently, the Group's operating income in FY2013 declined to US$0.5 million compared to US$21.0 million in FY2012.

OPERATIONS AND FINANCIAL REVIEW

The net loss on foreign exchange in FY2013 was US$18.0 million, significantly higher than US$5.6 million in FY2012. This was attributable to the depreciation of the Indonesia rupiah against the US Dollar which resulted in a significant foreign exchange loss for our quoted investments that are denominated in Indonesia rupiah.

The Group recorded a net loss attributable to equityholders of the Company of US$15.1 million in FY2013 compared to net income of US$20.2 million in FY2012. This decrease was due mainly to the reduction in gains on marked-to-market valuations and sales of short-term investments and higher foreign exchange loss. Correspondingly, the basic loss per share in FY2013 was US$0.04 compared to earnings per share of US$0.05 in FY2012.

As at December 31, 2013, the Group had shareholders' equity of US$158.1 million, down from US$175.2 million as at December 31, 2012, due mainly to the net loss and stock repurchases in FY2013.

Current assets as at December 31, 2013 were US$134.9 million compared to US$151.0 million as at December 31, 2012. The decrease was attributable to lower cash and cash equivalents, short-term investments and accounts receivable which were partially offset by higher inventories.

Cash and cash equivalents decreased to US$28.3 million from US$35.0 million in FY2012 due mainly to operational usage and placement of fixed deposits with maturity of more than 3 months amounting to US$9.4 million which are classified as short term investments. Short-term investments decreased to US$86.1 million as of December 31, 2013 compared to US$90.3 million a year ago due mainly to the adverse effect of foreign exchange rate movement on our quoted securities denominated in Indonesia rupiah. The decrease in accounts receivable from US$14.3 million in FY2012 to US$9.9 million in FY 2013 was in line with lower revenue and higher allowance for doubtful receivables.

Long-term assets totaled US$48.2 million as at December 31, 2013, down from US$53.5 million as at December 31, 2012. The decrease in long-term assets was due mainly to a reduction in other long-term assets which comprised capitalised video licensing rights that were amortised over the year.

Current liabilities as at December 31, 2013 were US$24.1 million, compared to US$25.8 million as at December 31, 2012. Accounts payable, accrued liabilities and other payables were US$11.6 million compared to US$15.6 million previously. This was partially offset by higher amounts due to related parties, increase in short-term loan and deferred tax liabilities. Long-term liabilities decreased to US$0.9 million as compared to US$3.4 million as at December 31, 2012, which was attributable mainly to the payment of other long-term liabilities which comprised payments made to licensors for video content licensing rights.

REVIEW OF BUSINESS SEGMENTS

China VAS, Mobile Games and PC Games

In China, Linktone operates the VAS, mobile games and PC games businesses ("China Division"). The China Division generated revenue of US$28.0 million in FY2013, down 10.5% from US$31.3 million in FY2012. Both the China VAS and PC games businesses recorded lower revenues, which was partially offset by higher revenue from our mobile games business. Our China Division recorded a segment operating loss of US$1.2 million in FY2013 compared to US$0.6 million previously, attributable to the China VAS and PC games businesses, as well as development expenses incurred for our new parenting portal.

Revenue of our China VAS business decreased 32.7% to US$18.4 million from US$27.4 million previously. This reflected the challenging operating environment of our China VAS business which provides data-related services such as SMS and MMS for ringtones, information, screen savers, and Java games, as well as audio-related services such caller ring-back tones, through telecommunication network operators.

The increasingly challenging regulatory framework for provision of VAS in China, coupled with the rapid penetration of smart phones, is expected to affect the long-term viability of our China VAS business. As such, we decided to cease this business in

China VAS, Mobile Games and PC Games (Continued)

China and instead focus our resources on other media and entertainment content and services businesses that could serve to enhance Linktone's shareholder value.

Our mobile games business, which is operated by our majority owned subsidiary, Letang, enjoyed a significant increase in revenue in FY2013. Revenue increased more than two-fold to US$8.8 million from US$2.9 million in FY2012. During FY2013, Letang generated higher revenue from advertisements that are embedded in our mobile games, as well as from purchases within our single player games. Our single player games have gained encouraging popularity in domestic and overseas markets such as Russia, Brazil, Mexico, and Southeast Asia. Our games are distributed through telecommunications mobile network operators, internet and mobile platforms such as Baidu, 360, Tencent, as well as via Google Play.

Our mobile games business also recorded profit growth in FY2013. However, profit increased at a slower pace than revenue because of lower gross profit margin and higher operating expenses. Gross profit margin in FY2013 was affected by the difference in revenue mix due to a higher proportion of single player games. Letang also expanded its team of developers to support the expansion of our mobile games business.

In November 2013, Letang entered into an agreement to obtain the license for the development of mobile games based on the highly-popular animated cartoon series on television in China – Boonie Bears (熊出没). At the beginning of 2014, Letang launched its first Boonie Bears mobile games, "Boonie Bears – Briar Run", which met with an overwhelming response. We believe the development of Boonie Bears mobile game further enhances Letang's profile. Going forward, we will focus on keeping abreast of consumer trends and leveraging on our in-house research and development strength to create new mobile games to drive revenue from advertising and in-app purchases.

Revenue derived from our PC games segment decreased 17.9% to US$0.8 million compared to US$1.0 million in the year before. During FY2013, the Group focused on upgrading its PC games platform with better interface and design to enhance user experience. We also commenced the development of a mobile platform. These new PC and mobile games were launched in March 2014.

The Group officially launched its proprietary parenting and family-oriented entertainment portal, fumubang.com ("Fumubang") (父母邦), in FY2013. With rising education and affluence in China, the new generation of parents places strong emphasis on their children's education, health and social development. Fumubang is a specialised platform that offers information and services related to children and family entertainment and activities, motherhood, education and healthcare. As a social networking platform, Fumubang also enables parents to share their family experiences online. Currently, Fumubang has two customised sites to cater to parents in Beijing and Shanghai. Our aim is to replicate Fumubang in other major cities and for it to be recognised as a reputable parenting resource which provides family oriented services to enhance parenting experience and quality of family life. As Fumubang is a newly launched portal, it did not generate material revenue in FY 2013.

Indonesia Digital Media

Our Indonesia digital media business recorded a slight increase in revenue to US$3.9 million in FY2013, compared to US$3.7 million in FY2012. This was attributable to increase in sales from both our VAS business and online news and entertainment portal Okezone.com in Indonesia. While the Indonesia digital media business generated higher gross profit in FY2013, this was negated by higher operating expenses that arose from the expansion of our team for Okezone.com. As a result, this division's segment operating loss remained largely unchanged at US$1.3 million.

The Group will continue to offer VAS through telecommunications network operators in Indonesia. However, as the operating landscape for our VAS business in Indonesia becomes challenging as a result of government regulations, it is our strategy to focus more resources on development of mobile content and services for Okezone.com and the rest of the MNC group.

OPERATIONS AND FINANCIAL REVIEW

Media Content

Revenue derived from our media content business, which is operated under InnoForm, decreased 3.0% to US$10.8 million in FY2013 from US$11.1 million in the previous year. Innoform generates revenue from three categories namely, video which includes the acquisition, licensing, and distribution of Asian and non Asian movies, and kids content across multiple platforms such as theatres television, video discs, and online and mobile devices in Singapore, Malaysia, Hong Kong and Indonesia, music which includes licensing of karaoke music videos, and staging of concerts and events.

Gross profit margin of our media content business contracted in FY2013, which was attributable mainly to an increase in the cost of content. Consequently, the segment operating loss widened to US$4.9 million in FY2013, compared to US$4.2 million previously.

Sales of home entertainment video discs, which accounted for a major proportion of our media content business, were softer in FY2013 due to closures of video retail stores operated by our partners. Sales from theatrical distribution of movies were also weaker as none of the titles distributed by Innoform in FY2013 were blockbuster hits. We also saw a decline in karaoke music licensing sales, which are derived from karaoke-on-demand (KOD) systems in entertainment outlets and KTV lounges, as well as KOD channel on Pay TV, due to closures of some entertainment outlets.

InnoForm has exclusive licenses from major studios such as Universal Pictures International Entertainment and Disney Buena Vista Home Entertainment to sell certain of their home video products. In addition, we also license content from independent studios, theatrical exhibitors such as Shaw Renters and Golden Village, and other distributors. Our home entertainment products span a wide spectrum of content ranging from feature films, TV series, documentaries, pre-school edutainment and animation series for children. To drive the sales of our home entertainment products, InnoForm has also established an e-retail business Happybuys.com to reach out to consumers worldwide. Innoform is also a distributor for our related company PT Media Nusantara Citra Tbk's ("MNC") TV programs, channels and content in Singapore, Malaysia and Hong Kong.

In 2013, we also organised a music concert in Jakarta, Indonesia and also staged a series of family-focused events at a number of shopping malls in Singapore, Malaysia, Hong Kong and Indonesia. While the revenue contribution from events is relatively small, the Group sees potential to grow our event management business.

Investments

Investments in quoted securities are deemed as one of the Group's principal activities. In FY2013, the Group recorded operating income of US$10.3 million from investments, compared to US$39.4 million in FY2012. This was due mainly to a lower realised gain on sales of short-term investments. In FY2012, the Group sold 357 million shares of PT Global Medicom TBK which resulted in a realised gain of US$29.0 million from the sale of quoted investments. In comparison, the Group recorded a smaller realised gain of US$5.7 million in FY2013 from sale of shares in various quoted securities on the Indonesian and Hong Kong Stock Exchanges.

The total unrealised gain and dividend income from short-term investments in FY2013 amounted to US$4.6 million, a decrease of 55.6% from US$10.4 million in FY2012.

As at December 31, 2013, the Group's short-term investments in quoted securities on the Indonesia stock exchange include equity shares in PT MNC Land Tbk ("MNC Land"). MNC Land engages in the development of integrated resorts, commercial properties and property services in Indonesia.

ENVIRONMENTAL REGULATIONS

There are no significant environmental regulations that apply to Linktone.

OPERATIONS AND FINANCIAL REVIEW

SIGNIFICANT CHANGES AND EVENTS AFTER THE END OF THE YEAR

In the opinion of the Directors, other than as referred to in this Operations and Financial Review, there were no significant changes in the state of affairs of the consolidated entity during the year, or any matter or circumstance that has arisen since the end of the year that has significantly affected, or may significantly affect, Linktone's operations, the results of those operations and its state of affairs in future financial years.

RISKS

The table below sets out the major risks identified through Linktone's risk management process referred to in the Corporate Governance Statement on page 20. The risks noted are not in any particular order and do not include generic risks such as changes to economic conditions affecting business and households in the regions where Linktone operates (namely China, Indonesia, Singapore, Malaysia and Hong Kong), which would affect all companies in these regions and which could have a material impact on the future performance of Linktone.

Strategic	Operational	Regulatory	Financial
– Increased competition – Ineffective execution of strategy – Loss of key management personnel – Damage or dilution to Linktone's brands	– Loss of critical supply inputs or infrastructure, including IT systems – Business interruption arising from industrial disputes, work stoppages and accidents	– Non-compliance with applicable laws, regulations and standards – Adverse regulatory or legislative change	– Adverse currency movements

BUSINESS STRATEGIES, PROSPECTS AND LIKELY DEVELOPMENTS

The Operating and Financial Review sets out information on the business strategies and prospects for future financial years and refers to likely developments in Linktone's operations and the expected results of those operations in future financial years (see pages 6 to 11 of this Operations and Financial Review). Information in the Operating and Financial Review is provided to enable shareholders to make an informed assessment about the business strategies and prospects for future financial years of the Linktone Group. Information that could give rise to likely material detriment to Linktone, for example, information that is commercially sensitive, confidential or could give a third party a commercial advantage has not been included. Other than the information set out in the Operating and Financial Review, information about other likely developments in Linktone's operations and the expected results of these operations in future financial years has not been included.

OPERATIONS AND FINANCIAL REVIEW

FORWARD-LOOKING STATEMENTS

This annual report contains statements of a forward-looking nature. These statements are made under the "safe harbor" provisions of the U.S. Private Securities Litigation Reform Act of 1995. You can identify these forward-looking statements by terminology such as "will," "expects," "anticipates," "future," "intends," "plans," "believes," "estimates," and similar statements. The accuracy of these statements may be impacted by a number of business risks and uncertainties that could cause actual results to differ materially from those projected or anticipated, including risks related to: Linktone's ability to expand into Asian markets outside of the PRC and diversify its revenue base; changes in the policies of the relevant government regulators or telecom network operators in China and Indonesia or in the manner in which they interpret and enforce such policies, including policies which reduce the prices the Company may charge customers; the risk that other changes in applicable laws and regulations, including without limitation tax and media-related laws, or in application thereof by relevant governmental authorities, could adversely affect Linktone's financial condition and results of operations; Linktone's ability to cost-effectively market its services and products; the risk that Linktone will not be able to realize meaningful returns from its acquisitions or strategic partnerships or may be required to record provisions for impairments in the value of the Company's investments; the risk that Linktone will not be able to effectively manage entities that it acquires or effectively utilize their resources. Linktone does not undertake any obligation to update this forward-looking information, except as required under applicable law.

CURRENT CAPITAL STRUCTURE

Stock Exchange Listings

Linktone has Chess Depositary Interests ("CDIs") listed on the ASX. Until December 31, 2013, Linktone also had American depositary shares ("ADSs") listed on the NASDAQ Global Market ("NASDAQ"). Subsequent to its delisting from NASDAQ on January 2, 2014, and deregistration under the Securities Exchange Act of 1934 on January 15, 2014, Linktone's ADSs are quoted on the OTC Markets Group's OTC Pink.

Shares, ADSs and CDIs

As at February 28, 2014, Linktone had 421,435,030 ordinary shares on issue. Of these, 17,043,320 ordinary shares were previously bought back by Linktone and are currently held by the Company as treasury stock (shares Linktone issued but subsequently bought back and which may be reissued or cancelled by Linktone). The total number of Linktone shares held by shareholders, ADS holders and CDI holders is 404,391,710 (outstanding ordinary shares).

As of February 28, 2014, there were 494,120 CDIs listed on ASX and 21,688,368 ADSs outstanding.

Each class of share voting rights as at February 28, 2014 is as follows:

1 ordinary share = 1 vote

1 ADR/ CDI = 10 votes

Options

As at February 28, 2014, Linktone had granted options which are exercisable for an aggregate 7,106,000 ordinary shares. The options were granted pursuant to Linktone's employee stock options scheme and have been issued to 9 employees.

Options at February 28, 2014:

Range	Total Holders	Number of Options	% of Total Options
0 - 1,000	17	76,000	1
1,001 - 10,000	11	530,000	7
10,001 - 100,000	3	6,500,000	92
100,001 - 1,000,000	-	-	-
1,000,001 - 999,999,999	-	-	-
TOTAL	**31**	**7,106,000**	**100**

CURRENT CAPITAL STRUCTURE

Shareholders and their holdings

Top 20 shareholders

The following tables provide information about holders of Linktone's ordinary shares as at February 28, 2014 based on information known to Linktone.

Range	Number of ordinary shares held	% of total ordinary shares
JPMorgan Chase Bank, N.A.[1]	233,927,000[2]	55.507
MNC International Ltd.[3]	180,004,580	42.712
CHESS Depositary Nominees Pty Ltd	4,941,200	1.172
Fidelity Investors III Limited Partnership	926,740	0.22
Mark McGoldrick	499,750	0.119
Richard Scrase	249,940	0.059
Sam Wisnia	124,910	0.030
Greenacre Ventures Ltd.	118,082	0.028
Jason Kushner	95,175	0.023
Alireza Satrap	88,400	0.021
Chris Brumbach	74,930	0.018
Gerard Gennotte	74,930	0.018
Scott Lawin	49,990	0.012
Greg Tarr	47,700	0.011
Michael Rafferty	47,700	0.011
John Jessop	35,320	0.008
Helga Nelsen Sulger	33,370	0.008
Andrew R. Dale	16,946	0.004
Rowena Wang	13,350	0.003
Matthew Anderson	11,780	0.003
Justin Deering Sulger	11,760	0.003
Total: top 20 holders of ordinary shares	421,393,553	99.99
Total: remaining holders balance	41,477	0.010

ADS holdings of Linktone Directors

Name	**No. of ADSs held**	**% of outstanding ordinary shares**
Peck Joo Tan	50,000	0.124

Voluntary escrow
As at February 28, 2014, there are no Linktone securities under voluntary escrow.

Substantial holders
Linktone has not received any substantial holdings notices in relation to its securities.

[1] JPMorgan Chase Bank, N.A. is Linktone's ADS depositary bank. ADSs represent ownership interests in the underlying outstanding shares that are on deposit with the depositary bank.

[2] This includes treasury stock of Linktone held by JPMorgan Chase Bank, N.A.

[3] These shares are beneficially held by Global Mediacom International Ltd.

CURRENT CAPITAL STRUCTURE

Shareholders and their holdings (Continued)

The following details are provided as at March 5, 2014:

Distribution of ADS holdings [4]

Range	Total holders	Units (ADSs)	% of total ADSs
1-1,000	1,297	546,878	2.61
1,001-5,000	213	784,182	3.74
5,001-10,000	17	232,636	1.11
10,001-100,000	36	1,821,212	8.70
100,001-9,999,999,999	4	17,556,968	83.84
Total	**1,567**	**20,941,876**	**100.00**

Distribution of CDI holdings

Range	Total holders	Units (CDIs)	% of total CDIs
1-1,000	1	140	0.03
1,001-5,000	1	4,120	0.83
5,001-10,000	-	-	-
10,001-100,000	-	-	-
100,001-9,999,999,999	2	489,860	99.14
Total	**4**	**494,120**	**100.00**

Distribution of ordinary shares

Range	Total holders	Units (Shares)	% of total ordinary shares
1-1,000	20	138	-
1,001-5,000	8	41,330	-
5,001-10,000	13	601,351	-
10,001-100,000	5	1,919,422	0.50
100,001-9,999,999,999	3	418,872,780	99.50
Total	**49**	**421,435,021**	**100.00**

Unmarketable Parcels

As at February 28, 2014, there were 20 shareholder holding less than a marketable parcel of ADSs or CDIs under the ASX Listing Rules. The ASX Listing Rules define a marketable parcel of shares as “a parcel of not less than AU$500”.

Buy-back

There is not currently an on market buy-back.

Listing Rule 4.10.19

This listing rule is not applicable as Linktone did not raise equity on listing on the ASX.

[4] Please note the following:

- the table been compiled from information provided by the largest proxy agent of JPMorgan Chase Bank, N.A. in respect of Linktone securities. It does not include a small number of ADSs held by banks, brokers and various other shareholders (Linktone has not been able to obtain such information);

CORPORATE GOVERNANCE

This Section explains how the Board will manage Linktone's business. The Board is responsible for the overall corporate governance of Linktone. The Board monitors the operational and financial position and performance of Linktone and oversees its business strategy including approving the strategic goals of Linktone. The Board is committed to maximising performance, generating appropriate levels of securityholder value and financial return, and sustaining the growth and success of Linktone. In conducting business with these objectives, the Board is concerned to ensure that Linktone is properly managed to protect and enhance securityholder interests, and that Linktone, its Directors, officers and employees operate in an appropriate environment of corporate governance. Accordingly, the Board has created a framework for managing Linktone including adopting relevant internal controls, risk management processes and corporate governance policies and practices which it believes are appropriate for Linktone's business and which are designed to promote the responsible management and conduct of Linktone.

The ASX Corporate Governance Council has developed and released corporate governance recommendations for Australian listed entities (**ASX Recommendations**) in order to promote investor confidence and to assist companies to meet stakeholder expectations. The recommendations are not prescriptions, but guidelines.

There are several areas where Linktone departs from the ASX Recommendations as follows:

- there is not a majority of independent Directors on the Board (see "Board Composition" for further explanation);
- the chairperson of Linktone is not independent and he is also the Chief Executive Officer ("CEO") of Linktone (see "Board Composition" for further explanation);
- Linktone does not have a policy concerning diversity nor does it set measurable objectives for achieving gender diversity (see "Diversity Policy" for further explanation);
- the Audit Committee of Linktone consists of only one member (see "Audit Committee"for further explanation);
- the Board has not received assurance from the CEO and the Chief Financial Officer ("CFO") relating to the declaration under section 295A of the Corporations Act (see "Risk Management" for further explanation); and
- the Nominating and Compensation Committee consists only of one member and that member is not independent (see "Board Committees" for further explanation).

Other than these instances, the Board does not consider it departs from the ASX Recommendations. Linktone may depart from other recommendations in future if the Board considers that such a departure would be reasonable and if there is such a departure, the reasons will be disclosed accordingly.

The Board and Management

The day to day management of Linktone is conducted by the executive Directors and senior executives, save for the matters required by law to be reserved to the Board, and any additional matters the Board reserves to itself from time to time. Given the size of the Company and overlap between membership of the Board and membership of the senior executives, the Board does not consider it necessary in the Company's circumstances to adopt a formal statement of matters reserved to it and matters delegated to senior executives. In addition, both the CEO and CFO have formal letters of appointment identifying the terms of their appointment.

The performance of senior executives including the CEO and CFO is evaluated against pre-determined key performance indicators on an annual basis. Linktone does not propose to provide confirmation as to whether or not such performance evaluation has taken place during any given reporting period. It does not consider such confirmation to be necessary in light of the structure of the Company.

CORPORATE GOVERNANCE

Board composition

The Board is comprised of two non-executive Directors and two executive Directors, including the Chairman.

The Board consists of:

- Hary Tanoesoedibjo (Chairman and CEO);
- David Audy (non-executive Director);
- Billy Hsieh (independent non-executive Director); and
- Peck Joo Tan (Director and CFO).

The Board considers an independent Director to be a non-executive Director who is not a member of Linktone's management and who is free of any business or other relationship that could materially interfere with or reasonably be perceived to interfere with the independent exercise of their judgement. The Board will consider the materiality of any given relationship on a case-by-case basis. The Board reviews the independence of each Director in light of interests disclosed to the Board from time to time.

The Board considers that only Billy Hsieh is free from any business or any other relationship that could materially interfere with, or reasonably be perceived to interfere with the independent exercise of his judgment and is able to fulfil the role of independent Director for the purposes of the ASX Recommendations.

Hary Tanoesoedibijo and Peck Joo Tan are employed in executive capacities (CEO and CFO respectively) within Linktone and are therefore not considered by the Board to be independent.

David Audy is currently considered by the Board not to be independent on the basis of his relationship with PT Global Mediacom Tbk ("**GMC"**) (which owns 60.6% of Linktone) at which he has served as a director since October 2012. He also holds several senior positions and directorships within the GMC group. Further, he is the brother-in-law of Mr. Hary Tanoesoedibjo, the Company's Chairman and CEO.

Accordingly, the Board does not consist of a majority of independent Directors. Although the Board acknowledges the ASX Recommendation that a majority of the Board should be independent, non-executive Directors, the Board is of the view that the current Board composition is appropriate given the size of the Board, the skills and experience required for the Board and the circumstances of the Company. As a practical matter, the Board is confident that the Board as a whole is able to exercise judgment in an independent and unfettered manner to provide effective oversight of the Company.

Hary Tanoesoedibjo holds the office of the chairman of the Board and is the Chief Executive Officer. Accordingly, the chairperson of the Board is not an independent director. Although the Board acknowledges the ASX Recommendation that the chairperson should be an independent director and that the position of chairperson should not be held by the CEO, the Board considers Hary Tanoesoedibjo to be the most suitable person for this role in the Company's circumstances. The Board believes that Hary Tanoesoedibjo is able to and does bring quality and independent judgement to all relevant issues falling within the scope of the role of Chairman and that Linktone as a whole benefits from his long standing experience of its operations and business relationships.

The Company does not have a policy in relation to whether the Board collectively, and individual Directors, may seek independent professional advice at Linktone's expense, subject to the approval of the Chairman or the Board as a whole. The Board does not consider such a policy to be necessary at this time. However, the charters of the Board's Audit Committee and Nominating and Compensation Committee authorize such committees to engage their own independent advisors at Linktone's expense in the discretion of such committees.

The Board looks for a variety of skills to form membership of the Board, including international business skills, equity market experience, financial expertise, marketing skills and geographical experience. The Board is also aware of the need for diversity in the board composition in terms of gender and experience.

CORPORATE GOVERNANCE

The skills, experience and expertise of each Director is set out below:

Biographical Information

Hary Tanoesoedibjo has served as the Chairman of our board since April 2008 and as our Chief Executive Officer since May 2009. He has been a director of GMI since 2007, the President Director of GMC since 2002, the President Director of Bhakti since 2009, the President Director of MNC since 2004, President Commissioner of PT MNC Sky Vision (a Pay TV broadcasting company in Indonesia) since 2006, and President Director of PT Rajawali Citra Televisi (a national free-to-air television station in Indonesia) since 2010. He has also been a director of each of MIL and MNC International Middle East Limited since 2007. All these companies are affiliates of GMC. He received a Bachelor of Commerce (Honours) degree from Carleton University and a Master of Business Administration degree from Ottawa University.

David Fernando Audy was appointed to our board in September 2012. He has been serving as a director of GMC since October 2012. He has also been serving as President Director of PT Global Informasi Bermutu (Global TV), a national free-to air television station in Indonesia, since October 2010, and as President Director of PT Linktone Indonesia since October 2011. In addition, he has held several senior positions in MNC, a majority-owned subsidiary of GMC, and in companies which are affiliates of GMC, including Managing Director of PT Media Nusantara Informasi (Seputar Indonesia Daily Newspaper) from 2009 to 2012, Head of Investor Relations of MNC from 2007 to 2009 and Senior Manager for Corporate Finance of MNC from 2006 to 2007. He holds a Master of Commerce in Professional Accounting and a Bachelor of Commerce in Finance & Information System from the University of New South Wales in Australia. He is the brother-in-law of Mr. Hary Tanoesoedibjo, our Chairman and Chief Executive Officer.

Peck Joo Tan has served on our board since December 2010 and since June 2010 has served as a managing director of the international business division of MNC. Prior to that, she held various regional financial and general management positions in the Asian divisions of MediaCorp Pte Ltd, Starbucks and Delifrance. She also served as the finance director of Frito-Lay Asia, financial controller of Pepsi Asia and chief financial officer of Heinz Asia Pacific where she assisted in the preparation of financial statements under U.S GAAP. Ms. Tan graduated with a degree in Accountancy from the National University of Singapore and is a member of the Institute of Certified Public Accountants of Singapore and Institute of Marketing of the United Kingdom.

Billy Hsieh has served as an independent director since February 2011. Mr. Hsieh joined PricewaterhouseCoopers in San Francisco in 1986, was admitted as a partner in 1996 and serve in its Shanghai office from 1996 until his retirement in 2010. He has over 15 years of experience advising multinational corporations about doing business in China, including experience in market entry and development, mergers and acquisitions, tax advisory and other activities in China. He graduated with a Bachelor of Science degree in Accounting from St. John's University and a law degree from the University of California, Hastings College of the Law, both in the United States. He is licensed as a certified public accountant in California and is a member of the California bar.

The Board has established a Nominating and Compensation Committee (see below).

Performance evaluation

Linktone does not have a formal performance evaluation process in relation to the Board, its committees and individual Directors. The Board does not consider a formal process to be necessary in light of the size of the Board and Company. It seeks to ensure that the Board performs at all times in a manner consistent with its obligations under the Memorandum and Articles of Association and other regulatory requirements.

CORPORATE GOVERNANCE

Code of Business Conduct

The Board recognises the need to observe the highest standards of corporate practice and business conduct. Accordingly, the Board has adopted a formal Code of Business Conduct to be followed by all employees, officers and Directors. The key aspects of this Code require:

- honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;
- full, fair, accurate, timely and understandable disclosure in the reports and documents;
- compliance with all applicable laws, rules and regulations;
- the prompt internal reporting to the appropriate violations of the Code of Business Conduct; and
- accountability for adherence to the Code of Business Conduct.

The Code of Business Conduct is available on Linktone's website, www.linktone.com.

Diversity Policy

The Board is committed to diversity and fosters a corporate culture which embraces diversity but has not adopted a formal diversity policy. The Board acknowledges the ASX Recommendation that there should be a policy concerning diversity and the setting of measureable objectives and that the Board should disclose the measurable objectives in the Annual Report and report on progress towards achieving them, but does not consider this appropriate at its present stage of development of the Company. However, the Company will consider implementation of measurable objectives in the future. Below is the proportion of women employees in the whole organisation, women in senior executive positions and women on the Board. Senior executives refer to direct reports to the CEO and their direct reports.

	Number of women	Total number of employees	% of women
Total employees	281	759	37%
Senior executives	4	15	27%
Board of directors	1	4	25%

Continuous disclosure policy

Linktone is required to comply with the continuous disclosure requirements of the Listing Rules and the Corporations Act. Subject to the exceptions contained in the Listing Rules, Linktone is required to disclose to the ASX any information concerning Linktone which is not generally available and which a reasonable person would expect to have a material effect on the price or value of the Shares. Linktone is committed to observing its disclosure obligations under Listing Rules and the Corporations Act. Linktone has adopted a Disclosure Policy which took effect from its listing on the ASX and establishes procedures which are aimed at ensuring that Directors and management are aware of and fulfil their obligations in relation to the timely disclosure of material price-sensitive information. A copy of Linktone's Disclosure Policy is available on its website www.linktone.com.

Securities trading policy

Linktone has adopted a written policy for dealing in securities. The policy is intended to explain the prohibited type of conduct in relation to dealings in securities, and to establish a best practice procedure in relation to Directors', management's and employees' dealings in Shares.

The policy comprises:

- a pre-clearance and blackout policy which applies to Directors, officers and designated employees (**Insiders**); and
- an insider trading policy which provides guidance to all Linktone personnel, including Insiders.

Securities trading policy (Continued)

Insiders are, subject to certain exceptions, prohibited from:

- buying or selling the Company's securities while in possession of material non-public information;
- communicating such information to third parties other than those who need to know such information in connection with doing business with or for the Company;
- recommending the purchase or sale of the Company's securities while in the possession of material information that has not been publicly disclosed by the Company; and
- assisting anyone engaged in any of the above activities.

These prohibitions also apply to information about, and the securities of, other companies (e.g., customers or suppliers) with which the Company has a relationship. These prohibitions also apply to the Insiders' immediate family members, and Insiders may not disclose any material non-public information to others, including their family members, friends or social acquaintances.

In addition, Insiders are prohibited from trading in the Company's securities (including CDIs, Shares) during 'black-out periods', which apply to each reporting period. The black-out periods begin on the close of business on the fifteenth day of the last month of the reporting period and end on the opening of the second business day following the Company's filing with the ASX of the Company's annual financial reports, or public release of quarterly, half-early or annual financial information.

The Company may also make a determination at any time that Insiders should suspend trading because of insider information not yet available to the public.

All Insiders must receive approval from the CFO prior to any transaction involving the Company's securities.

Company personnel must not engage in any of the following activities without the prior written consent of the CFO:

- purchasing Linktone securities on margin;
- pledging Linktone securities;
- short sales;
- buying or selling puts or calls; or
- engaging in derivative transactions relating to Linktone securities.

A copy of Linktone's Trading Policy is available on its website, www.linktone.com.

Communication with securityholders

The Board's policy is to ensure that securityholders are provided with sufficient information to assess the performance of Linktone and that they are informed of all major developments affecting the state of affairs of Linktone relevant to securityholders in accordance with all applicable laws.

The Board has established a process for effective communication with shareholders through the Company's website. Information is communicated to securityholders through the lodgement of all relevant financial and other information with ASX and publishing information on Linktone's website, www.linktone.com.

In particular, Linktone's website contains information about it, including media releases, key policies and the terms of reference of its Board committees. All relevant announcements made to the market and any other relevant information are posted on Linktone's website as soon as they have been released to ASX.

Risk management

Risk is an accepted part of doing business, and Linktone recognises the importance of, and is committed to, the identification, monitoring and management of material risks associated with its business activities across the Company. Accordingly, the identification and proper management of Linktone's risks are an important priority of the Board.

The Board is responsible for overseeing and approving risk management strategy and policies, which are put into place by management, in conjunction with the Audit Committee. Linktone management has responsibility for identifying major risk areas and implementing risk management systems. The Audit Committee is responsible for monitoring risk management and establishing procedures which seek to provide assurance that material business risks are identified, consistently assessed and appropriately addressed. The Code of Business Conduct outlines how the major business risks are reported and addressed. In addition, Linktone has a policy entitled 'Reporting Questionable Accounting and Auditing Practices and Policy Prohibiting Retaliation Against Reporting Persons' which enables employees to report complaints or concerns about Linktone's accounting practices, internal accounting controls or auditing matters. Management reported to the Board in 2013 as to the effectiveness of the Company's management of its material business risks. The above mentioned policies are posted on Linktone's website.

Linktone regularly undertakes reviews of its risk management procedures to ensure that it complies with its legal obligations, however as the Company is a foreign registered entity under the Corporations Act and it registered in the Cayman Islands, the Chief Executive Officer or Chief Financial Officer will not be providing a declaration under Section 295A of the Corporations Act (which does not apply to Linktone).

Board committees

The Board may from time to time establish appropriate committees to assist in the discharge of its responsibilities. The Board has established the Audit Committee and the Nominating and Compensation Committee.

Other committees may be established by the Board as and when required. Membership of Board committees will be based on the needs of Linktone, relevant legislative and other requirements and the skills and experience of individual Directors.

Nominating and Compensation Committee

The Board has established a Nominating and Compensation Committee with David Audy as its sole member. The Board acknowledges the ASX Recommendation that a Remuneration (compensation) Committee should have at least three members, a majority of whom are independent and be chaired by an independent chair. However, the Board considers the composition of its Nominating and Compensation Committee to be appropriate given the skill set, experience and seniority of David Audy and the size of the Board. In particular, the Board considers David Audy an appropriate choice because he is one of the two non-executive members of the Board and the only director considered to be independent.

The functions of the Nominating and Compensation Committee are to monitor the size and composition of the Board and consider and make recommendations to the Board with respect to the nomination or election of Directors. This committee also reviews and makes recommendations to the Board regarding the Company's compensation policies and all forms of compensation, including annual salary and bonuses, to be provided to the Company's executive officers and Directors and reviews stock compensation arrangements for all of the Company's other employees. The charter of the Committee is available on the Linktone website.

The Nominating and Compensation Committee will consider and make recommendations to the Board regarding any shareholder recommendations for candidates to serve on the Board. The Nominating and Compensation Committee will review periodically whether a more formal policy should be adopted.

During the year the Nominating and Compensation Committee met once and David Audy, as the sole member, attended this meeting.

Anti-hedging Policy

The Linktone Anti-Hedging Policy is as follows:

Directors and Senior Executives are not permitted to enter into transactions with Securities (or any derivative thereof) in associated products which limit the economic risk of any unvested entitlements under any equity-based remuneration schemes awarded under any equity-based remuneration scheme currently in operation or which will be offered by the Company in the future. However, Directors and senior executives will consult with the Chairman if they are considering, or if they are not sure, as to whether entering into transactions may limit the economic risk of unvested entitlements they may have.

Remuneration of Non-executive Directors

In 2013, an aggregate of approximately $0.07 million was paid to non-executive Directors. The Company does not have a formal process for the determination of remuneration of non-executive Directors. However, the Board must provide its consent to the remuneration. There are no retirement schemes for Non-executive Directors.

The remuneration of non-executive Directors is fixed. Non-executive Directors do not participate in other remuneration components such as performance related short-term or long-term incentives, options or variable remuneration and do not receive retirement benefits other than superannuation. This distinguishes from executives who participate in the Employee Stock Options Scheme and are provided with incentives for performance.

Audit Committee

The Board has established an Audit Committee which comprises Billy Hsieh as the sole member. Billy Hsieh is an independent, non-executive Director and his qualifications are set out above in “Board Composition”. The Board acknowledges the ASX Recommendation that the Audit Committee should have at least three members. However, the Board considers the skill set, experience, seniority and independence of Billy Hsieh is a sufficient safeguard of the integrity of Linktone’s financial reporting. The Audit Committee has an Audit Committee Charter. Additionally, Linktone has a policy entitled ‘Reporting Questionable Accounting and Auditing Practices and Policy Prohibiting Retaliation Against Reporting Persons’ which enables employees to report complaints or concerns about Linktone’s accounting practices, internal accounting controls or auditing matters.

Audit Committee (Continued)

The primary role of this Committee includes:

- appointment, compensation and oversight of the work of independent auditors;
- overseeing the accounting and financial reporting processes;
- monitoring compliance with Linktone’s accounting and financial policies; and
- evaluating Linktone management’s procedures and policies relative to the adequacy of internal accounting controls.

The Committee has the responsibility for the selection and appointment of the external auditor, as well as evaluating its effectiveness and independence. Under the Audit Committee Charter, it is the policy of Linktone that its external auditing firm must be independent of Linktone itself. The independence of the external auditor is reviewed and assessed on an annual basis.

The Audit Committee charter is available on the Linktone website. The Audit Committee met 4 times during the year, with Billy Hsieh, as the sole member in attendance at each meeting.

LINKTONE CORPORATE DIRECTORY

Directors

Hary Tanoesoedibjo

David Audy

Peck Joo Tan

Billy Hsieh

Company Secretary

Peck Joo Tan

Registered Office

Maples Corporate Services Limited

PO Box 309, Ugland House

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Independent Registered Public Accounting Firm

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Sydney South NSW 1235

+61 1300 554474

Registered Local Agent

Company Matters

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Sydney NSW 2000

+61 2 8280 7355

Registered Office in Australia

Company Matters

Level 1, 333 Collins Street

Melbourne VIC 3000

MAZARS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of Linktone Ltd.
39 MacTaggart Road
Singapore 368084

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Linktone Ltd (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated balance sheet of the Group as at December 31, 2013, the consolidated statements of operations and comprehensive income/(loss), changes in shareholders' equity and cash flows for the financial year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in United States of America and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal controls relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Linktone Ltd. and its subsidiaries at December 31, 2013, and the consolidated results of their operations and their cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Other Matter

The consolidated financial statements of the Group for the financial year ended December 31, 2012 was audited, conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), by another firm of Independent Certified Public Accountants whose report dated April 26, 2013 expressed an unqualified audit opinion on those statements.

Mazars LLP

MAZARS LLP
Public Accountants And
Chartered Accountants
Singapore

20 March 2014

LINKTONE LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(In U.S. dollars, except number of shares)

	Note	December 31, 2012	December 31, 2013
Assets			
Current assets:			
Cash and cash equivalents	5	35,041,672	28,274,207
Short-term investments	6	90,318,579	86,136,929
Accounts receivable, net	8	14,287,247	9,939,329
Tax refund receivable		906,197	630,115
Inventories	9	1,848,552	2,428,713
Due from related parties	25	1,756,401	1,938,739
Deferred tax assets	23	732,987	326,952
Deposits and other current assets	10	6,065,370	5,239,008
Total current assets		150,957,005	134,913,992
Property and equipment, net	11	11,760,831	10,788,922
Intangible assets, net	12	8,114,889	7,405,365
Goodwill	13	29,571,982	29,571,982
Deferred tax assets	23	729,386	45,228
Other long-term assets	14	3,280,479	387,199
Total assets		204,414,572	183,112,688
Liabilities and shareholders' equity			
Current liabilities:			
Account payable, accrued liabilities and other payables	15	15,616,592	11,552,931
Due to related parties	25	1,246,120	3,092,013
Loans and borrowings	16	6,122,924	7,114,088
Taxes payable		1,879,355	1,790,308
Deferred revenue		421,723	305,889
Deferred tax liabilities	23	516,977	227,828
Total current liabilities		25,803,691	24,083,057
Deferred tax liabilities	23	2,182,299	905,476
Other long-term liabilities	17	1,258,030	896
Total liabilities		29,244,020	24,989,429
Shareholders' equity			
Ordinary shares ($0.0001 par value; 500,000,000 shares authorized, 421,435,030 shares issued and 408,018,820 outstanding as of December 31, 2012 and 421,435,030 shares issued and 404,391,710 outstanding as of December 31, 2013)		42,144	42,144
Additional paid-in capital		137,902,242	138,004,146
Treasury stock		(1,905,608)	(2,890,213)
Statutory reserves	22	2,499,512	2,913,996
Accumulated other comprehensive income:			
Cumulative translation adjustments		11,407,104	12,050,779
Retained earnings/ (Accumulated losses)		5,407,903	(10,148,027)
Total shareholders' equity		155,353,297	139,972,825
Non-controlling interest		19,817,255	18,150,434
Total shareholders' equity		175,170,552	158,123,259
Total liabilities and shareholders' equity		204,414,572	183,112,688

The accompanying notes are an integral part of these consolidated financial statements.

LINKTONE LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME/(LOSS)
(In U.S. dollars, except number of shares)

	Note	For the year ended December, 31	
		2012	2013
Gross revenue from non-related parties		44,112,572	40,726,521
Gross revenue from related parties		2,038,304	1,916,857
Gross revenue	18	46,150,876	42,643,378
Sales tax		(808,257)	(525,659)
Net revenue		45,342,619	42,117,719
Cost of revenue		(29,101,245)	(28,419,861)
Gross profit		16,241,374	13,697,858
Operating expenses:			
Product development		(3,204,485)	(4,886,018)
Selling and marketing		(7,191,373)	(4,538,649)
General and administrative		(14,330,485)	(14,018,163)
Provision for impairment		(9,928,373)	-
Total operating expenses		(34,654,716)	(23,442,830)
Other operating income	19	39,414,544	10,294,810
Operating income		21,001,202	549,838
Interest income, net of financial expenses from non-related parties		1,282,336	798,213
Loss on foreign exchange - net		(5,552,040)	(18,021,346)
Other income/(loss), net of other income/(expenses)		542,845	(468,888)
Income/(loss) from continuing operations before income tax		17,274,343	(17,142,183)
Income tax benefit	23	1,260,608	593,263
Net income/(loss)		18,534,951	(16,548,920)
Net loss attributable to non-controlling interest		1,630,853	1,407,474
Net income/(loss) attributable to ordinary shareholders of the Company		20,165,804	(15,141,446)
Basic earnings/(loss) per ordinary share:			
Net income/(loss)		0.05	(0.04)
Diluted earnings/(loss) per ordinary share:			
Net income/(loss)		0.05	(0.04)
Weighted-average number of ordinary shares:			
Basic		409,190,082	404,594,046
Diluted		409,813,841	404,594,046
Comprehensive income/(loss):			
Net income/(loss)		18,534,951	(16,548,920)
Other comprehensive (loss)/income:			
Foreign currency translation adjustment		533,743	384,328
Unrealised loss on investment		(4,453,157)	-
Comprehensive income/(loss), net of tax		14,615,537	(16,164,592)
Comprehensive income attributable to non-controlling interest, net of tax		1,530,241	1,666,821
Comprehensive income/(loss) attributable to ordinary shareholders of the Company, net of tax		16,145,778	(14,497,771)

The accompanying notes are an integral part of these consolidated financial statements.

LINKTONE LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(In U.S. dollars, except share data)

	Ordinary shares		Treasury	Additional	Statutory	Accumulated other	Cumulative	Retained Earnings/	Non-	Total
	Shares	Amount	stock	Paid-in capital	reserves	comprehensive income	Translation Adjustments	(Accumulated Losses)	Controlling interest	Shareholders' equity
		$	$	$	$	$	$	$	$	$
Balance as of December 31, 2011	410,422,650	42,144	(1,425,204)	137,745,875	2,466,165	4,453,157	10,973,973	(14,425,929)	22,645,840	162,476,021
Share repurchase	(2,403,830)	–	(480,404)	–	–	–	–	–	–	(480,404)
Stock-based compensation	–	–	–	156,367	–	–	–	–	–	156,367
Deemed distribution to the controlling shareholder	–	–	–	–	–	–	–	(298,625)	–	(298,625)
Goodwill impairment attributable to Non-controlling interest	–	–	–	–	–	–	–	–	(983,000)	(983,000)
Other comprehensive income:										
Translation adjustment	–	–	–	–	–	–	433,131	–	100,612	533,743
Unrealized gain on investment in marketable securities	–	–	–	–	–	(4,453,157)	–	–	–	(4,453,157)
Transfer from Accumulated losses to statutory reserve	–	–	–	–	33,347	–	–	(33,347)	–	–
Dividend payable to non-controlling interest of a VIE	–	–	–	–	–	–	–	–	(315,344)	(315,344)
Net income	–	–	–	–	–	–	–	20,165,804	(1,630,853)	18,534,951
Balance as of December 31, 2012	408,018,820	42,144	(1,905,608)	137,902,242	2,499,512	–	11,407,104	5,407,903	19,817,255	175,170,552

The accompanying notes are an integral part of these consolidated financial statements.

LINKTONE LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(In U.S. dollars, except share data)

	Ordinary shares		Treasury stock	Additional Paid-in capital	Statutory reserves	Cumulative Translation Adjustments	Retained Earnings/ (Accumulated Losses)	Non-Controlling interest	Total Shareholders' equity
	Shares	Amount							
		$	$	$	$	$	$	$	$
Balance as of December 31, 2012	408,018,820	42,144	(1,905,608)	137,902,242	2,499,512	11,407,104	5,407,903	19,817,255	175,170,552
Share repurchase	(3,627,110)	–	(984,605)	–	–	–	–	–	(984,605)
Stock-based compensation	–	–	–	101,904	–	–	–	–	101,904
Other comprehensive income:	–	–	–	–	–	–	–	–	–
Translation adjustment	–	–	–	–	–	643,675	–	(259,347)	384,328
Transfer from Accumulated losses to statutory reserve	–	–	–	–	414,484	–	(414,484)	–	–
Net loss	–	–	–	–	–	–	(15,141,446)	(1,407,474)	(16,548,920)
Balance as of December 31, 2013	404,391,710	42,144	(2,890,213)	138,004,146	2,913,996	12,050,779	(10,148,027)	18,150,434	158,123,259

The accompanying notes are an integral part of these consolidated financial statements.

LINKTONE LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In U.S. dollars)

	For the year ended December 31,	
	2012	**2013**
	$	**$**
Cash flow from operating activities		
Net income/(loss)	18,534,951	(16,548,920)
Adjustments to reconcile net income/(loss) to net cash provided by operating activities:		
Stock-based compensation expense	156,367	101,904
(Gain)/loss on disposal of property and equipment	(575,958)	38,461
Provision for impairment	9,928,373	-
Depreciation	762,466	740,306
Amortization of intangible assets	1,956,804	955,398
Provision for doubtful debts, net	186,558	933,278
Deferred income tax benefit	(794,598)	(475,779)
Foreign exchange loss	1,182,509	685,406
Realized (gain)/loss on sale of quoted securities	(27,938,014)	2,524,892
Unrealized (gain)/loss on quoted securities	(6,683,798)	5,016,688
Changes in assets and liabilities, net of effect of acquisitions:		
Decrease in accounts receivable	1,145,339	2,342,439
Decrease in tax refund receivable	273,374	166,885
(Increase)/decrease in deposits and other assets	(329,399)	704,285
Decrease/(increase) in inventories	116,849	(629,949)
Increase in short term investments	(3,564,967)	(3,359,930)
Decrease in restricted cash	603,088	-
(Increase)/decrease in other long-term assets	(1,605,888)	2,779,006
Decrease in taxes payable	(2,458,645)	(183,994)
Increase/(decrease) in long-term liabilities	886,213	(1,211,422)
Increase/(decrease) in accounts payable, accrued liabilities and other payables	2,920,981	(1,701,999)
Net cash used in operating activities	(5,297,395)	(7,123,045)
Cash flow from investing activities:		
Proceeds from disposal of property and equipment	1,354,794	-
Purchase of property and equipment	(742,918)	(592,922)
Net cash provided by/(used in) investing activities	611,876	(592,922)

The accompanying notes are an integral part of these consolidated financial statements.

LINKTONE LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In U.S. dollars)

	For the year ended December 31,	
	2012	2013
	$	$
Cash flow from financing activities:		
Share repurchase	(480,404)	(984,605)
Cash received from bank borrowings	2,006,382	1,805,656
Cash received from related party loan	518,500	-
Repayment of bank loan	(1,983,791)	(523,370)
Net cash provided by financing activities	60,687	297,681
Effect of exchange rate change on cash and cash equivalents	(1,255,314)	650,821
Net decrease in cash and cash equivalents	(5,880,146)	(6,767,465)
Cash and cash equivalents, beginning of year	40,921,818	35,041,672
Cash and cash equivalents, end of year	35,041,672	28,274,207

Supplemental disclosures of cashflow information	For the year ended December 31,	
	2012	2013
	$	$
Income tax paid	(911,352)	(408,983)
Interest (paid)/ received	544,973	387,275

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In U.S. dollars, unless otherwise stated)

1 Organization and nature of operations

Linktone Ltd. ("Linktone," or the "Company"), a Cayman Islands corporation, through its subsidiaries and consolidated variable interest entities ("VIEs") (collectively referred to as the "Group") conducts a variety of businesses, including (i) telecom value-added services ("VAS") in People's Republic of China ("PRC") and Indonesia; (ii) online PC and mobile game services to consumers and enterprises in the PRC; and (iii) media content and audio distribution and related services in Singapore, Malaysia , Hong Kong, and Indonesia (iv) operates online news and entertainment and parenting portals in Indonesia and China respectively and (v) trading in quoted securities. In July 2012, PT Media Nusantara Citra ("MNC") sold its entire shareholding of 59.9% in the Company to GMC for total consideration of $74 million. As of December 31, 2012, Linktone is 60.0% owned by PT. Global Mediacom Tbk, an Indonesian corporation ("GMC"). Between January 2013 and May 2013, the Company repurchased 3,627,110 shares in the open market. As a result, GMC's shareholding increased from 60.0% as of December 31, 2012 to 60.6% as of December, 31, 2013.

The accompanying consolidated financial statements include the results of operations of the Company, the following subsidiaries and the following VIEs, for which the Company is the primary beneficiary:

Name of Subsidiary	Name in Short Form	Note	Principal Business	Group Equity Interest	Country of Incorporation
Brilliant Concept Investments Ltd	Brilliant		Intermediary holding company	100% by Linktone	British Virgin Islands
Noveltech Enterprises Limited	Noveltech		Intermediary holding company	100% by Linktone	Hong Kong
Linktone Media Limited	Linktone Media		Intermediary holding company	100% by Linktone	Hong Kong
Ojava Overseas Ltd	Ojava Overseas		Intermediary holding company; Dormant	100% by Linktone	British Virgin Islands
Linktone International Limited	Linktone International		Intermediary holding company	100% by Linktone	United Arab Emirates
Wang You Digital Technology Co., Ltd.	Wang You	(1)	Provides PC games	100% by Brilliant Concept Investments Ltd	PRC
Shanghai Linktone Consulting Co., Ltd.	Linktone Consulting	(1)	Provides internet and VAS consulting services	100% by Noveltech Enterprise Limited	PRC
Shanghai Huitong Information Co., Ltd.	Huitong	(1)	Software development	100% by Noveltech Enterprise Limited	PRC
Shanghai Linktone Internet Technology Co., Ltd.	Linktone Internet	(1)	Software development	100% by Noveltech Enterprise Limited	PRC
Shanghai Xintong Information Technology Co., Ltd.	Xintong	(1)	Software development; Dormant	100% by Noveltech Enterprise Limited	PRC
Shanghai Linktone Software Co., Ltd.	Linktone Software	(1)	Software development	100% by Linktone	PRC
Beijing Ruida Internet Technology Co., Ltd.	Ruida	(1)	Software development; Dormant	100% by Ojava Overseas Ltd	PRC
InnoForm Media Pte Ltd	InnoForm Media		Publisher, licensee, importer, exporter and distribution of entertainment programs	75% by Linktone International Limited;	Singapore
InnoForm Media (HK) Limited	InnoForm HK		Publisher, licensee, importer, exporter and distribution of compact discs and DVDs of all kinds	100% by InnoForm Media Pte Ltd	Hong Kong

(1) Wholly foreign owned entity ("WFOE") of the Company.

1 Organization and nature of operations (Continued)

Name of Subsidiary	Name in Short Form	Note	Principal Business	Group Equity Interest	Country of Incorporation
InnoForm Media (Taiwan) Co. Limited	InnoForm Taiwan		Importer, exporter and distribution of compact discs, tapes and records	100% by InnoForm Media Pte Ltd	Taiwan
InnoForm Media (M) Sdn Bhd	InnoForm Malaysia		Production and distribution of tapes, DVD and compact discs	100% by InnoForm Media Pte Ltd	Malaysia
InnoForm Entertainment Pte Ltd	InnoForm Entertainment		Exclusive collective licensing agent for music label companies for karaoke music and songs	100% by InnoForm Media Pte Ltd	Singapore
InnoForm Digital Media Pte Ltd	InnoForm Digitial		Supplying and leasing of karaoke-on-demand hardware and software	100% by InnoForm Media Pte Ltd	Singapore
Alliance Entertainment Singapore Pte Ltd	Alliance		Motion picture, video distribution and services related to motion picture, video production and distribution	100% by InnoForm Media Pte Ltd	Singapore
GLD Investments Pte Ltd	GLD		Property investment holding company and provides property management services	98.7% by InnoForm Media Pte Ltd Singapore	Singapore
PT Linktone Indonesia	PT Linktone		Provides telecom VAS and operates online news and entertainment portal	51% by Linktone International	Indonesia
Innoform International Limited	Innoform Intl		Distribution of media content	100% owned by Innoform Media	Cayman Islands

Name of Variable Interest Entity ("VIE")	Name in Short Form	Note	Principal Business	Group Equity Interest	Loan to Nominee Shareholders $'000	Country of Incorporation
Shanghai Weilan Computer Co., Ltd.	Weilan	(i)	Provides telecom VAS	Baoxin Yao and Wenlei Wang	338.1 and 285.8, respectively	PRC
Shanghai Unilink Computer Co., Ltd.	Unilink	(i)	Provides telecom VAS	Lin Lin and Wenju Hu	604.1 each	PRC
Shenzhen Yuan Hang Technology Co., Ltd.	Yuan Hang	(i)	Provides PC games	Yuming Cai and Feng Gao	290.4 each	PRC
Beijing Cosmos Digital Technology Co., Ltd.	Cosmos	(i)	Provides telecom VAS	Hongjie Qi and Miao Yan	2,073.8 each	PRC
Hainan Zhong Tong Computer Network Co., Ltd.	Zhong Tong	(i)	Provides telecom VAS	Yi Juang and Teng Zhao	826.9 each	PRC
Beijing Lian Fei Wireless Communications Technology Co., Ltd.	Lian Fei	(i)	Provides telecom VAS	Hongyan Lu and Yuxia Wang	939.5 and 1,083.3, respectively	PRC
Shanghai Qimingxing E-commerce Co., Ltd.	Qimingxing	(i)	Provides telecom VAS	Xing Xu and Peien Zhu	933.9 each	PRC
Beijing Ojava Wireless Information Technology Co., Ltd.	Beijing Ojava	(i)	Provides telecom VAS	Yugang Wang and Peiyu Su	501.7 each	PRC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In U.S. dollars, unless otherwise stated)

1 Organization and nature of operations (Continued)

Name of Variable Interest Entity ("VIE")	Name in Short Form	Note	Principal Business	Group Equity Interest	Loan to Nominee Shareholders $'000	Country of Incorporation
Shanghai Ling Yu Cultural and Communication Ltd.	Ling Yu		Provides advertising services; Dormant	50% by Shanghai Unilink Computer Co., Ltd. and 50% by Shanghai Qimingxing E-commerce Co., Ltd.	Nil each	PRC
Zhong Qing Wei Lian Cultural Communication Co., Ltd.	Wei Lian		Provides telecom VAS; Dormant	60% by Shanghai Weilan Computer Co., Ltd. and 40% by Beijing Lian Fei Wireless Communications Technology Co., Ltd.	Nil each	PRC
Beijing Lian Yu Interactive Technology Development Co., Ltd.	Lian Yu	(i)	Provides telecom VAS; Dormant	Zhi Wang and Xiaoke Zha	90.3 and 133.0, respectively	PRC
Shanghai Lang Yi Advertising Co., Ltd.	Lang Yi	(i)	Provides advertising services; Dormant	Fei Tong and Jing Chen	Nil each	PRC
Beijing Xian Feng Li Liang Media Co., Ltd.	Xian Feng	(i)	Distributes electronic publications	Ai Hua Zhang and Juan Yang	346.2 and 332.7, respectively	PRC
Letang Game Limited	Letang		Develops mobile games	50.01% by Shanghai Weilan Computer Co., Ltd.; Acquired in January 2010		PRC
Nanjing Xuanyou Cartoon Co., Ltd	Xuanyou		Develops mobile games	100% by Letang	Nil	PRC
PT Cakrawala Alam Semesta	Cakrawala	(i)	Investment holding company	100% by Indonesian individuals affiliated with Linktone	Nil each	Indonesia
PT Innoform	PT Innoform	(i)	Distribution of motion pictures and related services	100% by Indonesian individuals affiliated with Linktone	65 each	Indonesia

(i) Controlled through contractual agreements and is 50% owned by each of two of the Group's and its related companies' employees / former employees.

To comply with PRC laws and regulations that prohibit or restrict foreign ownership of companies that provide value-added telecommunications services, which include telecom value-added services and internet content services, the Company conducts substantially all of its PRC operations via its VIEs located in the PRC.

1 Organization and nature of operations (Continued)

In addition, to comply with Indonesian laws and regulations that prohibit foreign investment in time deposits with Indonesian banks and foreign ownership in companies that conduct media activities in Indonesia, the Company holds its short-term investments via Cakrawala and distributes media content via PT Innoform, its VIEs located in Indonesia.

These VIEs are wholly owned by individuals authorized by the Company, all of whom are either employees or former employees of the Group and its related companies. The capital is funded by the Company through interest-free loans extended to the authorized individuals. The loans for capital injection are eliminated with the capital of the VIEs on consolidation.

Upon the formation of these VIEs, the Company, through its WFOEs entered into various agreements with its VIEs, through which the Company holds all the variable interests of the VIEs. The principal terms of these agreements with the VIEs are described below.

China

Upon the formation of these VIEs, the Company, or through its WFOEs entered into various agreements with its VIEs and shareholders of the VIEs, through which the Company holds all the variable interests of the VIEs. WFOEs were considered the primary beneficiaries of the VIEs. Subsequently, certain agreements were amended during 2012, whereby the Company agreed to provide unlimited financial support to its VIEs for its operations and agreed to forego the right to seek repayment in the event the VIEs are unable to repay such funding, and the shareholders also reassigned the power of attorney agreement whereby they granted an irrevocable proxy of the voting rights underlying their respective equity interests in the VIEs to the Company, which includes, but are not limited to, all the shareholders' rights and voting rights empowered to the shareholders by the company law and the Company's Article of Association. Accordingly, as a result of the power to direct the activities of the VIEs pursuant to the power of attorney agreement and the obligation to absorb the expected losses of VIEs through the unlimited financial support, the Company is considered the primary beneficiary of the VIEs in China and WFOEs ceased to be the primary beneficiaries.

Powers of Attorney

Each of the shareholders of the VIEs have irrevocably appointed the Company's Chief Executive Officer as attorney-in-fact, to vote on their behalf on all matters on which they are entitled to vote with respect to the VIEs as the case may be, including matters relating to the transfer of any or all of their respective equity interests in the VIEs and the appointment of the directors and general manager of the VIEs. The term of each of the powers of attorney is 10 years after which the agreement can be renewed at the Company's sole discretion.

Operating Agreements

The Company agrees to guarantee the VIE's performance under any agreements or arrangements with any third party. In addition, the VIEs and their shareholders have each agreed that they will not enter into any transaction, or fail to take any action, that would substantially affect their assets, rights and obligations, or business without the Company's prior written consent. They will also appoint individuals designated by the Company as the directors, officers and other senior management personnel of the VIEs. The VIEs may not terminate the operating agreements during the term of the agreements, which is 10 years, after which the agreement can be renewed at the Company's sole discretion.

Exclusive Consulting Services Agreements

The Company provides most of the VIEs with exclusive consulting services related to legal, finance, human resources and office administration. The term of each services agreement is 10 years and renewable by us at our sole discretion for a term of our choosing. The service fees payable to the Company are subject to the Company's adjustment, at its sole discretion, from time to time based on the actual operating results of the VIEs.

1 Organization and nature of operations (Continued)

Trademark, Domain Name and Software License Agreements

In 2007, the Company granted Weilan and Unilink a license to use the domain name (www.linktone.com) and the Company's registered trademarks. Linktone Consulting has also granted Weilan and Unilink licenses to use certain of its domain names. In addition, Huitong and Linktone Internet have granted Weilan, Unilink, Lian Fei, Zhong Tong, Qimingxing and Xian Feng multiple licenses to use various software programs relating to the Company's various platforms, databases and games. The VIEs cannot assign or transfer their rights under the licenses to any third party, and cannot use the licensed trademarks in television, newspapers, magazines, the internet or other public media without the Company's prior written consent.

Domain Name Transfer Arrangements

The Company transferred to Weilan its ownership rights in the domain name (www.linktone.com) in December 2006.

Contracts Relating to the Exclusive Purchase Right of Equity Interest

The Company or the Company's designee has an exclusive option to purchase from each shareholder of the VIEs all or part of his or her equity interest in the VIEs at the cost of the initial contributions to the registered capital, to the extent permitted by Chinese law. The consideration for the purchased equity interest will be used to repay the loan obligation under the Loan Agreements, and therefore no payment is required to be made by the Company to the shareholders as a result of exercising the option. Any and all dividends and other capital distributions from VIEs to their shareholders should be paid, in full amount, to the Company or the Company's designee. The term of these agreements is 10 years and renewable by the Company at its sole discretion.

Loan Agreements

The Company has granted interest-free loans to the shareholders of the VIEs for the purpose of providing funds necessary for the capital injection and acquisition of the VIEs. The term of these loans in each case is 10 years. The shareholders of the VIEs can only repay the loans by transferring to the Company or the Company's designees all of their equity interest in the respective VIE. The interest-free loans to the shareholders of the VIEs as of December 31, 2012 and 2013 were $18.1 million in aggregate.

Equity Interests Pledge Agreements

The VIEs have granted the Company a security interest over all of their assets. The shareholders of the Company's VIEs have pledged their respective equity interests in these entities to guarantee the performance and the payment of the service fees by these entities under the Exclusive Consulting Services Agreements described above. If the VIEs or shareholders of the VIEs breach any of their obligations under the Equity Interests Pledge Agreements, the Company will be entitled to certain rights, including the right to sell the pledged equity interests. The Equity Interests Pledge Agreements will remain effective as long as the Exclusive Consulting Services Agreements are effective.

Indonesia

PT Cakrawala Alam Semesta, or Cakrawala, and PT Innoform are Indonesian companies which the Group control through contractual arrangements and treated as VIE for accounting purposes. Each company has two shareholders who are employees of GMC Group.

Cakrawala Loan Agreement. In June 2010, Cakrawala and the Company executed a placement loan agreement pursuant to which the Company loaned the aggregate principal amount of $35.0 million. Amounts outstanding under this loan facility are due and payable in full on demand at any time by the Company, and the Company has the sole right to call for payment or terminate the agreement. Cakrawala agrees that the rate of interest payable to the company is an amount equivalent to the interest paid by the banks in which proceeds from the loan described above are deposited.

1 Organization and nature of operations (Continued)

Cakrawala also may not assign or transfer all or any of its rights or obligations under the placement loan agreement. In 2010 Cakrawala partially repaid the loans. As of December 31, 2012, the outstanding loan balance was US$13.9 million and as at December 31, 2013, the loan was fully repaid.

PT Innoform Loan Agreements. In March 2012, each of the two shareholders of PT Innoform entered into a cooperation and loan facility agreement with Linktone International, a wholly-owned subsidiary of the Group, pursuant to which Linktone International loaned the aggregate principal amount of IDR1,250.0 million ($0.1 million) to these shareholders. Amounts outstanding under these loan facilities are due and payable in full on demand through transfers of shares at any time by Linktone International, and Linktone International has the sole right to call for payment or to terminate the facility agreements. No interest is payable on the loan facilities. As at December 31, 2012 and 2013, the outstanding loan balance was $0.1 million. Linktone International will provide financial support as and when required.

In addition, in April 2012, PT Innoform entered into a working capital loan agreement with Noveltech, the Group's wholly-owned subsidiary, pursuant to which Noveltech loaned the aggregated principal amount of IDR250.0 million ($0.03 million) to PT Innoform for use as working capital. Amounts outstanding under this loan facility are due and payable in full on demand at any time by Noveltech, and Noveltech has the sole right to call for payment or to terminate the facility agreement. Noveltech agrees that the rate of interest payable by PT Innoform is an amount equivalent to the interest paid by the banks in which proceeds from the loan described above are deposited. As at December 31, 2012 and 2013, the outstanding loan balance was $0.03 million.

In addition to irrevocable powers of attorney under which the shareholders of Cakrawala and PT Innoform granted a power of attorney to Noveltech to exercise all of their shareholder rights with respect to Cakrawala and PT Innoform, including convening and voting at shareholder meetings, our contractual arrangements with respect to Cakrawala and PT Innoform include the following:

- Share pledge agreements, under which the shareholders of Cakrawala and PT Innoform pledge their shares in each company as security for the loans from the Company to Cakrawala and from Linktone International to the shareholders of PT Innoform, respectively;
- Irrevocable powers of attorney to sell, under which the shareholders of Cakrawala and PT Innoform grant a power of attorney to the company and to Linktone International, respectively, to cause the sale of their shares in Cakrawala and PT Innoform to any third party designated by the Company or by Linktone International at any time, at such price and upon such terms and conditions as the Company or Linktone International shall approve;
- Pledge of operating account, under which Cakrawala pledges to the Company all of its rights, title and interest in and to the deposit balances in all current and future bank accounts of Cakrawala to secure the repayment of the loan to Cakrawala;
- Irrevocable power of attorney to manage operating account, under which Cakrawala grants to the Company a power of attorney to exercise all rights for and on behalf of Cakrawala over its banks accounts, including depositing money into or withdrawing money from such accounts, while our loan to Cakrawala remains outstanding;
- Assignment of rights to dividends agreements, under which the shareholders of Cakrawala and PT Innoform assign to the Company and to Linktone International, respectively, all of their rights to any dividends paid by Cakrawala and PT Innoform;
- Technical assistance agreement, under which Noveltech agrees to provide PT Innoform with technical assistance for its operational activities in return for a monthly technical assistance fee; and

The Company's relationships with Cakrawala and PT Innoform are structured as loan agreements due to Indonesian law's prohibition on companies or individuals from entering into a nominee arrangement with another individual or entity. Despite the lack of a nominee arrangement, the Company believes that these contractual arrangements meet the criteria for consolidation under ASC 810-10 as the Company is the primary beneficiary of Cakrawala and PT Innform, because it has power to direct the activities of Cakrawala and PT Innform that most significantly impact these entities' economic performance and to receive substantially all of the economic benefits of Cakrawala and PT Innoform. The Company also believes that it will absorb all of Cakrawala's and PT Innoform's expected losses and receive a majority of these entities' expected residual returns through the arrangements and agreements that are in place.

1 Organization and nature of operations (Continued)

Despite the lack of technical majority ownership, there exists a parent-subsidiary relationship between the Company, through its direct ownership of the WFOEs and its subsidiaries, and the VIEs through the aforementioned agreements, whereby the equity holders of the VIEs effectively assigned all of their voting rights underlying their equity interest in the VIEs to the Company, which gives the Company the power to direct the activities that most significantly impact the VIEs' economic performance. In addition, through the other aforementioned agreements, the Company demonstrates its ability and intention to continue to exercise the ability to absorb substantially all of the profits and all of the expected losses of the VIEs. Based on these contractual arrangements, the Company consolidates these VIEs as required by Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") subtopic 810-10, "Consolidation: Overall," because the Company holds all of the variable interests of these VIEs and is the primary beneficiary of the VIEs.

The ownership structure of the Company and the contractual arrangements with the VIEs in PRC and Indonesia are in compliance with applicable laws and are legally valid, binding, and enforceable. However, uncertainties in the PRC and Indonesian legal systems could limit the Company's ability, through its direct ownership of the WFOEs, to enforce its rights under these contractual arrangements. Furthermore, shareholders of the VIEs may have interests that are different than those of the Company, which could potentially increase the risk that they would seek to act contrary to the terms of the above aforementioned agreements.

In addition, if the current structure or if any of the contractual arrangements were found to be in violation of any existing or future PRC or Indonesian laws, as applicable, the Group may be subject to penalties, which may include, but not limited to, the cancellation or revocation of the Group's business and operating licenses, or discontinuance of the Group's operating activities. The imposition of any of these or other penalties may result in a material and adverse effect on the Group's operations. In such case, the Company may not be able to operate or control the VIEs, which may result in deconsolidation of the VIEs.

As of December 31, 2012 and 2013, the carrying amount of the aggregate total assets and total liabilities of the VIEs is as follows (in millions of U.S. dollars):

	2012	2013
	$	$
PRC		
Total assets	52.3	47.8
Total liabilities	7.9	6.4
Indonesia		
Total assets	16.5	0.2
Total liabilities	0.1	0.2

Creditors of the VIEs have no recourse to the general credit of the Company, which is the primary beneficiary.

2 Basis of presentation

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP").

Basis of consolidation

The consolidated financial statements include the financial statements of the Company, its subsidiaries, and the VIEs for which the Company, through its direct ownership of the WFOEs, is the primary beneficiary. All significant transactions and balances between the Company, its subsidiaries and VIEs have been eliminated upon consolidation. All subsidiaries are majority owned by the Company. As of December 31, 2012 and 2013, the Company does not hold any investments accounted for under the cost or equity method.

2 Basis of operations (Continued)

Foreign currency

The accompanying consolidated financial statements are presented in U.S. dollars (“US$” or “$”). The functional currency of the Company is US$ while those of the Company’s significant operating subsidiaries and consolidated VIEs in the PRC, Hongkong, Malaysia, Singapore and Indonesia are the Renminbi (“RMB”), Hongkong dollar (“HK$”), Malaysia Ringgit (“MYR”), Singapore dollar (“SGD”) and Indonesian rupiah (“IDR”), respectively, as determined based on the criteria of ASC topic 830, “Foreign Currency Matters”. Gains and losses resulting from foreign currency transactions are included in the consolidated statements of operations and comprehensive income.

All assets and liabilities of our subsidiaries and consolidated VIEs are translated into US$ at the exchange rates in effect at the balance sheet dates and revenues and expenses are translated into US$ at the average exchange rates in effect during the reporting periods. The exchange differences resulting from translating these entities’ financial statements into US$ are included in accumulated other comprehensive income, which is a separate component of shareholders’ equity on the consolidated balance sheets.

The Company’s business is primarily conducted in and from China, Singapore and Indonesia in their respective currencies: Renminbi (RMB), Singapore dollar (SGD) and Indonesian rupiah (IDR). All references in this report to Renminbi or RMB, Singapore dollar or SGD and Indonesian rupiah or IDR are to the legal currencies of China, Singapore and Indonesia, respectively, and all references to U.S. dollars, dollars, $ and US$ are to the legal currency of the United States. The conversions of RMB, SGD and IDR into U.S. dollars are based on the middle rate between buying and selling as published by the People’s Bank of China of the People’s Republic of China, or PRC, the Development Bank of Singapore and Bank Indonesia, respectively.

3 Use of estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. Significant estimates reflected in the consolidated financial statements include, but are not limited to, revenue recognition, purchase price allocation of its acquisitions, estimated useful lives of long-lived assets, future cash flows associated with impairment testing of goodwill and other long-lived assets, allowance for doubtful accounts, valuation allowance on deferred tax assets, fair value of fixed rate investments, amortization of minimum guarantees, provision for sales returns, provision for obsolete stock and fair value of share options. Changes in facts and circumstances may result in revised estimates. Actual results could differ from these estimates.

4 Summary of significant accounting policies

(a) Cash and cash equivalents

The Group considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Cash equivalents are composed primarily of time deposits and investments in money market accounts that are stated at cost, plus accrued interest, which approximates fair value.

(b) Short-term investments

Short-term investments comprise time deposits with original maturity terms of more than three months but due within one year and marketable equity securities. In 2012, due to an increase in trading activities of the Company, and as we deemed trading in quoted securities as one of our principal activities, the marketable securities purchased in 2012 were classified as held-for-trading and reported initially at fair value on the balance sheet. At each reporting date, these investments are remeasured and reported at fair value. Any unrealized gains or losses arising from changes in fair value are reported in income statement. Realized gains or losses are recognized in the statement of operations during the period in which the gain or loss is realized.

The Company invests in marketable equity securities with the intent to make such funds readily available for operating or acquisition purposes and, accordingly, classifies them as short-term investments. Management determines the appropriate classification of its short-term investments and re-evaluates such determination at each balance sheet date.

4 Summary of significant accounting policies (Continued)

The carrying values of time deposits approximate fair value because of their short maturities. The Company determines the fair value of marketable equity securities using quoted market prices. During the financial year, management evaluated and determined short term investments as being held-for-trading.

(c) Accounts receivable

Accounts receivable is recorded at net realizable value, which includes an allowance for estimated uncollectible accounts to reflect any loss anticipated on the accounts receivable balances and charged to the provision for doubtful accounts. An allowance for doubtful accounts is provided based on an aging analysis of accounts receivable balances, historical bad debt rates, repayment patterns, customer credit worthiness and industry trend analysis. The Group also makes a specific allowance if there is strong evidence showing that the receivable is not likely to be recoverable. An account receivable is written off after all collection efforts have ceased.

(d) Minimum guarantees

The Group is required to pay nonrefundable minimum guarantees to movie studios in order to obtain the exclusive licensing rights (in Singapore and Malaysia) to distribute various feature films and television series. These licensing rights are recorded as minimum guarantees on the consolidated balance sheet and subsequently charged to expense in accordance with the expected useful life of the license, which typically has a term of one to two years. If all or a portion of the minimum guarantee subsequently appears not to be recoverable through future use of the rights obtained under the license, the nonrecoverable portion shall be charged to expense.

(e) Inventories

Inventories are stated at the lower of cost or market. Cost is calculated using a weighted-average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. As at December 31, 2012 and 2013, the Group recorded a provision for stock obsolescence of $231,029 and $148,033 respectively. Inventory held at consignment locations is included in finished goods inventory as the Group retains full title and rights to the product.

(f) Property and equipment, net

Property and equipment are stated at cost less accumulated depreciation. Property and equipment are depreciated over their estimated useful lives on a straight-line basis. The estimated useful lives are as follows:

Office equipment	1-3 years
Computer hardware and other equipment	3-5 years
Motor vehicles	7-10 years
Leasehold improvements	the shorter of their estimated useful lives or the lease term
Buildings	45 years

Expenditures for repairs and maintenance are expensed as incurred. The gain or loss on disposal of property and equipment, if any, is the difference between the net sales proceeds and the carrying amount of the relevant assets, and is recognized in the statement of operations and comprehensive income.

(In U.S. dollars, unless otherwise stated)

4 Summary of significant accounting policies (Continued)

(g) Intangible assets

The Group applies the criteria specified in ASC 805 ("ASC 805"), "Business Combinations," to determine whether an intangible asset should be recognized separately from goodwill. Intangible assets acquired through business acquisitions are recognized as assets separate from goodwill if they satisfy either the "contractual-legal" or "separability" criteria. Under ASC 350, intangible assets with definite lives are amortized using the straight-line method over their respective estimated useful life. Intangible assets arising from business acquisitions are recognized and measured at fair value upon acquisition. Intangible assets are amortized over their estimated useful lives as follows:

Technology	1 - 5 years
VAS short codes licensed to PT Linktone	25 years
Customer base	1 - 4 years
Licenses	1 - 4 years
Partnership and non-compete agreements	1 - 5 years
Domain names	1 - 4 years
Software	1 - 10 years

(h) Goodwill

Goodwill represents the excess of the purchase price over the fair value of the identifiable net assets acquired in a business combination. Under ASC 350, goodwill and certain other intangible assets deemed to have indefinite useful lives are not amortized but are tested for impairment annually, or more frequently if events or changes in circumstances indicate potential impairment. In December of each year, the Company tests impairment of goodwill at the reporting unit level, and recognizes impairment in the event that the carrying value exceeds the fair value of each reporting unit.

The provisions of ASC 350 require that a two-step test be performed to assess goodwill for impairment. In the first step, an estimate of the fair value of the reporting unit is performed using expected future discounted cash flows and estimated terminal values. If the net book value of the reporting unit exceeds its fair value, the second step of the impairment test is performed, which requires allocation of the reporting unit's fair value of all of its assets and liabilities in a manner similar to a purchase price allocation, with any residual fair value being allocated to goodwill. The implied fair value of the goodwill is then compared to the carrying value to determine impairment, if any.

The Group performed its annual goodwill impairment test as of December 31, 2012, and recorded impairment charge of $9.9 million relating to the reporting units of Media content and China VAS. In 2012, the Group determined that the economic interdependency between China VAS and mobile games is declining, and will continue to decline in the future, due to the change in target customers of the China VAS and mobile games businesses. China VAS focuses on 2G and 2.5G mobile users, whilst mobile games' focus has moved towards games distributed via the internet and Android/ iOS platforms. As such, the Group considered it appropriate to change the reporting unit of China VAS and mobile games to 2 reporting units – China VAS and Mobile Games. The reporting units as of December 31, 2012 and 2013 are China VAS, Mobile games, Indonesia digital media, Media content, PC games and Investment. No goodwill is allocated to the Investment reporting unit. The Group will continue to monitor the relationship of fair value to the recorded value of its consolidated net assets as economic events and changes occur, and it may perform interim impairment tests in the future. If future results are not consistent with its assumptions and estimates and/or there continues to be decline in the market capitalization, the Group may be required to record further impairment charges at a later date, which could materially and adversely affect our financial results.

As of December 31, 2013, the Company performed impairment tests on goodwill assigned to each reporting unit (except for Investment reporting unit which has no goodwill) in a two-step process. The Company determined the fair value of the reporting units using the income approach based on the discounted expected future cash flows associated with these units.

Based on the annual impairment tests as of December 31, 2013, the reporting units of Mobile game, PC game and Indonesia Digital Media had fair values higher than their carrying value, hence management did not recognise any impairment expense on these 3 reporting units during the financial year ended December 31, 2013.

4 Summary of significant accounting policies (Continued)

(i) Impairment of long-lived assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable in accordance with ASC 360-10-15, “Impairment or Disposal of Long-Lived Assets.”

When these events or changes occur, the Group evaluates the impairment by comparing the carrying amount of the assets to future undiscounted cash flows expected to result from the use of the assets and their eventual disposition. If the sum of the expected undiscounted cash flows is less than the carrying amount of the assets, the Group recognizes an impairment loss based on the excess of the carrying amount of the asset group over its fair value.

The Group uses estimates and judgments in its impairment tests and, if different estimates or judgments had been utilized, the timing or the amount of the impairment charges could be different. No impairment of long-lived assets was recorded in 2012 or 2013.

(j) Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, whether fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

Finance leases that transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in finance costs in the income statement.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term,

Operating lease payments are recognized as an operating expense in the income statement on a straight-line basis over the lease term.

(k) Revenue recognition

The Group recognizes revenues in the period in which the services are performed or the goods are delivered, provided that persuasive evidence of a contractual arrangement exists, delivery has occurred, the sales price is fixed or determinable, and collectibility is reasonably assured.

<u>China VAS, mobile game & PC game</u>

The Group’s revenues in the PRC are mainly derived from entertainment-oriented telecom value-added services, including Short Messaging Services (“SMS”), Multimedia Messaging Services (“MMS”), Wireless Application Protocol (“WAP”), JavaTM (“Java games”), Interactive Voice Response Services (“IVR”) and Ring Back (“RB”) services to phone users through various subsidiaries of China Mobile Communications Corporation (“China Mobile”), China United Communications Corporation (“China Unicom”), China Telecom Corporation (“China Telecom”) and China Netcom Corporation. Following the restructuring in the Chinese telecommunications industry initiated by the relevant PRC government authorities in May 2008, the previously existing operators have been consolidated into three new operators, namely China Mobile, China Unicom and China Telecom (collectively, the “Operators”), which can offer both mobile and fixed line services. Fees for these services are charged on a per message basis or on a monthly subscription basis, and vary according to the type of products and services delivered. The Group’s China VAS services are provided through codes the Group owns, known as “Access Codes” or “Short Codes”, which are special telephone numbers shorter than full telephone numbers widely used for value-added services, such as television program voting, ringtone ordering, charity donations and mobile services.

4 Summary of significant accounting policies (Continued)

The Group contracts with the Operators for the transmission of telecom value-added services as well as for billing and collection services. The Group measures its revenues based on the total amount paid by its customers, for which the Operators bill and collect on the Group's behalf. For this billing and collection service, the Operators retain a fixed percentage fee, which is reflected as a cost of revenue in the financial statements. In addition, for SMS and MMS services, the Operators charge the Group a network usage fee based on a fixed per message rate multiplied by the excess of messages sent over messages received. These network usage fees are likewise retained by the Operators, and are reflected as a cost of revenue in the financial statements. Network usage fees charged to the Group are reduced for messages received by the Group as the Operators separately charge the senders a fee for these transmissions. The Group has assessed its relationship with the Operators and the terms of the fee arrangements under ASC 605-45 ("ASC 605-45"), "Principal Agent Considerations" and has concluded that reporting the gross amount billed to its customer is appropriate based on the following factors:

- The Group's ability to provide customer support related to its services;
- The Group's ability to control the content of services and suppliers of that content as long as it does not violate applicable PRC law or the relevant policies of the Operators;
- The Group's assumption of all related legal and commercial risks arising from the content and services provided;
- The Group's assumption of risk of non-payment by customers; and
- The Group's ability to determine prices within ranges prescribed by the Operators.

For certain new RB contracts entered into in 2012 with the Operators, the Group assessed the terms of the arrangements with the Operators under ASC 605-45 and concluded that it acts as an agent of the Operators in these arrangements. RB revenue earned under these new contracts is recognized on a net basis, net of fees paid to Operators.

A substantial portion of the Group's revenue from the PRC is recorded based on monthly statements received from provincial-level subsidiaries of the Operators. In certain instances, when a statement is not received within a reasonable period of time, the Group is required to make an estimate of the revenues and cost of revenue earned during the period covered by the statement. On a quarterly basis, the Group estimates a portion of its revenues using internally generated transmission data and various other assumptions the Group has developed based on historical experience, that are believed to be reasonable under the circumstances. For the years ended December 31, 2012, and 2013, the variation between the actual revenue and prior estimates is 3.5% and 3.1%, respectively, of the Group's revenues.

The Group licenses content from independent content providers. Certain of these agreements determine the fees payable for content based on a percentage of revenues of the Group generated from the use of the content. The Group records its revenues inclusive of fees to be paid to content providers as the Group acts as the principal in these arrangements. The fees paid to content providers are recorded in cost of revenue.

The Group's mobile game service revenue is primarily derived from providing downloadable mobile games products to mobile game operators. The Group contracts with mobile game operators who in turn provide a platform for users to download the Group's mobile games. The Group earns a fixed fee on a per download basis based on monthly or quarterly statements from the mobile game operators. The revenue is recognized on a gross basis when most of the gross indicators discussed above are met. If the gross indications are not met then revenue is recognized on a net basis.

The Group currently provides its PC game services through its subsidiaries, Brilliant, Wang You, and its VIE, Yuan Hang. The Group receives subscription fees from distributors for the sales of game cards, in either physical or virtual form, with a certain number of game points incorporated in the cards. The corresponding revenue is recognized as the game points are consumed by game players in games. Any sold game cards which are not activated by users and activated points which are not consumed in games constitute deferred revenue. Any game points held by players who are considered to be inactive are deemed consumed and recognized in revenue. The costs of PC game services include the cost of producing the game cards and bandwidth and server leasing charges.

4 Summary of significant accounting policies (Continued)

Indonesian VAS

The Group's revenues in Indonesia are derived from entertainment-oriented telecom value-added services to users of mobile telecommunications networks in Indonesia. The Group provides VAS services through agreements with Infokom, a related party, who in turn have cooperative arrangements with network operators in Indonesia as well as through agreements made directly with the operators in Indonesia. The Group assessed its relationship with Infokom and the network operators in Indonesia and the terms of the fee arrangements and determined that from the end users' perspective, Infokom is responsible for fulfillment of the services for VAS services provided through Infokom. Hence, under ASC 605-50, the Group characterized the revenue share attributable to Infokom as a reduction to the Group's revenue for VAS services provided through Infokom. In addition, the Group also assessed its relationship with the network operators in Indonesia for VAS services provided through agreements made directly with the Indonesia operators under ASC 605-45, and concluded that reporting the net amount received from the Indonesia operators as revenue is appropriate based on consideration that the operators bear a significant portion of the credit risk and have the latitude to establish the prices.

A substantial portion of the Group's revenue from Indonesia is recorded based on monthly statements received from Infokom. In certain instances, when a statement is not received within a reasonable period of time, the Group is required to make an estimate of the revenues and cost of revenue earned during the period covered by the statement. On a quarterly basis, the Group estimates a portion of its revenues using internally generated transmission data and various other assumptions the Group has developed, that are believed to be reasonable under the circumstances. For the years ended December 31, 2012 and 2013, an insignificant amount of the Group's revenues from Indonesia was based on management's estimate.

Advertising revenue

The Group derives advertising revenue from Okezone.com in Indonesia and mobile advertising from China. Advertising revenue on Okezone.com is recognized ratably over the advertisement period as specified in the contract or online order. For mobile advertising in China, revenue is recognized upon receipt of payment from third party internet companies advertisements aggregators such as AdMob and Chartboost. Revenue (net of internet companies' fees) is recognised when payment is received from third party internet companies, as the fees are not fixed and determinable until payment received. In accordance with the agreements with these internet companies, they are only liable to pay the Group when payment is received from the advertisers. As such, the criteria of price is fixed and determinable is met only when payment is received from the internet companies.

Media contents

The Group's media sales arrangements are evidenced by sales agreements. The prices are stated in the agreements and not subject to adjustment. The Group recognizes revenue from the sale of goods when the risk of loss and title has been transferred to the customer, which usually occurs at the time shipment is made (i.e., destination point). For consignment sales, revenue is recognized when the Group receives notification that the goods have been sold by their customers. Revenue is not recognized to the extent where there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods. If it is probable that discounts will be granted and the amount can be measured reliably, the discount is recognized as a reduction of revenue when the sales are recognized.

(l) Income and other taxes

The Group accounts for income taxes pursuant to ASC 740 which requires the liability approach for financial accounting and reporting for income taxes. Under this approach, deferred taxes are provided for the tax consequences of temporary differences by applying enacted statutory rates applicable to future years when the differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities reverse. A valuation allowance is provided to reduce the amount of deferred tax assets if it is considered more likely than not that some portion of, or all of, the deferred tax asset will not be realized.

The Group applies ASC 740, which provides guidance on the accounting for uncertainty in income taxes by prescribing the recognition threshold a tax position is required to meet before being recognized in the financial statements. Interest and penalties related to uncertain income tax liabilities, if and when required, are classified as income tax expense.

4 Summary of significant accounting policies (Continued)

PRC

The Group is also subject to business taxes of 3-9% on the provision of taxable services, which include services provided to customers and, in certain instances, consultancy services provided by certain subsidiaries to the VIEs. The related business taxes paid for the services provided to customers and consultancy services are recognized as a reduction of revenues and in operating expenses, respectively.

Huitong and Linktone Internet charge software license fees to the VIEs that are subject to value-added tax (“VAT”) at 17% (2012: 17%). The Group is entitled to a tax refund equivalent to the portion of VAT expense in excess of 3% (2012: 3%). The 3% portion of VAT expense is recognized as sales tax.

Singapore

Goods and services tax (“GST”) is a tax charged on the supply of goods and services made in Singapore and on the importation of goods into Singapore. The current rate for GST is 7% (2012: 7%). A company must be GST-registered to collect GST if its annual turnover exceeds SGD 1 million from the sale of taxable goods and services. GST-registered companies may also claim back the GST incurred on their business purchases.

Indonesia

VAT is imposed on importers, providers of most goods and services, and users of intangible goods. The current VAT rate is 10% (2012: 10%). The export of goods from Indonesia is zero-rated (i.e., subject to VAT at 0%) for all years presented.

(m) Advertising expenses

Advertising expenses generally represent the cost of promoting the Group’s products and services and are expensed as incurred. Advertising expenses that are included under selling and marketing expenses in the statement of comprehensive income totaled $1,848,436 and $2,812,288 during the years ended December 31, 2012 and 2013 respectively.

(n) Stock-based compensation

The Group applies the provisions of ASC 718 for share-based employee compensation arrangements. The guidance requires the measurement of the cost of employee services received in exchange for an award of equity instruments (such as employee stock options) at the fair value on the grant date. That cost will be recognized over the period during which an employee is required to provide services in exchange for the award (the requisite service period). The Group calculates the fair value of each option grant on the date of grant using the Black-Scholes option pricing model and recognizes the compensation costs, net of a forfeiture rate, on a straight-line basis over the requisite service period of the award.

The determination of fair value of awards on the grant date using an option pricing model requires a number of complex and subjective assumptions, including our expected share price volatility over the term of the awards, the expected exercise behavior of our staff, and the expected dividend yield. The Group estimates the share price volatility based on the historical data. In the absence of sufficient historical data in the exercise behavior of our staff, the Group estimates for the short term using the simplified method which applies the mid-point of the life of the option and average vesting period.

In addition, the Group is required to estimate forfeitures at the time of grant and record share-based compensation expense only for those awards that are expected to vest. If actual forfeitures differ from those estimates, the Group may need to revise those estimates used in subsequent periods.

The assumptions and estimates used in calculating share-based compensation expense involve inherent uncertainties and the use of management judgment. Although the Group believes the assumptions and estimates made are reasonable and appropriate, changes in factors and assumptions could materially affect the results.

4 Summary of significant accounting policies (Continued)

(o) Pensions and other post employment benefits

The Group participates in the national pension schemes as defined by the laws of the countries in which it has operations. Contributions to the schemes are recognized as an expense in the period in which the related service is performed. In particular, the Singapore companies in the Group make contributions to the Central Provident Fund scheme in Singapore, a defined contribution pension scheme. Full time employees of the Group in the PRC participate in a government mandated multi-employer defined contribution plan. The Group has no legal obligation for the benefits beyond the contributions in these 2 countries.

In Indonesia, one of the subsidiaries of the Group has a defined contribution pension plan covering substantially all of its eligible employees and an unfunded employee benefits liability in accordance with Indonesia's Labor Law No. 13/2003 dated March 25, 2003 (the "Law"). The provision for the Law has been calculated by comparing the benefit that will be received by an employee at normal pension age from the pension plan with the benefit as stipulated under the Law after deduction of accumulated employee contributions and the related investment results. If the employer-funded portion of the pension plan benefit is less than the benefit as required by the Law, the Company will provide for such shortage.

The calculation of estimated liability of employees benefits is determined using the projected-unit-credit method. Actuarial gains and losses for defined benefit plans are recognized in full in the period in which they occur in other comprehensive income. Such actuarial gains and losses are also immediately recognized in retained earnings and are not reclassified to profit or loss in subsequent periods.

(p) Subsidy income

Local governments in some provinces in the PRC grant the Group subsidy income based on a certain percentage of business taxes and income taxes paid by the Group either on a monthly or annual basis. The Group records such local government subsidy income in other income upon receipt. Local government subsidy income totaled $346,526 and $588,217 during the years ended December 31, 2012 and 2013, respectively. Where applicable, subsidy income is netted off against individual lines in the income statement for which the expenses are incurred.

(q) Comprehensive income/(loss)

Comprehensive income or loss is defined as the change in equity of the Group during a period from transactions and other events and circumstances, excluding transactions resulting from investments by owners and distributions to owners. Accumulated other comprehensive income or loss of the Group includes cumulative foreign currency translation adjustments and unrealized gains or losses on short-term investments.

(r) Earnings per share

In accordance with ASC 260, "Earnings Per Share," basic earnings per share is computed by dividing net income attributable to ordinary shareholders by the weighted-average number of ordinary shares outstanding during the period. Diluted earnings per share is calculated by dividing net income by the weighted-average number of ordinary and dilutive ordinary equivalent shares outstanding during the period. Ordinary equivalent shares consist of ordinary shares issuable upon the exercise of outstanding share options (using the treasury stock method).

(In U.S. dollars, unless otherwise stated)

4 Summary of significant accounting policies (Continued)

(s) Fair value of financial instruments

The Group applies ASC 820-10 ("ASC 820-10"), "Fair Value Measurements and Disclosures," which clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, ASC 820-10 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows: observable inputs such as quoted prices in active markets (Level 1); inputs other than the quoted prices in active markets that are observable either directly or indirectly, or quoted prices in less active markets (Level 2); and unobservable inputs with respect to which there is little or no market data, which require the Company to develop its own assumptions (Level 3). This hierarchy requires the Company to use observable market data, when available, and to minimize the use of unobservable inputs when determining fair value.

The carrying amount of the Group's cash and cash equivalents, accounts receivable, loans receivable from related parties, deposits and other current assets, accounts payable, accrued liabilities and other payables approximate their fair value due to the short maturity of those instruments. The Group's available-for-sale and held-for-trading investments are carried at their fair value based on a market interest rate or quoted market price, being Level 1 of the fair value hierarchy, at the reporting date provided by the investment custodian.

(t) Segment reporting

The Group follows ASC 280 ("ASC 280"), "Segment Reporting," for its segment reporting. The Group is organized into business units based on their different service offerings. The Group's chief operating decision maker ("CODM") has been identified as the Chief Executive Officer, who reviews and evaluates separate sets of financial information for the Group's operating segments for the purpose of making decisions regarding resource allocation and performance assessment. In 2011, in line with the business growth, the Group's CODM reviews results of China VAS, mobile game and PC game as a single business unit, instead of two separate units, when making decisions about allocating resources and assessing performance of the Group. The three business segments are namely (i) China VAS, mobile game & PC game, (ii) Indonesia VAS and (iii) Media content. In 2012, due to the increase in frequency of trading activities in quoted investments, the Group's CODM reviews the Group's results in four business segments, namely (i) China VAS, mobile games and PC games, (ii) Indonesia Digital Media, (iii) Media content and (iv) Investment, for the purpose of making decisions regarding resource allocation and performance assessment. Indonesia VAS changed its segment name to Indonesia Digital Media to reflect its present operations. The Group believes Indonesia Digital Media is more appropriate with the acquisition of Okezone.com during the year. There is no change in business segment for the financial year ended December 31, 2013.

(u) Prior year comparatives

1.) Certain prior year comparatives amounts have been reclassified to conform with current year presentation as follows:

	2012	**Reclassification**	**2012 (as represented)**
	$	**$**	**$**
Other operating income	35,045,012	4,369,532	39,414,544
Loss on foreign exchange	(1,182,508)	(4,369,532)	(5,552,040)
Account payable, accrued liabilities and other payables	16,405,947	(789,355)	15,616,592
Due to related parties	456,765	789,355	1,246,120

2.) The consolidated financial statements of the Group for the financial year ended December 31, 2012 was audited, conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), by another firm of Independent Certified Public Accountants whose report dated April 26, 2013 expressed an unqualified audit opinion on those statements.

(In U.S. dollars, unless otherwise stated)

(v) Business Combinations

The Group accounts for business combinations using the purchase method of accounting. This method requires that the acquisition cost be allocated to the assets, including separately identifiable tangible and intangible assets, and liabilities the Group has acquired based on their estimated fair values. The Company makes estimates and judgments in determining the fair value of the acquired assets and liabilities with the assistance of independent appraisal reports as well as its experience with similar assets and liabilities in similar industries. If different judgments or assumptions were used, the amounts assigned to the individual assets acquired or liabilities assumed could be materially affected.

On May 1, 2012, PT Linktone acquired online portal Okezone.com and certain fixed assets from PT Okezone for cash consideration of IDR 4.5 billion ($0.5 million). The carrying value of the assets acquired were IDR 1.7 billion ($0.2 million). As the transaction was deemed to be a business combination under common control, the excess consideration recorded in retained earnings as deemed distribution to controlling shareholder, MNC, at the time of the transaction, and no new goodwill recognized. The transaction was accounted for in accordance with ASC 805. Comparatives are not restated to reflect the combined results as the accumulated results of Okezone.com operations is immaterial to the Group.

5 Cash and cash equivalents

	As of	
	December 31, 2012	**December 31, 2013**
	$	**$**
Cash	19,074,190	25,206,311
Time deposits with tenor < 90 days	15,967,482	3,067,896
Total	35,041,672	28,274,207

Interest income earned from the above cash and cash equivalents amounted to $969,197 and $470,671 for the years ended December 31, 2012 and 2013, respectively.

6 Short-term investments

	As of	
	December 31, 2012	**December 31, 2013**
	$	**$**
Quoted securities, at market value	68,580,354	76,786,305
Time deposits with tenor > 90 days	21,738,225	9,350,624
Total	90,318,579	86,136,929

Net unrealized gain of S$10.1 million and $4.1 million for the years ended December 31, 2012 and 2013, respectively was recorded on the marked-to-market valuation of these held-for-trading quoted investment and realized gain of $29.0 million and $5.7 million for the year ended December 31, 2012 and 2013, respectively. Such amounts were recorded in other operating income.

Net unrealised forex loss on short-term investments amounted to $4.3 million and $9.1 million as at December 31, 2012 and 2013, respectively while the realised forex loss arising from the purchase and disposal of short-term investments in 2012 and 2013 amounted to $1.0 and $8.2 million, respectively. In 2012, $4.4 million was transferred out of other comprehensive income to other operating income.

As of December 31, 2012 and 2013, all time deposits have original maturity terms more than three months and are due within one year.

7 Fair value measurement

ASC 820-10 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1—Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2—Include other inputs that are directly or indirectly observable in the market place.

Level 3—Unobservable inputs which are supported by little or no market activity.

(In U.S. dollars, unless otherwise stated)

7 Fair value measurement (Continued)

ASC 820-10 describes three main approaches to measuring the fair value of assets and liabilities: (1) market approach; (2) income approach and (3) cost approach. The market approach uses prices and other relevant information generated from market transactions involving identical or comparable assets or liabilities. The income approach uses valuation techniques to convert future amounts to a single present value amount. The measurement is based on the value indicated by current market expectations about those future amounts. The cost approach is based on the amount that would currently be required to replace an asset.

Assets and liabilities measured at fair value

In accordance with ASC 820-10, the Group measures cash equivalents, short-term investments, including fixed-rate investments and held for trading investments. Cash equivalents and investments are valued using quoted market prices. The Group measures the fair value of its financial instruments in accordance with ASC 820-10. The carrying amounts of cash and cash equivalents, accounts receivable, tax refund receivable, due from related parties, accounts and other payables, and due to related parties approximate their respective fair values due to the short term maturity of these financial instruments. The effective interest rate of the bank loans is 4.2% at balance sheet date.

Held for trading instruments are valued using quoted market prices.

Asset and liabilities measured at fair value on a recurring basis are summarized below:

	Fair value at December 31, 2012			
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Unobservable inputs (Level 3)	Fair value
	$	$	$	$
Short-term investments:				
Held-for-trading investments	68,580,354	–	–	68,580,354

	Fair value at December 31, 2013			
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Unobservable inputs (Level 3)	Fair value
	$	$	$	$
Held-for-trading-investments	76,786,305	–	–	76,786,305

Assets and liabilities measured at fair value on a nonrecurring basis

The Group measures certain financial assets at fair value on a nonrecurring basis only if an impairment charge were to be recognized. The Group's non-financial assets, such as intangible assets, goodwill and fixed assets would be measured at fair value only if they were determined to be impaired. For the years ended December 31, 2012 and 2013, the Group recognized impairment loss on goodwill of $9.9 million and $ nil based on the fair value measurement (Level 3) on a non-recurring basis. The fair value was determined using a discounted cash flow model under the income approach based on future revenues and operating costs, using internal projections.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In U.S. dollars, unless otherwise stated)

8 Accounts receivable, net

	As of	
	December 31, 2012	December 31, 2013
	$	$
Account receivable	16,380,897	13,007,096
Less: Allowance for doubtful receivables	(2,093,650)	(3,067,767)
	14,287,247	9,939,329
Movement in allowance for doubtful receivables:		
Balance at beginning of period	(2,086,695)	(2,093,650)
Write-off against provision	203,242	-
Write back of provision	–	40,086
Additional provision	(186,558)	(973,364)
Translation difference	(23,639)	(40,839)
Balance at the end of period	(2,093,650)	(3,067,767)

9 Inventories

	As of	
	December 31, 2012	December 31, 2013
	$	**$**
Raw materials	449,772	612,544
Finished goods	1,629,809	1,964,202
	2,079,581	2,576,746
Allowance for inventory obsolescence	(231,029)	(148,033)
	1,848,552	2,428,713
Movement in allowance for inventory obsolescence:		
Balance at beginning of period	(83,758)	(231,029)
(Additional provision)/ Write back/utilisation of provision	(111,575)	40,295
Translation difference	(35,696)	42,701
Balance at the end of period	(231,029)	(148,033)

The Group had $273,633 and $162,152 of inventory held at consignment locations which are included in finished goods as of December 31, 2012 and 2013, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In U.S. dollars, unless otherwise stated)

10 Deposits and other current assets

	As of	
	December 31, 2012	December 31, 2013
	$	$
Minimum guarantees	3,748,985	1,926,198
Rental and other deposits	795,573	954,051
Staff advances	637,597	637,437
Prepayments to VAS advertising, content and other suppliers	134,479	425,061
Interest income receivable from non-related parties	164,945	38,431
Unbilled receivables	628,914	670,032
Others	171,206	810,962
	6,281,699	5,462,172
Less: Allowance for doubtful receivables	(216,329)	(223,164)
	6,065,370	5,239,008
Movement in allowance for doubtful receivables:		
Balance at beginning of period	(820,624)	(216,329)
Write back of provision/(additional provision)	604,295	(6,835)
Balance at the end of period	(216,329)	(223,164)

11 Property and equipment, net

	As of	
	December 31, 2012	December 31, 2013
	$	$
Cost		
Buildings	10,796,663	10,419,117
Computer hardware and other equipment	4,580,317	5,062,848
Office equipment	2,218,736	1,747,857
Leasehold improvements	1,220,299	1,238,040
Motor vehicles	334,251	297,189
	19,150,266	18,765,051
Less: Accumulated depreciation	(7,389,435)	(7,976,129)
	11,760,831	10,788,922

For the years ended December 31, 2012 and 2013, the depreciation charges amounted to $762,466 and $740,306, respectively.

The Group incurred gain/(loss) of $575,958 and $(38,461) from disposal of property and equipment during the year ended December, 2012 and 2013, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In U.S. dollars, unless otherwise stated)

12 Intangible assets, net

The following table summarizes intangible assets, net:

	As of December 31, 2012	As of December 31, 2013
	$	$
Cost		
Technology	3,031,517	3,292,281
Customer base	171,523	171,523
Licenses	525,671	525,671
Partnership and non-compete agreements	7,630,150	7,630,150
Domain names	82,347	82,347
VAS Short Codes licensed to PT Linktone	7,062,653	7,062,653
Software	366,035	366,034
	18,869,896	19,130,659
Accumulated amortization		
Technology	(2,254,091)	(2,385,752)
Customer base	(171,522)	(171,522)
Licenses	(525,671)	(525,671)
Partnership and non-compete agreements	(6,797,767)	(7,326,130)
Domain names	(82,347)	(82,347)
VAS Short Codes licensed to PT Linktone	(653,804)	(936,313)
Software	(269,805)	(297,559)
	(10,755,007)	(11,725,294)
Acquired intangible assets, net	8,114,889	7,405,365

The weighted average amortization period for intangible assets with finite lives by major categories as followed:

	Years
Technology	3.6
Customer base	1.8
Licenses	2.0
Partnership and non-compete agreements	3.0
Domain names	4.0
VAS Short Codes licensed to PT Linktone	25.0
Software	5.3

For the financial year ended December 31, 2012 and 2013 the aggregate amortization charges amounted to $1,956,804 and $955,398, respectively.

(In U.S. dollars, unless otherwise stated)

12 Intangible assets, net (Continued)

The estimated amortization expense for each of the succeeding five years is as follows:

	$
2014	530,301
2015	426,630
2016	402,561
2017	398,875
2018	398,875
	2,157,242

13 Goodwill

The following table summarizes the activity in the balance of goodwill during the period ended December 31, 2012 and December 31, 2013 by reporting unit:

	2012					
	China VAS	Mobile games	Indonesia Digital Media	Media content	PC games	Total
	$	$	$	$	$	$
Balance at January 1, 2012	8,550,715	9,189,843	16,848,642	2,360,658	3,533,497	40,483,355
Goodwill impairment	(8,550,715)	–	–	(2,360,658)	–	(10,911,373)
Balance at December 31, 2012	–	9,189,843	16,848,642	–	3,533,497	29,571,982

	2013					
	China VAS	Mobile games	Indonesia Digital Media	Media content	PC games	Total
	$	$	$	$	$	$
Balance at January, 1 2013 and December, 31 2013	–	9,189,843	16,848,642	–	3,533,497	29,571,982

As of December 31, 2013, the Company performed impairment tests on goodwill assigned to each reporting unit (except for Investment reporting unit which has no goodwill) in a two-step process. The Company determined the fair value of the reporting units using the income approach based on the discounted expected future cash flows associated with these units.

Based on the annual impairment tests as of December 31, 2013, the reporting units of Mobile game, PC game and Indonesia Digital Media had fair values higher than their carrying value, hence management did not recognise any impairment expense on these 3 reporting units during the financial year ended December 31, 2013.

(In U.S. dollars, unless otherwise stated)

14 Other long-term assets

	As of	
	December 31 2012	December 31 2013
	$	$
Investment deposit (a)	2,470,382	–
Minimum guarantees	3,247,512	387,199
Prepayment for insurance policy	32,967	–
	5,750,861	387,199
Less: Impairment loss on investment deposit (a)	(2,470,382)	–
Total	3,280,479	387,199

(a) In April 2007, the Company paid an investment deposit of $3 million to eChinaCash Inc. ("eCC") to purchase 49% of the equity in eChinaMobile (BVI) Ltd. ("eCM"), a wholly owned subsidiary of eCC. eCM is a U.S. incorporated, Beijing-based company that builds and maintains customer loyalty affinity programs and payment card programs for large corporations and financial institutions, including Chinese blue chip companies. The primary objective of eCM was to establish a platform to provide VAS service and original content to customers of the Company and eCM through cross-selling opportunities that arise through having access to each other's extensive database of users. Because of certain disputes over the resources to be made available for use by eCM, eCM refunded $529,618 of the Company's investment deposit of $3 million in January 2008. The Company has sought legal remedies to recover the remaining amount. In view of the uncertainty of recovering this remaining amount, the Company recorded an impairment provision of $2,470,382 in 2007 against the remaining investment deposit. The investment has been written off against impairment provision as of December 31, 2013 as the investment deposit is deemed irrecoverable.

15 Accounts payable, accrued liabilities and other payables

	As of	
	December 31, 2012	December 31, 2013
	$	$
Accounts payable	3,287,562	1,559,321
Accrued payroll and welfare benefits	1,854,812	1,429,394
Accrued professional and consulting fees	405,478	325,771
Accrued VAS content fees	3,093,902	1,991,292
Accrued expenses	1,498,350	1,020,296
Accrued minimum guarantee expense	4,351,404	2,964,532
Accrued sales returns	257,144	316,203
Other payables	867,940	1,946,122
Total	15,616,592	11,552,931

(In U.S. dollars, unless otherwise stated)

16 Loans and borrowings

	As of	
	December 31, 2012	December 31, 2013
	$	$
Current		
Bank overdrafts	480,916	2,269,097
Revolving term loans	4,580,403	4,434,492
Term loan, current portion	543,105	–
Loan from related party	518,500	410,499
	6,122,924	7,114,088

The Group's subsidiary in Singapore, InnoForm Media Pte Ltd ("Innoform Media") has $7.86 million (SGD10.0 million) credit facility from a bank in Singapore. The facilities are secured by a corporate guarantee from PT. Media Nusantara Citra Tbk ("MNC"), a related party.

The details of bank facilities utilized are as follow:

- As of December 31, 2012 and 2013 InnoForm Media has utilized $0.5 million (SGD0.6 million) and $2.3 million (SGD2.9 million) of the overdraft facility, respectively.
- As of December 31, 2012 and 2013 InnoForm Media has utilized revolving term loans facility of $4.6 million (SGD 5.6 million) and $4.4 million (SGD 5.6 million), respectively. The revolving loans are of three-months and six-months tenor. Interest rates are by quotation from the bank payable quarterly in arrears. The effective interest rate was 3.9% and 4.2% for the years ended December 31, 2012 and 2013, respectively.
- As of December 31, 2012, $0.5 million (SGD0.7 million) of the term loan was outstanding and as at December 31, 2013, the term loan was fully repaid.

PT Linktone obtained a loan of $518,500 (IDR 5.0 billion) from PT. Media Nusantara Citra Tbk, a related party at interest rate of 8% per annum and repayable by April 5, 2014. This loan is still outstanding as at December 31, 2013.

17 Other long-term liabilities

	As of	
	December 31, 2012	December 31, 2013
	$	$
Other long-term payables	1,258,030	896

Other long-term payables consist mainly non-refundable minimum guarantees fees payable to movie studios and music labels by the Group's subsidiaries in Singapore and Malaysia for exclusive licensing rights based on the contractual payment terms of those contracts.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In U.S. dollars, unless otherwise stated)

18 Segment information

For the years ended December 31, 2012 and 2013, the Group operates in four business segments — China VAS, mobile game & PC game, Indonesia Digital Media, Media content and Investment, based on the different product and geographic operating segments. Pursuant to ASC 280, the Group presents summarized statement of operations and net assets information by segment below, as used by the Group's chief operating decision maker ("CODM").

Statement of Operations Information:

	2012				
	China VAS, mobile game & PC game	Indonesia Digital Media	Media content	Investment	Total
	$	$	$	$	$
Gross revenues	31,277,781	3,748,259	11,124,836	—	46,150,876
Sales tax	(808,257)	—	—	—	(808,257)
Segment cost of revenue	(18,459,785)	(2,813,317)	(7,828,143)	—	(29,101,245)
Segment gross profit	12,009,739	934,942	3,296,693	—	16,241,374
Segment operating (expenses)/income	(12,585,930)	(2,291,541)	(7,452,373)	27,089,672	4,759,828
Segment profit/(loss) from operations	(576,191)	(1,356,599)	(4,155,680)	27,089,672	21,001,202

	2013				
	China VAS, mobile game & PC game	Indonesia Digital Media	Media content	Investment	Total
	$	$	$	$	$
Gross revenues	27,996,085	3,852,803	10,794,490	—	42,643,378
Sales tax	(525,659)	—	—	—	(525,659)
Segment cost of revenue	(17,322,456)	(1,754,558)	(9,342,847)	—	(28,419,861)
Segment gross profit	10,147,970	2,098,245	1,451,643	—	13,697,858
Segment operating (expenses)/income	(11,324,029)	(3,447,158)	(6,389,370)	8,012,537	(13,148,020)
Segment profit/(loss) from operations	(1,176,059)	(1,348,913)	(4,937,727)	8,012,537	549,838

(In U.S. dollars, unless otherwise stated)

18 Segment information (Continued)

The following table summarizes the gross revenue by product in China VAS, mobile game and PC game segment:

	2012	2013
	$	$
China VAS	27,422,037	18,444,313*
Mobile game	2,904,038	8,770,000
PC game	951,706	781,772
Total	31,277,781	27,996,085

* This includes Fumubang revenue of US$0.3 million.

Balance Sheet Information:

	As of December 31, 2012				
	China VAS, mobile & PC game	Indonesia Digital Media	Media content	Investment	Total
	$	$	$	$	$
Current assets	43,066,055	5,227,247	12,536,720	90,126,983	150,957,005
Non-current assets	1,961,265	7,393,486	14,468,275	29,634,541	53,457,567
Total assets	45,027,320	12,620,733	27,004,995	119,761,524	204,414,572
Current liabilities	(7,023,863)	(3,326,332)	(12,715,073)	(2,738,423)	(25,803,691)
Non-current liabilities	(240,176)	(1,602,210)	(1,597,943)	–	(3,440,329)
Total liabilities	(7,264,039)	(4,928,542)	(14,313,016)	(2,738,423)	(29,244,020)
Net assets	37,763,281	7,692,191	12,691,979	117,023,101	175,170,552

	As of December 31, 2013				
	China VAS, mobile & PC game	Indonesia Digital Media	Media content	Investment	Total
	$	$	$	$	$
Current assets	25,977,796	3,300,342	12,020,252	93,615,602	134,913,992
Non-current assets	1,203,986	6,999,391	10,423,337	29,571,982	48,198,696
Total assets	27,181,782	10,299,733	22,443,589	123,187,584	183,112,688
Current liabilities	(5,409,958)	(2,680,262)	(15,044,640)	(948,197)	(24,083,057)
Non-current liabilities	-	(546,742)	(359,630)	-	(906,372)
Total liabilities	(5,409,958)	(3,227,004)	(15,404,270)	(948,197)	(24,989,429)
Net assets	21,771,824	7,072,729	7,039,319	122,239,387	158,123,259

(In U.S. dollars, unless otherwise stated)

18 Segment information (Continued)

The following table summarizes the Group's gross revenues by geographic region based on the location of the customers:

	2012	2013
	$	$
People's Republic of China ("PRC")	31,980,685	28,338,160
Indonesia	3,977,308	3,961,916
Singapore	9,205,816	9,262,755
Malaysia	987,067	1,080,547

The PRC geographic segment includes operations of China, Hong kong and Taiwan entities.

The following table summarizes the Group's long-lived assets by geographic region:

	As of	
	December 31, 2012	December 31, 2013
	$	$
PRC	14,684,605	14,365,799
Indonesia	24,307,843	23,850,992
Singapore	12,838,262	9,152,515
Malaysia	1,626,857	829,390

The following table summarizes the Group's net assets by geographic region:

	As of	
	December 31, 2012	December 31, 2013
	$	$
PRC	50,486,621	35,261,233
Indonesia	112,114,912	116,628,554
Singapore	12,923,192	7,131,615
Malaysia	(354,173)	(898,143)

19 Other operating income

	2012	2013
	$	$
Dividend income from short-term investment	364,027	500,462
Unrealized gain on valuation of marketing securities	10,069,120	4,136,045
Gain on sale of marketable securities	28,981,397	5,658,303
Total other operating income	39,414,544	10,294,810

The Group classified short-term investments in securities as held-for-trading. As such, any corresponding gains and losses on disposal or unrealized gains or losses are recognized as other operating income. The Group deemed trading in quoted securities as one of our principal activities.

20 Risks and uncertainties

(a) Dependence on the Operators

For financial years ended December 31, 2013, 67%, 25% and 9% of the Group's gross revenue is contributed by China VAS, mobile game and PC game segment in China, Media Content segment in South East Asia and Indonesia Digital Media in Indonesia, respectively. The corresponding percentages for the financial year ended December 31, 2012 are 68%, 24% and 8%. The Group's PRC and Indonesia VAS revenue is mainly derived from cooperative arrangements with the operators in the PRC and Indonesia. If the strategic relationship with the Operators in the PRC and Indonesia are terminated or scaled back or if the operators alter the revenue-sharing arrangements, the Group's VAS business would be adversely affected. Revenues and amounts due from operators that account for more than 10% of the Group's gross revenues and accounts receivable in a particular year are as follows:

PRC

- Revenues earned from China Mobile for the years ended December 31, 2012 and 2013 were $21.8 million and $12.3 million, respectively, representing 69% and 44% of PRC gross revenues, respectively.

- Amounts due from China Mobile as of 2012 and 2013 amounted to $5.8 million and $1.6 million respectively, representing 92% and 37% of PRC accounts receivable, respectively.

- Revenues earned from China Telecom for the years ended December 31, 2012 and 2013 were $4.8 million and $2.4 million respectively, representing 15% and 8% of PRC gross revenues, respectively.

- Amounts due from China Telecom as of 2012 and 2013 amounted to $0.5 million and $0.2 million respectively, representing 8% and 5% of PRC accounts receivable, respectively.

Indonesia

- Revenues earned from Telkomsel for the years ended December 31, 2012 and 2013 were $0.9 million and $0.6 million, respectively, representing 25% and 15% of Indonesia gross revenues, respectively.

- Amounts due from Telkomsel as of 2012 and 2013 amounted to $1.1 million and $0.4 million, respectively, representing 24%, and 27% of Indonesia accounts receivable, respectively.

- Revenues earned from Indosat for the years ended December 31, 2012 and 2013 were $0.5 million and $0.4 million, respectively, representing 13% and 11% of Indonesia gross revenues, respectively.

20 Risks and uncertainties (Continued)

(b) Credit risk

Financial instruments that potentially subject the Group to significant concentration of credit risk primarily consist of cash and cash equivalents, short-term investments and accounts receivable. At December 31, 2012 and 2013, the Group has $125.4 million and $114.4 million in cash and cash equivalents and short-term investments respectively. At December 31, 2012 and 2013, the Group's cash, bank deposit and money market funds in the PRC amounted to $35.8 million and $20.4 million respectively, representing 28.5% and 17.8% of total cash and cash equivalent and short term investments in 2012 and 2013 respectively.

In the event of bankruptcy of one of the financial institutions in which the Group has deposits or investments, it may be unlikely to claim its deposits or investments back in full.

Accounts receivable are typically unsecured and derived from revenue earned from customers, which are exposed to credit risk. The risk is mitigated by credit evaluations the Group performs on its customers and its ongoing monitoring process of outstanding balances. The Group maintains reserves for estimated credit losses and these losses have generally been within its expectations. The Group has $14.3 million and $9.9 million in accounts receivables as of December 31, 2012 and 2013, respectively.

(c) Foreign exchange risk

The Group's sales, purchase and expense transactions are generally denominated in RMB, SGD and IDR and a significant portion of the Group's assets and liabilities are denominated in IDR and RMB. The RMB is not freely convertible into foreign currencies. In the PRC, foreign exchange transactions are required by law to be transacted only by authorized financial institutions at exchange rates set by the People's Bank of China ("PBOC"). Remittances in currencies other than RMB by the Group in the PRC must be processed through the PBOC or other PRC foreign exchange regulatory bodies and require certain supporting documentation in order to affect the remittance.

There are currently no such legal foreign exchange controls in Singapore and Indonesia.

(d) Legal and regulatory uncertainties

PRC

The Chinese market poses certain legal and regulatory risks and uncertainties to the Group's operations. These uncertainties extend to the ability of the Group to develop its telecom VAS business and to provide internet services in the PRC. Though the PRC has, since 1978, implemented a wide range of market-oriented economic reforms, continued reforms and progress towards a full market-oriented economy are uncertain. In addition, the telecommunication and internet industries remain highly regulated. Restrictions are currently in place or are unclear with regard to which specific industry segments foreign-owned entities, like the Group, may operate. The Group's legal structure and scope of operations in the PRC could be subject to restrictions which could result in severe limitations on the Group's ability to conduct business in the PRC, and this could have a material adverse impact on the Group's financial position, results of operations and cash flows.

Indonesia

The Group operates in a legal and regulatory environment in Indonesia that is undergoing change. The reformed regulation of the Indonesian telecommunications sector, which was initiated by the Indonesian Government in 1999, has to a certain extent resulted in the liberalization of the telecommunications industry, including facilitation of new market entrants for telecommunications service providers and changes to the competitive structure of the telecommunications industry. As we rely on our partnership with the telecommunications service providers and depend to a significant degree on the uninterrupted operation of their network to provide our VAS services, any disruption could have a material adverse impact on the Group's financial position, results of operations and cash flows.

The Board of Indonesian Telecommunication Regulatory ("BRTI") through its circular letter dated October 18, 2011 No. 177/BRTI/X/2011 addressed to ten telecommunication network operators has requested those operators to cease promoting premium messages through SMS broadcast, pop-screen, voice broadcast, and to deactivate all premium messages such as SMS, MMS, ring tone, games and wall paper until a period of time to be further determined by BRTI. The process of deactivation is done by issuing notification to deactivate and information on how to re-activate by those who intends to re-subscribe without charging additional re-activation costs. This circular letter was issued as a response to public complaints against operators of premium messaging. This could have a material adverse impact on the Group's revenue, results of operations and cash flows.

21 Employee Benefits

PRC contribution plan

Full-time employees of the Company, its subsidiaries and VIEs in the PRC participate in a government-mandated multi-employer defined contribution plan pursuant to which certain pension benefits, medical care, unemployment insurance, employee housing fund and other welfare benefits are provided to employees. Chinese labor regulations require that the Company and its subsidiaries accrue for these benefits based on certain percentages of the employees' salaries. The total expenses for such employee benefits were $798,345 and $1,760,939 for the years ended December 31, 2012 and 2013, respectively.

Singapore contribution plan

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity such as the Central Provident Fund or pension on a mandatory, contractual or voluntary basis. The entity will have no legal or constructive obligation to pay further amounts once the contributions have been paid. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in the consolidated statement of operations and comprehensive income/loss in the periods during which services are rendered by employees. For the years ended December 31, 2012 and 2013, the Group, via its Singaporean subsidiary, recorded an expense of $345,297 and $233,674, respectively.

Indonesian contribution plan

PT Linktone, the Group's Indonesian subsidiary, has a defined contribution pension program in which it had entered into a Cooperation Agreement Pension Benefit Service Program with the Financial Institution Pension Fund in October 2009 for an indefinite period of cooperation. The total provision for such employee benefits of $18,864 and $19,307 was charged to the statement of operations and comprehensive income/loss during the year ended December 31, 2012 and 2013, respectively.

22 Statutory Reserves

The Company's subsidiaries and VIEs in the PRC must make appropriations from after-tax profits to non-distributable reserve funds. Its subsidiaries, in accordance with the laws on Enterprise with Foreign Investment in China, must make appropriations to (i) a general reserve and (ii) an enterprise expansion fund. The general reserve fund requires annual appropriations of 10% of after-tax profit, as determined under generally accepted accounting principles in the PRC ("PRC GAAP") at each year end, until such fund has reached 50% of the subsidiary's registered capital. The enterprise expansion fund appropriation is at the subsidiary's discretion. The Company's VIEs, in accordance with PRC Company Laws, may make appropriations to (i) a statutory reserve fund and (ii) a discretionary surplus fund. The statutory reserve fund requires annual appropriations of 10% of after-tax profit, as determined under PRC GAAP at each year end, until such fund has reached 50% of the VIE's registered capital. Discretionary surplus fund appropriation is at the VIE's discretion.

The general reserve fund and statutory reserve fund can only be used for specific purposes, such as offsetting of accumulated losses, enterprise expansion or increasing the registered capital. The enterprise expansion fund is generally used to expand the production and operations; however, it also may be used for increasing the registered capital. The discretionary surplus fund may be used for any purposes at management's discretion. These funds are not transferable to the Company in the form of cash dividends, loans or advances.

As of December 31, 2012 and 2013, the Group had balance of $2,499,512 and $2,913,996 in these non-distributable reserve funds.

23 Income taxes

Cayman Islands, British Virgin Islands and UAE

Under the current laws of the Cayman Islands, British Virgin Islands and UAE, Linktone, Brilliant, Ojava Overseas Linktone International and Innoform International are not subject to tax on income or capital gains.

Hong Kong

Under the current laws of Hong Kong, Noveltech, InnoForm HK and Linktone Media are subject to tax on income in Hong Kong at 16.5%.

Indonesia

Under the current laws of the Republic of Indonesia, PT Linktone, PT Innoform and Cakrawala is subject to tax on income at 25%.

Singapore

Under the current laws of the Republic of Singapore, InnoForm Media and its subsidiaries in Singapore are subject to tax on income at 17%.

Malaysia

Under the current laws of Malaysia, InnoForm Malaysia is subject to tax on income at 25%.

PRC

On March 16, 2007, the National People's Congress of China approved the new Enterprise Income Tax Law of the PRC (the "new EIT law"), which is effective from January 1, 2008.

The new EIT law imposes a unified income tax of 25%. The new EIT law allows a five-year transitional period for entities established before March 16, 2007 that enjoyed a reduced tax rate or a tax holiday under the old EIT law. The transitional rule generally provides for a gradual increase to 25% and, where applicable, continuation of prior tax holidays until their expiration otherwise provided under the old EIT law. Under the new EIT law, qualified and approved high and new technology enterprises enjoy a preferential income tax rate of 15%.

The applicable income tax rates for the Group's PRC subsidiaries and VIEs vary. Linktone Consulting, Weilan, Ruida, Wei Lian, Lang Yi, Xian Feng and Xintong's applicable tax rates are 25% starting 2008. From 2012 onwards, tax rates for Zhong Tong, Linktone Software, Wang You and Ling Yu is 25%.

(In U.S. dollars, unless otherwise stated)

23 Income taxes (Continued)

Huitong and Linktone Internet are foreign investment production enterprises located in a coastal economic development zone in the old urban district. Huitong was recognized as high and new technology enterprise ("HNTE") by the tax bureau in May 2010. In 2012, Huitong received renewed HNTE certificate that is valid for the years 2012 to 2014. Linktone Internet applicable tax rate starting 2010 is 25%.

Yuan Hang, Cosmos, Lian Fei and Beijing Ojava were high and new technology enterprises prior to January 1, 2008 and enjoyed a reduced tax rate of 15% and tax holiday of either two or three years of exemption followed by three years of 50% reduced tax rate. In 2011, Yuan Hang qualified as a high and new technology enterprise and will continued to be entitled to reduced tax rate of 15% from 2011 to 2013, subject to meeting certain criteria on an annual basis. Cosmos, Lian Fei and Beijing Ojava did not qualify as high and new enterprises and the applicable tax rates will be at 25%.

Letang qualified as a comic and animation enterprise in 2010 and was therefore entitled to a two year national and local tax exemption followed by three years of 50% reduction in national and local income tax rates. The qualification for the preferential tax rate needs to be applied to and re-approved on an annual basis. Letang started its tax holiday of two years exemption from 2010.

Unilink, Qimingxing and Lianyu are considered as small businesses and are taxed based on the deemed profit method.

The new PRC Enterprise Income Tax Laws (the "PRC Income Tax Laws") also impose a 10% withholding income tax for dividends distributed by a foreign invested enterprise to its immediate holding company outside the PRC, which were exempted under the previous income tax and rules. A lower withholding tax rate will be applied if there is a tax treaty arrangement between the PRC and the jurisdiction of the foreign holding company.

According to the relevant PRC regulations, dividends on profit earned before January 1, 2008 are not subject to the withholding income tax, while the dividend on profits earned after January 1, 2008 are subject to the withholding income tax. However as of December 31, 2012 and December 31, 2013, the Group did not make any provision on withholding tax of profit earned by some of its PRC subsidiaries because based on the business plan for the foreseeable future, there is no plan to distribute the retained earnings of the Group's PRC subsidiaries as it intend to retain such cash for re-investment in the PRC operations.

In accordance with the PRC Income Tax Laws effective from January 1, 2008, enterprises established under the laws of foreign countries or regions and whose "place of effective management" is located within the PRC territory are considered PRC resident enterprises, subject to the PRC income tax at the rate of 25% on worldwide income. The definition of "place of effective management" shall refer to an establishment that exercises, in substance, overall management and control over the production and business, personnel, accounting, properties, etc. of an enterprise. The Group's non-PRC entities, if considered a PRC tax residence enterprise for tax purposes, would be subject to the PRC Enterprise Income Tax at the rate of 25% on their worldwide income. Income/(loss) before income taxes from continuing operations consists of:

	For the years ended December 31,	
	2012	2013
	$	$
Cayman	20,878,593	(10,090,267)
Indonesia	(1,417,674)	(1,402,613)
Singapore	(1,663,174)	(4,949,665)
Malaysia	(517,183)	(276,222)
PRC	(6,219)	(423,416)
Total income/(loss) before taxes	17,274,343	(17,142,183)

(In U.S. dollars, unless otherwise stated)

23 Income taxes (Continued)

The benefit from taxes on income from continuing operations consists of:

	For the years ended December 31,	
	2012	2013
	$	$
Current	466,010	117,484
Deferred	794,598	475,779
Total	1,260,608	593,263

The following is reconciliation between the statutory PRC Enterprise Income Tax rate in China and the Group's effective tax rate for continuing operations:

	For the years ended December 31,	
	2012	2013
Statutory PRC Enterprise Income Tax rate	25%	25%
International tax rate differences	(29)%	(16)%
Non-deductible expenses/non-taxable income	1%	–
Change in valuation allowance	(1)%	(5)%
Adjustment to prior-year tax provision	(3)%	–
FIN 48	–	(1%)
Effective tax rate for continuing operations	(7)%	3%

(In U.S. dollars, unless otherwise stated)

23 Income taxes (Continued)

The Group's deferred tax assets and deferred tax liabilities at each balance sheet date are as follows:

	As of	
	December 31, 2012	December 31, 2013
	$	$
Deferred tax assets:		
Intangible and other assets	–	233,628
Deferred revenue	63,318	74,542
Accrued liabilities and other payables	2,439,494	908,435
Advertising expenses	459,486	61,858
Net operating losses	1,714,014	2,511,704
Others	912,762	1,137,571
Total deferred tax assets for continuing operations	5,589,074	4,927,738
Valuation allowance for continuing operations	(2,722,886)	(2,577,017)
Total deferred tax assets for discontinued operations	4,342,076	2,663,142
Valuation allowance for discontinued operations	(3,657,427)	(2,354,223)
Total deferred tax assets, net of valuation allowance	3,550,837	2,659,640
Deferred tax liabilities:		
Accrued income	(1,888,837)	(330,898)
Intangible assets	(1,989,206)	(2,703,376)
Others	(225,048)	(77,570)
Deferred tax liabilities for continuing operations	(4,103,091)	(3,111,844)
Deferred tax liabilities for discontinued operations	(684,649)	(308,920)
Total deferred tax liabilities	(4,787,740)	(3,420,764)
Net deferred tax liabilities	(1,236,903)	(761,124)
Deferred tax assets — current	732,987	326,952
Deferred tax liabilities — current	(516,977)	(227,828)
Deferred tax assets — non-current	729,386	45,228
Deferred tax liabilities — non-current	(2,182,299)	(905,476)
Net deferred tax liabilities	(1,236,903)	(761,124)

The Group's valuation allowance movements for the years ended December 31, 2012 and 2013 are as follows:

	Continuing Operations		Discontinued Operations	
	December 31, 2012	December 31, 2013	December 31, 2012	December 31, 2013
	$	$	$	$
Beginning Balance	2,884,640	2,722,886	3,682,878	3,657,427
Movement	(169,282)	(231,897)	–	(1,445,014)
Translation Difference	7,528	86,028	(25,451)	141,809
Ending Balance	2,722,886	2,577,017	3,657,427	2,354,222

(In U.S. dollars, unless otherwise stated)

23 Income taxes (Continued)

Management has assessed whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The Group recorded a valuation allowance of $6,380,313 and $4,931,240 and as of December 31, 2012 and 2013 respectively, to reduce the deferred tax assets to the amount management believes is more likely than not realizable.

As of December 31, 2012 and 2013, the Group has a net tax operating loss carry forward of $22,189,940 and $17,993,161 attributed to 15 PRC subsidiaries, including discontinued operations of $16,601,753 and $8,499,751, respectively. The net operating losses will expire between 2013 and 2015 if unutilized.

The Company intends to permanently reinvest all undistributed earnings of its foreign subsidiaries as of December 31, 2013. The amount of unrecognized deferred tax liabilities for temporary differences related to investments in foreign subsidiaries is not determined because such a determination is not practicable.

During the year ended December 31, 2007, the Company recorded a tax provision of $100,671 related to uncertain tax positions on promotional and research and development expenses.

	December 31, 2012	December 31, 2013
	$	$
Ending balance	100,671	–

Movement of in tax provision

	December 31, 2012	December 31, 2013
	$	$
Balance at beginning of period	100,671	100,671
Write off against provision	–	(100,671)
Balance at end of period	100,671	–

The Group recognizes interest and penalties related to uncertain tax positions in income tax expense. In 2013,the Group reversed its liability, including interest and penalties related to uncertain tax positions as the statute of limitations for the relevant taxing authority to examine and challenge the tax positions has expired in 2013. The Group recorded accrued interest expense of $190,636 and $nil as of December 31, 2012 and 2013 respectively.

In general, the PRC tax authority have up to five years to conduct examinations of the tax filings, accordingly, the PRC entities' tax years 2008 through 2013 remains open to examination by the PRC tax authority. The Indonesia and Singapore subsidiaries' tax filings for 2010 through 2013 remains open to examination by the respective tax authority.

24 Stock option plans

The Board of Directors approved two stock options plans: the 2000-1 Employee Stock Option Scheme and 2003 Stock Incentive Plan (together referred to as “2003 Plans”) in November 2003. The 2003 Plans govern all stock incentive awards since November 2003. The plans provide for the grant of share options to employees, directors and consultants. Options are granted with a term of up to 10 years and generally vest over service periods that range from one to four years. The plans are administered by the Compensation Committee designated by the Board of Directors.

The awards under the 2003 Plans are evidenced by an award agreement which contains, among other things, provisions, concerning exercisability and forfeiture upon termination of employment or consulting arrangement (by reason of death, disability, retirement or otherwise) as have been determined by the Board of Directors. In addition, in the case of stock options, the award agreement also specifies whether the option constitutes an ISO or a non-qualified stock option (also known as NQSs) and may but need not, include a provision whereby a grantee at any time during his or her employment with the Company may exercise any part or all of the award prior to full vesting of the awards.

(In U.S. dollars, unless otherwise stated)

24 Stock option plans (Continued)

Stock-based compensation cost

The compensation cost charged as an expense was $156,367 and $101,904 for the years ended December 31, 2012 and 2013, respectively, which was recorded in general and administrative expenses.

Valuation assumptions

The Company calculated the fair value of each option grant on the date of grant using the Black-Scholes option pricing model using the following inputs: risk free interest rate of 1.20% to 2.50%, expected life of 6 years and volatility of 63% to 65%. The options were granted in 2011 and no new options were issued for the year ended December 31, 2012 and 2013.

Share options granted to employees	Number of shares	Weighted-average exercise price	Weighted average remaining contractual term (years)	Aggregate intrinsic value
		$		$
Outstanding, December 31, 2012	7,109,000	0.19	7.38	686,900
Cancelled	(3,000)	0.68	—	—
Outstanding, December 31, 2013	7,106,000	0.19	6.38	20,000
Vested and expected to vest as of December 31, 2013	7,106,000	0.19	6.38	20,000
Exercisable as of December 31, 2013	5,106,000	0.22	5.90	20,000

The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the fair value of the Company's shares as of December 31, 2013 for those awards that have an exercise price currently below the fair value of the Company's shares. No options were exercised during 2012 and 2013.

The weighted average fair value of options vested during the years ended December 31, 2012 and 2013 was $nil and $nil per option, respectively.

The following is additional information relating to options outstanding as of December 31, 2013:

	Options outstanding as of December 31, 2013			Options exercisable as of December 31, 2013		
Range of exercise price	Options outstanding	Weighted Average remaining contractual life (years)	Weighted average exercise price ($)	Number exercisable	Weighted average remaining contractual life (years)	Weighted average exercise price ($)
$0.07-$0.11	2,500,000	7.88	0.11	1,250,000	7.88	0.11
$0.15 - $0.29	4,270,000	5.96	0.18	3,520,000	5.71	0.18
$0.68 - $0.78	116,000	1.29	0.69	116,000	1.29	0.69
$1.02 - $1.40	220,000	0.16	1.08	220,000	0.16	1.08
	7,106,000	6.38	0.19	5,106,000	5.90	0.19

As of December 31, 2012 and 2013, based on the par value at the grant date, there was $0.2 million and $0.1 million of unrecognized share-based compensation cost related to share options issued to employees, which is expected to be recognized over a weighted-average vesting period of 1.55 and 0.55years. To the extent the actual forfeiture rate is different from current estimates, actual share-based compensation related to these awards may be different from the expectation. The expected forfeiture rate of the stock options granted as of December 31, 2012 and 2013 is nil and nil respectively.

The total fair value of vested and invested share options as of December 31, 2012 and 2013 were $318,885 and $318,885 respectively.

(In U.S. dollars, unless otherwise stated)

25 Related party transactions

Due from/(to) related parties include:

	As of	
	December 31, 2012	December 31, 2013
	$	$
Accounts receivable (i), (ii)	1,641,016	1,207,112
Receivable from other related parties	115,385	731,627
Due from related parties	1,756,401	1,938,739
Due to related parties	(1,246,120)	(3,092,013)

The Group and the following entities are under the common control:

1) MNC
2) Infokom
3) PT Rajawali Citra Televisi Indonesia ("RCTI")
4) PT Global Informasi Bermutu ("Global TV")
5) Sky Vision
6) PT Cipta Telivisi Pendidikan Indonesia ("MNC TV")

(i) In October 2009, PT Linktone entered into cooperation agreements with Infokom and MNC. Infokom is an Indonesia corporation and a subsidiary of GMC. Pursuant to these agreements, PT Linktone operated its VAS business in Indonesia through the VAS access numbers owned by Infokom and MNC. In 2011, PT Linktone has successfully changed the ownership of VAS access number owned by MNC to PT Linktone.

In 2013, total revenue generated from the use of short codes owned by Infokom was $1,879,218 and $1,916,857 for the financial years ended December 31, 2012 and 2013 respectively. As of December 31, 2012 and 2013, amount due from Infokom was $1,609,155 and $936,470.

As at December 31, 2012 and 2013 and PT Linktone recorded total fees payable to Infokom of $202,805 and $51,527 respectively.

(ii) In 2012 and 2013, PT Linktone has generated revenue other than VAS including TV promotions and trading from MNC amounting to $11,757 and $nil respectively. As of December 31, 2012 and 2013, amounts due from MNC was $31,861and $18,945, respectively.

(iii) In October 2009, PT Linktone entered into another cooperation agreement with MNC whereby MNC agreed to promote PT Linktone's products, programs or content on three television stations owned by MNC — PT Rajawali Citra Televisi Indonesia ("RCTI"), PT Cipta Televisi Pendidikan Indonesia ("MNC TV") and PT Global Informasi Bermutu ("Global TV"). As compensation, RCTI, MNC TV and Global TV each receive a percentage of the revenue generated when customers used the short code suffix specific to their respective television program. PT Linktone also provides SMS services, such as SMS polling for each television station's entertainment programs, in exchange for a percentage of the revenues generated by such services. The term of this agreement is five years from the date of the agreement. In 2013, PT Linktone paid MNC TV $ nil. For the financial years ended 2012 and 2013, revenue generated from the Group's cooperation with RCTI was $0.6 million and $0.8 million respectively.

(iv) Short-term investments

In 2013, net unrealized gain for the financial year ended December 31, 2012 and 2013 of $10.1 million and $4.1 million respectively and realized gain for the financial year ended December 31, 2012 and 2013 of $29.0 million and $5.7 million respectively was recorded on the marked-to-market valuation of these held-for-trading quoted investment. Such amounts were recorded in Other Operating Income.

(v) Credit facility

In October 2010 and May 2011, a bank in Singapore extended a term loan of S$2 million and credit facility to the Group's subsidiary, InnoForm Media, with a total facility limit of S$10 million ($7.9 million) a sub-limit of S$3 million ($2.4 million) for overdraft facility. The facilities are secured by a corporate guarantee from MNC. As of December 31, 2012 and 2013, the Group utilized $5.1 million and $6.7 million respectively, of the credit facility on bank overdraft and revolving loans and the term loan outstanding as of December 31, 2012 and 2013 were $0.5 million and $nil million respectively.

(vi) Distribution of MNC content

In January 2012, Innoform International Ltd ("IIL") entered into a distributorship agreement with MNC International Ltd ("MIL") whereby MIL agreed to appoint IIL to be its non-exclusive distributor to distribute and market certain television programs and channels outside of Indonesia. MIL is an indirect subsidiary of GMC. As compensation, IIL is entitled to any income generated from the distribution of such programs and channels after paying certain fixed fees to MIL. For year ended December 31, 2012 and 2013 IIL generated $1.2 million and $1.0 million in revenues from this distributorship agreement, of which $1.1 million and $0.2 million was payable to MIL as of December 31, 2012 and 2013 respectively. As of December 31, 2012 and 2013, amount payable to MIL was $0.4 million and $2.1 million, respectively.

(vii) Acquisition of Okezone.com

In May 2012, the Group acquired online portal okezone.com and certain fixed assets with carrying value of IDR 1.7 billion ($0.2million) from PT Okezone, a subsidiary of MNC, for IDR 4.5 billion ($0.5million).

(viii) Loan from related party

In 2012, PT Linktone obtained a loan of $0.5million (IDR 5.0 billion) from PT. Media Nusantara Citra Tbk at interest rate of 8% per annum. As of December 31, 2013, this loan of $0.4million is still outstanding.

(In U.S. dollars, unless otherwise stated)

26 Commitments and contingencies

(a) Operating lease commitments

The Group rents offices under operating lease agreements. As of December 31, 2013, the net aggregate minimum future lease payments under non-cancelable operating leases are as follows:

	$
12 months ended December 31, 2014	808,223
12 months ended December 31, 2015	54,004
12 months ended December 31, 2016	22,691
12 months ended December 31, 2017	25,335
Total	910,253

As of December 31, 2013, the Group had no operating lease commitments beyond December 31, 2017.

For the years ended December 31, 2012 and 2013, the Group incurred total office rental expense of $752,784 and $955,906, respectively.

(b) Standby letter of credit ("SBLC")

A bank issued a SBLC on behalf of one of the subsidiaries of the Group, Innoform Media Pte Ltd, for amount $2.59 million and $1.1 million for the years ended December 31, 2012 and 2013 to a licensor to guarantee payment of quarterly installments of minimum guarantees under a licensing contract for 2 years from September 2012.

27 Subsequent events

The Company announced on January 2, 2014 that it is repositioning its strategic focus and refining its business vision. This multi-faceted initiative involves concentrating on high growth businesses in China and elsewhere, and transitioning away from telecommunication value-added services in China.

The Company announced on January 15, 2014 that it has filed a Form 15 with the U.S. Securities and Exchange Commission ("SEC") to voluntarily deregister its ordinary shares and American Depositary Shares ("ADSs") under the Securities Exchange Act of 1934. The filing suspends the Company's obligation to file certain reports with the SEC, including Forms 20-F and 6-K. Other filing requirements will terminate upon the effective date of the deregistration, which is expected to occur 90 days after the filing of the Form 15.