

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

**FORM 20-F**

(Mark One)

- REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934  
OR
- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2011  
OR
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
OR
- SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
Date of event requiring this shell company report  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number: 000-50596

**LINKTONE LTD.**

(Exact name of Registrant as specified in its charter)

N/A

(Translation of Registrant's name into English)

Cayman Islands

(Jurisdiction of incorporation or organization)

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(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Name of each exchange and Title of each class on which registered:

American Depository Shares, each representing 10 ordinary shares, par value US\$0.0001 per share,  
NASDAQ Global Market

Securities registered or to be registered pursuant to Section 12(g) of the Act.

NONE

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

NONE

(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report: 410,422,650 ordinary shares, par value US\$0.0001 per share.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or (15)(d) of the Securities Exchange Act of 1934. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer  Accelerated Filer  Non-Accelerated Filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP  International Financial Reporting Standards as issued by the International Accounting Standards Board  Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

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## **INTRODUCTION**

This annual report on Form 20-F includes our audited consolidated financial statements as of December 31, 2010 and 2011 and for the years ended December 31, 2009, 2010 and 2011.

### **Forward-Looking Information**

This annual report contains forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended. 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,” “expect,” “anticipate,” “future,” “intend,” “plan,” “believe,” “seek,” “estimate” 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 but not limited to those risks and uncertainties identified under Item 3.D. “Risk Factors.” We would like to caution you not to place undue reliance on these statements, and you should read these statements in conjunction with the risks and uncertainties identified under Item 3.D. “Risk Factors.”

All forward-looking statements in this annual report are made as of the date of filing hereof, based on information available to us as of that date, and we assume no obligation to update or revise any of these forward-looking statements even if experience or future changes show that the indicated results or events will not be realized.

## **PART I**

### **Item 1. Identity of Directors, Senior Management and Advisers**

Not Applicable.

### **Item 2. Offer Statistics and Expected Timetable**

Not Applicable.

### **Item 3. Key Information**

#### **A. Selected Financial Data**

The following table presents the selected consolidated financial information for our business. You should read the following information in conjunction with Item 5 “Operating and Financial Review and Prospects.” The following data as of December 31, 2010 and 2011 and for the years ended December 31, 2009, 2010 and 2011 has been derived from our audited consolidated financial statements for those years and should be read in conjunction with those statements, which are included in this annual report beginning on page F-1. The following data as of December 31, 2007, 2008 and 2009 and for the years ended December 31, 2007 and 2008 has also been derived from our audited consolidated financial statements for those years, which are not included in this annual report. Our audited financial statements for the foregoing periods were prepared in accordance with United States generally accepted accounting principles, or U.S. GAAP.

All amounts below are in U.S. dollars, except for share number data.

	For the year ended December 31,				
	2007 (1)	2008	2009	2010	2011
	\$	\$	\$	\$	\$
<b>Statements of Operations and Comprehensive Income Data:</b>					
Gross revenue from non-related parties	49,714,795	67,025,802	61,516,694	69,878,417	55,742,117
Gross revenue from related parties	—	—	700,000	1,829,608	4,935,056
Sales tax	(1,751,517)	(2,520,119)	(2,303,289)	(2,087,121)	(1,591,748)
Net revenue	47,963,278	64,505,683	59,913,405	69,620,904	59,085,425
Cost of revenue	(20,377,795)	(33,837,630)	(38,941,272)	(47,137,394)	(36,202,433)
Gross profit	27,585,483	30,668,053	20,972,133	22,483,510	22,882,992
Operating expenses:					
Product development	(5,506,938)	(3,177,071)	(3,316,507)	(2,811,783)	(3,230,445)
Selling and marketing	(13,787,153)	(13,130,513)	(9,318,469)	(8,377,743)	(8,566,257)
General and administrative	(11,762,028)	(9,901,474)	(8,220,999)	(12,325,334)	(12,638,207)
Reversal of contingent consideration payable	—	—	—	—	1,618,816
(Provision for impairment) / Gain on bad debts recovery	(5,142,396)	—	(2,068,127)	(1,102,265)	110,425
Total operating expenses	(36,198,515)	(26,209,058)	(22,924,102)	(24,617,125)	(22,705,668)
Income (loss) from continuing operations	(8,613,032)	4,458,995	(1,951,969)	(2,133,615)	177,324
Interest income, net of financial expenses (2)	1,111,337	1,728,654	1,614,575	2,278,593	2,398,065
Other income (loss), net of other expenses	467,690	384,553	431,005	701,884	(264,934)
Other-than-temporary impairment loss on investments	—	(1,476,937)	—	—	—
Dividend income from short-term investments	—	—	—	—	314,300
Gain on sales of short-term investments	—	—	—	—	4,962,873
Income (loss) from continuing operations before income tax	(7,034,005)	5,095,265	93,611	846,862	7,587,628
Income tax expense	(433,657)	(786,057)	(579,270)	(1,439,261)	(1,299,981)
Net income (loss) from continuing operations	(7,467,662)	4,309,208	(485,659)	(592,399)	6,287,647
Income (loss) from discontinued operations	(8,936,340)	(20,807,008)	596,551	315,256	—
Net income (loss)	(16,404,002)	(16,497,800)	110,892	(277,143)	6,287,647
Net income attributable to non-controlling interest	—	—	—	(301,582)	(1,024,205)
Net income (loss) attributable to the shareholders of the shareholders of the Company	(16,404,002)	(16,497,800)	110,892	(578,725)	5,263,442
Earnings (loss) per share:					
Basic:					
Continuing operations	(0.03)	0.01	(0.00)	(0.00)	0.01
Discontinued operations	(0.04)	(0.05)	0.00	0.00	0.00
Total net income (loss)	(0.07)	(0.04)	0.00	(0.00)	0.01
Diluted:					
Continuing operations	(0.03)	0.01	(0.00)	(0.00)	0.01
Discontinued operations	(0.04)	(0.05)	0.00	0.00	0.00
Total net income (loss)	(0.07)	(0.04)	0.00	(0.00)	0.01
Weighted-average number of ordinary shares:					
Basic	239,499,334	374,285,807	420,677,724	420,980,146	420,041,022
Diluted	239,499,334	374,847,328	420,677,724	420,980,146	420,088,521
<b>Statements of Cash Flows Data:</b>					
Cash flows from:					
Operating activities of continuing operations	4,592,626	7,970,372	546,684	1,237,562	3,146,273
Operating activities of discontinued operations	(14,779,630)	(10,799,804)	4,395,367	—	—
Investing activities of continuing operations	(3,042,125)	(12,887,561)	(6,480,967)	(25,686,289)	(22,093,815)
Investing activities of discontinued operations	(566,181)	(16,210)	—	—	—
Financing activities of continuing operations	25,847	57,359,539	(438,160)	3,188,321	(142,161)

(1) The statements of operations and comprehensive income data for the year ended December 31, 2007 has been adjusted to show the financial results of our advertising business (which included various cross-media advertising arrangements as described in Item 4.B. "Information on the Company — Business Overview — Cross-Media Advertising Business") as discontinued operations. That business segment started in the fourth quarter of 2006 and was terminated in the third quarter of 2008.

(2) Interest income includes \$325,080, \$85,594 and nil from related parties for the years ended December 31, 2009, 2010 and 2011, respectively.

	As of December 31,				
	2007	2008	2009	2010	2011
	\$	\$	\$	\$	\$
<b>Balance Sheet Data:</b>					
Cash, cash equivalents and restricted cash	39,646,522	81,593,823	79,477,153	59,449,183	41,524,906
Short-term investments	2,315,334	14,372,646	19,702,747	33,809,913	56,584,958
Accounts receivable, net	10,164,756	15,245,030	11,838,597	15,491,479	17,048,783
Due from related parties	—	7,984,450	10,812,178	2,398,114	2,375,450
Tax refund, other receivables and other current assets	14,644,396	7,827,173	5,488,297	10,605,859	7,366,663
Inventories	—	—	—	2,304,716	1,881,749
Property and equipment, net and non-current assets held for sale	2,258,814	1,031,543	530,769	12,615,968	12,010,310
Goodwill, intangible assets and other long-term assets	21,315,116	15,348,053	12,577,791	54,601,488	51,403,411
<b>Total assets</b>	<b>90,344,938</b>	<b>143,402,718</b>	<b>140,427,532</b>	<b>191,276,720</b>	<b>190,196,230</b>
Total liabilities	13,551,129	15,192,667	11,536,511	37,569,112	27,720,209
Non-controlling interests	108,066	—	—	21,623,084	22,645,840
<b>Net assets</b>	<b>76,685,743</b>	<b>128,210,051</b>	<b>128,891,021</b>	<b>132,084,524</b>	<b>139,830,181</b>
Capital stock	72,226,201	137,602,238	137,880,965	137,624,069	136,362,815

### Exchange Rate Information

Our business is currently primarily conducted in and from China, Singapore and Indonesia in their respective currencies — Renminbi (RMB), Singapore dollar (SGD) and Indonesian rupiah (IDR). In this annual report, all references to Renminbi or RMB, Singapore dollar or SGD and 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 conversion of RMB, SGD and IDR into U.S. dollars in this annual report 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. For reader convenience, this annual report contains translations of (1) some Renminbi to U.S. dollar amounts at US\$1.00 : RMB6.3009, (2) some Singapore dollar to U.S. dollar amounts at US\$1.00: SGD1.2972 and (3) some rupiah to U.S. dollar amounts at US\$1.00: IDR 9,091, all of which were the middle rates for the respective currencies on December 31, 2011. The published middle rate on April 20, 2012 was US\$1.00 : RMB6.3167, US\$1.00 : SGD1.2515 and US\$1.00 : IDR9,183. We make no representation that any Renminbi, Singapore dollar, rupiah or U.S. dollar amounts could have been, or could be, converted into U.S. dollars or such currencies, as the case may be, at any particular rate, the rates stated below, or at all. The Chinese government imposes control over its foreign currency reserves in part through direct regulation of the conversion of Renminbi into foreign exchange and through restrictions on foreign trade.

The following table sets forth the average middle rates for Renminbi, Singapore dollars and Indonesian rupiah expressed as per one U.S. dollar for the years 2007, 2008, 2009, 2010 and 2011:

<u>Year</u>	Average (1)	RMB	SGD	IDR
2007		7.6040	1.4582	9,132
2008		6.9451	1.4134	9,465
2009		6.8310	1.4526	10,408
2010		6.7695	1.3434	8,996
2011		6.4588	1.2561	8,776

(1) Determined by averaging the middle rate between buying and selling rates on the last business day of each month during the relevant period.

The following table sets forth the high and low middle rates for the Renminbi, Singapore dollar and Indonesian rupiah expressed as per one U.S. dollar during the past six months.

Month Ended	RMB		SGD		IDR	
	High	Low	High	Low	High	Low
October 31, 2011	6.3643	6.2881	1.3142	1.2402	8,834	8,757
November 30, 2011	6.3907	6.3141	1.3045	1.2933	9,251	9,081
December 31, 2011	6.3229	6.2239	1.3017	1.2992	9,009	8,969
January 31, 2012	6.3414	6.2654	1.2569	1.2525	8,969	8,953
February 29, 2012	6.3103	6.2348	1.2577	1.2534	9,083	9,017
March 31, 2012	6.3073	6.2318	1.2594	1.2551	9,234	9,083

**B. Capitalization and Indebtedness**

Not Applicable.

**C. Reasons for the Offer and Use of Proceeds**

Not Applicable.

**D. Risk Factors**

**RISKS RELATED TO OUR BUSINESS**

**We depend on the principal mobile and fixed line telecommunication network operators in China and Indonesia for delivery of our telecom value-added services, and the termination or alteration of our various contracts with any of them or their provincial or local affiliates could materially and adversely impact our business.**

In China, we offer all of our China-based telecom value-added services, or VAS, to users through three principal mobile phone and fixed line network operators in China, China Mobile Communications Corporation, or China Mobile, China United Telecommunications Corporation, or China Unicom, and China Telecom Group, or China Telecom, which service substantially all of China’s approximately 900 million mobile phone subscribers at the end of December 2011. As of December 2011, China Mobile had approximately 660 million mobile subscribers, or 73% of the mobile phone service market in China, China Unicom had approximately 167 million mobile subscribers, or 18% of the mobile phone service market in China, and China Telecom had approximately 93 million mobile subscribers, or the remaining 9% of the mobile phone service market in China. Given their dominant market position, our negotiating leverage with China Mobile, China Unicom and China Telecom is limited. For 2009, 2010 and 2011, we derived approximately 74.4%, 52.4%, and 70.7% respectively, of our China gross revenue from China Mobile and are, therefore, particularly dependent on that operator.

Our services are provided pursuant to contracts that we have with the national offices of the operators, as well as several of their provincial and local affiliates. Each of these contracts is non-exclusive, and has a limited term (generally one or two years). We usually renew these contracts or enter into new ones when the prior contracts expire, but on occasion the renewal or new contract can be delayed by periods of one month or more. The terms of these contracts vary, but the operators are generally entitled to terminate them in advance for a variety of reasons or, in some cases, for unspecified reasons at their discretion. For example, several of our contracts with the operators can be terminated if:

- we fail to achieve performance standards which are established by the applicable operator from time to time,
- we breach our obligations under the contracts, which include, in many cases, the obligation not to deliver content that violates the operator’s policies and applicable law, and exclusivity provisions prohibiting us from offering services which are the same as the services we provide to any other telecommunications service providers,

- the operator receives high levels of customer complaints about our services, or
- the operator sends us written notice that it wishes to terminate the contract at the end of the applicable notice period.

In Indonesia, we offer our VAS services through nine mobile network operators, principally the three largest — PT Telekomunikasi Selular, or Telkomsel, PT Indosat Tbk, or Indosat, PT XL Axiata Tbk, or XL. Given their dominant market position, our negotiating leverage with Telkomsel, Indosat and XL is limited. In 2011, our revenue from VAS in Indonesia represented 13.5% of our total revenue, and we are particularly dependent on Telkomsel, which contributed approximately 68% of our VAS revenue from Indonesia in that year.

Our services in Indonesia are provided pursuant to contracts that we have with the operators. Each of these contracts is non-exclusive and has a limited term (generally one year). As in China, we usually renew these contracts or enter into new ones when the prior contracts expire, but on occasion the renewal or new contract can be delayed by periods of one month or more. The terms of these contracts vary, but the operators are generally entitled to terminate them in advance for a variety of reasons or, in some cases, for unspecified reasons at their discretion. For example, several of our contracts with the Indonesia-based operators can be terminated after three notifications from the operators if:

- we make or produce content that is outside the content category determined in the contract;
- we engage in abuse or fraud in relation to any user content and/or customer service; or
- we engage in abuse or fraud in relation to access codes, tariffs, data configurations and technical specifications, or other actions that are outside the types of services that have been established in the contract.

If our various contracts with any of the operators in China or Indonesia are terminated or adversely altered, it may be impossible to find appropriate replacement operators with the requisite licenses and permits, infrastructure and customer base to offer our services, and our business would be significantly impaired.

**Changes in the regulation of the VAS markets in which we are operating, including the policies and procedures of the operators, have negatively affected our revenue. Further changes could materially and adversely impact our revenue, profitability and financial condition in the future.**

The VAS industries in China and Indonesia are heavily regulated, and the operators also have a wide range of policies regarding customer service, quality control and other aspects of the industry. As the industry has evolved over the last several years, the regulations, as well as operators' policies and procedures, have changed and been refined to improve overall service quality. In addition, the operators have unilaterally changed the way such policies and procedures have been enforced as applied to third party service providers such as ourselves, and may do so again in the future. We often only become aware of such policy or procedural changes when the operators inform us orally or provide us with a monthly statement indicating an additional charge, which in either case can happen months after the originating cause or issues arose. Because of this time delay, we cannot always confirm the existence of such issues or conform our systems in a timely manner.

For example, in response to policy directives from China's Ministry of Industry and Information Technology, or MIIT, China Mobile, China Unicom and China Telecom introduced significant changes to their operating policies in recent years. These policy changes by the operators negatively affected our revenue and profitability from 2G, 2.5G and audio-related services in 2009, 2010 and 2011. In response to measures taken by MIIT, in November 2009 China Mobile, China Unicom and China Telecom implemented a series of measures targeting to eliminate offensive or unauthorized content, including pornographic content, on Wireless Application Protocol (referred to as WAP in this annual report) sites in China, and suspended the ability of all of their third party WAP service providers, including our company, to charge for services, including services that do not contain offensive or unauthorized content. This suspension is still effective. Furthermore, in 2010 China

Mobile, China Unicom and China Telecom implemented additional measures in order to further improve user experience for mobile handset embedded services, including requiring additional notices to, and confirmations by, users before purchasing wireless VAS that are embedded in mobile handsets. The operators also began requiring SMS short codes, which are special telephone numbers shorter than full telephone numbers that are widely used for ordering VAS and other activities such as voting in television program contests, to be more tailored to the specific service offering or service partner (previously, a single SMS short code could be used for multiple service offerings or partners). We do not expect the measure on WAP services to materially adversely impact our revenue and profitability given that our revenue from WAP services has not been significant, but the measures on mobile handset embedded services and SMS short codes negatively affected our revenue and profitability from data-related services in 2010 and 2011. Moreover, subsequent changes to the operators' procedures starting in March 2010 have caused our revenue from IVR services to significantly decline since that time.

In addition, in October 2011, the Indonesia Telecommunication Regulatory Board (known as BRTI) issued a circular which prohibits VAS providers such as us from promoting premium SMS or other content, services and contests through unsolicited SMS messages or broadcasts, which limits our ability to promote our services. The circular also required existing customers to re-register with service providers in order to continue to receive VAS. As a result, our revenue from Indonesia has been, and is expected to continue to be, adversely affected by this circular. It has also recently been reported in the media that BRTI may amend existing telecom regulations in response to complaints from the public as a follow-up to its October 2011 circular. These requirements may impose additional requirements and restrictions on our business.

Any future changes to telecom regulations or the operators' policies and procedures, or in the way they are enforced, could result in a material and adverse effect on our revenue, profitability and financial condition.

**Our business has been adversely affected and will continue to be adversely affected if the operators continue to expand their own portfolio of VAS that compete with our services.**

The principal mobile operators in China, as well as in Indonesia, have been continuously increasing their offerings of VAS, such as personal information management, instant messaging, mobile news, location-based services, mobile commerce and other entertainment and informational services. We believe that mobile operators in our markets are focusing on greater adoption of VAS as their dependency on such revenue rises. The operators' offerings directly compete with our services, and the wide variety of services that mobile operators offer may make it increasingly difficult for us to compete effectively.

Our business has been affected by this trend and will be adversely affected further if any of the operators decides to further increase its own offerings of VAS to users of mobile and wireless devices. Moreover, we could be partially or fully denied access to their networks as the operators expand their service offerings.

**We depend on the operators to maintain accurate records and to pay us for services we provide.**

We depend on the operators to maintain accurate records of the fees paid by users and to pay us for services we provide. Specifically, the operators provide us with monthly statements that do not provide itemized information regarding which of our services are being paid for. As a result, monthly statements that we have received from the operators cannot be reconciled in detail to our own internal records for the reasons discussed below under “— Because the operators do not supply us with revenue and transmission information on a service-by-service basis, we can only estimate our actual gross revenue and our cost of revenue by service type, and as a result, which of our services are or may be profitable, all of which make it difficult to analyze the factors affecting our financial performance.” In addition, we have only limited means to independently verify the information provided to us in this regard because we do not have access to the operators' internal records. Our business and results of operations could be adversely affected if the operators miscalculate the revenue generated from our services and our portion of that revenue or if there is any miscommunication between us and the mobile operators regarding our revenue earned.



**Our revenue and cost of revenue are affected by billing and transmission failures which are often beyond our control.**

In China and Indonesia, we do not collect fees for our services from the operators in a number of circumstances, including if:

- the delivery of our service to a customer is prevented because his or her phone is turned off for an extended period of time, the customer's prepaid phone card has run out of value or the customer has ceased to be a customer of the applicable operator,
- the operator experiences technical problems with its network that prevent the delivery of our services to the customer,
- we experience technical problems with our technology platform that prevent delivery of our services, or
- the customer refuses to pay for our service due to quality or other problems.

These situations are known in the industry as billing and transmission failures, and we do not recognize or receive any revenue for services which are characterized as billing and transmission failures by the operators. Billing and transmission failures can significantly affect our revenue. In China, we are also required to pay some of our content and distribution channel providers a percentage of the revenue earned from the operators with respect to services incorporating the content providers' products or distributed through their channels. In calculating the fees payable to these providers, we make estimates to take into account certain potential adjustments made by the operators which may have been applicable to the services incorporating the providers' products, and reduce the fees payable by us accordingly. Nonetheless, as estimates involve making assumptions which may prove inaccurate, we have in the past paid, and may continue to pay, such providers fees which are disproportionate to what we have been paid for the relevant service. In Indonesia, we do not have an obligation to pay our partners in regards to billing and transmission failures.

**Because the operators do not supply us with revenue and transmission information on a service-by-service basis, we can only estimate our actual gross revenue and our cost of revenue by service type, and as a result, which of our services are or may be profitable, all of which make it difficult to analyze the factors affecting our financial performance.**

In both China and Indonesia, the operators provide us with separate monthly statements for our SMS, 2.5G and audio-related services. However, the monthly statements of the operators with respect to each such service category do not contain revenue and billing and transmission failure information on a specific service-by-service basis. Although we maintain our own records reporting the services provided, we can only estimate our actual gross revenue and cost of revenue by service type because we are unable to confirm which services were transmitted but resulted in billing and transmission failures. As a result, we are not able to definitively calculate and monitor service- by-service revenue, margins and other financial information, such as average revenue per user by service and total revenue per user by service, and also cannot definitively determine which of our services are or may be profitable.

**The operators may also impose higher service or network fees on us if we are unable to satisfy customer usage and other performance criteria. In China, the operators charge us if their customers default in payment of our service fees.**

Fees for our VAS are charged on a monthly subscription or per use basis. Based on our contractual arrangements, we rely on the operators for both billing of, and collection from, phone users of fees for our services.

China Mobile generally charges us a service fee of 15.0% to 30.0% of the revenue generated by our services. China Unicom and China Telecom have implemented a sliding scale system whereby the percentage of

gross revenue received by the service provider can range from 39.0% to 85.0% and 59.0% to 85.0%, respectively, depending on customer usage, revenue and other performance criteria. In 2011, we received on average 82.0%, 75.0% and 61.0% of the gross revenue collected by China Mobile, China Unicom and China Telecom, respectively. Moreover, to the extent that the number of messages sent by us over each operator's network in most provinces, exceeds the number of messages our customers send to us, we must pay per message network fees, which decrease in several provinces as the volume of customer usage of our services increases. The number of messages sent by us will exceed those sent by our users, for example, if a user sends us a single message to order a game but we in turn must send that user several messages to confirm his or her order and deliver the game itself. We cannot be certain that we will be able to satisfy these criteria in the future or that the operators will keep the criteria at their current levels. In addition, in China, the operators, through most of their provincial and local offices, charge us services fees and network fees even when a customer defaults in payment to the operators for our services. Our gross margins are reduced as a result of these charges, and any future increase in the operator's network fees and service charges will likely reduce our gross margins further.

In Indonesia, our revenue sharing arrangement with telecom operators generally uses a three-tiered system: if we are considered a Class A content provider, the revenue share is 40% for the telecom operator and 60% for us; a Class B content provider, 50% for the telecom operator and 50% for us; Class C content provider, 60% for the telecom operator and 40% for us. To be considered a Class A content provider, our revenue must be at least IDR100 million (US\$11,000) per month; a Class B content provider, more than IDR50 million (US\$5,500) but less than IDR100 million (US\$11,000) per month; Class C content provider, IDR50 million (US\$5,500) or less. Although Telkomsel, Indosat and XL all currently consider us a Class A content provider, there is no guarantee that we qualify as a Class A content provider in the future. If we do not qualify as a Class A content provider, our revenues generated by our services in Indonesia may be materially affected.

**In China, the operators may not authorize our services to be offered on their networks or restrict the service fees we may charge if we fail to achieve minimum customer usage, revenue and other criteria.**

In China, our business could be adversely affected if we fail to achieve minimum customer usage, revenue and other criteria imposed or revised by the operators at their discretion from time to time. The operators, through their provincial and local offices, have historically preferred to work only with a small group of the best performing VAS providers, based upon the uniqueness of the service offered by each provider, total number of users, usage and revenue generated in the applicable province or municipality, the rate of customer complaints, and marketing expenditures in the applicable province or municipality. If we fail to meet the then current performance criteria that the operators set from time to time, our services could be excluded from their networks at a provincial, municipal or national level, or we could be precluded from introducing new services or services with higher fees, which would adversely affect our revenue and growth prospects.

China Mobile implements a quarterly credit and ranking of its SMS and IVR service providers, respectively, based on certain performance criteria, and those service providers that fall into a lower rank are subject to restrictions in service fees they may charge in the following quarters until their ranking improves. China Mobile may extend such ranking systems to other services in the future.

During 2009, 2010 and 2011, some of the VAS offered by our affiliated entities received lower ranks for certain quarters which reduced our revenue in those periods. If the services offered by our affiliated entities fail to achieve a satisfactory ranking in the future, the service fees we may charge for these services may be restricted, which would adversely affect our revenue and profit margin.

**The services we offer and the prices we charge are subject to approval by the operators, and if requested approvals are not granted in a timely manner, our business could be adversely affected.**

In China and Indonesia, we must obtain approval from the operators with respect to each service that we propose to offer to their customers and the pricing for such service. In addition, any changes in the pricing of our existing services must be approved in advance by these operators. There can be no assurance that such approvals

will be granted in a timely manner or at all. Moreover, under all of our contracts with China Mobile and most of our contracts with China Unicom and China Telecom, we cannot change prices more than once every six months or charge prices outside of a fixed range. Failure to obtain, or a delay in obtaining, such approvals could place us at a competitive disadvantage in the market and adversely affect our business. In addition, the operators' more rigorous enforcement of their customer service policies in recent years may result in stricter scrutiny by the operators of our proposed services and pricing, which may in turn delay the approval process or result in disapproval of such proposed services or pricing.

**We recognize a portion of our revenue for our services through the use of estimates of monthly revenue to the extent we are unable to obtain actual figures from the operators before we finalize our financial statements. To the extent our estimates differ from actual figures reported by the operators, this could require us to make adjustments to our financial statements and cause delay in the announcement of our quarterly earnings.**

In China and Indonesia, we recognize a portion of our revenue based on estimates of monthly revenue based on our internal records for the month and monthly confirmation rates with the operators in prior months if we are unable to obtain actual figures from the operators before we finalize our financial statements. Actual revenue may differ from prior estimates when unexpected variations in billing and transmission failures occur. To the extent our estimates differ from actual figures reported by the operators, this could potentially require us to later make adjustments to our financial statements if the operators' billing statements and cash payments are different from our estimates, which could adversely affect our reputation and the price of our American Depositary Shares, or ADSs.

For the years ended December 31, 2009, 2010 and 2011, 1.0%, 1.6% and 3.3%, respectively, of our gross revenue was based on such estimates.

**We face intense competition in the VAS markets in China and Indonesia.**

The Chinese market for VAS is intensely competitive, and is changing rapidly. We compete principally with three groups of VAS providers in China:

- dedicated service providers similar to Linktone whose business focus is to offer a variety of telecom content directly to mobile and fixed-line phone users,
- the national internet portal operators in China, which offer internet access and content aggregation services on a nationwide basis in addition to telecom services, and
- niche service providers, which focus primarily on a particular market segment or application that often builds on a pre-existing sector competency.

In addition, we also face growing competition from China Mobile, China Unicom and China Telecom as they increase their offerings of VAS.

The Indonesian market for VAS is also fiercely competitive. There are over 200 service providers in Indonesia, many of whom are expanding their content and have a more established brand and market position in comparison to our company. Some of our competitors offer VAS which are similar to our portfolio of services, while others focus on particular categories of services. We focus on launching 3G services and leveraging the broad range of content provided by the MNC Group, but we cannot be certain that such services and content will be appealing to customers. In addition, while we believe that the number of users of VAS, in particular for mobile games and ringback tones, have been increasing rapidly in Indonesia, certain types of services such as SMS subscriptions and mobile quiz contests have experienced slower growth in recent periods as the markets for such services mature. Moreover, a number of internet and web portal operators offer similar content for free in Indonesia. To compete against such providers, we are working with mobile application developers to create applications that contain our content menu, which enables customers to simply click the items that they want and

we will charge them for the content. Such applications can be downloaded by a customer into his or her mobile handset, or we can embed them into mobile handsets by cooperating with handset principals or distributors. We share our revenue with the application developers, which tends to lower our margins for the services we sell in Indonesia.

**A substantial portion of our revenue is derived from the relatively wealthier coastal and southern provinces in China, and the termination or alteration of our contracts with the operators or a general economic downturn in those areas could have a particularly adverse effect on our business.**

Per capita income levels and mobile phone penetration rates (i.e., the number of mobile subscribers divided by the population of China) in China are generally higher in the coastal and southern provinces, such as Guangdong, Shandong, Liaoning, and Zhejiang provinces, as well as the municipalities of Shanghai and Beijing, which are among our top revenue generating locales.

Some of our contracts are with the operators' parent companies and are nationwide, while other contracts are with the respective affiliates of the operators in various provinces and municipalities. As noted above, there are numerous, often highly-subjective bases on which the operators have the right to terminate our contracts with them. Moreover, some of our nationwide contracts or contracts with affiliates of China Mobile for Guangdong, Shandong, Liaoning and Zhejiang provinces and the municipalities of Shanghai and Beijing can be terminated at the discretion of either contracting party upon 15 to 30 days notice, depending on the contract. If these contracts are terminated or adversely altered or there is a general economic downturn in those areas, our business could be adversely affected. We cannot predict whether there will be a termination of our contracts with affiliates of the operators in significant provinces in the future.

**We may face increasing risks relating to conducting business internationally.**

Although to date we have generated the major portion of our revenue within the PRC, we are in the process of implementing our long-term strategy to enter other markets in Asia to expand our geographic coverage and our range of product and service offerings. For example, in 2009, we recorded revenue of \$0.7 million from providing VAS and related market and technical services in Indonesia to PT Infokom Elektrindo, or Infokom, an affiliate of PT Media Nusantara Citra Tbk, or MNC, our controlling shareholder. MNC, its subsidiaries and affiliates are hereinafter collectively referred to as MNC Group.

Subsequently in June 2010, we purchased a mandatory convertible bond, or MCB, issued by PT Inti Idaman Nusantara, or IDN, which has been renamed PT Linktone Indonesia, or PT Linktone, from Starlight Ltd, or Starlight, a United Arab Emirates company, for a total consideration of \$13.2 million. In September 2010, we converted the bond into new shares of PT Linktone representing 51% of its outstanding share capital (the remaining 49% interest in PT Linktone is owned by MNC Group), and we now conduct all of our VAS activities in Indonesia through PT Linktone. We had revenue of \$1.8 million and \$8.2 million from PT Linktone's provision of VAS in Indonesia in 2010 and 2011 respectively. The purpose of the acquisition was in line with our expansion strategy in the region.

We are also continuously looking for other opportunities to leverage the extensive media resources and relationships with content providers of MNC Group. As part of this initiative, we and MNC (through its wholly owned subsidiary, MNC International Middle East Limited, or MIMEL) acquired 50% and 25% of the share capital of InnoForm Media Pte. Ltd., or InnoForm, in March 2010, respectively. In June 2010, we subscribed for additional new shares of InnoForm and as a result of which we and MNC (through MIMEL) hold 75% and 12.5% of the equity interest of InnoForm, respectively. For additional discussion, see Item 7.B. "Related Party Transactions." InnoForm is a Singapore-based company with regional offices in Malaysia, Hong Kong and Vietnam specializing in the production, acquisition, distribution and licensing of multi-platform edutainment and entertainment content.

We have very limited experience, however, operating in markets outside of China and in managing non-VAS businesses. These initiatives may cause us to become increasingly subject to various risks relating to conducting business abroad, including:

- political and economic instability in countries where we offer our products and services;
- different user preferences and usage habits with respect to VAS and other services, and consumption of video, audio and print content in other markets;
- different or changing policies and procedures of operators;
- legal or regulatory restrictions;
- potentially negative consequences from changes in tax laws;
- fluctuations in currency exchange rates;
- difficulty in staffing and managing widespread operations;
- differing protection of intellectual property; and
- difficulties in collecting accounts receivable because of distance and different legal rules.

Our future growth and profitability may be materially and adversely affected if we cannot adequately manage these and any other risks which arise in connection with our international expansion. We may also be subject to impairment charges if the value of any of our overseas investments declines, as discussed in the foregoing risk factor.

**We rely on an affiliate of MNC in operating a material portion of our VAS business in Indonesia, and the termination or alteration of our arrangements with such entity, including our use of its short codes, could materially adversely affect our business and results of operation.**

We rely on an affiliate of MNC, Infokom, in operating a material portion of our VAS business in Indonesia where customers access VAS through numerical codes shorter than telephone numbers, or short codes, that are registered with the telecom operators. These short codes are used by customers to order VAS and take other actions such as voting in television program contests. In 2010, MNC transferred the ownership of one short code to PT Linktone and we are currently in the process of registering PT Linktone's ownership of this short code with the telecom operators. Nonetheless, a material portion of our VAS business depends on an agreement with an affiliate of MNC, Infokom. Under this agreement, Infokom, has assigned the rights to use three of its short codes to PT Linktone in exchange for a fee equal to 10% of the revenues generated through the use of such short codes, net of the telecom operators' fees. Infokom in turn has cooperative agreements regarding the registration of such short codes with the telecom operators. We have no direct contracts with such operators with respect to Infokom's short codes. Because PT Linktone does not own Infokom's short codes, but merely has the right to use such short codes, we depend on Infokom to keep its contracts with the operators in effect and to remit revenue from the operators to us for the use of such short codes. If Infokom does not maintain its contractual arrangements with the telecom operators or decides to stop providing short codes to us or charges us increased fees for the use of such short codes, we may be unable to enter into such contracts directly with the operators or to obtain new short codes from alternate sources. In any such case, our business and results of operations may be materially adversely affected.

**Our expansion into the entertainment and edutainment content distribution market through our acquisition of InnoForm may not be successful.**

InnoForm primarily acquires multi-platform and multi-territorial rights for entertainment and edutainment content, and distributes such content across platforms such as theatres, home entertainment (VCDs/DVDs/Blu-ray discs), free to air and pay television and digital media in Singapore, Malaysia, Vietnam and Hong Kong. InnoForm also engages in the distribution of pay television channels, karaoke video licensing, karaoke system rental and providing a karaoke-on-demand channel on pay television platforms. Its operating results have varied significantly in the past, and may vary significantly in the future due to a number of factors that could have an adverse impact on the business. Thus, the operational and financial results of this acquisition may differ from our expectations.

InnoForm faces significant competition from other video distributors operating in Southeast Asia such as Scorpio East Holdings Pte Ltd and Berjaya HVN (S) Pte Ltd, as well as a number of smaller low cost distributors. Our competitors may have one or more of the following advantages: a longer operating history, greater brand recognition, a larger customer base, greater financial, technological or marketing resources or superior access to original content than we have. As a result, our existing or potential competitors may in the future achieve greater market acceptance and gain additional market share, which in turn could reduce our revenue.

In addition, commencing in mid-2010, overall sales of entertainment and edutainment products in InnoForm's markets have declined which has adversely affected the revenue of InnoForm and other industry participants. This decline has resulted from a number of factors, many of which are beyond our control, including a proliferation of illegal free-to-download quality video websites and increasing penetration of high-speed broadband in major cities, particularly in Singapore. As a result, we expect that viewers will consume more video content online. Other factors which have adversely affected InnoForm's business and results of operations include:

- high rental rates in Southeast Asian cities which has caused many retailers to decrease the number of outlets they operate,
- the availability of parallel-imported video products from lower-cost countries such as China, Malaysia and Indonesia,
- consistent with the industry trend worldwide, relatively slow sales of Blu-ray discs,
- a reluctance among many major content producers, such as Hollywood movie studios, to change their distributors which limits InnoForm's ability to increase market share,
- increasing competition from online portals, movie theaters and other forms of entertainment and education, and
- increasing costs to acquire desirable content.

In addition, InnoForm also obtains all of its entertainment and edutainment content from third parties, and its cost of acquiring such content has been increasing in recent years which has, and may continue to, negatively impact its profitability and liquidity.

We are focusing on broadening InnoForm's distribution network to include theatrical and new media digital platforms, the latter of which will allow customers to buy home entertainment products online and consume video content via online and wireless devices. We can provide no assurance that these efforts will be successful or that they will generate sufficient sales to offset the ongoing decline in sales of physical discs. We cannot be certain that, if we are able to launch our online commerce and video services, such services will be able to compete with other websites which offer online video content, particularly those which offer content in violation of copyright protections and may allow downloads for free or at significantly lower prices than we can charge.

**The VAS industry in China and Indonesia is rapidly evolving, which may make it difficult for investors to evaluate our business.**

We began commercially offering VAS in China in 2000 while PT Linktone, previously known as IDN, began offering VAS in Indonesia in 2009. Over the last several years, the technologies and services used in the VAS industry in these markets have developed rapidly. As a result of this rapid and continual change in the industry, you should consider our prospects in light of the risks and difficulties frequently encountered by companies in an early stage of development. These risks include our ability to:

- attract and retain users for our VAS, especially for our 2.5G and audio-related services, and mobile online games which have increased in 2011 following our acquisition of a 50.01% interest in Letang Game Limited, or Letang, a private Chinese company specializing in the development of mobile games and PC games, in January 2010,

- expand the content and services that we offer and, in particular, develop and aggregate innovative new content and service offerings, and sources of revenue which are not dependent on the operators,
- procure effective distribution channels to promote our services,
- respond effectively to rapidly evolving competitive and market dynamics and address the effects of mergers and acquisitions among our competitors,
- maintain, expand and enhance our relationships with international media companies and other strategic partners and to generate meaningful returns from such partnerships, and
- increase awareness of our brand and user loyalty.

Due to these factors, there can be no certainty that we will maintain or increase our current share of the highly competitive market in which we operate.

**The success of some of our VAS is significantly dependent on our ability to obtain, customize and localize desirable content and technology from third parties and distribute our services effectively.**

We are increasingly obtaining much of our VAS content, including wireless games, e-reading, music, news and other content such as popular radio or television programs, from third parties. Furthermore, we expect that we will license technology in connection with our development of next generation services. As the market for VAS develops, content and technology providers and distribution channel providers have increased their profits from these distribution and localization arrangements by demanding a greater share of revenue or other fees, which has adversely affected our financial performance, including adversely affecting our revenue and gross margin in 2011.

Many of our arrangements with content and technology providers as well as distribution channel providers are non-exclusive, short-term and subject to renewal. If our competitors are able to provide or distribute such content in a similar or superior manner or to license the same technologies, it could adversely affect the popularity of our services and our negotiating leverage with third party providers. In addition, lack of effective distribution channels has adversely affected our revenue from 2.5G services in 2010 and 2011.

In addition, we must often invest significant resources in customizing and localizing the content and applications we license or purchase for the Chinese telecom market or we are authorized to use. This may include work ranging from translating the content or application interface into Chinese to performing significant development work to utilize the particular content or application.

If we fail to establish and maintain economically attractive relationships with content, technology and distribution channel providers or to thereafter successfully customize and localize any third party content or technology, we may not be able to attract and retain users or maintain or improve our financial performance.

**Our acquisitions or ventures with strategic partners may have an adverse effect on our ability to manage our business.**

We have made acquisitions and formed strategic alliances in the past. Some of the companies we acquired have not performed as well as we expected, and required significant further capital input and attention from our management. We also have terminated or restructured certain strategic alliances. For example, we recognized an impairment provision of \$1.3 million in 2010 related to a loan receivable in connection with our partnership to distribute U.S. Major League Baseball content. Nevertheless, if we are presented with appropriate opportunities, we may continue to acquire businesses, technologies, services or products or enter into strategic alliances which are complementary to our core VAS business in the future, but may also present similar challenges. For example, a consolidated affiliate, Shanghai Weilan Computer Co., Ltd. (“Weilan”), acquired a controlling interest in Letang in January 2010. In addition, we and MNC (through MIMEL) acquired in the aggregate 87.5% of the

share capital of InnoForm in March 2010 and June 2010, and in June 2010 we acquired mandatory convertible bonds that were converted into new shares of PT Linktone representing 51% of its outstanding share capital, as described above.

The requirement for significant further capital input and the diversion of our management's attention and any difficulties encountered in any integration process could have an adverse effect on our ability to manage our business. Acquisitions or strategic alliances expose us to potential risks, including risks associated with the integration of new operations, services and personnel, ensuring effective internal controls with respect to acquired or new businesses, the extent to which acquired or new businesses give rise to unforeseen or hidden liabilities, the diversion of resources from our existing businesses and technologies, the inability to generate sufficient revenue to offset the costs and expenses of acquisitions or strategic alliances and potential loss of, or harm to, relationships with employees and content providers as a result of integration of new businesses. Given the sophisticated technologies used in the VAS industry, the successful, cost-effective integration of other businesses' technology platforms and services into our own is also a critical, and highly complex, aspect of any acquisition or strategic alliance. If we are unable to successfully enter into and implement acquisitions or strategic alliances in future periods, our business, financial condition and results of operations could be materially and adversely affected.

**We have incurred net losses for a significant portion of our history.**

We incurred significant net losses until the first quarter of 2003 and began incurring net losses again in the first quarter of 2007 until the fourth quarter of 2008 during which time we were implementing our cross-media strategy which involved significant expenses. We also incurred a net loss for the fourth quarters of 2009 and 2010 and the second quarter of 2011. We could incur significant net losses in the future due to changes in the market, operating environment and competitive dynamics and our ability to respond to those changes, as well as any possible new strategic initiatives launched by our company. If we do not sustain profitability, the market price of our ADSs may decline.

**We have been required to record charges to earnings because the value of certain of our assets was deemed to have been impaired, and we may record such charges in future periods.**

We are required by U.S. GAAP to review our receivables, short-term investments, intangible assets, goodwill and other assets for impairment when events or changes in circumstances indicate that their carrying value may not be recoverable. We recorded an impairment charge of \$2.5 million in 2009 related to the goodwill for our PC game business, which was caused by a downward revision in expected future cash flow for that business resulting from market competition, and an impairment in connection with our partnership to distribute U.S. Major League Baseball content of \$1.3 million in 2010, as noted above. Please refer to Item 5. "Operating and Financial Review and Prospects — Results of Operations" and "Operating and Financial Review and Prospects — Critical Accounting Policies and Estimates." We may be required to record similar impairment charges in the future if we determine that the value of our assets is impaired.

**Our mobile games business has a short operating history, and the mobile games market in the PRC and Indonesia is subject to many uncertainties.**

We, through our affiliate Weilan, acquired a controlling interest in Letang in January 2010 in order to accelerate our presence in the mobile games market. However, our mobile games business has a short operating history, and our prior efforts to develop an in-house mobile game development team were not successful. As a result, there is limited financial data that can be used to evaluate our mobile games business and its potential to generate revenues in the future. We cannot assure you that we will be successful in developing our mobile games business, which will depend, among other things, on our ability to:

- respond to market developments, including the development of new platforms and technologies, and changes in pricing and distribution models;



- maintain and diversify our distribution channels, including through China Mobile and the other telecommunications operators and handset manufacturers;
- develop new high-quality mobile games that can achieve significant market acceptance, and timely improve our existing mobile games to extend their life spans and to maintain their competitiveness in the mobile games market;
- supplement our internally developed mobile games by acquiring mobile games from third-party mobile games developers or cooperating with third-party mobile games developers to jointly develop mobile games;
- develop and upgrade our technologies; and
- execute our business and marketing strategies successfully.

In addition, the mobile games market is an emerging market in the PRC and Indonesia. The growth of this market and the level of demand and market acceptance of our mobile games are subject to many uncertainties. The development of this market and our ability to derive revenues from this market depend on a number of factors, some of which are beyond our control, including but not limited to:

- the growth rate of mobile data services in the PRC and Indonesia;
- changes in consumer demographics, tastes and preferences;
- changes in handset platform technologies and mobile games distribution channels;
- potential competition from established companies that develop and operate personal computer-based online games and may enter the mobile online games market; and
- the popularity and price of new mobile games and merchandise and premium features embedded in games that we and our competitors may launch and distribute in the future.

Due to the uncertainties in connection with our mobile games business in particular and the mobile games market in the PRC and Indonesia generally, we cannot guarantee that our mobile games business will contribute significantly to our future revenues. Our failure to successfully develop this business could have a material adverse effect on our business, financial condition and results of operations.

**We depend on key personnel for the success of our business. Our business may be severely disrupted if we lose the services of our key executives and employees or fail to add new senior and middle managers to our management.**

Our future success is heavily dependent upon the continuing service of our key executives, particularly Hary Tanoesoedibjo, our Chief Executive Officer, and Peck Joo Tan, our Chief Financial Officer. Our future success is also dependent upon our ability to attract and retain qualified senior and middle managers to our management team. If one or more of our current or future key executives and employees are unable or unwilling to continue in their present positions, we may not be able to easily replace them, and our business may be severely disrupted. In addition, if any of these key executives or employees joins a competitor or forms a competing company, we could lose customers and suppliers and incur additional expenses to recruit and train personnel. We do not maintain key-man life insurance for any of our executive officers.

We also rely on a number of key technology and product development staff for the operation of our company. Given the competitive nature of our industry, the risk of key technology and product development staff leaving our company is high and could disrupt our operations.

**We may need additional capital and may not be able to obtain such capital on acceptable terms. Even if we are able to obtain capital on acceptable terms, it may result in operating and financial covenants that would restrict our operations and/or additional dilution to our shareholders.**

It is difficult to plan for capital requirements in our rapidly changing industry. We may need additional capital for our future acquisitions, service development, technological infrastructure and sales and marketing activities. Our ability to obtain additional capital on acceptable terms is subject to a variety of uncertainties, including:

- investors' perceptions of, and demand for, securities of VAS companies;
- conditions of the U.S. and other capital markets in which we may seek to raise funds;
- our future results of operations, financial conditions and cash flows;
- governmental regulations of foreign investment in VAS companies;
- economic, political and other conditions in the PRC and other countries in which we operate; and
- governmental policies relating to foreign currency borrowings.

If our current sources are insufficient to satisfy our capital requirements, we may seek to obtain a credit facility or sell additional equity or debt securities. If we fail to raise additional funds on terms acceptable to us, or at all, such failure may have a material adverse effect on our business, financial condition and results of operations. For example, we may not be able to carry out parts of our future growth strategy to acquire assets, technologies and businesses that are complementary to our existing business or necessary to maintain our growth and competitiveness.

Even if we are able to obtain capital on terms acceptable to us, the incurrence of indebtedness would result in increased debt service obligations and could result in operating and financial covenants that would restrict operations. The sale of additional equity or convertible debt securities could result in additional dilution to shareholders.

**Business growth and a rapidly changing operating environment may strain our limited resources.**

We have limited operational, administrative and financial resources, which may be inadequate to sustain the growth we want to achieve. As our user base increases, we will need to increase our investment in our technology infrastructure, facilities and other areas of operations, in particular our product development, customer service and sales and marketing which are important to our future success. If we are unable to manage our growth and expansion effectively, the quality of our services and our customer support could deteriorate and our business may suffer. For example, any such performance issue could prompt the operators to cease offering our services over their networks. Our future success will depend on, among other things, our ability to:

- develop and quickly introduce new services, adapt our existing services and maintain and improve the quality of all of our services, particularly as new mobile technologies such as 3G or 4G are introduced;
- effectively maintain our relationships with the operators and our other partners;
- expand the percentage of our revenue which are recurring and are derived from monthly subscription based services;
- develop sources of revenue which are not dependent on the operators;
- enter into and maintain relationships with desirable content providers;
- continue training, motivating and retaining our existing employees and attract and integrate new employees, including our senior management, some of whom have been with our company for less than one year;

- develop and improve our operational, financial, accounting and other internal systems and controls; and
- maintain adequate controls and procedures to ensure that our periodic public disclosure under applicable laws, including U.S. securities laws, is complete and accurate.

**Any failure of the telecommunications networks in the markets in which we operate, the internet or our technology platform may reduce use of our services.**

Both the continual accessibility of the networks of the operators and the performance and reliability of the internet infrastructure in the markets in which we operate are critical to our ability to attract and retain users. Moreover, our business depends on our ability to maintain the satisfactory performance, reliability and availability of our technology platform. The servers which constitute the principal system hardware for our operations in China are located in five locations in Beijing. We maintain backup system hardware in our office in Beijing, but cannot be certain such backup will be adequate if there are problems with our primary system hardware. In Indonesia, our websites and services are made available through network servers located in Jakarta. Any server interruptions, break-downs or system failures, including failures caused by sustained power shutdowns, floods or fire causing loss or corruption of data or malfunctions of software or hardware equipment, or other events outside our control that could result in a sustained shutdown of all or a material portion of the mobile networks, the internet or our technology platform, could adversely impact our ability to provide our services to users and decrease our revenue.

**If our exclusive providers of bandwidth and server custody service fail to provide these services or increase their prices, our business could be adversely affected.**

We rely on affiliates of the operators to provide us with bandwidth and server custody service for our services in China pursuant to contracts which have one-year terms. If any of the operators or their respective affiliates fails to provide such services, it may be difficult, if not impossible, to find a substitute provider on a timely basis or at all. In addition, we have no control over the costs of the services provided by the operators or their respective affiliates. If any of the operators or their respective affiliates fails to provide these services or raise their prices, our business could be adversely affected.

**We generate our internal funds almost exclusively from our subsidiaries. If those entities are restricted from paying dividends to us, we may lose almost all of our internal sources of funds.**

We are a holding company with assets consisting primarily of cash generated from our initial public offering in March 2004 and issuance of new shares to MNC in April 2008, and our equity interests in Noveltech Enterprises Limited, or Noveltech, and Linktone Media Limited, or Linktone Media, both of which were incorporated in Hong Kong. See Item 4. “Information on the Company — History and Development of the Company.” Our internal source of funds has been derived almost exclusively from dividend payments from those entities after they receive dividends and payments from our subsidiaries and affiliated Chinese entities. We are likely to lose all of our sources of funds if those entities are restricted from paying dividends to us, except for interest and dividend we earned on our fixed deposits and short-term investments which totaled \$0.5 million in 2009, \$1.0 million in 2010 and \$2.9 million in 2011. See also “— Any changes to our tax incentives could have a material adverse effect on our operating results. Our foreign ADS holders may be subject to PRC withholding tax on the dividends payable by us and upon gains realized on their sales of our ADSs if we are classified as a PRC “resident enterprise” below.”

Under Chinese law, Linktone Consulting, Huitong, Linktone Internet, Xintong, Wang You, Linktone Software and Ruida are required to set aside a portion of their net income each year to fund certain reserve funds. These reserves are established to offset losses and for other general purposes under Chinese law and they are not distributable as cash dividends. If further restrictions on payments of dividends by our subsidiaries are implemented under Chinese law, our revenue could decrease significantly.

**If any of our subsidiaries incurs any debt, it could impact our ability to pay dividends on our ordinary shares or ADSs.**

If any of our subsidiaries incurs debt on its own behalf in the future, the instruments governing the debt may restrict their ability to pay dividends or make other distributions to us, which in turn would limit our ability to pay dividends on our ordinary shares or ADSs.

**Computer viruses and hacking may cause delays or interruptions on our systems and may reduce use of our services and harm our reputation.**

Computer viruses and hacking may cause delays or other service interruptions on our systems. “Hacking” involves efforts to gain unauthorized access to information or systems or to cause intentional malfunctions or loss or corruption of data, software, hardware or other computer equipment. In addition, the inadvertent transmission of computer viruses could expose us to a material risk of loss or litigation and possible liability. We may be required to expend significant capital and other resources to protect our systems against the threat of such computer viruses and hacking and to rectify any damage to our systems. Moreover, if a computer virus or hacking which affects our systems is highly publicized, our reputation could be materially damaged and usage of our services may decrease.

**Our revenue fluctuates significantly and may adversely impact the trading price of our ADSs or any other securities which become publicly traded.**

Our revenue and results of operations have varied in the past and may continue to fluctuate in the future. Many of the factors that cause such fluctuation are outside our control such as the changes in the policies of the operators and the enforcement of these policies. Steady revenue and results of operations will depend largely on our ability to:

- attract and retain users in the increasingly competitive VAS markets in China and Indonesia,
- successfully implement our business strategies, and
- update and develop our services, technologies and content, including aggregating, customizing and localizing third party technologies and content for the China market and other Asian markets we are entering.

Because the VAS industry in China and Indonesia is rapidly evolving and our business is also relatively new, including in particular our strategy to enter other markets in Asia such as the market for entertainment and entertainment content, and has experienced significant volatility in terms of financial results as a result of the factors stated above, you should not rely on quarter-to-quarter comparisons of our results of operations as an indication of our future performance. It is possible that future fluctuations may cause our results of operations to be below the expectations of market analysts and investors. This could cause the trading price of our ADSs to decline.

**We may be held liable for information displayed on or retrieved from our service offerings.**

We may face liability for defamation, negligence, copyright, patent or trademark infringement and other claims based on the nature and content of the materials that are provided via our VAS. For example, we could be subject to defamation claims for messages posted on our services that allow chatting, or SMS news updates sent to users by us could possibly be deemed to contain state secrets in violation of applicable Chinese law. In addition, third parties could assert claims against us for losses incurred in reliance on information distributed by us. We may incur significant costs in investigating and defending these claims, even if they do not result in liability.

**We may not be able to adequately protect our intellectual property, and we may be exposed to infringement claims by third parties.**

We rely on a combination of copyright, trademark and trade secrecy laws and contractual restrictions on disclosure to protect our intellectual property rights. We have registered 107 trademarks with China's Trademark Office, and are in the process of applying for 49 additional trademarks in China. We have also obtained 27 copyright certificates in China for certain cartoons and images and 40 copyright certificates for computer software. We have no trademarks registered in the other markets in which we operate, including Indonesia. Our efforts to protect our proprietary rights may not be adequate and effective to prevent infringement or misappropriation of our intellectual property rights, particularly in China where the laws may not protect our proprietary rights as fully as in the United States. Monitoring unauthorized use of our services is difficult and costly, and we cannot be certain that the steps we take will effectively prevent misappropriation of our technology and content. For example, competitors could copy one or more of our downloadable icons, and we may not become aware of the infringement in a timely manner or at all or be able to take effective action to enforce our rights.

From time to time, we may have to resort to litigation to enforce our intellectual property rights, which could result in substantial costs and diversion of our resources. In addition, third parties may initiate litigation against us for alleged infringement of their proprietary rights. In the event of a successful claim of infringement and our failure or inability to develop non-infringing technology or content or license the infringed or similar technology or content on a timely basis, our business could suffer. Moreover, even if we are able to license the infringed or similar technology or content, license fees that we pay to licensors could be substantial or uneconomical.

**Prolonged disruptions to the global credit and capital markets and the global economy may materially and adversely affect our results of operations, financial conditions, prospects and future expansion plans.**

Since the second half of 2008, global credit and capital markets, particularly in the United States and Europe, have experienced generally difficult conditions, and many of the world's major economies experienced slow or negative growth in 2009, 2010 and 2011. These challenging market conditions have resulted in reduced liquidity, greater volatility, widening of credit spreads, lack of price transparency in credit markets, a reduction in available financing and lack of market confidence. These factors, combined with declining business and consumer confidence and increased unemployment in the United States and elsewhere in the world, have precipitated a global economic slowdown. Given the dramatic change in the overall credit environment and economy, it is difficult to predict how long these conditions will exist and the extent to which we may be affected. The uncertainty and volatility of credit and capital markets and the overall economy has had and may continue to have an adverse effect on our business. Furthermore, there can be no assurance that measures implemented by governments around the world to stabilize the credit and capital markets and new financial and economic policies, rules and regulations in jurisdictions where we operate will improve market confidence and the overall credit environment and economy. To the extent that there have been improvements in some areas, it is uncertain whether such recovery is sustainable. In addition, our plan to expand our business internationally may be adversely affected by an economic downturn in the countries or regions where we plan to expand our business. As a result, prolonged disruptions to the global credit and capital markets and the global economy may materially and adversely affect the Chinese economy and in the other markets where we offer our products and services, consumer spending in such markets and our business, results of operations, financial condition, prospect and future expansion plans.

**Exposure to foreign exchange risks may adversely affect our business, financial condition, results of operations and prospects.**

Changes in exchange rates influence our results of operations. Our business is currently primarily conducted in and from China, Singapore and Indonesia in their respective currencies — Renminbi, Singapore dollar and Indonesian rupiah. Any devaluation of the Renminbi, Singapore dollar and Indonesian rupiah against the U.S. dollar may have an adverse impact on our operations and would adversely affect our financial performance measured in U.S. dollars.

From 1994 to July 21, 2005, the conversion of Renminbi into foreign currencies, including U.S. dollars, was based on exchange rates published by the People's Bank of China, which were set daily based on the previous day's interbank foreign exchange market rates in China and current exchange rates on the world financial markets. During that period, the official exchange rate for the conversion of Renminbi to U.S. dollars was generally stable. On July 21, 2005, the Renminbi was revalued and allowed to fluctuate by reference to a basket of foreign currencies, including the U.S. dollar. Under the new policy, the Renminbi was permitted to fluctuate within a band against a basket of foreign currencies. As a result, as of December 31, 2011, the Renminbi has appreciated significantly against the U.S. dollar since July 2005. There remains significant international pressure on the PRC government to adopt a substantially more liberalized currency policy, which could result in a further and more significant appreciation in the value of Renminbi against the U.S. dollar. Further revaluations of Renminbi against the U.S. dollar may also occur.

With respect to Indonesia, one of the most important immediate causes of the economic crisis which began in Indonesia in mid-1997 was the depreciation and volatility of the value of the Indonesian rupiah, as measured against other currencies, such as the U.S. dollar. Although the Indonesian rupiah has appreciated considerably from its low point of approximately IDR16,000 per U.S. dollar in 1998, it may experience volatility again in the future. In addition, while the Indonesian rupiah has generally been freely convertible and transferable (except that Indonesian banks may not transfer Indonesian rupiah to persons outside of Indonesia who lack a bona fide trade or investment purpose), from time to time, Bank Indonesia has intervened in the currency exchange markets in furtherance of its policies, either by selling Indonesian rupiah or by using its foreign currency reserves to purchase Indonesian rupiah. We cannot assure you that the current floating exchange rate policy of Bank Indonesia will not be modified or that the Indonesian government will take additional action to stabilize, maintain or increase the value of the Indonesian rupiah, or that any of these actions, if taken, will be successful. Modification of the current floating exchange rate policy could result in significantly higher domestic interest rates, liquidity shortages, capital or exchange controls or the withholding of additional financial assistance by multinational lenders. This could result in a reduction of economic activity, an economic recession, loan defaults or declining usage of our subscribers, and as a result, we may also face difficulties in funding our capital expenditures and in implementing our business strategy.

Our business and the price of our ordinary shares and ADSs could be negatively affected by a revaluation of the functional currencies of our business. For example, to the extent that we need to convert U.S. dollars into Renminbi or rupiah for our operational needs and should the Renminbi or rupiah appreciate against the U.S. dollar at that time, our financial position and the price of our ordinary shares and ADSs may be adversely affected. Conversely, if we decide to convert our Renminbi or rupiah into U.S. dollars for the purpose of declaring dividends on our ordinary shares or for other business purposes and the U.S. dollar appreciates against the Renminbi or rupiah, the U.S. dollar equivalent of our earnings from our subsidiaries in China would be reduced. Any of the foregoing consequences could have a material adverse effect on our business, financial condition, results of operations and prospects.

#### **Natural disasters such as earthquakes may affect our VAS.**

Natural disasters such as snow storms, earthquakes, floods, typhoons and droughts may affect our VAS because provision of these services may be curtailed due to technical problems. For example, on April 14, 2010, China experienced an earthquake with a reported magnitude of 6.9 on the Richter scale in Qinghai Province, resulting in the death of over 2,000 people, and causing an interruption to our VAS.

#### **We have limited business insurance coverage.**

The insurance industries in China and Indonesia are still at an early stage of development, and insurance companies in China and Indonesia offer limited business insurance products. Moreover, while business liability and business disruption insurance is available in China, Indonesia and Singapore, we have determined that the risks of business liability or business disruption and the cost of insurance are such that we do not require it at this

time. As a result, we do not have any insurance coverage for business liability or business disruption. Any business liability, business disruption, litigation or natural disaster might result in substantial costs and diversion of resources.

**We may be or become a passive foreign investment company, which could result in adverse U.S. federal income tax consequences to U.S. investors.**

We may be classified as a passive foreign investment company, or PFIC, by the U.S. Internal Revenue Service, or IRS, for U.S. federal income tax purposes. Such characterization could result in adverse U.S. federal income tax consequences to you if you are a U.S. investor. For example, U.S. investors who owned our shares or ADSs during any taxable year in which we were a PFIC generally are subject to increased U.S. tax liabilities and reporting requirements for that taxable year and all succeeding years, regardless of whether we actually continue to be a PFIC, although a shareholder election to terminate such deemed PFIC status may be available in certain circumstances.

The determination of whether or not we are a PFIC is made on an annual basis and depends on the composition of our income and assets, including goodwill, from time to time. Specifically, we will be classified as a PFIC for U.S. tax purposes for a taxable year if either (a) 75.0% or more of our gross income for such taxable year is passive income (the “income test”), or (b) 50.0% or more of the average percentage of our assets during such taxable year either produce passive income or are held for the production of passive income (the “asset test”). For such purposes, if we directly or indirectly own 25.0% or more of the shares of another corporation, we generally will be treated as if we (a) held directly a proportionate share of the other corporation’s assets, and (b) received directly a proportionate share of the other corporation’s income.

We believe we were a PFIC for United States federal income tax purposes for the previously ended taxable year and may be classified as a PFIC for the current taxable year. Under the income and asset tests, whether or not we are a PFIC will be determined annually based upon the composition of our income and the composition and valuation of our assets, all of which are subject to change. In addition, in valuing our assets, we have made a number of assumptions which we believe are reasonable. However, it is possible that the IRS may disagree with these assumptions, which may affect the determination of whether we are a PFIC in a given year. Because the PFIC determination is highly fact intensive and made at the end of each taxable year, there can be no assurance that we will or will not be a PFIC for the current or any future taxable year or that the IRS will not challenge our determination concerning our PFIC status.

Under recently enacted U.S. tax legislation and subject to future guidance, if we are a PFIC, U.S. Holders (as defined below) will be required to file an annual information return with the IRS (on IRS Form 8621) relating to their ownership of our shares or ADSs. Pursuant to Notice 2011-55, the IRS has suspended this new filing requirement for U.S. Holders that are not otherwise required to file the current version of the IRS Form 8621 until the IRS releases a subsequent revision of IRS Form 8621, modified to reflect the recently enacted legislation. Guidance has not yet been issued regarding the information required to be included on such form. Prior to filing their annual income tax returns, U.S. Holders should consult their tax advisers regarding whether additional guidance has been issued with respect to this reporting requirement, and if so, how to comply with such guidance.

For further discussion of the adverse U.S. federal income tax consequences of our possible classification as a PFIC, see Item 10.E. “Additional Information — Taxation — United States Federal Income Taxation.”

**We may have to constrain our business activities to avoid being deemed an investment company under the U.S. Investment Company Act of 1940.**

The United States Investment Company Act of 1940, or the 1940 Act, provides generally that a company is an investment company which must register as such under the 1940 Act and comply with its regulations if: (i) the company is or holds itself out as being engaged primarily in the business of investing, reinvesting or trading in

securities; or (ii) more than 40% of the value of the company's total assets is represented by investment securities as defined therein. The 1940 Act contains substantive regulations with respect to investment companies, including restrictions on their capital structure, operations, transactions with affiliates and other matters that would be incompatible with our operations. We may therefore have to incur significant costs and management time to avoid investment company status and may suffer other adverse consequences if we are deemed to be an investment company under the 1940 Act.

A substantial portion of our assets may or are likely to be considered investment securities for purposes of the 1940 Act. These assets include fixed time deposits and short- and long-term investments. Although we believe that we do not currently fall within the definition of an investment company under the 1940 Act, we may not be able to conduct or significantly expand our business activities in relation to these types of assets in the future, and there is no assurance that we will not be deemed an investment company under the 1940 Act in the future.

**Failure to achieve and maintain effective internal controls could have a material adverse effect on the trading price of our ADSs.**

We are subject to the reporting obligations under the U.S. securities laws, and are required by the Securities and Exchange Commission, or the SEC, as directed by Section 404 of the Sarbanes-Oxley Act of 2002, to include a report of management on the effectiveness of our internal control over financial reporting. In addition, if we become an "accelerated filer" as such term is defined in the U.S. Securities Exchange Act of 1934, or the Exchange Act, our independent registered public accounting firm would be required to report on the effectiveness of our internal control over financial reporting in future annual reports on Form 20-F. Our management has concluded that our internal controls were not effective as of December 31, 2011 due to a material weakness related to revenue recognition for a new business line established in 2011 by an Indonesian subsidiary, PT Linktone. A material weakness is a control deficiency, or a combination of deficiencies, that results in more than a remote likelihood that a material misstatement of annual or interim financial statements will not be prevented or detected.

Although we believe that the consolidated financial statements included in this Form 20-F present fairly, in all material respects, our financial position, results of operations and cash flow for the periods presented in conformity with U.S. GAAP, we cannot be certain that any remedial measures we take will ensure that we design, implement and maintain adequate controls over our financial processes and reporting in the future or will be sufficient to address and eliminate this material weakness. Our independent registered public accounting firm may also identify additional weaknesses or deficiencies in the course of its ongoing assessment of our internal controls. Remedying this material weakness that has been identified, and any additional deficiencies, significant deficiencies or material weaknesses that our independent registered public accounting firm may identify in the future, could require us to incur additional costs, divert management resources or make other changes. We have taken various remedial steps to address the material weakness referenced above as discussed in detail in this annual report under Item 15. Any delay or failure to design and implement new or improved controls, or difficulties encountered in their implementation or operation, could harm our operating results, cause us to fail to meet our financial reporting obligations, or prevent us from providing reliable and accurate financial reports or avoiding or detecting fraud. Disclosure of our material weaknesses, any failure to remediate such material weaknesses in a timely fashion or having or maintaining ineffective internal controls could cause investors to lose confidence in our reported financial information, which could negatively impact the market price of our ADSs.

**We are controlled by MNC, whose interests may differ from other shareholders.**

MNC currently holds approximately 59.9% of our outstanding ordinary shares and is the controlling shareholder. Without the consent of MNC, we may be prevented from entering into transactions that could be beneficial to us. The interests of MNC may differ from the interests of the other shareholders.



**We may not be able to collect our loans to PT Cakrawala Alam Semesta, such arrangements could be deemed to be in violation of existing or future Indonesian regulations.**

During the period from July to November 2009, we extended loans in the aggregate principal amount of US\$35.0 million to PT Cakrawala Alam Semesta, or Cakrawala, an Indonesian company controlled by us through contractual arrangements and treated as our VIE for accounting purposes. Cakrawala is owned by two of MNC Group's employees. See Item 5. "Operating and Financial Review and Prospects — Our Corporate Structure" for information regarding such contractual arrangements. Cakrawala places the money we loaned to it in fixed time deposits with Indonesian banks. Such deposits can only be made by domestic Indonesian entities, and we established this VIE arrangement with Cakrawala to take advantage of favorable interest rates on fixed time deposits in Indonesia. Such fixed time deposits were in U.S. dollars in 2009, and in February 2010 we converted approximately US\$15 million into Indonesian rupiah. Since these VIE arrangements may not be as effective as direct ownership in providing us control over Cakrawala, in the event that Cakrawala fails to perform its obligations under our loan agreement with it, we may incur a loss on this loan or costs to enforce these arrangements. In 2010, Cakrawala partially repaid the loans. As at December 31, 2011, the outstanding loan balance was US\$13.9 million.

In addition, there have been media reports that Indonesia's central bank will announce measures on capital flows to control the frequent inflow and outflow of short-term funds. We cannot predict whether, or when, the Indonesian government will introduce capital control mechanisms in the future. Moreover, our VIE arrangements with Cakrawala could possibly be deemed a violation of existing Indonesian regulations on foreign investments in Indonesian fixed time deposits. In each case, our VIE arrangements with Cakrawala might be prohibited or restricted, which, if applied, could have a material adverse effect on our investments in Indonesia.

**Our business may be adversely affected due to public concerns over the security and privacy of confidential user information.**

Our business may be adversely affected if the public concern over the security and privacy of confidential user information transmitted over the internet and wireless networks is not adequately addressed and if significant breaches of network security or user privacy occur.

**Any recurrence of severe acute respiratory syndrome, or SARS, an outbreak of the H5N1 strain of bird flu (avian influenza) or the H1N1 strain of swine influenza or another widespread public health problem could adversely affect our business and results of operations.**

A renewed outbreak of SARS or another widespread public health problem in China, where a material amount of our revenue is derived, in Shanghai, where our principal executive offices are located, and in Beijing, where our principal branch office is located, could have a negative effect on our operations. In addition, there has been confirmed human cases of avian influenza in PRC, Indonesia, Vietnam, Iraq, Thailand, Turkey and Cambodia and swine influenza in PRC, Japan, Korea and other countries which have proven fatal in some instances. If such an outbreak or any other similar epidemic were to spread in China or Indonesia, or other markets in which we operate, it may adversely affect our business and operating results.

Our operations may be impacted by a number of health-related factors, including the following:

- quarantines or closures of some of our offices which would severely disrupt our operations,
- the sickness or death of our key officers and employees, and
- a general slowdown in the Chinese or Indonesian economy or in any of the other markets where we operate directly or through strategic partnerships.

Any of the foregoing events or other unforeseen consequences of public health problems could adversely affect our business and results of operations.

**As we are a Cayman Islands company, you may face difficulties in protecting your interests, and our ability to protect our rights through the U.S. federal courts may be limited.**

Our corporate affairs are governed by our memorandum and articles of association, the Companies Law (as amended) of the Cayman Islands (the “Companies Law”) and the common law of the Cayman Islands. The rights of our shareholders to take action against the directors, actions by minority shareholders and the fiduciary responsibilities of our directors under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as that from English common law, which has persuasive, but not binding, authority on a court in the Cayman Islands. The rights of our shareholders and the fiduciary responsibilities of our directors under Cayman Islands law are not as clearly established as they would be under statutes or judicial precedents in some jurisdictions in the United States. In particular, the Cayman Islands has a less developed body of securities law as compared to the United States, and provides significantly less protection to investors. In addition, Cayman Islands companies may not have standing to initiate a shareholder derivative action in the federal court of the United States.

In addition, most of our directors and officers are nationals and residents of countries other than the United States. Substantially all of our assets and a substantial portion of the assets of these persons are located outside the United States.

The Cayman Islands courts are also unlikely:

- to recognize or enforce against us judgments of courts of the United States based on certain civil liability provisions of U.S. securities laws; and
- to impose liabilities against us, in original actions brought in the Cayman Islands, based on certain civil liability provisions of U.S. securities laws that are penal in nature.

A final and conclusive judgment in the federal or state courts of the United States under which a sum of money is payable, other than a sum payable in respect of taxes, fines, penalties or similar fiscal or revenue obligations and which was neither obtained in a manner nor is of a kind enforcement of which is contrary to natural justice or the public policy of the Cayman Islands, may be subject to enforcement proceedings as a debt in the courts of the Cayman Islands under the common law doctrine of obligation.

As a result of all of the above, our public shareholders may have more difficulties in protecting their interests in the face of actions by our management, directors or controlling shareholders than would shareholders of a public company incorporated in a jurisdiction in the United States.

In addition, Cayman Islands companies may not have standing to sue before the federal courts of the United States. As a result, our ability to protect our interests if we are harmed in a manner that would otherwise enable us to sue in a United States federal court may be limited.

## **RISKS RELATED TO DOING BUSINESS IN OUR INDUSTRY IN CHINA**

**Our business and results of operations may be adversely affected by the restructuring of the Chinese telecommunications industry and the launch of 3G mobile networks.**

In an effort to promote greater competition among the telecommunications operators and foster the development of 3G mobile networks, on May 24, 2008, MIIT, the PRC National Development and Reform Commission, or the NDRC, and the PRC Ministry of Finance jointly issued the Notice on Strengthening the Reform of Telecommunications Systems, or the Telecom Notice, which was adopted to consolidate China’s previously existing telecommunication operators into three new telecommunications operators that can offer both mobile and fixed line services. In accordance with the Telecom Notice, in 2008 China Railway Communication Co., Ltd., which operated a national fixed line network, merged into China Mobile, China Telecom acquired the

Code Division Multiple Access (CDMA) wireless business and network from China Unicom, and China Netcom, which was principally a fixed line operator, merged into China Unicom, which operates a Global System for Mobile communications (GSM) network and business. In January 2009, following the completion of this restructuring, the PRC government issued licenses to operate 3G mobile networks to China Mobile, China Unicom and China Telecom.

We believe the elimination of uncertainties relating to the telecommunications industry restructuring plan and the launch of 3G mobile technologies are likely to attract new participants to the VAS market and motivate our existing competitors to adapt more aggressive strategies. If we are unable to adapt our strategy successfully and maintain and enhance our relationships with the surviving operators, our competitive position in the market may be adversely affected. In particular, the launch of 3G mobile technologies could radically alter or even eliminate the market for SMS or 2.5G (including multimedia messaging services, or MMS, WAP and Java games), which are services with which we are more familiar. Having evaluated market opportunities for 3G services in China, we have determined not to offer any services in this area at this time. However, as 3G or other standards develop in China, we may determine in the future to enter this or other markets. In Indonesia, we have commenced offering 3G services although we have limited experience offering these types of services. Because of our limited experience commercially offering such services, we may not be able to offer services which are attractive to 3G users in Indonesia in a timely manner or at all. Our inability to successfully capture opportunities in the 3G market could materially and adversely affect our operating results.

**The Chinese government or one or more of the operators may prevent us from distributing, and we may be subject to liability for, content that any of them believe is inappropriate.**

China has enacted regulations governing telecommunication service providers, internet access and the distribution of news and other information. In the past, the Chinese government has stopped the distribution of information over the internet that it believes to violate Chinese law, including content that is obscene, incites violence, endangers national security, is contrary to the national interest or is defamatory. In addition, we may not publish certain news items, such as news relating to national security, without permission from the Chinese government. Furthermore, the Ministry of Public Security has the authority to cause any local internet service provider to block any website maintained outside China at its sole discretion.

The operators in China also have their own policies regarding the distribution of inappropriate content by VAS providers and have punished certain providers for distributing content deemed by them to be obscene. Such punishments have included censoring of content, delays in payments of fees by the operators to the offending service provider, restrictions on the ability of the service provider to bill for its services and suspension of the service on the operators' networks. Accordingly, even if we comply with Chinese governmental regulations relating to licensing and foreign investment prohibitions, if the Chinese government or one or more of the operators were to take any action to limit or prohibit the distribution of information or to limit or regulate any current or future content or services available to users, our revenue could be reduced and our reputation harmed.

**Telecommunication laws and regulations in China are evolving and subject to interpretation and may change in the future. If we are found to be in violation of current or future Chinese laws or regulations, we could be subject to severe penalties.**

Although VAS are subject to general regulations regarding telecommunication services, we believe that currently, there are few Chinese laws at the national level specifically explicitly governing VAS, such as our services related to SMS, MMS, WAP and audio-related services. Many providers of VAS have obtained various VAS licenses. Although Weilan, Unilink, Cosmos, Zhong Tong, Lian Fei, Qimingxing, Beijing Ojava and Lianyu have obtained inter-provincial VAS licenses issued by MIIT or its local counterpart, we cannot be certain that other local or national VAS license requirements will not be imposed or will not conflict with each other or that any given license will be deemed sufficient by the relevant governmental authorities for the provision of this category of service. It is also possible that new national legislation might be adopted to regulate such services.

If we or our subsidiaries or affiliates are found to be in violation of any existing or future Chinese laws or regulations regarding VAS or internet access which is discussed in the following risk factor, the relevant Chinese authorities have the power to, among other things:

- levy fines and prohibit new product and service offerings;
- confiscate our income or the income of our subsidiaries and affiliates;
- revoke our business license or the business license of our subsidiaries and affiliates;
- shut down our servers or the servers of our subsidiaries and affiliates and/or blocking any websites that we operate; and
- require us to discontinue any portion or all of our VAS business.

**The regulation of internet website operators is also unclear in China, and our business could be adversely affected if we are deemed to have violated applicable laws and regulations.**

Our affiliates, Weilan and Yuan Hang, operate internet websites in China, which are one of the channels through which our services are offered. The interpretation and application of existing Chinese laws and regulations, the stated positions of the main governing authority, MIIT, and the possibility of new laws, regulations or policy positions being adopted have created significant uncertainty regarding the legality of existing and future foreign investments in, and the businesses and activities of, Chinese companies with internet operations including those of our company. In particular, MIIT has stated that the activities of internet content providers are subject to regulation by various Chinese government authorities, depending on the specific activities conducted by the internet content provider.

On July 13, 2006, MIIT issued a notice with the purpose of increasing the regulation of foreign investment in and operations of VAS which includes internet and telecommunications businesses in China. The regulations require Chinese entities (or shareholders of such Chinese entities) to own and control the internet domain names and registered trademarks, and to have servers and other equipment used to host and operate websites and conduct business. The ownership requirements functionally limit foreign direct and indirect ownership and control of the intellectual property of these businesses even when attempted through various parallel control, licensing, use and management agreements. It is unclear whether these regulations will be strictly enforced or be reiterated by the government in future. The government has provided that the new regulations apply retroactively and requests that VAS operators self-audit under these regulations and hold themselves accountable to MIIT local offices. Failure to comply may cause MIIT to terminate a telecommunications license or otherwise modify existing agreements or require the disposition of the assets by the foreign entity. Any anticipated foreign investment in such businesses will be subject to prior approval by MIIT, and it is expected that approval for investment may not be easily obtained for foreign investment in these businesses unless in strict compliance with the requirements of MIIT. We cannot be certain that the commercial internet content provider license issued by the local Shanghai Municipal Telecommunications Administration Bureau and held by Weilan or any VAS license held by Weilan, Unilink, Cosmos, Zhong Tong, Lian Fei, Qimingxing, Beijing Ojava and Lianyu will satisfy these requirements. Our failure to comply with applicable Chinese internet regulations could subject us to severe penalties as noted in the prior risk factor.

**A slowdown in the Chinese economy may reduce our growth and profitability. In addition, we may be adversely affected by the possible “hard landing” of China’s economy in the future.**

The growth of the Chinese economy has been uneven across geographic regions and economic sectors, and the Chinese government has recently implemented various measures to slow economic growth in order to limit inflation. The Chinese economy overall affects our profitability as spending on VAS may decrease due to slowing domestic demand. More specifically, increased penetration of VAS in the less economically developed central and western provinces of China will depend on potential customers in those provinces achieving certain income levels so that mobile handsets and related services become affordable to a significant portion of the population.

Because a material portion of our operations are conducted in China, our business and prospects may be materially and adversely affected by any deterioration in China's macroeconomic environment. There is a possibility that China's economic growth rate may materially decline in the near future, which may have adverse effects on our financial condition and results of operations. In the first quarter of 2009, China's gross domestic product slowed to as low as 6.2%. A number of factors contributed to this slowdown, including appreciation of the RMB, which adversely affected China's exports, and tightening macroeconomic measures and monetary policies adopted by the PRC government aimed at preventing overheating of China's economy and controlling China's high level of inflation. The slowdown was further exacerbated by the global crisis in the financial services and credit markets that began in 2008 and the on-going European debt crisis, which have resulted and might continue to result in extreme volatility and dislocation of the global capital markets. Although the growth rate of China's gross domestic product accelerated and reached 11.9% in the first quarter of 2010, the growth rate has since slowed down to 9.6% in the third quarter of 2010 and 9.1% in the third quarter of 2011. In addition, China lowered the target growth rate of its gross domestic product to an eight-year low of 7.5% for the calendar year 2012. It is uncertain whether China's current economic growth is sustainable and whether the slower growth that China's economy experienced in 2009 could return in the near future. Although we are uncertain about the extent to which the recent global financial and economic crisis and potential rapid slowdown of China's economic growth may impact our business in the short term and long term, there is a risk that our business, results of operations and prospects would be materially and adversely affected by any ongoing global economic downturn or slowdown of China's growth rate.

**Government regulation of the telecommunications, television and internet industries may become more burdensome.**

Government regulation of the telecommunications, television and internet industries is burdensome and may become more burdensome. New regulations could increase our costs of doing business and prevent us from efficiently delivering our services. These regulations may stop or slow down the expansion of our user base and limit the access to our services. In addition to new laws and regulations, existing laws not currently applicable to the VAS may be applied to those services in the future.

**Any changes to our tax incentives could have a material adverse effect on our operating results. Our foreign ADS holders may be subject to PRC withholding tax on the dividends payable by us and upon gains realized on their sales of our ADSs if we are classified as a PRC "resident enterprise."**

Certain of our subsidiaries and affiliated Chinese entities enjoy tax exemptions and reduced tax rates, which increase our net income. See Item 5. "Operating and Financial Review and Prospects — Taxation." The new PRC Enterprise Income Tax law, or the new EIT law, which became effective on January 1, 2008, generally provides grandfather treatment for companies entitled to preferential tax exemptions granted prior to such effective date but requires annual assessment for exemptions previously granted to high and new technology enterprises. The high and new technology enterprise status is valid for a period of three years from the date of issuance of the certificate and is subject to an annual self-review process whereby a form is submitted to relevant tax authority for approval to use a preferential income tax rate. If there are significant changes in the business operations, manufacturing technologies or other criteria that cause the enterprise to no longer meet the criteria as a high and new technology enterprise, such status will be terminated from the year of such change. Yuan Hang and Huitong qualified as a high and new technology enterprise and were entitled to a preferential tax rate of 15% in 2009, 2010 and 2011. Yuan Hang passed its assessment as a high and new technology enterprise in 2011 and Huitong will re-apply in 2012. Two of our affiliate entities, Cosmos and Beijing Ojava, enjoyed a preferential tax rate of 15% in 2009 and 2010 as high and new technology enterprises. In 2011, neither company qualified as a high and new technology enterprise and their applicable tax rate was 25%. In 2009, 2010 and 2011, Lian Fei did not qualify as a high and new technology enterprise, and its applicable tax rate in those years was 25%. Letang qualified as a high and new technology 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. Our future results could be materially and adversely affected if we are not able to maintain similar preferential tax treatment.

The new EIT law provides that enterprises incorporated inside or outside of China with a “*de facto* management body” in China are considered “resident enterprises” and will be subject to the uniform 25% enterprise income tax rate on their global income. The “*de facto* management body” is defined as the organizational body that effectively exercises overall management and control over production and business operations, personnel, finance and accounting and properties of the enterprise. On April 22, 2009, the PRC State Administration of Taxation further issued a notice entitled “Notice Regarding Recognizing Offshore-Established Enterprises Controlled by PRC Shareholders as Resident Enterprises Based on Their De Facto Management Body.” Under this notice, a foreign company controlled by a PRC company or a group of PRC companies shall be deemed as a PRC resident enterprise if (i) the senior management and the core management departments in charge of its daily operations mainly function in the PRC; (ii) its financial decisions and human resource decisions are subject to decisions or approvals of persons or institutions in the PRC; (iii) its major assets, accounting books, company seals, minutes and files of board meetings and shareholders’ meetings are located or kept in the PRC; and (iv) more than half of the directors or senior management personnel with voting rights reside in the PRC. Although our company is not controlled by any PRC company or a group of PRC companies, we cannot assure you that we will not be deemed to be a “resident enterprise” of the PRC under the notice mentioned above or the new EIT law and thus not be subject to PRC enterprise income tax on our global income.

In addition, under the implementation rules of the new EIT law, dividends paid to “non-resident enterprises” by “resident enterprises” on profits earned after January 1, 2008 are regarded as income from “sources within the PRC” and therefore subject to a 10.0% withholding income tax, while dividends on profits earned before January 1, 2008 are not subject to the withholding income tax. A lower withholding income tax rate of 5.0% is applied if the “non-resident enterprises” are registered in Hong Kong or other jurisdictions that have a favorable tax treaty arrangement with China. Nevertheless, the PRC State Administration of Taxation promulgated a tax notice on October 27, 2009, or Circular 601, which provides that tax treaty benefits will be denied to “conduit” for shell companies without business substance, and a beneficial ownership analysis will be used based on a “substance-over-form” principle to determine whether or not to grant tax treaty benefits. It is unclear at this early stage whether Circular 601 applies to dividends from our PRC subsidiaries paid to us through our Hong Kong subsidiaries. It is possible that under Circular 601 our Hong Kong subsidiaries would not be considered to be the beneficial owners of any such dividends, and that, if such dividends are subject to withholding, such withholding rate would be 10% rather than the favorable 5% rate generally applicable under the tax treaty between mainland China and Hong Kong.

Because we may be treated as a “resident enterprise,” any dividends paid to the corporate shareholders or shareholders appearing as corporate entities on the share registers of Linktone which are considered “non-resident enterprises” may be subject to withholding income tax and the value of the investment in our shares or ADSs may be adversely and materially affected.

**Failure to comply with PRC regulations regarding the registration requirements for employee equity incentive plans may subject our PRC citizen employees or us to fines and other legal or administrative sanctions.**

On March 28, 2007, the PRC State Administration of Foreign Exchange, or SAFE, promulgated the Application Procedure of Foreign Exchange Administration for Domestic Individuals Participating in Employee Stock Holding Plan or Share Option Plan of Overseas-Listed Company, or the Share Option Rule. On February 15, 2012, SAFE issued the Notices on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plan of Overseas-Listed Company, or the Stock Incentive Plan Rule, which replaced the Share Option Rule. Under the Stock Incentive Plan Rule, PRC citizens who are granted share options or other employee equity incentive awards by an overseas publicly-listed company are required, through a qualified PRC agent or a PRC subsidiary of such overseas publicly-listed company, to register with SAFE and complete certain other procedures related to the share options or other employee equity incentive plans. Although we have registered our equity compensation plans with SAFE in accordance with these, we cannot provide any assurance that we or our employees who are PRC citizens will continue to be able

to satisfy the registration requirements under the Stock Incentive Plan Rule. In particular, if we and/or our employees who are PRC citizens fail to comply with the provisions of the Stock Incentive Plan Rule or any other related law, rule or regulation issued by SAFE or other PRC government agencies in the future, we and/or our employees who are PRC citizens may be subject to fines and legal sanctions imposed by SAFE or other PRC government agencies, as a result of which our business operations and equity compensation plans could be materially and adversely affected.

**The uncertain legal environment in China could limit the legal protection available to our investors.**

The Chinese legal system is a civil law system based on written statutes. Unlike common law systems, it is a system in which decided legal cases have little precedential value. In the late 1970s, the Chinese government began to promulgate a comprehensive system of laws and regulations governing economic matters. The overall effect of legislation enacted over the past 30 years has significantly enhanced the protection afforded to foreign invested enterprises in China. However, these laws, regulations and legal requirements are relatively recent and are evolving rapidly, and their interpretation and enforcement involve uncertainties. These uncertainties could limit the legal protection available to foreign investors such as the right of foreign invested enterprises to hold licenses and permits such as a VAS license and requisite business licenses.

**Changes in China's political and economic policies could harm our business.**

The economy of China has historically been a planned economy subject to governmental plans and quotas and has, in certain aspects, been transitioning in recent years to a more market-oriented economy. Although we believe that the economic reform and the macroeconomic measures adopted by the Chinese government have had a positive effect on the economic development of China, we cannot predict the future direction of these economic reforms or the effects these measures may have on our business, financial position or results of operations. In addition, the Chinese economy differs from the economies of most countries belonging to the Organization for Economic Cooperation and Development, or OECD. These differences include:

- economic structure;
- level of government involvement in the economy;
- level of development;
- level of capital reinvestment;
- control of foreign exchange;
- methods of allocating resources; and
- balance of payments position.

As a result of these differences, our business may not develop in the same way or at the same rate as might be expected if the Chinese economy were similar to those of the OECD member countries.

**Restrictions on currency exchange may limit our ability to receive and use our revenue effectively.**

Because a significant portion of our future revenue may be in the form of Renminbi, any future restrictions on currency exchanges may limit our ability to use revenue generated in Renminbi to fund our business activities outside China or to make dividend or other payments in U.S. dollars. Although the Chinese government introduced regulations in 1996 to allow greater convertibility of the Renminbi for current account transactions and paying dividends, significant restrictions still remain, including primarily the restriction that foreign invested enterprises may only buy, sell and/or remit foreign currencies at those banks authorized to conduct foreign exchange business after providing valid commercial documents. In addition, conversion of Renminbi for capital account items, including direct investment and loans, is subject to governmental approval in China, and

companies are required to open and maintain separate foreign exchange accounts for capital account items. We cannot be certain that the Chinese regulatory authorities will not impose more stringent restrictions on the convertibility of the Renminbi, especially with respect to foreign exchange transactions.

**Chinese regulations relating to foreign exchange and acquisitions of Chinese companies by foreign entities may limit our ability to acquire Chinese companies and adversely affect the implementation of our acquisition strategy as well as our business and business prospects.**

On October 21, 2005, SAFE issued the Notice on Issues Relating to the Administration of Foreign Exchange in Fund-raising and Reverse Investment Activities of Domestic Residents Conducted via Offshore Special Purpose Companies, or Notice 75, which became effective as of November 1, 2005. Notice 75 replaced the previous SAFE regulations relating to acquiring of Chinese companies by foreign entities. Notice 75 requires each PRC resident, whether a natural or legal person, to complete the overseas investment foreign exchange registration procedures with the relevant local SAFE branch, prior to establishing or assuming control of an offshore company for the purpose of financing that offshore company with assets or equity interests in an onshore enterprise in China. In addition, an amendment to the registration with the local SAFE branch is required to be filed by any PRC resident that directly or indirectly holds interests in that offshore company upon either (1) the injection of equity interests or assets of an onshore enterprise to the offshore company, or (2) the completion of any overseas fund raising by such offshore company. An amendment to the registration is also required to be filed by such PRC resident when there is any material change involving a change in the capital of the offshore company.

Moreover, Notice 75 applies retroactively. As a result, PRC residents who have established or acquired control of offshore companies that have made onshore investments in China in the past were required to complete the relevant overseas investment foreign exchange registration procedures by March 31, 2006. To implement Notice 75, SAFE issued an implementation notice in May 2007, or Circular 106. Circular 106 specifies the circumstances under which PRC residents are required to comply with Notice 75 and the procedures of compliance. Under Circular 106, in the event a PRC resident failed to file for the relevant investment foreign exchange registration under Notice 75 by March 31, 2006 with respect to an overseas entity, any dividends remitted by the domestic subsidiary to such overseas entity since April 21, 2005 will be deemed as an evasion of foreign exchange purchase rules, making the remittance illegal. The domestic company and its actual controlling person(s) may also be fined. In addition, under Circular 106, failure to comply with the registration procedures set forth in Notice 75 and Circular 106 may result in restrictions on the relevant onshore company, including the payment of dividends and other distributions to its offshore parent or affiliate and the capital inflow from the offshore entity, and may also subject relevant PRC residents to penalties under PRC foreign exchange administration regulations.

On August 8, 2006, six PRC regulatory agencies, namely, MOFCOM, the State Assets Supervision and Administration Commission, the State Administration for Taxation, the State Administration for Industry and Commerce, the China Securities Regulatory Commission, or CSRC, and SAFE jointly adopted the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, or the M&A Rules, which became effective on September 8, 2006 and were amended in June 2009. The M&A Rules established, among other things, additional procedures and requirements that could make merger and acquisition activities by foreign investors more time-consuming and complex, including requirements in some instances that MOFCOM be notified in advance when a foreign investor acquires equity or assets of a PRC domestic enterprise. Complying with the requirements of the M&A Rules to complete such transactions could be time-consuming, and any required approval processes, including obtaining approval from MOFCOM or its local counterparts may delay or inhibit our ability to complete such transactions, which could affect our ability to expand our business or maintain our market share.

The interpretation and implementation of the SAFE regulations and the M&A Rules vary from place to place, and it is presently uncertain how these variations and any future legislation concerning offshore or cross-border transactions will be interpreted or implemented by the relevant government authorities in connection with our



future offshore financings or acquisitions. Thus, we cannot predict how they will affect our business operations or future acquisition strategy. For example, our present and prospective Chinese subsidiaries' ability to conduct foreign exchange activities, such as remittance of dividends and foreign-currency-denominated borrowings, may be conditioned upon compliance with the SAFE registration requirements by such Chinese residents, over whom we have no control. In addition, we cannot assure you that such Chinese residents will be able to complete the necessary approval and registration procedures required by the SAFE regulations because we have no control over the outcome of the registration procedures. The failure by such Chinese residents to register with SAFE according to Notice 75 and Circular 106 may significantly limit our PRC subsidiaries' ability to distribute dividends to us. Such uncertainties may restrict our ability to implement our acquisition strategy and adversely affect our business and prospects.

**Our auditor engages its network firm in China to audit our China entities. Because network firms in China are not permitted under Chinese law to be subject to inspection by the Public Company Accounting Oversight Board, investors may be deprived of the benefits of such inspection.**

Our independent registered public accounting firm that issues the audit reports included in our annual reports filed with the SEC, as an auditor of companies whose shares are publicly traded in the United States, is registered with the U.S. Public Company Accounting Oversight Board, or PCAOB. As a PCAOB-registered firm, our auditor is required by the laws of the United States to undergo regular inspections by the PCAOB to assess its compliance with the laws of the United States and relevant professional standards. Because our auditor uses its network firm for the audit of our entities in China, a jurisdiction where the PCAOB is currently unable to conduct inspections without the approval of the Chinese authorities, our auditor's network firm, like other independent registered public accounting firms operating in China, is currently not inspected by the PCAOB.

Inspection of other firms that the PCAOB has conducted outside of China have identified deficiencies in those firms' audit procedures and quality control procedures, which may be addressed as part of the inspection process to improve future auditor quality. The inability of the PCAOB to conduct inspections of independent registered public accounting firms operating in China makes it more difficult to evaluate the effectiveness of our auditor's audit procedures or quality control procedures. As a result, investors may be deprived of the benefits of PCAOB inspections.

**Our corporate structure could be deemed to be in violation of current or future Chinese laws and regulations which could adversely affect our ability to operate our business effectively or at all.**

In order to meet China's restrictions and requirements on foreign investment in telecommunications and internet services in China, as of December 31, 2011, we maintained control over the following affiliated Chinese entities which are each owned by our current and/or former employees and are treated as our variable interest entities, or VIEs, for accounting purposes:

- (i) Shanghai Weilan Computer Co., Ltd., or Weilan;
- (ii) Shanghai Unilink Company Ltd., or Unilink;
- (iii) Shenzhen Yuan Hang Technology Co., Ltd., or Yuan Hang;
- (iv) Beijing Cosmos Digital Technology Co., Ltd., or Cosmos;
- (v) Hainan Zhong Tong Computer Network Co., Ltd., or Zhong Tong;
- (vi) Beijing Lian Fei Wireless Communication Technology Co., Ltd., or Lian Fei;
- (vii) Shanghai Qimingxing E-commerce Co., Ltd., or Qimingxing;
- (viii) Beijing Ojava Wireless Information Technology Co. Ltd., or Beijing Ojava;
- (ix) Zhong Qing Wei Lian Cultural Communication Co., Ltd., or Wei Lian;

- (x) Beijing Lianyu Interactive Technology Development Co., Ltd., or Lianyu;
- (xi) Shanghai Ling Yu Cultural and Communication Co., Ltd., or Ling Yu;
- (xii) Shanghai Lang Yi Advertising Co., Ltd., or Lang Yi;
- (xiii) Beijing Xian Feng Li Liang Co., Ltd., or Xian Feng; and
- (xiv) Letang.

Under the current shareholding structure, Weilan, Unilink, Cosmos, Zhong Tong, Lian Fei, Qimingxing, Beijing Ojava and Lianyu have inter-provincial VAS licenses issued by MIIT, and they offer our services through one or more of the telecommunications network operators in China. Yuan Hang offers services related to our online game business. Xian Feng provides music related content services to network operators. Ling Yu, Wei Lian and Lang Yi have been dormant since 2010.

It is possible that the relevant Chinese authorities could, at any time, assert that any portion of or all of the existing or future ownership structure and businesses of us, any of our wholly owned subsidiaries, or any of our VIEs, violate existing or future Chinese laws, regulations or policies. It is also possible that the new laws or regulations governing the telecommunication or internet sectors in China that have been adopted or may be adopted in the future will prohibit or restrict foreign investment in, or other aspects of, any of our, our wholly owned subsidiaries' or our affiliated Chinese entities' current or proposed businesses and operations. In addition, these new laws and regulations may be retroactively applied. For example, on September 28, 2009, the General Administration of Press and Publication (GAPP), the National Copyright Administration and the National Office of Combating Pornography and Illegal Publications jointly published the Notice Regarding the Consistent Implementation of the "Stipulations on 'Three Provisions' of the State Council and the Relevant Interpretations of the State Commission Office for Public Sector Reform and the Further Strengthening of the Administration of Pre-examination and Approval of Internet Games and the Examination and Approval of Imported Internet Games", or Circular 13. Circular 13 expressly prohibits foreign investors from participating in internet game operating businesses via wholly owned, equity joint venture or cooperative joint venture investments in China, and from controlling and participating in such businesses directly or indirectly through contractual or technical support arrangements. It is not clear yet as to whether other PRC government authorities, such as the Ministry of Commerce (MOFCOM) and MIIT, will support GAPP to enforce the prohibition of the VIE model that Circular 13 contemplates. If our current structure and our contractual arrangements were found to be in violation of any existing or future Chinese laws and regulations, we may be required to restructure our structure and operations in China to comply with such Chinese laws. In such case, we may not be able to operate or control our business in the same manner as we currently do, and therefore, may not be able to consolidate our VIEs. In addition, the relevant regulatory authorities would have broad discretion in dealing with such violations which may adversely impact our financial statements, operations and cash flows (including the restriction on us to carry out the business). It is unclear how such restructuring could impact our business and operating results.

We believe that our present operations are structured to comply with Chinese law. However, many Chinese regulations are subject to extensive interpretive powers of governmental agencies and commissions, and there are substantial uncertainties regarding the interpretation and application of current and future Chinese laws and regulations. Accordingly, we cannot be assured that Chinese regulatory authorities will not ultimately take a contrary view to our belief and will not take action to prohibit or restrict our business activities.

**We may be unable to collect long-term loans to shareholders of our affiliated Chinese entities.**

As of December 31, 2011, we had provided long-term interest free loans with an aggregate outstanding balance of approximately RMB114.0 million to shareholders of our affiliated Chinese entities for the purpose of investing in our affiliated Chinese entities as registered capital and to make payments to the selling shareholders from whom we acquired certain of our affiliated Chinese entities for settlement of purchase price consideration pursuant to applicable acquisition agreements. The term of these loans in each case is 10 years. The shareholders

of our affiliated Chinese entities can only repay the loans by transferring to us or our designees all of their equity interest in the respective affiliated Chinese entity. Please refer to the table under Item 5. “Operating and Financial Review and Prospects — Arrangements with Consolidated Affiliates — Loan Agreements.” We expect that we will continue to be involved in and provide additional financial support in the future to the extent allowed by the Sarbanes-Oxley Act of 2002 and other applicable laws. Because of uncertainty associated with Chinese law, ultimate enforcement of the loan agreements is uncertain.

**We depend upon contractual arrangements with our affiliated Chinese entities for the success of our business. These arrangements may not be as effective in providing operational control as direct ownership of these businesses and may be difficult to enforce.**

Because we are restricted by the Chinese government from owning telecommunications and internet operations in China, we depend on our affiliated Chinese entities, Weilan, Unilink, Yuan Hang, Cosmos, Zhong Tong, Lian Fei, Qimingxing, Beijing Ojava, Lianyu and Xian Feng in which we have no direct ownership interest, to provide those services through contractual agreements with the operators. These arrangements may not be as effective in providing control over our operations as direct ownership of these businesses. For example, our affiliated Chinese entities could fail to take actions required to operate our business, such as entering into content development contracts with potential content suppliers or service contracts with the operators in China. Moreover, the fees for our services are paid by the operators directly to our affiliated Chinese entities, which are then obligated at our request to transfer substantially all or some of such fees to one of our wholly owned subsidiaries, Shanghai Linktone Consulting Co., Ltd., or Linktone Consulting, Shanghai Huitong Information Co., Ltd., or Huitong, Shanghai Linktone Internet Technology Co., Ltd., or Linktone Internet, Shanghai Linktone Software Co., Ltd., or Linktone Software, Wang You Digital Technology Co., Ltd., or Wang You, Beijing Ruida Internet Technology Co., Ltd., or Ruida, and Shanghai Xintong Information Technology Co., Ltd. or Xintong. If our affiliated Chinese entities fail to perform their obligations under these agreements, we may have to incur substantial costs and expend significant resources to enforce those arrangements and rely on legal remedies under Chinese laws. The Chinese laws, rules and regulations are relatively new, and because of the limited volume of published decisions and their non-binding nature, the interpretation and enforcement of these laws, rules and regulations involve substantial uncertainties. These uncertainties may impede our ability to enforce these contractual arrangements, or suffer significant delay or other obstacles in the process of enforcing these contractual arrangements and materially and adversely affect our results of operations and the financial position. For example, in the event that one of our Chinese VIEs fails to perform its obligations under our loan agreement with it, we may incur a loss on this loan or costs to enforce these arrangements.

**Contractual arrangements with our affiliated Chinese entities may cause a transfer pricing adjustment and may be subject to scrutiny by the PRC tax authorities.**

We could face material and adverse tax consequences if the PRC tax authorities determine that our contractual arrangements with our affiliated Chinese entities were not entered into based on arm’s length negotiations. Although our contractual arrangements are similar to other companies conducting similar operations in China, if the PRC tax authorities determine that these contracts were not entered into on an arm’s length basis, they may adjust our income and expenses for PRC tax purposes in the form of a transfer pricing adjustment which may result in an increase in our taxes. In addition, if for any reason we need to cause the transfer of any of the shareholder’s shares in our affiliated Chinese entities to a different nominee shareholder (such as if, for example, any of such shareholders is no longer employed by us), we might be required to pay individual income tax, on behalf of the transferring shareholder, on any gain deemed to have been realized by such shareholder on such transfer.

#### **Item 4. Information on the Company**

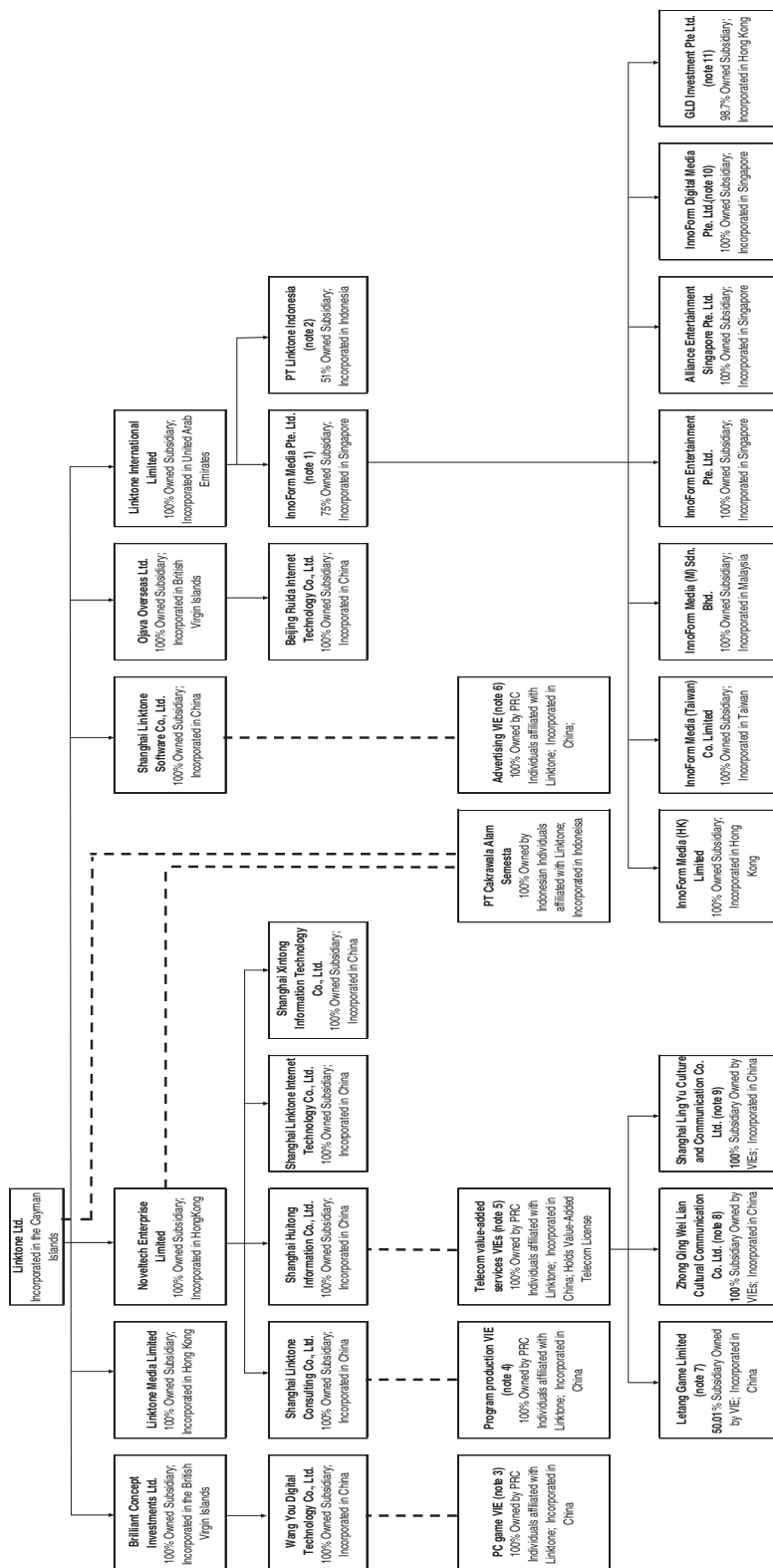
##### **A. History and Development of the Company**

We commenced operations as a business division of Intrinsic China Technology Ltd., which was incorporated in the Cayman Islands in November 1999. Intrinsic China Technology focused primarily on

developing wireless data software and VAS. In April 2001, our affiliated business division which focused on wireless data software was spun off to form a newly established holding company in the Cayman Islands, Intrinsic Technology (Holdings) Ltd., and our company was renamed Linktone Ltd. We are incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law. Our registered office is located at M&C Corporate Services Limited, P.O. Box 309GT, Uglan House, South Church Street, George Town, Grand Cayman, Cayman Islands. Our principal executive offices are located at Unit C-D, 10F Long Life Building, 1566 West Yan An Road, Shanghai 200052, People's Republic of China. Our telephone number is 86-21-616 -7787.

For more information on the history and development of our company, see Item 5. "Operating and Financial Review and Prospects — Our Corporate Structure" and "Operating and Financial Review and Prospects — Arrangements with Consolidated Affiliates."

The following diagram shows the current organizational structure of our principal subsidiaries and affiliated Chinese entities as of March 31, 2012:



Note 1 75% subsidiary owned by Linktone International Limited (50% acquired in March 2010 and 25% acquired in June 2010)  
 Note 2 51% subsidiary owned by Linktone International Limited (acquired in June 2010), 39% is owned by MMIE, and 10% by MNC  
 Note 3 Shanghai Yuan Hong Technology Co., Ltd.  
 Note 4 Beijing Yuan Feng Ju Lang Media Co., Ltd.  
 Note 5 Shanghai Weilan Computer Co., Ltd., Shanghai Unlink Company Ltd., Beijing Cosmes Digital Technology Co., Ltd., Hsian Zhong Tong Computer Network Communication Technology Co., Ltd., Beijing Ojiva Wireless Information Technology Co., Ltd. and Beijing Lan Yu Interactive Technology Development Co., Ltd.  
 Note 6 Beijing Lan Yu Wireless Communication Technology Co., Ltd., Shanghai Omigong E-commerce Co., Ltd., Beijing Ojiva Wireless Information Technology Co., Ltd., Shanghai Weilan Computer Co., Ltd., Shanghai Leang Yi Advertising Co., Ltd.  
 Note 7 50.01% subsidiary owned by PRC individuals: Shanghai Leang Yi Advertising Co., Ltd.  
 Note 8 60% owned by VIE, Shanghai Weilan Computer Co., Ltd., and 40% owned by VIE, Beijing Lan Yu Wireless Communication Technology Co., Ltd., Zhong Qing Wei Lian Cultural Communication Co., Ltd.  
 Note 9 50% owned by VIE, Shanghai Unlink Company Ltd., and 50% owned by VIE, Shanghai Omigong E-commerce Co., Ltd., Shanghai Ling 'Yu Culture and Communication Co., Ltd.  
 Note 10 100% owned by InoForm Media Pte. Ltd. (acquired remaining 49% in July 2010)  
 Note 11 100% owned by InoForm Media Pte. Ltd. (acquired in September 2010)

— Represents equity interest  
 --- Represents contractual arrangements between the parties

In March 2004, we completed the initial public offering of our ADSs, representing our ordinary shares, and listed those securities on the NASDAQ National Market (now the NASDAQ Global Market).

In April 2008, MNC, through MNC International Limited, or MIL, completed a strategic investment in us and acquired approximately 57.1% of our total outstanding ordinary shares using a combination of a tender offer for existing ADSs and ordinary shares and a subscription for newly-issued ordinary shares. MNC is the largest and only integrated media company in Indonesia, engaging in content production and distribution and operating nationwide free-to-air television networks, 24-hour program television channels, newspapers, tabloids, radio networks and online media. Following this strategic investment, a majority of our board of directors has been comprised of MNC's nominees. As a result, our business strategies and developments are subject to substantial influence of MNC. In May 2010, MNC through MIL acquired an additional 500,000 ADSs from a third party through a privately negotiated transaction. After this acquisition, MNC held approximately 58.2% of our total outstanding ordinary shares. In 2011 and 2012, we repurchased 12,191,210 ordinary shares through our Share Repurchase Program from the open market. This repurchase exercise increased MNC's shareholding from 58.2% to 59.9%.

In January 2011, our board of directors approved the appointment of Billy Hsieh as our independent director and member of the audit committee, effective as of February 1, 2011 (replacing Thomas Hubbs who resigned from our board of directors at the same time for personal reasons), and the appointment of Peck Joo Tan as our chief financial officer, effective as of March 1, 2011 (replacing our prior chief financial officer, Colin Sung). Peck Joo Tan was appointed as our director in December 2010.

Our total capital expenditures (all of which related to continuing operations) for 2009, 2010 and 2011 were \$0.1 million, \$0.6 million and \$0.4 million respectively, primarily consisting of the purchase of computer and office equipment. We anticipate that we will have capital expenditures in the next 12 months of approximately \$1.0 million for software and technology infrastructure products in connection with our normal maintenance and upgrading routines.

## **B. Business Overview**

### **VAS BUSINESS**

We provide entertainment-oriented VAS and content to mobile users over the 2G and 2.5G mobile telecommunications networks in China and Indonesia, as well as the 3G mobile telecommunications network in Indonesia. We specialize in the development, aggregation, marketing and distribution of user wireless content and applications for access by China's 900 million and Indonesia's 210 million mobile phone users (as estimated at the end of 2011), primarily through three mobile network operators in China — China Mobile, China Unicom and China Telecom — and nine mobile network operators in Indonesia — PT Telekomunikasi Selular, or Telkomsel, PT Indosat Tbk, or Indosat, PT XL Axiata Tbk, or XL, PT Telekomunikasi Indonesia Tbk, PT Bakrie Telecom, PT Hutchison CP Telecommunication, PT Sampoerna Telekomunikasi Indonesia, PT Natrindo Telepon Seluler and PT Smartfren. We also provide certain audio-related services over the fixed and mobile line telecom networks in China and Indonesia.

Our 2G SMS-based services include ringtones, icons and screen savers, interactive SMS messaging in certain television programs, adventure, action, trivia and fortune-telling games, lunar and Western horoscopes, jokes, fan clubs and event-driven or entertainment news updates.

We also offer 2.5G services, which include MMS, such as animated cartoons and screensavers, comic strips, magazine-style "mobile articles" on a variety of topics and event-driven news updates. In addition, our 2.5G offerings include WAP services, such as WAP-based ringtones, screensavers, games and dating services, and advanced Java™ games, or Java games. We refer to our SMS, MMS, WAP and Java™ services as "data-related services" in this annual report. We also offer 3G services in Indonesia, including services such as e-paper/e-reading, music track downloads, streaming services such as video-on-demand (VOD) on tablet devices and smart TVs, and also radio streaming on mobile applications.

In addition, we offer audio-related services such as “caller ring-back tones,” or “CRBT” which replaces the regular ringtone heard by callers with high quality music and sound effects, and IVR services, which allow users to listen to songs, jokes, stories and coverage of major events. Users can send such audio content, along with personal messages, to the mobile phones of their friends or others.

### Technologies

#### Data-related Services

##### SMS (2G)

#### Type of User Service and Content

- Monophonic and Polyphonic Ringtones
- Icons and Screen Savers
- Endless Battle Space Game
- Mobile Pet
- Crystal Ball Fortune Telling Game
- SMS Interactive Television Messaging
- SMS Call TV Quiz
- SMS Info
- SMS Quiz
- SMS Polling
- SMS Survey
- SMS Opinion
- SMS Auction
- Horoscopes
- Shio
- Feng Shui
- Luck Tips
- Jokes
- Fan Clubs
- Event-driven or Entertainment News

##### MMS/WAP/Java™ (2.5G)

- Customizable Monophonic and Polyphonic Ringtones
- Color and Animated Icons and Screen Savers
- Java™-based Action, Role- Playing and Adventure Games
- WAP-based Card Games and Games of Chance
- Television Station WAP
- Newspaper/Tabloid/Magazine Mobile Application Version

##### 3G Services

- E-paper/e-reading
- Video-on-demand
- Music track downloads
- Mobile applications, such as radio streaming application

#### Audio-related Services

- CRBT
- IVR Services
- Music
- Sound Effects
- Jokes
- Stories
- Chat Services
- Mobile Novels
- Mobile Blogs
- Gossip
- Lifestyle Advice

Our services and content can be purchased on a monthly subscription or per use basis in China, except for CRBT audio- related services from which we derive our revenue on a per content download basis while the operator collects a monthly network service fee. In Indonesia, our services and content can be purchased on a daily subscription or per use basis, except for CRBT which can be purchased on a daily, weekly or monthly basis.

### DATA-RELATED SERVICES

#### SMS

*Ringtones, Icons and Screen Savers.* Our ringtone, icon and screen saver downloads enable mobile phone users to customize the ringtone of their phones and the image which appears on the phone screens.

We offer over 6,000 and 140 ringtones which have been tailor-made for the Chinese and Indonesian markets, respectively, with monophonic as well as polyphonic (which sounds more like real music than the

traditional electronic ringing sounds of mobile phones) capabilities. We also offer more than 12,000 icons and screen savers in China and 340 icons and screen savers in Indonesia. These icons and screen savers range in complexity from simple black-and-white images and monochrome color to full color images.

*Games.* We collaborate with game developers, including Letang, to offer casual, role-playing, action, shooting and racing games to users of mobile devices in China and Indonesia.

*TV Quizzes and Polling.* In Indonesia, we support MNC's television shows to allow viewers the chance to win prizes by using their mobile phones to send an SMS during the program. A drawing occurs at the end of the program where a person is chosen at random and contacted. If this person can correctly answer the question asked, he or she wins a prize. We also provide SMS services where users can provide answers to a variety of questions or polls. For example, users can use the SMS service to vote for the contestant they think should win televised talent contests.

*Auction.* In Indonesia, we offer users a chance to win prizes by joining our SMS Auction Program. During the program, users can bid for a variety of prizes, with the highest bid winning the prize.

#### *MMS/WAP/JavaTM*

*Ringtones, Icons and Screen Savers.* Our next generation MMS and WAP ringtones allow users to create their own customized ringtones. We also offer more than 8,000 MMS and WAP color images and color animations.

*Games.* We offer games based on the JavaTM and BrewTM programming languages which offer an effective way to create sophisticated 2.5G games. Currently we have about 150 Java games available on China Mobile's mobile network, including fantasy and adventure games such as King of Pirates, Anti-terrorism Commando, Lightning Aircraft and Tank 2011. We also offer WAP-based card games and games of chance such as blackjack, poker and mahjong, as well as WAP- based versions of our SMS games described above.

*News and Entertainment Downloads.* Our users can download a variety of event-driven MMS news and entertainment downloads in China and Indonesia. In Indonesia we cooperate with PT Huawei Tech Investment to provide mobile newspapers using MMS through the network operators Telkomsel, XL and Indosat.

*WAP.* We offer WAP versions of jokes, news, fan clubs, horoscope services and TV stations.

*Mobile Applications.* We provide mobile applications, such as BlackBerry applications, to extend print content from newspapers, tabloids and magazines into mobile channels using WAP in China and Indonesia.

#### *3G Services*

We offer 3G services in Indonesia, including services such as e-paper/e-reading, streaming services such as video-on-demand (VOD) on tablet devices and smart TVs, music track downloads and also radio streaming on mobile applications and WAP. We are also working with members of the MNC Group to offer newspaper and magazine content via 2.5G and 3G networks and music via mobile devices in Indonesia.

### **AUDIO-RELATED SERVICES**

*CRBTs.* CRBT allows a mobile phone user to customize the sound callers hear when the user's phone is ringing. We supply a variety of pre-recorded messages from celebrities, sound effects (such as sirens), and a wide range of popular music.

*Voice Entertainment Services.* We provide IVR services, which allow users to send songs, jokes and stories with personal messages to their mobile phones or to the mobile phones of their friends or others. Our IVR services cover such topics as automobiles, jokes, sports, games and Chinese comedies.



## MOBILE GAMES

Our acquisition of a majority interest in Letang in January 2010 strengthened our mobile games portfolio and development capabilities. Letang develops games for mobile phone users which can be accessed through the operators' networks or embedded in the user's mobile handset by the handset manufacturer. As of December 31, 2011, Letang had 180 internally developed downloadable mobile games that can be played on the major global mobile phone operating systems and platforms including Flash, Symbian, Java, MTK, Android, BlackBerry and iPhone.

With the build-out of 3G networks which enable real time interactivity and improved data services, we believe mobile online games, which allow users to play internet-based games via their mobile phones, will become popular among mobile phone users in the next several years. Letang launched its first multiplayer online role playing game MengHuanFengShen in May 2010, a second game XianMoShiJie in July 2011 and a third game WuXia Online in November 2011. Letang set up its own user service platform, "Le Union," in December 2011.

Letang either sells the right to use its games to the mobile game operator for a fixed period or an indefinite period of time or enters into a revenue-sharing arrangement with the mobile operator. We currently have licenses or have purchased the right to use a range of games developed by Letang.

## PC GAMES

We, through our affiliated entity, Yuan Hang, offer online casual multi-player games such as billiards, card games and mahjong, which can be played on personal computers, or PCs. PC games are easier to play than typical multi-player online role-playing games and can be played to a conclusion within a short period of time. The basic version of most games are available free-of-charge, and we sell virtual game enhancements, such as options for changing the appearance of the game-play or advanced tools that players can use in the game, utilizing our prepaid point system. As of December 31, 2011, we had 90 PC games.

## MEDIA CONTENT — VIDEO AND AUDIO DISTRIBUTION AND RELATED SERVICES

InnoForm, which is 75% owned by our company and 12.5% owned by MNC (through MIMEL), primarily acquires multi-platform and multi-territorial rights for entertainment and edutainment content, and distributes such content across platforms such as theatres, home entertainment (VCDs/DVDs/Blu-ray discs), free to air and pay television, and digital media in Singapore, Malaysia, Vietnam and Hong Kong. InnoForm also engages in the distribution of pay television channels, karaoke video licensing, karaoke system rental and providing a karaoke-on-demand channel on pay television platforms. InnoForm has wholly owned subsidiaries in Malaysia and Hong Kong, as well as a representative office in Vietnam.

### *Home Entertainment*

InnoForm's home entertainment content includes feature films and television series from Hollywood, feature films and television series from Asia, as well as documentaries and educational movies, videos and pre-school edutainment and animation series for children.

### *Singapore*

- *Warner Home Video and Twentieth Century Fox* — InnoForm has exclusive licenses from Warner Home Video and Twentieth Century Fox for sale and distribution of certain of their content. InnoForm pays a minimum guaranteed amount as well as a royalty based on sales revenue earned after it has recouped a minimum guaranteed amount. The licensing contract with Warner Home Video expired as of December 2011 and the licensing contract with Twentieth Century Fox will expire in May 2012.
- *Theatrical Exhibitors* — InnoForm has video output arrangements with theatrical exhibitors such as Shaw Renters (Singapore) Pte Ltd, or Shaw Renters, Golden Village Pictures Pte Ltd, or Golden Village, and Cathy-Keris Films Pte Ltd, which grant sub-licenses to InnoForm to sell and distribute in

Singapore for a period of time the videos of certain movies that these theatrical exhibitors screen in cinemas. The current agreement with Golden Village will expire in December 2012. The agreement with Shaw Renters is on a per title basis and is for three years after the release date of the particular movie for which InnoForm receives the sub-license.

#### *Malaysia*

- In Malaysia, InnoForm contracts with smaller, independent studios for a sub-license to sell and distribute in Malaysia videos of certain Western films, Asian and local featured films, pre-school edutainment and animation series for children.

#### *Hong Kong*

- In Hong Kong, InnoForm sub-licenses from movie distributors for the right to sell and distribute in Hong Kong videos for children's edutainment, animation series and documentary titles.

#### *Vietnam*

- In Vietnam, InnoForm has exclusive licenses from Twentieth Century Fox and Buena Vista Home Entertainment to distribute VCD/DVD/Blu-ray discs through a local agent.

#### *VOD*

For movies and other content for which InnoForm has been licensed the video-on-demand rights, InnoForm licenses such content either to pay television channel providers, such as Star TV and Mei Ya, or to the video-on-demand service of Starhub Ltd., a Singapore cable TV network operator. InnoForm also sells content owned by MNC either on a per-program or entire channel basis to Free TV and cable/satellite TV and Internet Protocol Television (IPTV) operators in Singapore and Malaysia.

#### *Music*

Through wholly owned subsidiaries in Singapore, InnoForm licenses karaoke music videos and provides karaoke systems through rental. In Singapore, InnoForm acts as an authorized collecting agent for major international and regional record labels. InnoForm collects a fixed percentage of the reproduction license fees for karaoke music videos on the karaoke-on-demand systems used in night clubs, KTV lounges, pubs, bars/lounges, private clubs and recreational clubs.

In addition, Starhub Ltd operates a karaoke-on-demand channel on a revenue sharing basis with InnoForm, Starhub and participating record labels. Starhub's existing subscribers may elect access to this channel either through a monthly subscription or a day-pass. Starhub keeps a certain fixed percentage of the total revenue as the carrier of this channel, InnoForm collects a fixed percentage as an aggregator, and the balance is apportioned to participating record labels according to the frequency of their songs being requested by Starhub subscribers.

#### *Cinemas/Films*

InnoForm also acts as a film distributor and secures distribution rights for Western and Asian films on specified platforms, which could include theatrical, video, Free TV, internet or wireless.

### **REVENUE**

China is the principal market in which we compete. As described above, our revenue is primarily comprised of data-related services (SMS and 2.5G services including MMS, WAP and Java games), audio-related services

including CRBT, IVR services, mobile games and PC games, as well as media content following our acquisition of a majority interest in InnoForm in 2010. Gross revenue for the years ended December 31, 2009, 2010 and 2011 are as follows:

	<u>Year ended December 31,</u>		
	<u>2009</u>	<u>2010</u>	<u>2011</u>
	<u>\$m</u>	<u>\$m</u>	<u>\$m</u>
Data-related services			
China	34.0	35.7	22.4
Indonesia	—	1.8	7.5
	<u>34.0</u>	<u>37.5</u>	<u>29.9</u>
Audio-related services			
China	26.0	18.7	9.1
Indonesia	—	—	—
	<u>26.0</u>	<u>18.7</u>	<u>9.1</u>
Media content (Singapore)	—	12.2	16.9
Mobile games ( China)	—	2.2	2.6
PC games (China)	1.1	1.1	1.5
Others	<u>1.1</u>	<u>—</u>	<u>0.7</u>
Total revenue	<u><u>62.2</u></u>	<u><u>71.7</u></u>	<u><u>60.7</u></u>

### **Cross-Media Advertising Business**

Our exclusive advertising arrangements with QTV and TJSTV were terminated in 2008, and our revenues from the related advertising services provided by us are reported in our financial statements as discontinued operations for both current and prior years. We incurred a total net loss from discontinued operations of approximately \$20.8 million in 2008. We incurred a net gain of \$0.6 million and \$0.3 million in 2009 and 2010, respectively from discontinued operations due to a reversal of certain provisions for doubtful accounts receivable as cash was subsequently collected from customers and a lower amount of payables were finalized with suppliers.

### **OPERATOR SERVICE AGREEMENTS**

#### *China*

Following the restructuring of the telecom industry in China, which was completed in 2010, China Mobile, China Unicom and China Telecom became the only telecom operators in China. Given their market presence, our negotiating leverage with these operators is limited, and our business is dependent on maintaining our relationships with them. See Item 3.D. “Risk Factors — Risks Related to Our Business in China — We depend on the principal mobile and fixed line telecommunication network operators in China for delivery of our VAS, and the termination or alteration of our various contracts with any of them or their provincial or local affiliates could materially and adversely impact our business.” Our affiliates, Weilan, Unilink, Cosmos, Zhong Tong, Lian Fei, Qimingxing, Beijing Ojava and Lianyu, have entered into service agreements with the national and some provincial and local offices of the operators to offer our various services through their networks. For 2009, 2010 and 2011, we derived approximately 74.4%, 52.4% and 70.7%, respectively, of our China gross revenue from China Mobile.

#### *Indonesia*

Our VAS business in Indonesia primarily depends on the three biggest operators, Telkomsel, Indosat and XL, which together have approximately 90% of the telecom market. In 2011, almost 70% of our revenue generated in that market came from sales of services to Telkomsel’s customers. For the provision of VAS in Indonesia, we have entered into agreements with MNC’s affiliate, Infokom, under which we are authorized to offer our services using short codes owned by Infokom. In turn, Infokom has direct contractual arrangements with the Indonesian telecom operators. After we provide services to users, the telecom operators pay the related

revenue, net of their fees, to Infokom who then pays such amount to our subsidiary, PT Linktone. In 2011, PT Linktone directly contracted with several operators — namely, Telkomsel, Hutch, Flexy, Sampoerna (Neon) — for the use of a short code that was transferred from MNC to PT Linktone in 2010.

We rely heavily on maintaining good relationships with the telecom operators because their promotion channels are the most effective means for us to promote our services. In order to do business with us, the telecom operators may require exclusivity from us or require that we promote such operator until revenue reaches a certain level per day before they give promotion support on their channel.

#### *Service Fee Arrangements and Network Fees*

The following is a summary of the material features of our contractual relationships with the operators in China and the contractual relationships between MNC and Infokom and the Indonesian operators, and is not an exhaustive description.

*Service Fee Arrangements.* In China, China Mobile's provincial operators charge us a service fee in the range of 15.0% to 30.0% of the gross revenue from our SMS, MMS and Java game services (Sichuan province has began to separately charge 30.0% in 2011). We currently pay a service fee equal to 30.0% and 18.0% of the gross revenue from our IVR and CRBT services, respectively, offered through China Mobile's network. China Unicom and China Telecom have implemented a sliding scale fee arrangement whereby we receive a range of 39.0% to 85.0% and 59.0% to 85.0%, respectively, of the gross revenue depending on customer usage, revenue and other performance criteria. In 2011, we received on average approximately 82.0%, 75.0% and 61.0%, respectively, of the gross revenue, with China Mobile, China Unicom and China Telecom receiving the remaining 18.0%, 25.0% and 39.0%, respectively. If a user does not pay the applicable fees for our services to China Mobile, China Unicom and China Telecom, the operators usually will not pay us for those services. In addition, the operators, through most of their provincial and local offices, charge us service fees and network fees even if a customer defaults in payment to the operators for our services.

In Indonesia, content providers and operators operate on a revenue sharing basis for fees. There are three classes for allocations of revenue sharing between a content provider and telecom operator, including for providing services such as SMS, WAP and others. In Class A, if the content provider attains a minimum telecom revenue of 100 million Indonesian rupiah (or US\$11,000) per month, then the share is 40% for the telecom operator and 60% for the content provider. In Class B if the content provider attains a minimum telecom revenue of 50-100 million Indonesian rupiah (US\$5,500 — US\$11,000) per month, then the share is 50% for the telecom operator and 50% for the content provider. In Class C, if the content provider attains a telecom revenue of less than 50 million Indonesian rupiah (US\$5,500) per month, then the share is 60% for the telecom operator and 40% for the content provider. The telecom operators test revenue targets reached by the content provider every six months and adjust the class if appropriate. Through Infokom, we have a Class A revenue sharing basis for fees with each of Telkomsel, Indosat and XL.

*Network Fees.* To the extent that the number of messages sent by us over China Mobile's network exceeds the number of messages our customers send to us, we must also pay a per message network fee. China Mobile applies a sliding scale charge arrangement at a range of RMB0.05 (\$0.007) to RMB0.08 (\$0.012) and RMB0.15 (\$0.02) to RMB0.2 (\$0.03) per message network fee for SMS and MMS, respectively. Similarly, we pay China Unicom and its provincial affiliates a per message network fee of RMB0.05 (\$0.007), to the extent the messages we send exceed the number of messages sent to us by our customers. China Telecom charges RMB0.05 (\$0.007) per message network fee.

We do not collect fees for our services from the operators in a number of circumstances, including if:

- the delivery of our service to a customer is prevented because his or her mobile phone is turned off for an extended period of time, the customer's prepaid phone card has run out or the customer has ceased to be a customer of the applicable operator,

- the operators experience technical problems with its network which prevent delivery of our services to the customer,
- we experience technical problems with our technology platform that prevent delivery of our services,
- the customer refuses to pay for our service due to quality or other problems, or
- the customer is being quarantined by the telecom operator for some reason.

These are known as billing and transmission failures. We do not recognize revenue for our services which are deemed to be billing and transmission failures.

#### *Term and Termination and Other Material Provisions*

The term of our contracts with the operators in China is generally one to two years, while in Indonesia it is generally one year with automatic renewal. In China, we usually renew these contracts or enter into new ones when the prior contracts expire, but on occasion, the renewal or new contract can be delayed by periods of one month or more. The agreements can also be terminated in advance for a variety of reasons which vary among the individual contracts with the operators, including, for example, where we breach our obligations under the contract, a high number of customer complaints are made about our services or we cannot satisfy the operational or financial performance criteria established by the applicable operator. Several of our contracts with the operators can be terminated for no reason upon advance written notice.

Generally, our contracts with the operators are silent on the arrangements relating to payment from the operators in the event such contracts are not renewed. Payment and billing disputes, if any, will therefore be resolved in accordance with the provision in the contracts which generally provides that parties shall resolve disagreements through amicable negotiation (where such provision survives the termination of the respective agreements) or through court proceedings if amicable resolution cannot be reached.

## **CONTENT RELATIONSHIPS**

### **Data-related Services**

Our content collaborators authorize the inclusion of their content in one or more of our services in return for a royalty or fee on a per-download basis, which we pay directly to the provider. These arrangements are usually non-exclusive except for our arrangement with Letang which is exclusive. Our agreements with our content collaborators have terms ranging from six months to four years. In addition, some agreements can be renewed by the parties for additional successive terms indefinitely. Our significant content collaborators in China and Indonesia currently include:

- *SMS, MMS, WAP & Java*

#### *China*

- We have exclusive licenses from Letang to use some of its games in our services where we pay Letang a percentage of the revenue received for each game. For certain games, we buy the copyrights of these games outright and pay a fixed fee for each copyright.

#### *Indonesia*

- *Letang* — We also have exclusive licenses from Letang to use its games in our services in Indonesia where we pay a fixed fee for each copyright. For other games, we pay Letang a percentage of the revenue received for each game.

- *Television Stations* — We cooperate with three television stations within the MNC Group — RCTI, MNC TV and Global TV — in order to make their content available to mobile users. We also provide SMS services, such as SMS polling for their entertainment programs. We pay them a percentage of the revenues generated by such services.
- *Print Media* (Newspaper/Tabloid/Magazine) — We cooperate with two print media companies within the MNC Group. Pursuant to this cooperation, we support their self-branded mobile applications which allow users to access newspaper and magazine content via mobile phones and other mobile devices such as BlackBerry. We also enable digital access to their content using e-paper/e-reader services embedded on tablet devices. We pay them a percentage of the revenues generated by such services.
- *Online Media* — We have a partnership with OkeZone, a news and entertainment online media provider within the MNC Group. We cooperate with them to supply news and entertainment content through SMS channels. We pay OkeZone a percentage of the revenues generated by such services.
- *Talent Management* — We cooperate with Star Media Nusantara, a company within the MNC Group, to provide SMS communities for particular artists and talents. These communities offer information and tips, photos and video from the particular artists for their fans. We pay such companies a percentage of the revenues generated by such services.
- *Individual Partners* — We have arrangements with several individuals who provide us with content such as fortunetelling, love tips, and religious content. We pay such partners a percentage of the revenue generated from such services.

#### **Audio-related Services**

- *CRBT*

##### *China*

- *EQ arts* — We are a non-exclusive provider of EQ arts' catalog of music for WAP, MMS, SMS, CRBT and IVR services. We pay EQ arts a percentage of the profit we earn with respect to the related services. Our agreement with EQ arts will expire in December 2012.
- *Livetion* — We have an exclusive license with Livetion's Central Music Platform, or Livetion. Livetion provides a catalog of 100 songs for WAP, MMS, SMS, CRBT and IVR services. Under the agreement, we pay a lump sum amount to use these songs for a period 26 months. Our agreement with Livetion will expire in December 2013.

##### *Indonesia*

- We enter into programs and partnerships with various producers, including Sony Music, Musica and Universal, in order to sell CRBT tones exclusively for certain songs, discographies and artist pictures. Our arrangements with these producers vary and can be either on a per project or per artist basis or under one year contracts with automatic renewals.
- *IVR*

##### *China*

- Our IVR products are developed in-house, with a small percentage being outsourced only in the final stage of development.
- *SingSung* — We have an agreement with Beijing SingSung Media Technology Co., Ltd., or SingSung, the producer of several radio programs, to provide VAS during the airing of these

programs. Under the agreement, we are obligated to pay a deposit amount as well as a percentage of the revenue we receive with respect to the related services after we have recouped the deposit amount. Our agreement with SingSung expired in December 2011, and we are in the process of renewing this agreement.

## **Media Content**

InnoForm's agreements with content collaborators have terms ranging from three months to ten years. Upon expiration of an agreement, we usually renew the existing contract or enter into a new contract. The agreements may also be terminated prior to the end of the term or before the agreement is implemented for a variety of reasons which vary among the individual contracts with the content collaborators. For example, several of our contracts may be terminated if our content is found to be unfit for consumption by the relevant regulators or censure board or we breach our obligations under the terms and conditions stipulated in the agreements.

Generally, our contracts with content collaborators involve minimum guarantees which are payable in advance or quarterly, half-yearly or annually depending on the contract.

We have exclusive agreements with the following content collaborators for video in Singapore: Twentieth Century Fox, Golden Village Pictures Pte Ltd, Shaw Renters (Singapore) Pte Ltd, Warner Home Video Inc, and Cathy-Keris Film Pte Ltd.

We have exclusive agreements with the following content collaborators for the reproduction of karaoke music videos on karaoke systems in Singapore: Asia Muse, EMI, Forward Music, Gold Typhoon, HIM, Ocean Butterflies, Rock Records, Sony Music, Universal Music, Warner, Xiang Cheng.

We also have a non-exclusive revenue sharing arrangement with Starhub for a karaoke-on-demand channel in Singapore.

## **SALES AND MARKETING**

### **VAS Business**

We sell and market our services and content principally to and through the operators as described below under “— Operator Channels.” We also sell and market through our websites, promotional events, direct marketing, media advertising, handset embedding and other activities as described below under “— Non-Operator Channels.”

#### *Operator Channels*

*General.* Our VAS are provided through the operators' networks, and the operators collect all fees for our services from the ultimate users.

*China.* As of December 31, 2011, we had approximately 32 sales professionals located in 25 provinces covering six regions, namely northeastern, southern, eastern, northern, northwestern and southwestern China, who work closely with the operators at the provincial and local level. As of December 31, 2011, we also had four sales professionals located in Beijing who work closely with the operators at the head office level.

*Indonesia.* As of December 31, 2011, we had six sales professionals located in Jakarta who work closely with the operators in that market to promote our services.

#### *Non-Operator Channels*

We also focus on non-mobile operator sales and marketing activities, such as:

- cooperating with manufacturers and designers of mobile handsets to offer our services to purchasers,

- conducting integrated marketing campaigns with traditional media companies and multi-national corporations,
- cooperating with radio stations with effective promotion channels to provide wireless services on music downloads, ringtones and news alerts, and
- cooperating with television stations and other partners to provide wireless services on popular programs including interactive quizzes and news alerts, through a robust and highly scalable technology platform.

We have also entered into agreements with more than 200 mobile handset manufacturers and handset designers located in China to embed certain of our VAS into their handsets for end-users' easy access in China and Indonesia. We pay them a percentage of the revenue received from the operators, and our agreements with them are usually non-exclusive and have a term of one to two years. In China, the measures on mobile handset embedded services implemented in January 2010 by China Mobile, China Unicom and China Telecom negatively affected our revenue and profitability from data-related services in 2010 and 2011. See Item 3.D. "Risk Factors — Risks Related to Our Business in China — Changes in the policies of the operators and in their enforcement of their policies have resulted in our company having to pay additional charges to the operators and have negatively affected our revenue. Further changes could materially and adversely impact our revenue, profitability and financial condition in the future."

### **Media Content**

Our key distribution channels for media content are video retail stores and cinema chains. We market our video and audio distribution services and content principally through point-of-sale displays, media advertising and promotional events, such as:

- displaying our products on stands and posters at major retail stores,
- promoting our products to customers with popular mascots,
- advertising our products in lifestyle magazines, motherhood magazines and newspapers,
- bundling our products with those products from hardware suppliers and marketing creative packages, such as Blu-ray/DVD combinations, box sets and special collectors' editions, and
- conducting warehouse sales and fairs with major supermarket chains.

### **INFRASTRUCTURE AND TECHNOLOGY**

We have developed a flexible and scalable platform with open and adaptive technology. Our Intelligent Application Gateway, or LT-IAG, is a unified platform supporting multiple protocols, networks and billing solutions, with high scalability, load balancing, intelligent session management and performance measurement. Through this platform, we are able to interconnect and provide all major types of 2G, 2.5G, 3G and audio-related services through the networks of the operators. It also allows us to monitor our services and their delivery to the operators' networks on a real-time basis which allows us to optimize the efficiency of our system and quickly address any problems. The platform is equipped with an open application interface for rapid connectivity by third-party content providers and access to multiple channels for SMS, MMS, WAP and Web connectivity. LT-IAG is connected to the operators' network on a pan-China basis.

Our user database, which operates on our proprietary software and is an integral part of LT-IAG, allows us to store, analyze, retrieve and compare various statistical information and to identify relevant trends. LT-IAG also supports our customer service activities by providing our service professionals with real-time user data and information regarding service delivery and billing. LT-IAG is fully compatible with the 2.5G technology standard and related services.



In China, our websites and services are made available primarily through network servers located in the facilities of affiliates of China Mobile, China Unicom, China Telecom, 21ViaNet (China) and CNLink in Beijing. As of December 31, 2011, there were 80 such network servers, running on a Linux-based operating system and windows. We lease two shared lines with 100 megabits per second capacity from China Unicom, one shared line with 100 megabits per second capacity from China Mobile and one dedicated line with three megabits per second capacity from CNLink.

In Indonesia, our websites and services are made available primarily through network servers located in Jakarta. We have 50 servers that run on the Linux operating system to cover SMS, WAP, database and reporting. Our network connection is directly connected into the Indonesia Internet Exchange (IIX) with 10 megabits per second for local connections. We have several types of network connections with the telecom operators, including both public and virtual private network (VPN) connections, and we also lease direct lines.

## **COMPETITION**

### **China**

Our competition in China is comprised of a wide range of companies. There are companies which, like Linktone, focus primarily or entirely on VAS and offer a wide range of services. These include participants such as KongZhong, as well as smaller companies such as Zhangxun and Boxun Rongtong. These competitors are generally characterized by strong market knowledge and, in some cases, well-developed relationships with the operators on a local and national basis. They also tend to focus on entertainment-related services.

Other competitors include the major internet portal operators in China, including TOM Online Inc., which is an affiliate of internet portal operator TOM Group Limited, and publicly-listed companies such as SINA CORP. and Sohu.com Inc. The internet portals leverage their existing strength in aggregating content, marketing and cross-selling among their established internet user base to promote VAS. Each of SINA CORP., Sohu.com Inc. and TOM Online Inc. is significantly better capitalized than our company.

There are also niche service providers, such as TENCENT Inc., Enorbus Technologies and Solute Wireless, which focus primarily on a particular market segment or application, such as wireless instant messages, that often builds on a pre-existing competency in the sector.

In addition, we also face growing competition from China Mobile, China Unicom and China Telecom as they increase their offerings of VAS.

We may also face competition from companies in China which offer online and media services and are expanding to various degrees into VAS, such as Focus Media Holding Limited, which primarily focuses on media advertising services, but which also offers wireless games and VAS.

International wireless companies, such as Nokia, come2us and Cybird, and international internet portal operators, such as Yahoo!, Lycos and AOL, who are or may be attempting to enter the Chinese market could also present significant competition for us. These international competitors have had only limited success, however, in penetrating the Chinese VAS market to date.

Several of our competitors have longer operating histories in China, greater name and brand recognition, larger customer bases and databases, significantly greater financial, technological and marketing resources and superior access to original content than we have. As a result, our existing competitors may in the future achieve greater market acceptance and gain additional market share. In addition, it is possible that the operators could decide to provide their own portfolio of content and services to their users themselves and deny network access to third-party service providers such as our company.

## **Indonesia**

In Indonesia, there are more than 200 content providers that provide content and services similar to our company. For example, some competitors offer a range of mobile VAS which are similar to our services, while others offer just a single service that competes with our products. We believe that competition in this market has been intensifying due to, among other things, the fact that growth in demand for SMS programs generally has been decreasing, especially for SMS subscriptions and SMS quizzes, as the market matures.

We also face increased competition from the wider availability of mobile handsets that access the internet. Many internet / web portal providers offer content for free because they earn revenue from advertisers, not the content. In addition, other content providers may compete by developing mobile applications that can be downloaded for free or are already embedded into the handsets. The increasing number of mobile handsets with these capabilities presents greater competition to our business.

## **Singapore and Other Markets**

Our competitors in Singapore in the edutainment and entertainment industry are Scorpio East Ltd, which is an exclusive licensee of Walt Disney Studios Home Entertainment, Universal Pictures International Entertainment and HVN Berjaya, which holds an exclusive license from Paramount. In Malaysia, Speedy Entertainment and PMP are our main competitors. Speedy Entertainment holds an exclusive license from Warner Home Video Inc., Twentieth Century Fox, Paramount, Disney and Universal and is also the biggest retailer of audio/video products in Malaysia. PMP is the major distributor in Malaysia of most Asia content.

We also face competition from parallel imports from lower cost countries. These parallel imports are priced at 50% to 60% of our recommended retail price, and we estimate that sales of such parallel imports can amount to 30% to 40% of the total home entertainment consumption of VCDs/DVDs/Blu-ray discs in InnoForm's markets. In certain Asian countries, competition may also arise from piracy or illegal downloads, which can represent a significant portion of the video market in those jurisdictions.

Several of our competitors have longer operating histories in the home entertainment and video business and stronger relationships with producers and licensors that give them superior access to content than we have. As a result, our existing competitors in this industry may in the future achieve greater market acceptance and gain additional market share. In addition, it is possible that our current relationships with content distributors may not provide us with access to the most profitable content and our business could suffer as a result.

Please refer to Item 3.D. "Risk Factors — Risks Related to Our Business in China — We face intense competition in China" and "Risk Factors — Risks Related to Our Operations Outside of China — Our business has been adversely affected and will continue to be adversely affected if the operators continue to expand their own portfolio of VAS that compete with our services" and "Risk Factors — Risks Related to Our Operations Outside of China — Our expansion into the entertainment and edutainment products distribution market through our acquisition of InnoForm may not be successful" for a more detailed discussion of the risks we face from our competitors.

## **GOVERNMENT REGULATION**

### **China**

The following is a summary of the principal governmental laws and regulations that are or may be applicable to wireless service providers like us in China. The scope and enforcement of many of the laws and regulations described below are uncertain. We cannot predict the effect of further developments in the Chinese legal system, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement of laws, particularly with regard to VAS, which is an emerging industry in China. For a description of the regulatory risks related to our business, please see Item 3.D. "Risk Factors — Risks Related to Our

Business in China — Changes in the policies of the operators and in their enforcement of their policies have resulted in our company having to pay additional charges to the operators and have negatively affected our revenue. Further changes could materially and adversely impact our revenue, profitability and financial condition in the future;” “Risk Factors — Risks Related to Our Industry — The Chinese government or one or more of the operators may prevent us from distributing, and we may be subject to liability for, content that any of them believe is inappropriate;” “Risk Factors — Risks Related to Our Industry — Telecommunication laws and regulations in China are evolving and subject to interpretation and may change in the future. If we are found to be in violation of current or future Chinese laws or regulations, we could be subject to severe penalties;” “Risk Factors — Risks Related to Our Industry — The regulation of internet website operators is also unclear in China, and our business could be adversely affected if we are deemed to have violated applicable laws and regulations;” “Risk Factors — Risks Related to Our Operations Outside of China — Our corporate structure could be deemed to be in violation of current or future Chinese laws and regulations which could adversely affect our ability to operate our business effectively or at all;” and “Risk Factors — Risks Related to Doing Business in China — Chinese regulations relating to acquisitions of Chinese companies by foreign entities may limit our ability to acquire Chinese companies and adversely affect the implementation of our acquisition strategy as well as our business and prospects.”

### **Regulation of Telecommunication Services**

The telecommunications industry, including certain VAS, is highly regulated in China. Regulations issued or implemented by the State Council, the MII, and other relevant government authorities cover many aspects of telecommunications network operation, including entry into the telecommunications industry, the scope of permissible business activities, interconnection and transmission line arrangements, tariff policy and foreign investment.

The principal regulations governing the telecommunications services business in China include:

- *Telecommunications Regulations* (2000), or the Telecom Regulations. The Telecom Regulations categorize all telecommunications businesses in China as either infrastructure telecommunications businesses or VAS businesses. The latter category includes SMS and other VAS. Under the Telecom Regulations, certain services are classified as being of a value-added nature and require the commercial operator of such services to obtain an operating license, including telecommunication information services, online data processing and translation processing, call centers and internet access. The Telecom Regulations also set forth extensive guidelines with respect to different aspects of telecommunications operations in China.
- *Regulations for the Administration of Foreign-Invested Telecommunications Enterprises* (amended in 2008), or the FI Telecom Regulations. The FI Telecom Regulations set forth detailed requirements with respect to capitalization, investor qualifications and application procedures in connection with the establishment of a foreign-invested telecom enterprise. Under the FI Telecom Regulations, a foreign entity is prohibited from owning more than 50% of the total equity in any VAS business in China. The FI Telecom Regulations were amended in 2008. A primary amendment relates to the registered capital of the foreign-invested enterprise engaging in infrastructure telecom business. For an enterprise engaging in infrastructure telecom business nationwide or beyond a single province, autonomous region or municipality, it must have a minimum registered capital of RMB1 billion. For an enterprise engaging in infrastructure telecom business within one province, autonomous region or municipality, it must have a minimum registered capital of RMB100 million.
- *Administrative Measures for Telecommunications Business Operating Permit* (effective on April 10, 2009), or the Telecom Permit Measures. The Telecom Permit Measures supersede the Administrative Measures for Telecommunications Business Operating License, or the Telecom License Measures (issued by the MII in 2001). The Telecom Permit Measures specifies, among others, the application, approval, modification and deregistration requirements in relation to telecom business operating

licenses. In addition, the Telecom Permit Measures require that an approved VAS service provider must conduct its business in accordance with the specifications recorded on its Telecom Business Operating License.

*Regulation of SMS Services.* On April 29, 2004, the MII promulgated a Circular on Certain Issues regarding Standardization of SMS Services, or the Circular. The Circular requires all service providers to obtain appropriate operating licenses before they can provide VAS through the networks of the operators in China. Pursuant to the Circular, in the promotion of SMS services, mobile operators and service providers in China are required to prominently feature descriptions of standards and methods by which users will be charged for the services they order and how they may cancel their orders. Monthly subscriptions to SMS services must be specifically confirmed by users. Any message sent by a service provider to a user to confirm an order must include a schedule of charges applicable to the service such user has ordered. If the user does not confirm an order, the order is deemed cancelled. Providers of SMS services must provide such services strictly according to users' orders, and may not alter the number of such SMS messages, the frequency at which the messages are sent, or the methods through which users pay for the services. The Circular also required mobile operators and service providers to implement a series of measures before May 15, 2004 that would make it easier for users to cancel their SMS services. If a user disputes any charges for SMS services or complains about the quality of the services, the operator is required to refund such user's payment for the services if it is unable to assign responsibility for the problem to another party within 15 days. In addition, service providers are required to review the content in the process of collecting, developing, processing and sending any message. The message must not contain any content prohibited by the state. Provisions in this Circular apply to SMS services provided by fixed line operators as well.

On March 13, 2005, the MII promulgated the Telecommunications Service Standards, or the Standards. The Standards contain the minimum quality standards for telecommunication services to be provided to customers, with detailed and specific standards for each category of telecommunication services. Schedule 6 of the Standards sets forth requirements that shall be observed in providing information services, including voice messages and SMS services. The requirements applicable to SMS services contained in Schedule 6 have largely repeated those contained in the Circular, with additional requirements, among others, that an SMS service provider shall ensure a 95% accuracy rate for the message transmission and that the SMS service provider shall set up a publicly available hotline for customer service.

While we believe this focus on compliance and service initiatives will result in a stronger, more orderly market in the long- term, it has also resulted in service and billing suspensions and in our having to pay certain charges to the operators for our inadvertent contravention of the foregoing rules and the operators' own policies. We continuously monitor our SMS services in order to minimize the possibility of a violation of the Circular and the Standards.

In addition to regulations promulgated at the national level by the Chinese government, local offices of the MII, have issued provisional regulations requiring SMS service providers to obtain licenses from or register with it before providing SMS service within the city. Our affiliates, Unilink, Weilan, Cosmos, Zhong Tong, Lian Fei, Qimingxing, Beijing Ojava and Lianyu hold inter- provincial VAS licenses issued by the MII.

*Regulation of Internet Culture Activities.* On May 10, 2003, the Ministry of Culture of the PRC, or MOC, promulgated the Internet Culture Administration Tentative Measures, or the Internet Culture Measures, which became effective as of July 1, 2003. The Internet Culture Measures require internet culture operating entities, i.e., internet content providers which engage in internet culture activities, to obtain an Internet Culture Operating License from the MOC in accordance with the Internet Culture Measures. The term "internet culture activities" includes, among other things, acts of online dissemination of internet cultural products, such as audio- visual products, game products, performances of plays or programs, works of art and cartoons, and the production, reproduction, importation, sale (wholesale or retail), leasing and broadcasting of internet cultural products. The Internet Culture Measures were amended by the MOC on February 17, 2011 which amendment became effective

on April 1, 2011. The amendment primarily relates to the registered capital of internet culture operating entities. An internet culture operating entity must have a minimum registered capital of RMB 1 million, and an internet culture operating entity must have a minimum registered capital of RMB 10 million to be allowed to engage in online games business activities. It is also specifically provided by the amended Internet Culture Measures that the phrase “internet culture activities” includes dissemination of culture products through any wireless technologies. Unilink and Yuan Hang have acquired this license.

On November 20, 2006, the Ministry of Culture issued Several Suggestions of the Ministry of Culture on the Development and Administration of the Internet Music, or the Suggestions, which became effective on November 20, 2006. The Suggestions, among other things, reiterate the requirement for the internet service provider to obtain the Internet Culture Operating License to carry on any business of internet music products. In addition, foreign investors are prohibited from engaging in the internet culture business operation.

On August 18, 2009, the PRC Ministry of Culture promulgated the Notice on Strengthening and Improving the Content Review of Online Music. According to this notice, only “internet culture operating entities” approved by the Ministry of Culture may engage in the production, release, dissemination (including providing direct links to music products) and importation of online music products. Internet culture operating entities should establish strict self-monitoring system of online music content and set up special department in charge of such monitoring.

### **Other Laws and their Application**

*Regulation of Information Security.* Internet content in China is also regulated and restricted. The National People’s Congress, China’s national legislative body, adopted and amended the Decision of Maintaining Security on the internet on December 28, 2000 and in August 2009, respectively, which provides that any of the following conduct may result in criminal punishment:

- gaining improper entry into a computer or system of strategic importance;
- disseminating politically disruptive information;
- leaking state secrets;
- spreading false commercial information;
- infringing intellectual property rights;
- spreading computer viruses;
- spreading false financial news or information;
- defaming others; or
- spreading obscene content.

The Ministry of Public Security has promulgated measures that prohibit use of the internet in ways which, among other things, result in a leakage of State secrets or a spread of socially destabilizing content. The Ministry of Public Security has supervision and inspection powers in this regard, and we may be subject to the jurisdiction of the local security bureaus.

In addition, the newly amended Law on Preservation of State Secrets which became effective on October 1, 2010 provides that whenever an internet service provider detects any leakage of state secrets in the distribution of online information, it should stop the distribution of such information and report to the authorities of state security and public security. As requested by the authorities of state security, public security or state secrecy, the internet service provider should delete any contents on its website that may lead to disclosure of state secrets. Failure to do so on a timely and adequate basis may subject us to liability and certain penalties imposed by the State Security Bureau, Ministry of Public Security and/or MII or their respective local counterparts.

*Regulation of Internet Content Services.* The Measures for the Administration of Internet Information Services, or the ICP Measures, went into effect on September 25, 2000 and was amended on January 8, 2011. Under the ICP Measures, any entity providing information to online internet users must obtain an operating license from MII or its local branch at the provincial level in accordance with the Telecom Regulations described above. The ICP Measures further stipulate that entities providing online information services in areas of news, publishing, education, medicine, health, pharmaceuticals and medical equipment must obtain permission from responsible national authorities prior to applying for an operating license from MII or its local branch at the provincial or municipal level. Moreover, ICPs must display their operating license numbers in a conspicuous location on their websites. ICPs must police their websites to remove categories of harmful content that are broadly defined. This obligation reiterates internet content restrictions set by other ministries over the past few years.

As a VAS provider, we do not engage in the internet portal business which typically involves the provision of extensive internet content services, including Chinese language web navigational and search capabilities, content channels, web-based communications and community services and a platform for e-commerce, such as auction houses. Weilan registered with the Shanghai Telecommunication Administration Bureau in November 2003 to provide commercial services, which are generally limited to the marketing and sales of our VAS, at our websites.

As a commercial ICP provider, we are prohibited from posting or displaying any content that:

- opposes the fundamental principles determined in China's Constitution;
- compromises state security, divulges state secrets, subverts state power or damages national unity;
- harms the dignity or interests of the state;
- incites ethnic hatred or racial discrimination or damages inter-ethnic unity;
- sabotages China's religious policy or propagates heretical teachings or feudal superstitions;
- disseminates rumors, disturbs social order or disrupts social stability;
- propagates obscenity, pornography, gambling, violence, murder or fear or incites the commission of crimes;
- insults or slanders a third party or infringes upon the lawful rights and interests of a third party; or
- includes other content prohibited by laws or administrative regulations.

Failure to comply with these prohibitions may result in the closing of our websites.

On December 9, 2011, the MII promulgated the Mobile Internet Malware Monitoring and Handling Mechanisms to regulate and prevent the malware circulation through the mobile internet. According to such mechanisms, the mobile telecommunication operators are required to follow certain procedures to monitor and report the malware circulated through the mobile internet and report to the competent local counterparts of the MII of any mobile internet services provider that has formulated or circulated the malware or has gained profit through the malware.

On December 29, 2011, the MII promulgated the Several Provisions on Regulating the Market Order of Internet Information Services to further regulate the internet services providers from several aspects. According to this new rule, internet services providers are prohibited to maliciously interfere with the services provided by other internet services providers on user terminals, or maliciously interfere with the downloading, installation, running and upgrading of software and other products related to internet information services. The new rule requires that when an internet services provider conducts operations on user terminals such as downloading, installation, running, upgrading or removal of software, it shall provide clear and complete information on

software functions and other information and obtain consent from users in advance. The new rule also purports to protect the personal information of end users and without obtaining the permission of users internet services providers may not collect such personal information of users. Furthermore, internet services providers are required to strengthen system security protection, protect the security of information uploaded by users according to law, and legally procure the use, modification and deletion of the information uploaded by users.

*Regulation of Foreign Direct Investment in Internet and Telecommunications Businesses.* On July 13, 2006, the MII issued a notice with the purpose of increasing the regulation of foreign investment in and operations of VAS which includes internet and telecommunications businesses in China. The regulations require Chinese entities (or shareholders of such Chinese entities) to own and control the internet domain names and registered trademarks, and to have servers and other equipment used to host and operate websites and conduct business. The ownership requirements functionally limit foreign direct and indirect ownership and control of the intellectual property of these businesses even when attempted through various parallel control, licensing, use and management agreements. Failure to comply may cause the MII to terminate a telecommunications license or otherwise modify existing agreements or require the disposition of the assets by the foreign entity.

*Regulation of News Dissemination through SMS Services.* On November 16, 2000, the Interim Measures on the Administration of Internet Websites' Engagement in News Publication Services, or the Internet News Measures, were promulgated by the State Council News Office and the MII. These measures stipulate that general websites established by non-news organizations may publish news released by certain official news agencies if such websites satisfy the requirements set forth in Article 9 of the measures and have acquired the requisite approval, but may not publish news items produced by themselves or news sources from elsewhere. All the news that we publish and disseminate originates from official news agencies approved by the PRC government.

On September 25, 2005, the State Council News Office and the MII jointly promulgated the Regulations on Administration of Internet News Services, or the Internet News Regulations. According to the Internet News Regulations, all companies not established by news organizations that intend to carry on dissemination of news on major political, economic, military and diplomatic events must obtain approval from the State Council News Office and must satisfy the minimum requirements of a registered capital of no less than RMB10,000,000 and other requirements relating to internal control systems and competent personnel in respect of such company.

The State Council News Office and the MII have not specified whether the Internet News Measures and the Internet News Regulations apply to dissemination of news through SMS, MMS, WAP, Java games or other wireless technologies. In addition, pursuant to a circular issued by the Shanghai Communications Administration, distribution of news contents through wireless applications such as SMS must be approved by relevant government agencies in charge.

*Regulation of Online Publication.* The State News and Publications Administration, or SNPA, is the government agency responsible for regulating publishing activities in China. On June 27, 2002, the MII and SNPA jointly promulgated the Tentative Internet Publishing Administrative Measures, or the Internet Publishing Measures, which took effect on August 1, 2002. The Internet Publishing Measures require internet publishers to secure approval from SNPA. The term "internet publishing" is defined as an act of online dissemination whereby internet information service providers select, edit and process works created by themselves or others (including content from books, newspapers, periodicals, audio and video products, electronic publications, and other sources that have already been formally published or works that have been made public in other media) and subsequently post the same on the internet or transmit the same to users via the internet for browsing, use or downloading by the public.

SNPA and the MII have not specified whether the aforementioned approval in the Internet Publishing Measures is applicable to dissemination of works through SMS, MMS, WAP, Java games or other wireless technologies. If, in the future, SNPA and the MII clarify that the Internet Publishing Measures are applicable to

VAS operators or issue new regulations or rules regulating wireless publishing, we may need to apply for a license or permit from governmental agencies in charge of publishing. We cannot assure you that such application would be approved by the relevant governmental agencies.

SNPA and the State Administration of Copyright issued the Circular of Implementation of the Decision of the State Council on Authority of Approval of Publication of Electronic and Internet Game Products, or the Game Publication Circular, on July 27, 2004. Pursuant to the Game Publication Circular, internet game publication products include game software that can be reviewed, used or downloaded by mobile phones through the internet. Importation of internet game publication products must be approved by the provincial government agencies in charge of publication and then approved by SNPA.

*Regulations of Copyrights Relating to Online Transmissions.* The National People's Congress adopted the Copyright Law in 1990 and amended it in 2001 and 2010, respectively. The amended Copyright Law extends copyright protection to internet activities, products disseminated over the internet and software products.

According to the Measures for the Administrative Protection of Internet Copyright implemented on May 30, 2005, acts of automatically providing functions such as uploading, storing, linking or searching works, audio or video products, or other contents through the internet based on the instruction of an internet content provider, without editing, amending or selecting any stored or transmitted content, and other acts of providing internet information services shall be governed by the Copyright Law. A copyright administration department shall, when imposing administrative penalties upon the act infringing upon the right of communication through information network, apply the Measures for Imposing Copyright Administrative Penalties.

Where a copyright holder (individual or entity) finds any content communicated through the internet infringes upon its copyright and sends a notice of claim to the internet information service provider, the internet information service provider shall immediately take measures to remove the relevant contents, and preserve the copyright holder's notice of claim for six months. An internet information service provider shall, after receipt of the copyright holder's notice, record the contents of the provided information, the publishing time, and the internet address or domain name. Where an internet information service provider removes relevant content of an internet content provider according to the notice of a copyright holder, the internet content provider may deliver a counter-notice to both the internet information service provider and the copyright holder, stating that the removed contents do not infringe upon the copyright. After the delivery of such counter-notice, the internet information service provider may immediately reinstate the removed contents and shall not bear legal liability for such reinstatement.

Where an internet information service provider clearly knows an internet content provider infringes other's copyright through the internet, or, although it does not clearly know such activity but fails to take measures to remove relevant contents upon receipt of the copyright owner's notice, as a result, it damages public interests, the copyright administration department may, in accordance with the Copyright Law, order it to stop the tortious act, and impose administrative penalties. Where there is no evidence to indicate that an internet information service provider clearly knows the facts of tort, or the internet information service provider has taken measures to remove relevant contents upon receipt of the copyright owner's notice, the internet information service provider shall not bear the relevant liabilities.

On May 18, 2006, the State Council issued the Regulations on Protection of Information Online Transmission Rights, or the Online Transmission Regulations, which came into effect on July 1, 2006. The Online Transmission Regulations provide that a copyright owner's right to transmit intellectual property including works, performances, and video and audio products via electronic networks which include fixed line and mobile networks, or the Transmission Rights, are protected, and third parties may not transmit any of such intellectual property through electronic networks without first obtaining consent from the relevant copyright owner, except in circumstances where the use of such intellectual property would be considered as fair use.



On December 26, 2009, the Standing Committee of the National People's Congress adopted the Torts Liability Law, which became effective on July 1, 2010. Under this new law, both internet users and internet service providers may be liable for the wrongful acts of users who infringe the lawful rights of other parties. If an internet user utilizes internet services to commit a tortious act, the party whose rights are infringed may request the internet service provider to take measures, such as removing or blocking the content, or disabling the links to such content, to prevent or stop the infringement. If the internet service provider does not take necessary measures after receiving such notice, it shall be jointly liable for any further damages suffered by the rights holder. Furthermore, if an internet service provider fails to take necessary measures when it knows that an internet user utilizes its internet services to infringe the lawful rights and interests of other parties, it shall be jointly liable with the internet user for damages resulting from the infringement.

*Regulation of Advertisements.* The State Administration of Industry and Commerce, or the SAIC, is the government agency responsible for regulating advertising activities in China. The SAIC has not promulgated regulations specifically aimed at wireless advertising through a media other than the internet, such as through SMS services. However, one provisional regulation issued by the Shanghai Communication Administration prohibits service providers from sending SMS advertisements without the client's consent.

On January 26, 2005, the SAIC and the MII jointly promulgated the Circular Regarding the Prohibition of Advertisements for Voice Messages, SMS and other Information Services Which Contain Unhealthy Content (the "SMS Advertising Circular"). The SMS Advertising Circular prohibits advertisement of information services with pornographic, obscene, superstitious and other unhealthy content, or advertisements that are misleading in pricing and payment terms of information services. The SMS Advertising Circular further provides that information service providers and advertising companies involved in the dissemination of advertisements for information services with pornographic, obscene, superstitious and other unhealthy content, or advertisements that are misleading in pricing and payment terms of information services will be subject to penalties by relevant authorities pursuant to PRC advertising regulations, and that information service providers providing unhealthy contents will be subject to administrative and other measures by telecommunications authorities, the public security authorities and national security authorities in accordance with Telecommunications Regulations (2000) and other applicable laws and regulations.

As part of our non-mobile operator marketing activities, we have developed integrated marketing campaigns with traditional media companies and multinational corporations through certain cross-selling efforts. If the SAIC were to treat our integrated marketing campaigns or other activities as being advertising activities, we would need to apply to the local SAIC agencies where such advertising activity was being conducted to expand our business scope to include the advertising business. In addition, we also may need to set up subsidiaries or branches (with advertising included in the business scope prescribed on such subsidiary or branch business licenses) or hire local qualified agents in those cities where we expand our advertising activities. We cannot assure you that such applications to expand our business scope or to set up local subsidiaries or branches, if it becomes necessary for our integrated marketing campaigns, would be approved by the SAIC. Conducting business beyond our approved business scope may subject us to penalties including being banned from engaging in online advertising activities and confiscation of illegal earnings and fines.

*Regulation of Online Game Products.* The MOC regulates online game products. According to the Internet Culture Measures (as amended by the MOC on February 17, 2011 and effective on April 1, 2011), the importation of online game products shall be approved by the MOC. Failure to obtain such approval would be subject to penalties, including being banned from operating online game products and public censure.

On May 14, 2004, the MOC promulgated a Circular on Strengthening Censorship of Content of Online Game Products, or the Online Game Circular, which is applicable to online game products disseminated through either internet or wireless (mobile) networks. The Online Game Circular requires all entities operating imported online game products to obtain an Internet Culture Operating License issued by the MOC, which will strictly examine the content of any online game products to be imported. Any imported online game product, as well as

any material upgrades or software patches, must be reviewed by the MOC (specifically by its Content Censorship Committee for Imported Online Game Products) before such products may begin operation. Unilink and Yuan Hang each has already acquired an Internet Culture Operating License from the MOC. On March 1, 2009, the MII issued the Administrative Measures for Software Products, or the Software Products Measures, which came into effect on April 10, 2009. Under the Software Products Measures, entities or individuals are not permitted to develop, produce, sell, import or export any software products that infringe upon intellectual property of others, contain computer virus, may harm the security of computer system, do not meet the software standards in the PRC, or contain contents banned by any law or administrative regulation. Software products referred to in the Software Products Measures include computer software, software embedded in information system or equipment, and computer software offered together with technical services with respect to computer information system integration or application. If our online game products are considered as software products under the Software Products Measures, we are subject to the regulations of the Software Products Measures.

On November 13, 2009, the Ministry of Culture of the People's Republic of China (MCPRC) issued another Circular of the Ministry of Culture on Improving and Strengthening the Examination of Content of Online Games. According to this circular, promotion and advertisement of online games which is vulgar, games propagating eroticism, gambling, violence, online games without the approval from MCPRC, and so on, are strictly prohibited.

On September 28, 2009, GAPP, the National Copyright Administration and the National Office of Combating Pornography and Illegal Publications jointly published the Notice Regarding the Consistent Implementation of the "Stipulations on 'Three Provisions' of the State Council and the Relevant Interpretations of the State Commission Office for Public Sector Reform and the Further Strengthening of the Administration of Pre-examination and Approval of Internet Games and the Examination and Approval of Imported Internet Games", or Circular 13. Circular 13 expressly prohibits foreign investors from participating in internet game operating business via wholly owned, equity joint venture or cooperative joint venture investments in China, and from controlling and participating in such businesses directly or indirectly through contractual or technical support arrangements. It is not clear yet as to whether other PRC government authorities, such as MOFCOM and MII, will support GAPP to enforce the prohibition of the VIE model that Circular 13 contemplates.

In addition, for imported online games, the relevant license agreements for such games are regarded as copyright import contracts and need to be registered with the MOC and the State Copyright Bureau, otherwise we cannot remit licensing fees out of China to the foreign game licensor.

On March 6, 2010, the MOC issued the Interim Measures on Administration of Online Games, or the Online Game Measures, which became effective on August 1, 2010. Under the Online Game Measures, any entity that engages in the online games business, issuance of virtual currency or provision of virtual currency transaction services must have a minimum registered capital of RMB 10 million and obtain an Internet Culture Operating License from the provincial counterpart of the MOC.

The Online Game Measures impose restrictions on the content of online games and the MOC is in charge of the content review. For the online games developed within the PRC, the online game operators are required to complete filing procedures with the MOC, and indicate the filing numbers at the designated places of their websites and in the games. Online game operators are also required to establish self-censorship systems and to appoint dedicated personnel for the self-censorship to ensure the legitimacy of the content of the online games.

The Online Game Measures require the online game operators to formulate user guidance and warning information regarding the online games, and indicate such information at a conspicuous place of their websites and in the games. The MOC has formulated the Essential Clauses of the Standard Agreement for Online Game Services, or Essential Clauses. The Online Game Measures require that the service agreement entered into between an online game operator and a user include all the Essential Clauses. Online game operators are also required to take technical and managerial measures to ensure online information security, including measures to

prevent computer virus invasion, attack or damage, to back up important data and save user registration information, operating information, maintenance logs and other information, as well as measures to protect State secrecy, trade secret and users' personal information.

### **Foreign Exchange Controls**

Our subsidiaries and Chinese affiliates are subject to various foreign exchange controls which are discussed in Item 10.D. "Additional Information — Exchange Controls" and Item 3.D. "Risk Factors — Risks Related to Doing Business in China — Chinese regulations relating to acquisitions of Chinese companies by foreign entities may limit our ability to acquire Chinese companies and adversely affect the implementation of our acquisition strategy as well as our business and prospects."

### **SAFE Regulations on Mergers and Acquisitions and Employee Stock Options**

On October 21, 2005, SAFE issued Relevant Issues Concerning Foreign Exchange Control on Domestic Residents' Corporate Financing and Roundtrip Investment through Offshore Special Purpose Vehicles, or Circular 75, which became effective as of November 1, 2005. Under Circular 75, PRC residents, who use assets or equity interests in their PRC entities as capital contributions to establish offshore companies or inject assets or equity interests of their PRC entities into offshore companies to raise capital overseas, are required to register with local SAFE branches with respect to their overseas investments in offshore companies. PRC residents are also required to file amendments to their registrations if their offshore companies experience material events involving capital variation, such as changes in share capital, share transfers, mergers and acquisitions, spin-off transactions, long-term equity or debt investments or uses of assets in the PRC to guarantee offshore obligations. SAFE further issued a series of implementing rules, including the most recent Notice of SAFE on Printing and Distributing the Implementing Rules for the Administration of Foreign Exchange in Fund-Raising and Round-trip Investment Activities of Domestic Residents Conducted via Offshore Special Purpose Companies, or Circular 19, which came into effect on July 1, 2011.

Under such implementing rules of Circular 75, failure to comply with the registration procedures set forth in Circular 75 may result in restrictions on the foreign exchange activities of the relevant onshore company, including higher requirement for registered capital, restrictions on the payment of dividends and other distributions to its offshore parent or affiliate and the capital inflow from the offshore entity, and may also subject relevant PRC residents to penalties under the applicable PRC foreign exchange administration regulations.

In December 2006, the People's Bank of China, or PBOC, promulgated the Administrative Measures for Individual Foreign Exchange, which set forth the respective requirements for foreign exchange transactions by PRC individuals under either the current account or the capital account. The Implementation Rules of the Administrative Measures for Individual Foreign Exchange, issued in January 2007 by SAFE, specify the approval requirements for PRC citizens who are granted shares or share options by an overseas listed company according to its employee stock ownership plan or stock option plan.

In March 2007, SAFE promulgated the Processing Guidance on Foreign Exchange Administration for Domestic Individuals Participating in Employee Stock Holding Plans or Stock Option Plans of Overseas-Listed Companies, or the Share Option Plan. On February 25, 2012, the SAFE promulgated the Notice on Relevant Issues Concerning Foreign Exchange Control on Domestic Individuals Participating in the Stock Incentive Plan of An Overseas Listed Company, or Circular 7, to replace the Share Option Plan. According to Circular 7, PRC citizens who are granted shares or share options by an overseas listed company according to its employee share option or share incentive plan are required, through the PRC subsidiary of such overseas listed company or other qualified PRC agents, to register with SAFE and complete certain other procedures related to the share option or other share incentive plan. Foreign exchange income from the sale of shares or dividends distributed by the overseas listed company may be converted into Renminbi or transferred to the employees' individual foreign exchange savings account after such foreign exchange income is remitted into China. In addition, the overseas

listed company or its PRC subsidiary or other qualified PRC agent is required to appoint an asset manager or administrator, appoint a custodian bank and open dedicated foreign currency accounts to handle transactions relating to the share option scheme or other share incentive plan. We and our PRC citizen employees who have been and will be granted share options, or PRC option holders, are subject to these rules. If we or our PRC option holders fail to comply with these rules, we or our PRC option holders may be subject to fines and legal or administrative sanctions.

In addition, the General Administration of Taxation has issued a few circulars concerning employee stock options. Under these circulars, our employees working in China who exercise stock options will be subject to PRC individual income tax. Our subsidiaries have obligations to file documents related to employee stock options with relevant tax authorities and withhold individual income taxes of those employees who exercise their stock options. If our employees fail to pay and we fail to withhold their income taxes, we may face sanctions imposed by tax authorities or any other PRC government authorities.

On January 7, 2009, the Ministry of Finance and the General Administration of Taxation jointly issued the Notice on the Issues Concerning Levy of Individual Income Tax on Income from Stock Appreciation Rights and Restricted Stock. According to this notice, the calculation and levy of individual income tax on the income of individuals from the exercise of stock appreciation rights and restricted shares in listed companies (whether in China or abroad) shall refer to the relevant Chinese regulations on levy of individual income tax on income from stock options. The term “stock appreciation right” refers to the right, granted by a listed company to its employees, to receive proceeds from price rise of a prescribed number of stocks over a specific period of time in the future and under the agreed conditions. The term “restricted stock” refers to a prescribed number of shares granted by a listed company to its employees under the conditions agreed to in an equity incentive plan. If the stock appreciation right or other rights under our stock plans are considered to be within the scope of this notice, our employees will be subject to individual income tax for their income from the exercise of the stock appreciation right or other rights under our stock plans.

### **Mergers and Acquisitions Rules**

On August 8, 2006, MOFCOM, CSRC and four other PRC authorities at the state level promulgated the M&A Rules, which came into effect on September 8, 2006 and were amended in June 2009.

Under the M&A Rules, equity or assets merger and acquisition of PRC enterprises by foreign investors shall be subject to the approval from MOFCOM or its competent local branches. In particular, a share swap between a foreign investor and a PRC enterprise shall be subject to the approval of MOFCOM, and the share swap would not be approved unless such foreign investor is a listed company or an offshore special purpose vehicle, or SPV. As defined in the M&A Rules, an SPV is an offshore company that is directly or indirectly, established or controlled by PRC entities or individuals for the purposes of an overseas listing. In addition, the listing of the SPV shall be completed within one year after the issuing date of the business license of the PRC enterprise acquired by the SPV.

Under the M&A Rules, the listing of an SPV is subject to prior approval of CSRC. On September 21, 2006, CSRC promulgated Guidelines on Domestic Enterprises Indirectly Issuing or Listing and Trading Their Stocks on Overseas Stock Exchanges, which emphasize that SPVs referred to in the M&A Rules are subject to CSRC approval.

### **Regulation on National Security Review**

In August 2011, the MOFCOM promulgated the Rules of Ministry of Commerce on Implementation of Security Review System of Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, or the MOFCOM Security Review Rule, which came into effect on September 1, 2011, to implement the Notice of the General Office of the State Council on Establishing the Security Review System for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors promulgated on February 3, 2011.

Under these circulars and rules, a security review is required for foreign investors' mergers and acquisitions having "national defense and security" implications and mergers and acquisitions by which foreign investors may acquire "de facto control" of domestic enterprises having "national security" implications. In addition, when deciding whether a specific merger or acquisition of a domestic enterprise by foreign investors is subject to a security review, the MOFCOM will look into the substance and actual impact of the transaction. The MOFCOM Security Review Rule further prohibits foreign investors from bypassing the security review requirement by structuring transactions through proxies, trusts, indirect investments, leases, loans, control through contractual arrangements or offshore transactions.

### **Labor Contract Law and the Implementing Regulations**

In June 2007, the National People's Congress of China enacted the Labor Contract Law, which became effective on January 1, 2008. The Implementing Regulations of the PRC Employment Contracts Law, or the Implementing Regulations, was subsequently promulgated and became effective on September 18, 2008. Compared to the Labor Law, the Labor Contract Law and the Implementing Regulations establish more restrictions and increases costs for employers, including specific provisions related to fixed-term employment contracts, temporary employment, probation, consultation with the labor union and employee assembly, employment without a contract, dismissal of employees, compensation upon termination and overtime work, and collective bargaining. According to the Labor Contract Law and the Implementing Regulations, an employer is obliged to sign labor contract with unlimited term with an employee if the employer continues to hire the employee after the expiration of two consecutive fixed-term labor contracts. The employer has to compensate the employee upon the expiration of a fixed-term labor contract, unless the employee refuses to renew such contract on terms the same as or better than those contained in the expired contract. The employer also has to indemnify an employee if the employer terminates a labor contract without a cause permitted by law. In addition, under the Regulations on Paid Annual Leave for Employees, which became effective on January 1, 2008, employees who have served more than one year for an employer are entitled to a paid vacation ranging from five to 15 days, depending on their length of service. Employees who waive such vacation time at the request of employers shall be compensated for three times their regular salaries for each waived vacation day. In December 2007, we performed an internal review of our human resource policies and employment contracts with our employees including part time employees and took all steps necessary to comply with the Labor Contract Law and the Implementing Regulations. Implementation of the Labor Contract Law and the Implementing Regulations has increased and may further increase our operating expenses and have material adverse effect on our results of operations.

### ***Indonesia***

The following is a summary of the principal governmental laws and regulations that are or may be applicable to wireless service providers like us in Indonesia. The scope and enforcement of many of the laws described below are uncertain. If we are found to be in violation of current or future Indonesian laws or regulations, we could be subject to severe penalties, which could materially and adversely impact our revenue, profitability and financial condition in the future.

### **Telecommunication Industry Related Regulations**

In general, telecommunication business activities in Indonesia are regulated by Law Number 36 of 1999 on Telecommunication and its implementing regulations, including Government Regulation Number 52 of 2000 on Telecommunication Operation. The implementing regulations categorize all telecommunication operations as one of three categories: (i) a telecommunication network operation, (ii) a telecommunication service operation, or (iii) a special telecommunication operation. The second category, the telecommunication service operation, consists of three types of activities: basic telephony service operation, value added telephony service and multimedia services.

Value added telephony service is the provision of telecommunication services that offers value added services such as: (i) premium calls, (ii) calling cards, (iii) virtual private phone numbers, (iv) public phone recording, (v) store and forward, (vi) a call center, and (vii) content services (e.g. ring tones and SMS and premium messaging). An operator of value added telephony services who provides content services must comply with the Regulation of the Minister of Communication and Information Technology Number: 01/PER/M.Kominfo/01/2009 in terms of the availability of a call center and the mechanisms for activation or deactivation of service.

*Licensing of Value Added Service.* A company commencing operations in value added telephony service must first obtain a principal license during its pre-operation activities. The principal license is issued for a period of one year and may be extended once for a maximum of six months. Prior to 30 business days before the expiration of the principal license, the principal license holder must submit an application to the Directorate General of Communication and Information Technology to participate in an operation feasibility test. The test is conducted by a government accredited test institution. Once the principal license holder has passed the test, the Director General will issue a Statement of Feasibility Operation, at which point the principal license holder may submit an application to receive an operation license. Operation licenses are granted without duration, subject to regular evaluation.

A service operator with an operation license in good standing is required to pay a fee of telecommunication operation rights, or the BHP Telecommunication, in the amount of 0.50% of its annual gross revenue.

*Premium Messaging Service and SMS/MMS.* Pursuant to the Regulation of the Minister of Communication and Information Technology Number: 01/PER/M.Kominfo/01/2009 on the Provision of Premium Messaging Service and Transmission of Short Messaging Service/SMS to Many Destinations (Broadcast), operators of premium messaging services will provide such services in cooperation with telecommunication network operators who carry out basic telephone services after registration with the Regulatory Body of Information Technology. An operator of premium messaging services must use a certain access number regulated in the agreement between itself and the network operator.

Premium messaging is carried out by subscription or non-subscription. Operators of premium messaging must pay BHP Telecommunication tariffs based on the relevant implementing government regulations.

Operators of premium messaging must make available a call center with a specific number which is accessible 24 hours each day. The call center must provide first line support to handle queries, complaints or requests. Operators of premium messaging by subscription must provide information of subscription activation as well as deactivation. Deactivation requests shall be made through SMS, MMS or the call center.

Senders of broadcast SMS/MMS are prohibited from sending messages that conflict with the public interest, decency standards or national security interests or that may disrupt public order. The broadcast sender is also required to allow the receiver of the message an option or method to reject subsequent messages from the broadcast sender.

*Caller Ring Back Tone.* CRBT content providers are also deemed to be premium messaging operators since activation requests through SMS or MMS charge a premium tariff. Accordingly, CRBT content providers are subject to the same regulatory requirements as premium messaging operators detailed above.

In its circular letter dated October 18, 2011 No. 177/BRTI/X/2011 issued to ten telecommunication network operators, BRTI prohibited those operators from promoting premium SMS or other content, services and contests through unsolicited SMS messages or broadcast and required existing customers to re-register with service providers in order to continue to receive VAS. This circular letter was issued as a response to public complaints against operators of premium messaging services.

Recently, media has reported that the government is planning to amend the Regulation of the Minister of Communication and Information Technology Number: 01/PER/M.Kominfo/01/2009 in response to public complaints against operators of premium messaging services and to provide legal certainty following the issuance of the October circular. BRTI is reported to be planning to conduct a public review in April 2012 whereby it will publicly disclose a draft of the proposed amendment to the general public and request comments prior to enactment. Reports have also stated that the proposed amendment will provide for the following:

- that summary of the cooperation agreement to conduct premium messaging services between operators of premium messaging services and telecommunication network operators shall be reported to BRTI;
- that both operators of premium messaging services and operators of telecommunication network operators must conduct a joint feasibility test on the premium messaging services before such services can be provided to the subscriber;
- that the access number used by operators of premium messaging services shall be registered at BRTI; and
- that the mechanism to activate and deactivate subscription be regulated in more detail.

However, we cannot be sure when, or if, the amendment to this regulation will be enacted, nor can we be certain what requirements will ultimately be adopted if such amendment is ultimately adopted.

*Wireless Access Protocol.* Currently there is no specific regulation available which governs the implementation of Wireless Access Protocol for content operators for an operator of value added telephony services who provides content services.

### **Internet Content Regulation**

Internet content in Indonesia is regulated and restricted. Under Law Number 11 of 2008 on Information and Electronic Transactions, internet content or electronic documents must not contain any of the following content:

- any content that is against moral decency;
- gambling;
- humiliation or defamation;
- threats or blackmail; or
- any content that causes hatred for a certain group or intergroup of community based on tribe, race or religion.

All individuals or legal entities are prohibited from distributing, transmitting or making available access to such content. Violation of the above prohibitions may subject an individual or legal entity (or the authorized representative of the legal entity) to criminal sanction, including imprisonment and fines, and other penalties.

### **Intellectual Property Rights**

*Copyright.* Indonesia grants intellectual property rights under certain conditions. Under the Copy Rights Law Number 19 of 2002, a violation of another person's copyright includes:

- making copies, publishing a product or granting permission to make copies or to publish a product without consent from the author;
- broadcasting, exhibiting, distributing or selling to the public works or goods resulting from infringement of the copyright;
- reproducing without consent from the author a computer program for commercial purposes; and
- omitting the name of the author on his work, changing the content of the work, the title, subtitle or the name of the author without consent from the author.

## **Investment Related Regulations**

A foreign investor which intends to establish a business in Indonesia must comply with certain regulations related to the investment sector. Currently, investment activities in Indonesia are coordinated and supervised by the Indonesia Investment Coordinating Board (BKPM).

*Negative List of Investments.* Investment activities in Indonesia are regulated by Law No. 25 of 2007 on Investments and the Regulation of the President No. 36 of 2010 on the List of the Lines of Business which are Closed and Open with Certain Requirements Related to Investments, which does not limit the maximum foreign ownership of a company that conducts business in the value added telephony service industry. However, a foreign-owned company conducting business as a value added telephony service operator must cooperate with an Indonesian legal entity in conducting business activities. This cooperation may be evidenced by agreement entered into between the parties.

*Investment License.* Pursuant to the Regulation of the Chairman of BKPM No. 12 of 2009 on Guidelines and Provisions on Investment Applications, foreign investment companies must first secure an investment license (Izin Usaha) in order to commence operational activities in activities open for foreign investment. This investment license is valid as long as the relevant holder carries out its business activities.

## **M&A Regulation**

Mergers and acquisitions are governed by the Indonesian Company Law Number 40 of 2007 and the implementing regulations in Government Regulation No. 27 of 1998. Based on the Company Law, the details of the merger or acquisition, or the M&A Plan, must be published in at least one newspaper and notice must be sent to employees of the company at least 30 days before the notice of the General Meeting of Shareholders (“GMS”). Another newspaper publication will be required at least 30 days prior to the effective date of the merger or acquisition. Within 14 days from such announcement, creditors are entitled to file objection to the company over the proposed merger or acquisition. Creditor objections will be resolved by the board of directors. However, if creditor objections are not resolved by the date of the GMS, such objections will be submitted to the shareholders for decision. The M&A Plan approved by the GMS will be stated in a deed issued by a notary public. If the company is a foreign investment company, the merger or acquisition must be approved by BKPM.

Merger and acquisitions must also comply with Law Number 5 of 1999 on Prohibition of Monopoly Practice and Unfair Business Competition (“Anti-Monopoly Law”). The law prohibits acts or behavior involving an abuse of a market dominant position and generally forbids a business participant from taking direct or indirect advantage of a domination position to set trade terms with an aim to: (i) prevent or restrict consumers access to competitor’s products, (ii) restrict development of technology or (iii) restrict a potential competitor from entering the market. A dominant position is defined as: (a) a business participant or a group of business participants having at least 50% of the relevant market share or (b) two or three groups of business participants having at least 75% of the relevant market share. Article 28 of the Anti-Monopoly Law generally prohibits business participants from conducting mergers, consolidations or acquisitions with business entities resulting in monopolistic practices or unfair business competition. This article also includes post-notification requirement to the Business Competition Supervisory Commission if the merger, consolidation or acquisition results in a valuation of assets or an amount of sales exceeding a particular amount.

## **Foreign Exchange Control**

Currently, based on Law No. 24 of 1999, dated May 17, 1999 on Foreign Exchange Traffic and Exchange Rate System, Indonesia has limited foreign exchange controls. Since most foreign exchange controls were abolished in 1971, the rupiah has been, and in general is, freely convertible. A number of regulations, however, have an impact on the exchange system. Bank Indonesia holds the authority to issue rupiah currency and has the responsibility for maintaining the stability of the rupiah. In order to maintain stability of the rupiah and prevent speculation by non-residents, Bank Indonesia has introduced regulations to restrict the movement of rupiah from: (i) banks within Indonesia to offshore banks or to an offshore branch or office of an Indonesian bank or (ii) any



investment denominated in rupiah with foreign parties and/or Indonesian parties domiciled or permanently residing outside Indonesia (without underlying trade or investment reasons), both of which thereby limit offshore trading to existing sources of liquidity. For example, only banks are authorized to deal in foreign exchange and execute exchange transactions related to the import and export of goods. In addition, Indonesia banks (including branches of foreign banks in Indonesia) are required to report to Bank Indonesia any fund transfers exceeding US\$ 10,000.- In addition, Bank Indonesia has the authority to request information and data concerning foreign currency activities of all people and legal entities that are domiciled, or who plan to reside in Indonesia for at least one year. Bank Indonesia's regulations also require resident banks and companies that have total assets or total annual gross revenues of 100 billion rupiah or more to report all data concerning their foreign currency activities to Bank Indonesia (for example, insurance companies, finance companies or venture capital companies). However, if the transaction is conducted through a domestic bank and/or domestic non-bank financial institution, the requirement to report to Bank Indonesia applies instead to the relevant domestic banks or non-bank financial institution that carried out the transaction. The transactions that must be reported include receipt and payment of funds through bank accounts outside Indonesia.

Recently, however, there have been media reports that Bank Indonesia will announce measures on capital flows to control the frequent inflow and outflow of short-term funds. Accordingly, the imposition of foreign exchange controls in Indonesia is a possibility, but we cannot be sure when, or if, such controls will be imposed in the future.

### **Employment Law**

Law No. 13 of 2003 on Manpower, or the Manpower Law, became effective on March 25, 2003, replacing fifteen laws and their implementing regulations dating back to Ordinance 8/1887. The Department of Manpower and Transmigration is the government agency that regulates all labor affairs in Indonesia.

All employers who employ more than ten persons are required to have company regulations which contain details of the conditions of employment and the rules of conduct and discipline. Company regulations remain effective for two years at a time. Company regulations are not required where the employer has a collective employment agreement with a union representing the employees. An employment agreement, whether oral or in writing, is the basic instrument covering the conditions of work, which may not contradict what is already in the company regulations or collective employment agreement.

The Manpower Law also grants employees entitlement to social security. Social security benefits and pensions, or JAMSOSTEK, are regulated principally by Law No. 3 of 1992 concerning Manpower Social Security and Law No. 11 of 1992 concerning Pension Funds, as well as a number of implementing regulations. Employers employing more than ten workers (or paying a total of more than million Rupiah in salary) are obligated to participate in the JAMSOSTEK program. However, employers who provide a health scheme with benefits better than the benefits stipulated in the JAMSOSTEK package, are not be obligated to participate in the Health Maintenance Security program provided by JAMSOSTEK.

The Manpower Law also imposes an obligation on the employer to prevent termination of employment under certain circumstances. If termination cannot be avoided, the terms of the termination of employment are negotiated between the employer and the employee (or the labor union if the employee is a member of a labor union). If negotiation fails to result in any agreement, the employer can generally only terminate the employment of an employee with government approval, as evidenced by a government permit. The termination of employment by an employer is generally null and void by operation of law if it is done without agreement or a government permit.

### **C. Organizational Structure**

For information on our organizational structure, see Item 4 "Information on the Company — History and Development of the Company" and Item 5. "Operating and Financial Review and Prospects — Our Corporate Structure" and "Operating and Financial Review and Prospects — Arrangements with Consolidated Affiliates."

#### **D. Property, Plant and Equipment**

Our principal executive offices are located in Shanghai, where we currently lease approximately a total of 904 square meters under two lease agreements at a total effective annual rent of \$0.2 million. One lease agreement for an area of 552 square meters will expire in November 2013 and the other lease agreement for an area of 352 square meters will expire in October 2013. Our primary branch office in China is located in Beijing, where we lease approximately 776 square meters under lease agreements that will expire in February 2015 at an effective annual rent of \$0.2 million. Our premises in Shanghai and Beijing house our China operations including sales, marketing, technical support and back office support. We believe that we will be able to obtain adequate facilities, principally through the leasing of appropriate properties, to accommodate our future expansion plans. We also have other branch or representative offices in Guangzhou, Shenzhen, Hangzhou, Chengdu, Nanjing, Changsha, Shenyang, Jinan, Zhengzhou, Wuhan, Fuzhou, Hefei and Xi'an.

Our regional office and InnoForm Singapore operations are located in a building owned by one of our subsidiaries, GLD Investment Pte Ltd, in Singapore. The building is a 99 years leasehold building with effect from April 1, 1964 and has a gross floor area of 3,333 square meters.

#### **Item 4A. Unresolved Staff Comments**

Not Applicable.

#### **Item 5. Operating and Financial Review and Prospects**

*The following discussion of our financial condition and results of operations is based upon and should be read in conjunction with our consolidated financial statements and their related notes included in this annual report. This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, including, without limitation, statements regarding our expectations, beliefs, intentions or future strategies that are signified by the words "expect", "anticipate", "intend", "believe", or similar language. All forward-looking statements included in this annual report are based on information available to us on the date hereof, and we assume no obligation to update any such forward-looking statements. Actual results could differ materially from those projected in the forward-looking statements. We caution you that our business and financial performance are subject to substantial risks and uncertainties.*

#### **Overview**

We provide entertainment-oriented VAS to mobile and fixed-line phone users in China and Indonesia. Our revenue is primarily derived from the sale of various 2G and 2.5G data-related services, audio-related services, media content, mobile games and PC games.

Our data-related services include 2G services (SMS), 2.5G services (MMS, WAP and Java games) and, in Indonesia, 3G services. Our audio-related services include IVR and CRBT services. In China, we provide such services to users through the mobile and fixed line networks operated by China Mobile, China Unicom and China Telecom. In Indonesia, we offer 2G, 2.5G and 3G services through various operators. We receive our revenue principally in the form of payments from the telecommunication network operators in these markets after the operators have deducted their service and network fees. Users pay for these services by monthly subscription and/or on a per usage basis.

Our media content revenue is primary generated from the acquisition of multi-platform and multi-territorial rights for entertainment and edutainment content, which we then distribute across platforms such as theatres, home entertainment (VCDs/DVDs/Blu-ray discs), free to air and pay television, and digital media in Singapore, Malaysia, Vietnam and Hong Kong. We also generate media content revenue from the distribution of pay television channels, karaoke video licensing, karaoke system rental and providing a karaoke-on-demand channel on pay television platforms. We receive our revenue principally in the form of revenue sharing with the licensors for this content.

For 2011, we generated \$60.7 million in gross revenue, compared to \$71.7 million for 2010, representing a decrease of 15.3%. The table below sets forth our gross revenue by service category in 2009, 2010 and 2011 (in millions of \$):

	<u>Year ended December 31,</u>		
	<u>2009</u>	<u>2010</u>	<u>2011</u>
Data-related services			
China	34.0	35.7	22.4
Indonesia	—	1.8	7.5
	<u>34.0</u>	<u>37.5</u>	<u>29.9</u>
Audio-related services			
China	26.0	18.7	9.1
Indonesia	—	—	—
	<u>26.0</u>	<u>18.7</u>	<u>9.1</u>
Media content (Singapore)	—	12.2	16.9
Mobile games (China)	—	2.2	2.6
PC games (China)	1.1	1.1	1.5
Others	1.1	—	0.7
Total revenue	<u>62.2</u>	<u>71.7</u>	<u>60.7</u>

The major factors affecting our results of operations and financial condition include:

- *Changes in Government Regulations and Mobile Operator Policies or the Manner in Which They are Enforced.* The VAS industry in China and Indonesia are heavily regulated, and the operators also have a wide range of policies regarding customer service, quality control and other aspects of the industry. In China, the operators regularly introduce changes to their operating policies. For example, in order to improve its oversight of service providers, China Mobile ranks SMS and IVR service providers based on certain performance criteria, and those service providers that fall into a lower rank are subject to restrictions in service fees they may charge. Furthermore, in 2010, China Mobile, China Unicom and China Telecom began requiring additional notices and confirmations to end consumers during the purchase of embedded services in mobile handsets, requiring that SMS short codes which are used for ordering VAS and other activities, such as voting in television program contests, be more tailored to the specific service offering or service partner. In addition, in that year, the operators in China imposed additional restrictions on IVR services offered in connection with interactive programs. Such policy changes by the mobile operators have negatively affected our revenue in the past. The telecom network operators may implement further measures in response to current or future policy directives of MII or due to changes in their internal management and control policies and procedures with respect to service providers such as our company, which may have a material negative impact on our business, results of operations and financial position. In Indonesia, BRTI issued a circular which prohibits VAS providers from promoting premium SMS or other content, services and contests through unsolicited SMS messages or broadcasts and requires existing customers to re-register with service providers in order to continue to receive VAS. As a result, our revenue from Indonesia has been, and is expected to continue to be, adversely affected. Any future changes to these requirements may impose additional requirements and restrictions on our business in Indonesia.
- *Operator Service Agreements.* Our ability to generate revenue and the terms under which we deliver our services depend to a large extent on our ability to maintain good relationships with the national, provincial and local offices the operators in China and Indonesia, including China Mobile and to a lesser extent, China Unicom, China Telecom, Telkomsel, Indosat and XL, and to differentiate our services through, among other things, innovative product development and appealing content from domestic and international content providers. In China, each operator charges us service fees from the

gross revenue generated by our services. In addition, to the extent the number of SMS or MMS messages sent by us over China Mobile's network exceeds the number of SMS or MMS messages our customers send to us, we must also pay a per message network fee. We also pay China Unicom and China Telecom network fees in most provinces on the same basis. These service and network fees are reflected in our cost of revenue and totaled \$15.2 million, \$13.1 million and \$6.7 million for 2009, 2010 and 2011, respectively. Each operator could alter any of the terms of our service agreements with them or terminate the agreements for a variety of reasons in the future, including, for example, to increase their service or network fees to enhance their profitability at the expense of service providers. In Indonesia, our revenue sharing arrangement with telecom operators generally uses a three-tiered system: if we are considered a Class A content provider, the revenue share is 40% for the telecom operator and 60% for us; a Class B content provider, 50% for the telecom operator and 50% for us; Class C content provider, 60% for the telecom operator and 40% for us. To be considered a Class A content provider, our revenue must be at least IDR100 million (US\$11,000) per month; a Class B content provider, more than IDR50 million (US\$5,500) but less than IDR100 million (US\$11,000) per month; Class C content provider, IDR50 million (US\$5,500) or less. Although Telkomsel, Indosat and XL all currently consider us a Class A content provider, there is no guarantee that we will qualify as a Class A content provider in the future. Moreover, each operator could alter any of the terms of our service agreements with them or terminate the agreements for a variety of reasons in the future, including, for example, to increase their service or network fees to enhance their profitability at the expense of service providers.

- *Costs Associated with Content and Distribution Channel Provider Relationships.*

#### VAS Services

- Our VAS include the delivery of third-party content and services, such as certain Java games and music downloads for ringtones and CRBTs, to our end users. We also distribute some of our services via interactive programs broadcast over television and radio and through embedded menus in mobile handsets. We provide this content and services typically based on revenue-sharing arrangements under which we pay third-party content, interactive program providers and mobile handset manufacturers or designers (known as distribution channel providers) an agreed percentage of the revenue realized from services incorporating their content or embedded in their mobile handsets. Most of our content licenses or cooperation contracts with television and radio stations and mobile handset manufacturers or designers have a limited term. Given the high demand for engaging, trendy content in the markets in which we operate, we have limited leverage to negotiate significantly more favorable terms with these parties. Payments to third-party content and distribution channel providers were \$23.6 million, \$24.2 million and \$18.3 million, representing 37.9%, 33.8% and 58.0% of our total VAS revenue in 2009, 2010 and 2011, respectively. Our net income could be adversely affected in future periods if our payments in relation to our revenue-sharing arrangements with third-party content and distribution channel providers continue to increase, either in absolute terms or as a percentage of our gross revenue. See Item 3.D. "Risk Factors — Risks Related to our Operations Outside of China — The success of some of our services is significantly dependent on our ability to obtain, customize and localize desirable content and technology from third parties and distribute our services effectively."

#### Media Content

- InnoForm, our majority owned subsidiary, obtains all of its edutainment and entertainment content from third parties, including a number of major Hollywood and Asian production studios, including Twentieth Century Fox and Warner Home Video. Our contracts with these content providers involve minimum guarantee payments from InnoForm, which are payable in advance. Although competition in InnoForm's markets has been intensifying, including from alternate sources of content such as video download websites, our cost of acquiring such content has been increasing in recent years which has, and may continue to, negatively impact the profitability this business.

- *Marketing Expenses.* In order to maintain visibility and demand for our SMS and IVR products and our competitive position in the market, we need to make continued investments in media advertising and integrated co-marketing. Our media advertising is typically in the form of television commercials and magazine, newspaper and website placements. Fee rates for our various marketing channels are becoming increasingly expensive while in some cases generating lower levels of gross revenue and thus negatively affecting our profit margin. Our advertising costs were \$3.6 million, \$1.9 million and \$2.4 million in 2009, 2010 and 2011, respectively.
- *Impairment charges.* We are required under U.S. GAAP to review our receivables, intangible assets, goodwill and other assets for impairment when events or changes in circumstances indicate that their carrying value may not be recoverable. For the year ended December 31, 2009, we recorded an impairment charge of \$2.5 million related to goodwill of our PC game reporting unit, which was caused by a downward revision in expected future cash flows for that business resulting from market competition. For the year ended December 31, 2010, we recorded an impairment charge of \$1.3 million related to a loan receivable. We may be required to record further impairment charges to earnings in our financial statements in future periods in which impairment in the carrying amount of our assets occurs.
- *Taxes.* Certain of our subsidiaries and affiliated Chinese entities have enjoyed tax exemptions and reduced tax rates. See “— Taxation” below. Such tax treatment increases our net income. Our future results could be materially adversely affected if we are not able to maintain similar tax treatment, particularly as a result of the revisions to the Chinese income tax law which became effective from January 1, 2008.

## **Our Corporate Structure**

We conduct our business in China solely through our wholly owned subsidiaries, which were Linktone Consulting, Huitong, Linktone Internet, Linktone Software and Wang You in 2011. Linktone Consulting provides internet and VAS consulting services; Huitong, Linktone Internet and Linktone Software specialize in software development; and Wang You develops PC games. These entities have no significant assets other than certain contractual arrangements with consolidated affiliates. See “— Arrangements with Consolidated Affiliates” below. Ojava Overseas, Ruida and Xintong were dormant in 2011.

In October 2007, we incorporated two holding companies in Hong Kong, namely Noveltech and Linktone Media. Our investments in Linktone Consulting, Huitong, Linktone Internet and Xingtong have been transferred to Noveltech. In addition, in November 2009 we incorporated Linktone International Limited, or Linktone International, in the United Arab Emirates to hold our investments in the South East Asia region, including our 75% equity interest of InnoForm and our 51% interest in PT Linktone.

In March 2010, we and MIMEL acquired 50% and 25% of the share capital of InnoForm, respectively. In June 2010, we subscribed for 1,002,308 new shares of InnoForm and as a result of which we and MIMEL hold 75% and 12.5% of the equity interest of InnoForm, respectively. For additional discussion, see Item 7.B. “Related Party Transactions.” InnoForm is a Singapore-based company with regional offices in Malaysia, Hong Kong and Vietnam, specializing in the production, acquisition, distribution and licensing of multi-platform edutainment and entertainment content and holds licenses, properties and other assets related to its operations.

In June 2010, InnoForm acquired 98.7% of the equity interest in GLD, a limited liability company incorporated in Singapore, from its shareholders. Hary Tanoesoedibjo, one of the directors of our board and our chief executive officer, holds the remaining 1.3% of the equity interest in GLD. GLD’s principal asset is a commercial office building in Singapore.

In June 2010, we purchased a mandatory convertible bond (“MCB”) issued by IDN (which has been renamed PT Linktone) from Starlight which was convertible into 51% of new shares in PT Linktone. We purchased the MCB from Starlight, a United Arab Emirates company. In September 2010, we converted the

MCB and now own 51% of PT Linktone with the remainder owned by MNC. PT Linktone specializes in providing VAS services in Indonesia and holds trade receivables, cash, commercial licenses, office equipment and other assets related to its operations.

In order to meet ownership requirements under Chinese law which place certain restrictions on Linktone, as a foreign company, to operate in certain industries such as VAS and internet content services, we maintain control over the following PRC affiliated companies which are each owned by our current and/or former employees and are treated as our VIEs for accounting purposes: (i) Weilan; (ii) Unilink (iii) Yuan Hang; (iv) Cosmos; (v) Zhong Tong; (vi) Lian Fei; (vii) Qimingxing; (viii) Beijing Ojava; (ix) Ling Yu; (x) Lianyu; (xi) Lang Yi; (xii) Wei Lian; (xiii) Xian Feng; and (xiv) Letang.

Under the current shareholding structure, Weilan, Unilink, Cosmos, Zhong Tong, Lian Fei, Qimingxing, Beijing Ojava and Lianyu have inter-provincial VAS licenses issued by the MII. Each of Weilan, Unilink, Cosmos, Zhong Tong, Lian Fei, Qimingxing, Beijing Ojava and Lianyu offers our services through one or more of the telecommunications network operators in China. Yuan Hang offers services related to our online game business. Xian Feng provides music related content services to network operators. Ling Yu, Wei Lian and Lang Yi were dormant since 2010. In January 2010, Weilan acquired a 50.01% equity interest in Letang, a private Chinese company specializing in the development of mobile games and PC games, in connection with the development of our mobile online game business. Letang holds cash, accounts receivable and other assets related to its operations. We hold no direct ownership interest in these companies.

In July 2009, we established and, through contractual arrangements, maintain control over PT Cakrawala Alam Semesta, or Cakrawala, an Indonesian based company which is 50% owned by each of two of MNC Group's employees. Cakrawala was established for the purpose of holding our short term investments mainly in the form of fixed deposits in Indonesia. For accounting purposes, Cakrawala is treated as our VIE. We hold no direct ownership interest in Cakrawala.

We, our Chinese affiliated entities and their respective shareholders are parties to a series of agreements governing the provision of our telecom valued-added services. In addition, as of December 31, 2011, we had provided long-term interest free loans to the shareholders of our Chinese affiliated entities with an aggregate outstanding balance of approximately RMB114.0 million (US\$18.1 million). The proceeds from these loans have been used to fund investments in our Chinese affiliated entities. See “— Arrangements with Consolidated Affiliates” below. We also have an outstanding loan to Cakrawala, a company in Indonesia that we treat as a VIE for accounting purposes. Please see Item 5. “Operating and Financial Review and Prospects — Arrangements with Consolidated Affiliates — Indonesia.”

Our primary internal source of funds is dividend payments from our wholly owned subsidiaries in China, Hong Kong, British Virgin Islands and United Arab Emirates, namely, Linktone Consulting, Huitong, Linktone Internet, Linktone Software, Xintong, Brilliant Concept Investments Ltd., or Brilliant, Wang You, Ojava Overseas Ltd., or Ojava Overseas, Ruida, Noveltech, Linktone Media and Linktone International. Under the Chinese tax regulations which became effective in January 2008, dividends paid to a foreign invested enterprise from Chinese entities are subject to a 10% withholding tax. However, a lower withholding tax rate will be applied if there is a tax treaty arrangement between mainland China and the jurisdiction of the foreign holding company. Holding companies in Hong Kong, for example, are subject to a 5% rate. Nevertheless, the PRC State Administration of Taxation promulgated a tax notice on October 27, 2009, or Circular 601, which provides that tax treaty benefits will be denied to “conduit” for shell companies without business substance, and a beneficial ownership analysis will be used based on a “substance-over-form” principle to determine whether or not to grant tax treaty benefits. It is unclear at this stage whether Circular 601 applies to dividends from our PRC subsidiaries paid to us through our Hong Kong subsidiaries. It is possible, however, that under Circular 601 our Hong Kong subsidiaries would not be considered to be the beneficial owners of any such dividends, and that such dividends would as a result be subject to income tax withholding at the rate of 10% rather than the favorable 5% rate applicable under the tax treaty between mainland China and Hong Kong. Under current Chinese law, Linktone

Consulting, Huitong, Linktone Internet, Linktone Software, Wang You, Ruida and Xintong are also required to set aside a portion of their net income each year to fund certain reserve funds. These reserves are not distributable as cash dividends. Dividends paid to us by Brilliant and Ojava Overseas, which were incorporated in the British Virgin Islands, Noveltech and Linktone Media, which were incorporated in Hong Kong, and Linktone International which was incorporated in United Arab Emirates, are not subject to tax.

No dividends were received from our subsidiaries for the year ended December 31, 2011.

It is possible that the relevant Chinese authorities could, at any time, assert that any portion of or all of the existing or future ownership structure and businesses of us, any of our wholly owned subsidiaries, or any of our VIEs, violate existing or future Chinese laws, regulations or policies. It is also possible that the new laws or regulations governing the telecommunication or internet sectors in China that have been adopted or may be adopted in the future will prohibit or restrict foreign investment in, or other aspects of, any of our, our wholly owned subsidiaries' or our affiliated Chinese entities' current or proposed businesses and operations. In addition, these new laws and regulations may be retroactively applied. For example, on September 28, 2009, GAPP, the National Copyright Administration and the National Office of Combating Pornography and Illegal Publications jointly published the Notice Regarding the Consistent Implementation of the "Stipulations on 'Three Provisions' of the State Council and the Relevant Interpretations of the State Commission Office for Public Sector Reform and the Further Strengthening of the Administration of Pre-examination and Approval of Internet Games and the Examination and Approval of Imported Internet Games", or Circular 13. Circular 13 expressly prohibits foreign investors from participating in internet game operating businesses via wholly owned, equity joint venture or cooperative joint venture investments in China, and from controlling and participating in such businesses directly or indirectly through contractual or technical support arrangements. It is not clear yet as to whether other PRC government authorities, such as MOFCOM and MIIT, will support GAPP to enforce the prohibition of the VIE model that Circular 13 contemplates. If our current structure and our contractual arrangements were found to be in violation of any existing or future Chinese laws and regulations, we may be required to restructure our structure and operations in China to comply with such Chinese laws. In such case, we may not be able to operate or control our business in the same manner as we currently do, and therefore, may not be able to consolidate our VIEs. In addition, the relevant regulatory authorities would have broad discretion in dealing with such violations which may adversely impact our financial statements, operations and cash flows (including the restriction on us to carry out the business). It is unclear how such restructuring could impact our business and operating results.

We believe that our present operations are structured to comply with Chinese law. However, many Chinese regulations are subject to extensive interpretive powers of governmental agencies and commissions, and there are substantial uncertainties regarding the interpretation and application of current and future Chinese laws and regulations. Accordingly, we cannot be assured that Chinese regulatory authorities will not ultimately take a contrary view to our belief and will not take action to prohibit or restrict our business activities.

If our affiliated Chinese entities fail to perform their obligations under these agreements, we may have to incur substantial costs and expend significant resources to enforce those arrangements and rely on legal remedies under Chinese laws. The Chinese laws, rules and regulations are relatively new, and because of the limited volume of published decisions and their non-binding nature, the interpretation and enforcement of these laws, rules and regulations involve substantial uncertainties. These uncertainties may impede our ability to enforce these contractual arrangements, or suffer significant delay or other obstacles in the process of enforcing these contractual arrangements and materially and adversely affect our results of operations and the financial position.

Similarly, our VIE arrangements with Cakrawala could be deemed in violation of existing Indonesia regulations on foreign investments in Indonesia. Indonesian Investment Law Number 25 of 2007, or Indonesian Investment Law, prohibits the registered shareholder of a foreign investment company and a domestic investment company from entering into agreement and/or issuing a statement to confirm a nominee arrangement for shares ownership, whereby an individual or legal entity is holding shares in a company for and on behalf of another individual or legal entity, in a foreign investment company or domestic investment company. Such agreement

and/or statement will be deemed as null and void. Since our contractual arrangement with Cakrawala does not contain any statement that the current registered shareholders are acting on our behalf or that we are the owner of the shares in Cakrawala, we believe that the contractual arrangements that we have entered into with Cakrawala do not constitute a nominee arrangement. However, should the Indonesian authorities deem the contractual arrangements that we have made with Cakrawala to constitute a nominee arrangement prohibited by the Indonesian Investment Law, our interest in the investments held by Cakrawala could be materially and adversely affected.

### **Arrangements with Consolidated Affiliates**

#### *China*

Current Chinese laws and regulations impose significant restrictions on foreign ownership of VAS and online game businesses in China. Therefore, we conduct substantially all of our operations in China through a series of agreements with our affiliated Chinese entities, which were Weilan, Unilink, Yuan Hang, Cosmos, Zhong Tong, Lian Fei, Qimingxing, Beijing Ojava, Lianyu and Xian Feng, in 2011. These companies are variable interest entities, or VIEs, under Accounting Standard Codification (“ASC”) 810 and, accordingly, have been consolidated into our financial statements. Transactions between these entities and our company and subsidiaries are eliminated in consolidation.

We believe that the terms of these agreements are no less favorable than we could obtain from disinterested parties. The material terms of the agreements among us, our respective affiliated Chinese entities and their shareholders are substantially identical except for the amount of the loans extended to the shareholders of each entity and the amount of license fees paid by each entity. We believe that the shareholders of our affiliated Chinese entities will not receive any personal benefits from these agreements, except as shareholders of our company. The principal terms of these agreements with our affiliated Chinese entities are described below.

*Powers of Attorney.* Each of the shareholders of our affiliated Chinese entities have irrevocably appointed Hary Tanoesoedibjo, our chairman and 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 affiliated Chinese entities as the case may be, including matters relating to the transfer of any or all of their respective equity interests in our affiliated Chinese entities and the appointment of the directors and general manager of our affiliated Chinese entities. The term of each of the powers of attorney is 10 years. These powers of attorney do not extend to votes by the shareholders of our company or subsidiaries.

Because the purpose of the irrevocable powers of attorney is to allow us to exercise sufficient control over our affiliated Chinese entities, each such power by its terms is valid only for so long as the designated attorney-in-fact remains an employee of one of our subsidiaries. If the attorney-in-fact ceases to be an employee of any of our subsidiaries or if our subsidiaries otherwise issue a written notice to dismiss or replace the attorney-in-fact, the power of attorney will terminate automatically and be re-assigned to another employee.

*Operating Agreements.* We guarantee the performance by our affiliated Chinese entities of contracts, agreements or transactions with third parties. In return, our affiliated Chinese entities have granted us a security interest over all of their assets, including all of their accounts receivable. We also have the right of first refusal with respect to future loan guarantees. In addition, our affiliated Chinese entities 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 our prior written consent. They will also appoint persons designated by us as the directors, officers and other senior management personnel of our affiliated Chinese entities, as well as accept our guidance regarding their day-to-day operations, financial management and the hiring and dismissal of their employees. While we have the right to terminate all our agreements with our affiliated Chinese entities if any of our agreements with them expires or is terminated, our affiliated Chinese entities may not terminate the operating agreements during the term of the agreements, which is 10 years.



*Exclusive Consulting Services Agreements.* We provide most of our affiliated Chinese entities with exclusive consulting services related to legal, finance, human resources and office administration. The term of these services agreements is renewable every year. We charged Weilan, Unilink, Yuan Hang, Cosmos, Lian Fei, Zhong Tong, Qimingxing, Beijing Ojava, Xian Feng, an aggregate fee of \$2.0 million, \$1.0 million and \$0.9 million for these services in 2009, 2010 and 2011, respectively. The service fees payable to us are subject to our adjustment from time to time based on the actual operating results of our affiliated Chinese entities.

*Trademark, Domain Name and Software License Agreements.* We grant Weilan and Unilink a license to use our domain name ([www.linktone.com](http://www.linktone.com)) and our registered trademarks. Linktone Consulting has also granted Weilan and Unilink licenses to use certain of its domain names. The licensee of each of the licenses described above pays us an annual license fee of RMB10,000 (\$1,548). Because of the insignificant amounts involved, we waived these fees in 2009, 2010 and 2011. 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 our SMS, MMS, WAP, CRBT and IVR platforms, databases and games. We invoiced Weilan, Unilink, Lian Fei, Zhong Tong, Qimingxing and Xian Feng an aggregate fee of \$25.2 million, \$21.7 million and \$11.8 million for the use of this software in 2009, 2010 and 2011, respectively.

The license agreements for trademark and domain names will terminate upon the earlier of 10 years or the expiration of our right to use the relevant domain names and trademarks. The term of the software license agreements is one to two years. Our affiliated Chinese entities 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 our prior written consent.

*Domain Name Transfer Arrangements.* In order to meet local requirements, we transferred to Weilan our ownership right in our domain name ([www.linktone.com.cn](http://www.linktone.com.cn)) in December 2006.

*Contracts Relating to the Exclusive Purchase Right of Equity Interest.* Under the Contracts Relating to the Exclusive Purchase Right of Equity Interest among us, each of our affiliated Chinese entities and their respective shareholders, we or our designee has an exclusive option to purchase from each such shareholder all or part of his or her equity interest in our affiliated Chinese entities at book value, to the extent permitted by Chinese law. The term of these agreements is 10 years, renewable by us for an additional 10-year term at our sole discretion.

*Loan Agreements.* We have extended interest-free loans to the shareholders of our affiliated Chinese entities for the purpose of investing in our affiliated Chinese entities as registered capital and to make payments to the selling shareholders from whom we acquired certain of our affiliated Chinese entities for settlement of purchase price consideration pursuant to applicable acquisition agreements. The term of these loans in each case is 10 years. The shareholders of our affiliated Chinese entities can only repay the loans by transferring to us or our designees all of their equity interest in the respective affiliated Chinese entity. The following table sets forth the date the loan agreement was entered into, the borrower, the affiliated Chinese entity, the interest, the maturity date and the amount of each loan, as of December 31, 2011.

<u>Date of loan agreement</u>	<u>Borrower</u>	<u>Affiliated entity</u>	<u>Interest</u>	<u>Maturity date</u>	<u>RMB'000</u>
November 27, 2003	Baoxin Yao	Weilan	None	November 26, 2013	2,798.7
November 27, 2003	Wenlei Wang	Weilan	None	November 26, 2013	2,365.8
August 25, 2004	Wenjun Hu	Unilink	None	August 24, 2014	5,000.0
August 25, 2004	Lin Lin	Unilink	None	August 24, 2014	5,000.0
May 31, 2005	Yuming Cai	Yuan Hang	None	May 30, 2015	2,403.9
May 31, 2005	Feng Gao	Yuan Hang	None	May 30, 2015	2,403.9
June 30, 2005	Hongjie Qi	Cosmos	None	June 29, 2015	16,953.1
June 30, 2005	Miao Yan	Cosmos	None	June 29, 2015	16,953.1
June 30, 2005	Hongyan Lu	Lian Fei	None	June 29, 2015	7,738.6
June 30, 2005	Yuxia Wang	Lian Fei	None	June 29, 2015	8,928.8
June 30, 2005	Teng Zhao	Zhong Tong	None	June 29, 2015	6,850.6
June 30, 2005	Yi Huang	Zhong Tong	None	June 29, 2015	6,850.6
August 31, 2005	Xing Xu	Qimingxing	None	August 30, 2015	7,528.5
August 31, 2005	Peien Zhu	Qimingxing	None	August 30, 2015	7,528.5
August 15, 2006	Yugang Wang	Beijing Ojava	None	August 14, 2016	4,000.0
August 15, 2006	Peiyu Su	Beijing Ojava	None	August 14, 2016	4,000.0
February 9, 2007	Xiao Ke Zha	Lianyu	None	Feb 8, 2017	700.2
February 9, 2007	Zhi Wang	Lianyu	None	Feb 8, 2017	1,031.8
December 20, 2007	Ai Hua Zhang	Xian Feng	None	Dec 19, 2017	2,550.0
December 20, 2007	Juan Yang	Xian Feng	None	Dec 19, 2017	2,450.0
<b>Total</b>					<b>114,036.1</b>

*Equity Interests Pledge Agreements.* The shareholders of Weilan, Unilink, Yuan Hang, Cosmos, Zhong Tong, Lian Fei, Qimingxing, Beijing Ojava, Lianyu and Xian Feng 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 and Software License Agreements described above. If our Chinese affiliated entities breach any of their obligations under the Equity Interests Pledge Agreements, we are entitled to sell the equity interests held by the relevant shareholders, and retain the proceeds of such sale or require any of them to transfer to us his or her equity interest in the applicable affiliated entity.

#### *Indonesia*

PT Cakrawala Alam Semesta, or Cakrawala, is an Indonesian company which we control through contractual arrangements and treated as our VIE for accounting purposes. Its only two shareholders are employees of MNC Group. We believe that the terms of our agreements with Cakrawala and its shareholders are no less favorable than we could obtain from disinterested parties. InnoForm is also currently in the process of setting up a VIE in Indonesia.

In July 2010, Cakrawala and our company executed a placement loan agreement pursuant to which we 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 us, and we have the sole right to call for payment or terminate the agreement. Cakrawala agrees that the rate of interest payable to our company is an amount equivalent to the interest paid by the banks in which proceeds from the loan described above are deposited. 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 at December 31, 2011, the outstanding loan balance was US\$13.9 million.

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

- Share pledge agreements, under which the shareholders of Cakrawala pledge their shares in that company as security for the loan from our company to Cakrawala;
- Irrevocable powers of attorney to sell, under which the shareholders of Cakrawala grant a power of attorney to our company to cause the sale of their shares in Cakrawala to any third party designated by us at any time, at such price and upon such terms and conditions as we shall approve;
- Pledge of operating account, under which Cakrawala pledges to our 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 our loan to Cakrawala;
- Irrevocable power of attorney to manage operating account, under which Cakrawala grants to our 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; and
- Assignment of rights to dividends agreements, under which the shareholders of Cakrawala assign to our company all of their rights to any dividends paid by Cakrawala.

### **Critical Accounting Policies and Estimates**

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of these financial statements requires us 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 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, and fair value of share options. Changes in facts and circumstances may result in revised estimates. Actual results could differ from these estimates.

We believe the following critical accounting policies affect our significant judgments and estimates used in the preparation of our financial statements.

#### *Revenue recognition*

We recognize 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.

#### *China VAS & mobile game*

Our revenues in the PRC are mainly derived from entertainment-oriented VAS, including SMS, MMS, WAP, Java games, IVR and CRBT services to phone users through various subsidiaries of China Mobile, China

Unicom and China Telecom, 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. Our China VAS services are provided through codes we own, known as “access codes” or “short codes,” which are special telephone numbers shorter than full telephone numbers widely used for VAS, such as television program voting, ringtone ordering, charity donations and mobile services.

We contract with the operators for the transmission of VAS as well as for billing and collection services. We measure our revenues based on the total amount paid by our customers, for which the operators bill and collect on our 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 us 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 us are reduced for messages received by us as the operators separately charge the senders a fee for these transmissions. We have assessed our relationship with the operators and the terms of the fee arrangements under ASC 605-45 (“ASC 605-45”), “Principal Agent Considerations,” and have concluded that reporting the gross amount billed to our customers is appropriate based on the following factors:

- Our ability to adjust the cost of our services by adjusting the design or marketing of the services;
- Our 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;
- Our assumption of all related legal and commercial risks arising from the content and services provided;
- Our assumption of risk of non-payment by customers; and
- Our ability to determine prices within ranges prescribed by the operators.

A substantial portion of our 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, we are required to make an estimate of the revenue and cost of revenue earned during the period covered by the statement. On a quarterly basis, we estimate a portion of our revenue using internally generated transmission data and various other assumptions we have developed based on historical experience, that are believed to be reasonable under the circumstances.

We license content from independent content providers. Certain of these agreements determine the fees payable for content based on a percentage of revenues of we generated from the use of the content. We record our revenues inclusive of fees to be paid to content providers as we act as the principal in these arrangements. The fees paid to content providers are recorded in cost of revenue.

Our mobile game service revenue is primarily derived from providing downloadable mobile games products to mobile game operators. We contract with mobile game operators who in turn provide a platform for users to download our mobile games. We earn a fixed fee on a per download basis based on monthly or quarterly statements from the mobile game operators.

#### *Indonesian VAS*

Our revenues in Indonesia are derived from entertainment-oriented VAS to users of mobile telecommunications networks in Indonesia. We provide VAS services through agreements with Infokom, a related party, who in turn have cooperative arrangements with network operators in Indonesia. We assessed our 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. In addition, we 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 the consideration that the operators bear a significant portion of the credit risk and have the latitude to establish the prices.

A substantial portion of our revenue from Indonesia is recorded based on monthly statements received from the telecom operators in Indonesia. In certain instances, when a statement is not received within a reasonable period of time, we are required to make an estimate of the revenues and cost of revenue earned during the period covered by the statement. On a quarterly basis, we estimate a portion of our revenues using internally generated transmission data and various other assumptions we have developed, that are believed to be reasonable under the circumstances.

#### *Media content*

Our media sales arrangements are evidenced by individual sales agreements. The prices are stated in the agreements and not subject to adjustment. We recognize revenue from the sale of goods when the risk of loss and title have 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 we receive notification that the goods have been sold by our customers.

#### *PC games*

We currently provide our PC game services through our subsidiaries, Brilliant, Wang You, and our VIE, Yuan Hang. We receive 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.

#### *Impairment Charges*

##### *Goodwill*

Under ASC 350, goodwill is no longer amortized, but tested for impairment upon first adoption and annually (in December of each year) thereafter, or more frequently if events or changes in circumstances indicate that it might be impaired. We assess goodwill for impairment in accordance with ASC 350 at the reporting unit level, defined as the operating segment or one level below an operating segment, and recognize impairment in the event that the carrying value exceeds the fair value of each reporting unit. The impairment charge was arrived at after a two-step process required under ASC 350. First, we determined the fair value of the reporting unit using the income approach based on the discounted expected future cash flow associated with this unit. We then compare the fair value of each reporting unit to its carrying value, including goodwill. If the carrying value of a reporting unit exceeds its fair value, we perform the second step to determine the impairment loss which is equal to the difference between the implied fair value of the reporting unit's goodwill and the carrying amount of the goodwill. For the year ended December 31, 2009, impairment charge of \$2.5 million was recorded against goodwill assigned to our PC game reporting unit. No impairment of goodwill was recorded in 2010 and 2011.

We performed our annual goodwill impairment test as of December 31, 2011, and did not incur any impairment charge. We will continue to monitor the relationship of fair value to the recorded value of our consolidated net assets as economic events and changes occur, and we may perform interim impairment tests in the future. If future results are not consistent with our assumptions and estimates, we may be required to record impairment charges at a later date, which could materially and adversely affect our financial results.

### *Long-lived Assets and Amortizing Intangible Assets*

Long-lived assets and amortizing intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of asset may not be recoverable. We assess the recoverability of the long-lived assets and amortizing intangible assets by comparing the carrying amount to the estimated future undiscounted cash flow associated with the related assets. We recognize impairment of long-lived assets and amortizing intangible assets in the event that the net book value of such assets exceeds the estimated future undiscounted cash flow attributable to such assets.

The assumptions and estimates used in calculating the expected future cash flow and fair value involve inherent uncertainties and the use of management judgment. Our judgment is based on our experiences, expectation of business prospects, overall economic situation of the industry and market risks. Changes in these estimates and assumptions could materially impact our financial position and results of operations.

### *Income Taxes*

Our provisions for income taxes, deferred tax assets and liabilities, and the extent to which deferred tax assets can be recognized, require significant management judgment. We make our judgments, assumptions and estimates by taking into account current tax laws and our interpretation of current tax laws. Changes in tax laws or our interpretation of tax laws could significantly impact our provisions for income taxes.

We make a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized based on our estimate of future taxable income and prudent and feasible tax planning strategies. Actual taxable income in future years may differ from our current estimates and cause our valuation allowance to be inaccurate and thus materially impact our financial position and operating results.

We apply ASC 740-10-25, which requires that we recognize and disclose in our financial statements the impact of a tax position if that position is more likely than not of being sustained on audit, based on the technical merits of the position. The determination of the uncertain tax positions depends on our interpretation of relevant tax laws and estimates of the likelihood of our tax positions being sustained on audit. Actual interpretation of relevant tax laws by relevant tax officials may differ from our interpretation and may affect our tax liabilities and operating results.

### *Short-term Investments*

Short-term investments include time deposits with original maturity terms of more than three months but due within one year and marketable equity securities. The marketable securities are classified as available-for-sale and carried at estimated fair value with unrealized gains and losses recorded as a component of accumulated other comprehensive income in shareholders' equity. Realized gains or losses are credited or charged to income during the period in which the gain or loss is realized. If we determine a decline in fair value is other than temporary, the cost basis of the individual security is written down to fair value as a new cost basis and the amount of the write-down is accounted for as a realized loss. The new cost basis will not be changed for subsequent recoveries in fair value. Determination of whether declines in value are other-than-temporary requires significant judgment and consideration of various factors including the severity and duration of the impairment, anticipated recovery, financial condition and near term prospects of the investee, and our ability and intent to hold that security until the anticipated recovery in value occurs. Subsequent increases and decreases in the fair value of available-for-sale investments will be included in comprehensive income except for an other-than-temporary impairment, which will be charged to income in the statement of operations and comprehensive income. No impairment of short-term investments was recorded in 2009, 2010 and 2011.

### *Share-based Compensation*

We apply 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). We calculate the fair value of each option grant on the date of grant using the Black-Scholes option pricing model. The Group 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. We estimate our share price volatility based on our own historical data. In the absence of sufficient historical data in the exercise behavior of our staff, we estimate 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, we are 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, we 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 we believe the assumptions and estimates we have made are reasonable and appropriate, changes in factors and assumptions could materially affect our results.

#### *Allowance for Doubtful Receivables*

We provide a general provision for doubtful accounts and other receivables based on an aging analysis of accounts receivable balances, historical bad debt rates, repayment patterns, customer credit worthiness and industry trend analysis. We also make a specific allowance if there is strong evidence showing that the receivable is likely to be uncollectible. The assessment of the collectability of each account requires the use of substantial judgment and estimates. As of the end of 2009, 2010 and 2011, the allowance for doubtful accounts was \$2.1 million (including discontinued operations of \$0.3 million), \$2.3 million (including discontinued operations of \$0.3 million) and \$2.9 million (including discontinued operations of \$0.3 million), respectively.

#### **Revenue**

As described in “Critical Accounting Policies and Estimates — Revenue and Cost of Revenue Recognition” above, we generate VAS revenue from service fees paid by mobile device users who use our services through the telecom network operators. Our VAS fees are charged on a monthly subscription or per use basis. We also derive revenue from media content and PC and mobile games.

#### *PRC VAS Services*

Fees for our 2G SMS-based services in PRC currently range from RMB0.1 (\$0.02) to RMB1.95 (\$0.30) per message and from RMB5.0 (\$0.77) to RMB15.0 (\$2.32) per month for subscription services. Fees for 2.5G MMS, WAP and Java services currently range from RMB2 (\$0.3) to RMB12.0 (\$1.86) per message and from RMB5.0 (\$0.77) to RMB15.0 (\$2.32) per month for subscription services. Fees for audio-related services range from RMB1.0 (\$0.15) to RMB3.0 (\$0.46) per audio content download.

#### *Indonesia VAS Services*

In 2010 and 2011, our VAS revenue in Indonesia was generated from the sale of data-related services. Fees for our 2G SMS-based services in Indonesia currently range from IDR539 (\$0.06) to IDR1,978 (\$0.22) per message. Fees for 2.5G MMS, WAP and Java services currently range from IDR3,057 (\$0.34) to IDR15,195 (\$1.73) per message. Fees for our 3G services range from IDR2,000 (\$0.23) to IDR5,000 (\$0.57).

Gross revenue from sales of VAS in Indonesia represented 2.5% and 12.4% of our total gross revenue in 2010 and 2011 respectively.

### *Media Content*

Revenue from our media content is generated primarily from the distribution of entertainment and edutainment content across platforms such as theatres, home entertainment (VCDs/DVDs/Blu-ray discs), free to air and pay television, and digital media.

The following table shows the composition of our gross revenue by service category:

	<b>Year ended December 31,</b>		
	<b>2009</b>	<b>2010</b>	<b>2011</b>
	<i>%</i>	<i>%</i>	<i>%</i>
Data-related services			
China	54	50	37
Indonesia	—	2	13
	<u>54</u>	<u>52</u>	<u>50</u>
Audio-related services			
China	42	26	15
Indonesia	—	—	0
	<u>42</u>	<u>26</u>	<u>15</u>
Media content (Singapore)	—	17	28
Mobile games (China)	—	3	4
PC games (China)	2	2	2
Others	2	—	1
Total revenue	<u>100</u>	<u>100</u>	<u>100</u>

In 2009, “other” revenue included revenue for content and promotion services provided to other small service providers and technical services provided to a related party, respectively. In 2011, “other” revenue included revenue generated from TV promotion and trading by PT Linktone.

Our revenue in 2009, 2010 and 2011 also includes revenue from related parties in the amount of \$0.7 million, \$1.8 million and \$4.9 million, respectively. The revenue in 2009 was paid by an affiliate of MNC to us in exchange for technical advisory services rendered to the affiliate’s VAS operations in Indonesia. The revenue in 2010 and 2011 mostly represents revenue generated from VAS services offered by PT Linktone in Indonesia using short codes owned by Infokom, an affiliate of MNC.

### **Cost of Revenue**

Our cost of revenue includes the following:

- Service and network fees payable to the telecom network operators,
- Payments to certain content and distribution channel providers for the use of their content and channels, and
- Payments to certain video and theatrical content and distribution channel providers for the use of their content and channels.

Service and network fees are deemed paid when the telecom network operators remit to us our portion of the fees paid by users net of the service and network fees described above.



The following table sets forth the amount of each category of cost of revenue for the periods indicated:

	<u>Year ended December 31,</u>		
	<u>2009</u>	<u>2010</u>	<u>2011</u>
	\$	\$	\$
<b>Cost of revenue:</b>			
Operators' fees	15,233,712	13,511,702	6,694,123
Payments to content and distribution channel providers and others	23,707,560	24,801,481	18,255,409
Cost of goods sold in relation to video and theatrical products	—	8,824,211	11,252,901
<b>Total</b>	<b><u>38,941,272</u></b>	<b><u>47,137,394</u></b>	<b><u>36,202,433</u></b>

### Operating Expenses

Our operating expenses include product development, selling and marketing, general and administrative expenses and provision for impairment.

#### *Product Development Expenses*

Our product development expenses consist primarily of the salary and welfare expenses of our technical support team for our VAS business, which is responsible for our LT-IAG technology platform and other technical support, and our product development team, which focuses on aggregating, customizing and localizing our services. This category of expenses also includes depreciation and amortization of computers and software related to the activities of those teams and certain server custody fees.

Our SMS-based content and applications have been principally developed in-house. We develop slightly more than half of our MMS, WAP, Java and audio-related services content in-house with the remainder aggregated from third parties. For the year ended December 31, 2011, approximately 79% of our product development expenses were related to our VAS business in China.

The following table shows the composition of our product development expenditure in China related to our data-related and audio-related services, general office information support and new businesses for the years ended December 31, 2009, 2010 and 2011:

	<u>Year ended December 31,</u>		
	<u>2009</u>	<u>2010</u>	<u>2011</u>
	%	%	%
Data-related services	29	55	55
Audio-related services	52	29	24
General office information support	15	14	9
New businesses	4	2	12
	<u>100</u>	<u>100</u>	<u>100</u>

We expect that the portion of our product development expenditures devoted to new businesses (including 3G services for the Indonesian market), particularly mobile games and VAS to be offered in the other Asian markets we intend to enter, will increase moderately in the future.

#### *Selling and Marketing Expenses*

Our selling and marketing expenses consist primarily of the direct costs attributable to our sales and marketing activities, such as travel, entertainment, advertising expenses and cost of promotions. It also includes the salary and welfare expenses of the staff in our sales, marketing, customer research and service departments.

### *General and Administrative Expenses*

Our other general and administrative expenses consist primarily of the salary and welfare, travel and entertainment expenses of our business development department and other administrative functions, such as legal, human resources, finance, office administration, investor relations and senior management. General and administrative expenses also include fees for professional services (e.g., audit, tax, legal, investor relations and recruitment), office rentals, office telecommunication and utilities costs and the amortization of office leasehold improvements. Leasehold improvements are amortized on a straight-line basis over the lesser of the relevant lease term or the assets' estimated useful lives.

### *Provision for Impairment*

Provisions for impairments include provisions with respect to short-term investments, other receivables, goodwill and other assets when events or changes in circumstances indicate the carrying value may not be recoverable. In December 2009, we performed impairment tests on goodwill assigned to each reporting unit. We determined the fair value of the reporting units using the income approach based on the discounted expected future cash flows associated with these units. The expected future cash for the PC game reporting unit was revised downward in light of lower than expected revenue earned in the second half of 2009 due to market competition and management reorganization in this reporting unit in the last quarter of 2009. As a result, we recorded an impairment charge of \$2.5 million in the PC game reporting unit. In addition, in 2007 we recorded an impairment provision for a loan receivable of \$0.7 million in connection with our strategic investment in 9Sky International Ltd., Shanghai Yue Sheng Information Technology Co., Ltd. and Shanghai Yin Zhi Yue Information Technology Co., Ltd., or collectively the 9Sky entities. During 2009, we brought legal action in a court in Shanghai to recover the outstanding loan amount from the founders of 9Sky entities and related entities in China, and a repayment settlement was agreed in October 2009. We received a total repayment of \$0.4 million in 2009 and \$0.1 million in 2010 and recorded a gain on bad debts recovered of such amounts in 2009 and 2010, respectively. In 2011, we recorded additional gain on bad debts recovered of \$0.1 million related to partial recovery of certain overdue loans extended to 9Sky entities. In addition, in 2010, we recorded an impairment of a loan receivable of \$1.3 million in connection with our arrangements to distribute U.S. Major League Baseball content, which have been terminated.

### **Taxation**

Under the current laws of the Cayman Islands, British Virgin Islands and United Arab Emirates, we are not subject to a tax on income or capital gains in these jurisdictions. Under the current laws of Hong Kong, Noveltech and Linktone Media are subject to tax on income in Hong Kong at 16.5%. Under the current laws of Singapore, InnoForm is subject to tax on income at 17%. Under the current laws of the Republic of Indonesia, Cakrawala and PT Linktone are subject to tax on income at 25%.

However, our revenue is primarily derived from our affiliated Chinese entities. Prior to January 1, 2008, Chinese companies were generally subject to an Enterprise Income Tax, or EIT, of 33% consisting of a national income tax of 30% and a local tax of 3%. In March 2007, the National People's Congress in China enacted a new EIT law, which became effective from January 1, 2008. The new EIT law, among other things, imposes a unified income tax at 25%. The new EIT law allows a five-year transitional period for those entities established before March 16, 2007, which enjoyed a favorable income tax rate of less than 25% under the previous income tax laws and rules, to gradually change their rates to 25%. In addition, the new EIT law provides grandfather treatment for companies that qualified as foreign investment production enterprises such as Linktone Internet. Under the new EIT law, high and new technology enterprises still enjoy a preferential income tax rate of 15%.

The applicable income tax rates for our PRC subsidiaries and VIEs vary. Linktone Consulting, Weilan, Ruida, Wei Lian, Lang Yi, Xian Feng and Xintong's applicable tax rates were 25% starting from 2008. Zhong Tong, Linktone Software, Wang You and Ling Yu are located in either economic development zones in coastal cities or in the Pudong new district. Accordingly, they were subject to a preferential statutory rate of 15% in and before 2008. This reduced tax rate was gradually transitioned to 25% beginning in 2009, with the transitional tax rates being 20%, 22% and 24% for 2009, 2010 and 2011, respectively.

The high and new technology enterprise status is valid for a period of three years from the date of issuance of the certificate and is subject to an annual self-review process whereby a form is submitted to relevant tax authority for approval to use a preferential income tax rate. If there are significant changes in the business operations, manufacturing technologies or other criteria that cause the enterprise to no longer meet the criteria as a high and new technology enterprise, such status will be terminated from the year of such change. Yuan Hang and Huitong qualified as a high and new technology enterprise and were entitled to a preferential tax rate of 15% in 2009, 2010 and 2011. Yuan Hang passed its assessment as a high and new technology enterprise in 2011 and Huitong will re-apply in 2012. Two of our affiliates entities, Cosmos and Beijing Ojava, enjoyed a preferential tax rate of 15% in 2009 and 2010 as high and new technology enterprises. In 2011, neither company qualified as a high and new technology enterprise and their applicable tax rate was 25%. In 2009, 2010 and 2011, Lian Fei did not qualify as a high and new technology enterprise, and its applicable tax rate in those years was 25%. Letang qualified as a high and new technology 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.

Our affiliated Chinese entities Lianyu, Unilink, and Qimingxing are currently considered “small businesses,” and in 2009, 2010 and 2011, they were subject to a 2.5% tax on revenue and other income. Their net profits for the year were subject to a further 20% personal income tax, levied as if these profits were distributed to the shareholders.

The new EIT law also imposes a 10% withholding income tax for dividends distributed by a foreign invested enterprise to its immediate holding company outside China, which were exempted under the previous income tax laws and rules. A lower withholding tax rate of 5% will be applied if there is a tax treaty arrangement between mainland China and the jurisdiction of the foreign holding company. Holding companies in Hong Kong, for example, are subject to a 5% rate. Nevertheless, the PRC State Administration of Taxation promulgated a tax notice on October 27, 2009, or Circular 601, which provides that tax treaty benefits will be denied to “conduit” for shell companies without business substance, and a beneficial ownership analysis will be used based on a “substance-over-form” principle to determine whether or not to grant tax treaty benefits. It is unclear at this early stage whether Circular 601 applies to dividends from our PRC subsidiaries paid to us through our Hong Kong subsidiaries. It is possible, however, that under Circular 601 our Hong Kong subsidiaries would not be considered to be the beneficial owners of any such dividends, and that such dividends would as a result be subject to income tax withholding at the rate of 10% rather than the favorable 5% rate applicable under the tax treaty between mainland China and Hong Kong. The shareholdings in our Chinese subsidiaries have been transferred to two holding companies incorporated in Hong Kong, except for Wang You, Ruida and Linktone Software which are either dormant or loss making entities. According to the relevant PRC regulations, dividends on profits earned before January 1, 2008 are not subject to the withholding income tax, while dividends on profits earned after January 1, 2008 are subject to the withholding income tax. However, as of December 31, 2011, we did not make any provision on withholding tax of profits earned by some of our subsidiaries in 2011 because based on our business plan for the next few years, we do not plan to distribute retained earnings of our Chinese subsidiaries as we intend to retain such cash for re-investment in our Chinese operations. See Item 3.D. “Risk Factors — Risks Related to Doing Business in China — Any changes to our tax incentives could have a material adverse effect on our operating results. Our foreign ADS holders may be subject to PRC withholding tax on the dividends payable by us and upon gains realized on their sales of our ADSs if we are classified as a PRC ‘resident enterprise.’”

In addition, the Chinese tax system is generally subject to substantial uncertainties and has been subject to recently enacted changes, the interpretation and enforcement of which are uncertain. There can be no assurance that changes in Chinese tax laws or their interpretation or application will not subject our PRC entities to substantial Chinese taxes in the future. As and when the PRC government announces additional implementation regulations for the new EIT law, we will assess their impact, if any, and any change in accounting estimates will be accounted for prospectively.

Payments for software license fees and related technical consulting services provided by Huitong and Linktone Internet to some of our Chinese affiliated companies are subject to a 17.0% value-added tax, or VAT.

Under applicable tax regulations, Huitong and Linktone Internet are entitled to a tax refund equivalent to the portion of VAT expense that is in excess of 3.0%. This VAT expense is shown in our “Consolidated Statements of Operations and Comprehensive Income” as a reduction in our revenue. For the years ended December 31, 2009, 2010 and 2011, Huitong and Linktone Internet paid VAT in a total amount of \$3.9 million, \$3.9 million and \$1.3 million, respectively, and received VAT refunds of \$2.3 million, \$1.6 million and \$3.0 million, respectively. As of December 31, 2009, 2010 and 2011, Huitong and Linktone Internet accrued a VAT refund receivable of \$2.0 million, \$2.8 million and \$1.5 million, respectively, and payable of \$1.3 million, nil and \$1.0 million, respectively.

We are subject to a business tax on our revenue derived from services in China, which is generally 3% to 9% of revenue. Business tax applies to the gross revenue recognized by our Chinese affiliated entities and to the service fees charged to those entities by Linktone Consulting. The related business taxes paid for the services provided to customers and consulting services are accrued for as a reduction of revenue and in operating expenses respectively.

In addition, goods and services tax, or GST, is 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 7.0%. A company must be GST-registered to collect GST if its annual turnover exceeds SGD\$1.0 million from the sale of taxable goods and services. GST-registered companies may also claim back the GST incurred on their business purchases.

Subject to the approval of the relevant tax authorities, we had total tax loss carry forwards of approximately \$23.4 million attributed to 10 PRC subsidiaries (including those from the discontinued operations of \$16.3 million) as of December 31, 2011. The net operating losses will expire between 2011 and 2015. These tax loss carry forwards give rise to potential deferred tax assets totaling \$6.5 million (including those from the discontinued operations of \$4.4 million). We have assessed whether it is more likely than not that some or all of the deferred tax assets will not be realized. We recorded a valuation allowance of \$6.2 million as of December 31, 2011 to reduce the deferred tax assets to the amount that we believe is more likely than not to be realizable. For more information regarding our tax loss carry forwards and deferred tax assets, see “— Critical Accounting Policies and Estimates — Income Taxes” above. In addition, in 2007, we recorded a tax provision of \$0.1 million related to uncertain tax position on promotional and research and development expenses. It is possible that the amount of tax position will change in the next twelve months. This balance has remained unchanged and has been carried forward in each of the years ended December 31, 2009, 2010 and 2011. We have recognized interest and penalties related to these uncertain tax positions in income tax expense. We recorded interest of \$0.1 million as of December 31, 2009 and 2010 and \$0.2 million as of December 31, 2011.

### **Discontinued Operations**

We, through our affiliated Chinese entities, Ling Yu and Lang Yi, acted as the exclusive advertising agent for QTV and TJSTV prior to the termination of the exclusive advertising arrangements with QTV and TJSTV in July 2008 and September 2008, respectively. Our results from the related advertising services provided by us are reported in our consolidated financial statements as discontinued operations for 2009, 2010 and 2011.

## Results of Operations

The following table sets forth a summary of our consolidated statements of operations and comprehensive income for the periods indicated and as a percentage of gross revenue. Our historical operating results are not necessarily indicative of the results for any future period.

	Year ended December 31,					
	2009		2010		2011	
	\$	%	\$	%	\$	%
<b>Gross revenue</b>	<b>62,216,694</b>	<b>100.0</b>	<b>71,708,025</b>	<b>100.0</b>	<b>60,677,173</b>	<b>100.0</b>
Sales tax	(2,303,289)	(3.7)	(2,087,121)	(2.9)	(1,591,748)	(2.6)
Net revenue	59,913,405	96.3	69,620,904	97.1	59,085,425	97.4
Cost of revenue	(38,941,272)	(62.6)	(47,137,394)	(65.7)	(36,202,433)	(59.7)
<b>Gross profit</b>	<b>20,972,133</b>	<b>33.7</b>	<b>22,483,510</b>	<b>31.4</b>	<b>22,882,992</b>	<b>37.7</b>
Operating expenses:						
Product development	(3,316,507)	(5.3)	(2,811,783)	(3.9)	(3,230,445)	(5.3)
Selling and marketing	(9,318,469)	(15.0)	(8,377,743)	(11.7)	(8,566,257)	(14.1)
General and administrative	(8,220,999)	(13.2)	(12,325,334)	(17.2)	(12,638,207)	(20.8)
Reversal of contingent consideration payable (Provision for impairment)/Gain on recovery of bad debt	—	—	—	—	1,618,816	2.7
	(2,068,127)	(3.3)	(1,102,265)	(1.5)	110,425	0.2
<b>Total operating expenses</b>	<b>(22,924,102)</b>	<b>(36.8)</b>	<b>(24,617,125)</b>	<b>(34.3)</b>	<b>(22,705,668)</b>	<b>(37.4)</b>
Income (loss) from continuing operations	(1,951,969)	(3.1)	(2,133,615)	(3.0)	177,324	0.3
Interest income, net of financial expenses (1)	1,614,575	2.6	2,278,593	3.2	2,398,065	3.9
Other income (loss), net of other expenses	431,005	0.7	701,884	1.0	(264,934)	(0.4)
Dividend income from short-term investments	—	—	—	—	314,300	0.5
Gain on sales of short-term investments	—	—	—	—	4,962,873	8.2
Income from continuing operations before income tax	93,611	0.2	846,862	1.2	7,587,628	12.5
Income tax expense	(579,270)	(0.9)	(1,439,261)	(2.0)	(1,299,981)	(2.1)
<b>Net income (loss) from continuing operations</b>	<b>(485,659)</b>	<b>(0.8)</b>	<b>(592,399)</b>	<b>(0.8)</b>	<b>6,287,647</b>	<b>10.4</b>
<b>Net income from discontinued operations</b>	<b>596,551</b>	<b>1.0</b>	<b>315,256</b>	<b>0.4</b>	<b>—</b>	<b>—</b>
<b>Net income (loss)</b>	<b>110,892</b>	<b>(0.2)</b>	<b>(277,143)</b>	<b>(0.4)</b>	<b>6,287,647</b>	<b>10.4</b>

(1) Interest income included \$325,080, \$85,594 and nil from related parties for the years ended December 31, 2009, 2010 and 2011, respectively.

### Year Ended December 31, 2011 Compared to Year Ended December 31, 2010

#### Gross Revenue

Gross revenue decreased by 15.3% from \$71.7 million in 2010 to \$60.7 million in 2011, primarily due to a decrease in revenue from data and audio-related services, offset in part by an increase in revenue from media content.

Data-related services decreased by 20.3% from \$37.5 million in 2010 to \$29.9 million in 2011 primarily due to policy tightening by the telecom network operators in China, offset in part by the full year revenue generated from PT Linktone, which operates our VAS business in Indonesia.

Audio-related services decreased by 51.3% from \$18.7 million in 2010 to \$9.1 million in 2011 primarily due to lower sales of IVR services resulting from new restrictions imposed by the operators in China with respect to IVR services offered in connection with interactive programs implemented starting in March 2010.

Media content revenue includes revenue from the distribution of entertainment and edutainment content across platforms such as theatres, home entertainment (VCDs/DVDs/Blu-ray discs), free to air and pay television, and digital media as well as other services by InnoForm, in which we acquired a 50% interest in March 2010 and an additional 25% interest in June 2010. The increase in 2011 is due to full year consolidation in 2011 and realization of deferred income from 2010.

Mobile games revenue represents revenue generated from the license of the right to use, or revenue-sharing arrangements for the operation of, games developed by Letang, in which Weilan acquired a controlling stake in January 2010. This revenue increased by 18.2% from \$2.2 million in 2010 to \$2.6 million in 2011 due to our increased effort in developing new mobile games.

PC games revenue increased 36.4% to \$1.5 million in 2011 from \$1.1 million in 2010 due to a wider offering of PC games in 2011.

Other revenue represents revenue generated from TV promotion and trading by PT Linktone in 2011.

#### *Cost of Revenue*

Cost of revenue decreased by 23.2% from \$47.1 million in 2010 to \$36.2 million in 2011, primarily due to lower operators' fees incurred and payments to content and distribution channel providers which were in line with the decline in data-related and audio-related services in China. This decrease was partially offset by (i) recognition of full year cost for payment to content and distribution channel providers from PT Linktone and (ii) full year recognition of cost relating to media and theatrical content from InnoForm.

#### *Operating Expenses*

Operating expenses decreased by 7.8% from \$24.6 million in 2010 to \$22.7 million in 2011, primarily as a result of a \$1.1 million impairment charge recorded in 2010 and a \$1.6 million reversal of contingent consideration payable for Letang as we determined that Letang would not be able to meet its contractually stipulated target for the period from April 1, 2011 to March 31, 2012, partially offset by (i) higher general and administrative expenses and (ii) higher selling and marketing expenses in 2011.

As a percentage of gross revenue, operating expenses increased from 34.3% in 2010 to 37.4% in 2011.

General and administrative expenses increased by 2.4% from \$12.3 million in 2010 to \$12.6 million in 2011, primarily due to full year consolidation of the subsidiaries acquired in 2010.

Product development expenses increased by 14.3% from \$2.8 million in 2010 to \$3.2 million in 2011 due to an increase in headcount to expand the portfolio of mobile games.

Selling and marketing expenses increased by 2.4% from \$8.4 million in 2010 to \$8.6 million in 2011, primarily due full year consolidation of the subsidiaries acquired in 2010.

#### *Provision For Impairment*

We had a gain on recovery of bad debts of \$0.1 million in 2011, compared to a impairment charge of \$1.1 million in 2010. In 2010, we recorded an impairment charge of \$1.3 million related to loans extended by our company to Allied Pacific Sports Baseball Network Limited, or APBNL, in which we hold a direct 45% equity interest and an indirect interest through our 30% equity interest in APBNL's other shareholder, Allied Pacific Sports Network Limited, or APSN, which was partially offset by a gain on recovery of bad debts of \$0.1 million related to partial recovery of certain overdue loans extended by our company to 9Sky entities. See "- Provision for Impairment" above. In 2011, we recorded additional gain on recovery of bad debts of \$0.1 million related to partial recovery of the overdue loans extended to 9Sky entities.

### *Interest and Other Income*

Interest income was generally stable at \$2.4 million in both 2010 and 2011.

Other income decreased by 137.7% from \$0.7 million in 2010 to \$0.3 million net expenses. In 2011, other expenses mainly comprises of foreign exchange losses.

### *Dividend Income*

Dividend income was \$0.3 million, derived from the holding of 357 million common shares of PT Global Mediacom TBK purchased in 2011.

### *Gain on Sales of Short-term Investments*

In 2011, we recognized a gain of \$1.2 million, of which \$0.2 million loss was reclassified out of accumulated other comprehensive income, from the sales of \$20 million secured notes issued by Aerospace Satellite Corporation Holding, a wholly owned subsidiary of PT MNC Sky Vision, purchased in 2010, and a gain of \$3.8 million from sales of an investment held in a privately managed fund, of which \$2.6 million was reclassified out of accumulated other comprehensive income.

### *Income Tax Expense*

Income tax expense decreased by 7.1% from \$1.4 million in 2010 to \$1.3 million in 2011. The decrease is due to lower taxable income.

### *Discontinued Operations*

We generated net income of \$0.3 million from discontinued operations in 2010 compared to such income in 2011. The net income in 2010 resulted from the settlement of certain accounts payable by suppliers.

## ***Year Ended December 31, 2010 Compared to Year Ended December 31, 2009***

### *Gross Revenue*

Gross revenue increased by 15.3% from \$62.2 million in 2009 to \$71.7 million in 2010, primarily due to the commencement of revenue from media content in 2010, offset in part by a decrease in revenue from audio-related services.

Data-related services increased by 10.3% from \$34.0 million in 2009 to \$37.5 million in 2010 primarily due to the acquisition of PT Linktone, which operates our VAS business in Indonesia, in September 2010 and an increase in MMS revenue in China.

Audio-related services decreased by 28.1% from \$26.0 million in 2009 to \$18.7 million in 2010 primarily due to lower sales of IVR services resulting from new restrictions imposed by the operators in China with respect to IVR services offered in connection with interactive programs implemented starting in March 2010.

Media content revenue includes revenue from the distribution of entertainment and edutainment content across platforms such as theatres, home entertainment (VCDs/DVDs/Blu-ray discs), free to air and pay television, and digital media as well as other services by InnoForm, in which we acquired a 50% interest in March 2010 and an additional 25% interest in June 2010. There was no such revenue in 2009.

Mobile games revenue represents revenue generated from the license of the right to use, or revenue-sharing arrangements for the operation of, games developed by Letang, in which Weilan acquired a controlling stake in January 2010.

PC games revenue remained relatively stable at \$1.1 million in both 2009 and 2010.

Other services decreased from \$1.1 million in 2009 to nil in 2010 primarily due to the expiration of service contracts in 2009.

#### *Cost of Revenue*

Cost of revenue increased by 20.8% from \$39.0 million in 2009 to \$47.1 million in 2010, primarily due to the inclusion of InnoForm's \$9.3 million cost of revenue related to the distribution and sales of its entertainment and edutainment products, partially offset by a \$1.0 million decrease in cost of VAS service fees which declined as a result of a decline in VAS revenue.

#### *Operating Expenses*

Operating expenses increased by 7.4% from \$22.9 million in 2009 to \$24.6 million in 2010, primarily as a result of higher general and administrative expenses, partially offset by (i) lower provision for impairment (ii) lower selling and marketing expenses and (iii) lower product development expenses.

As a percentage of gross revenue, operating expenses decreased from 36.8% in 2009 to 34.3% in 2010.

General and administrative expenses increased by 50% from \$8.2 million in 2009 to \$12.3 million in 2010, primarily due to general and administrative expenses of subsidiaries acquired during the year.

Product development expenses decreased by 15.2% from \$3.3 million in 2009 to \$2.8 million in 2010 primarily due to lower office rentals, outsourcing fees and office expenses. The decrease in office rental is due to the expiration and non-renewal of certain rental agreements in 2010 as part of our efforts to better utilize office space. The decrease in outsourcing fees and office expenses is due to reduced efforts in developing IVR services which was in line with the decline in IVR revenue.

Selling and marketing expenses decreased by 9.7% from \$9.3 million in 2009 to \$8.4 million in 2010, primarily due to fewer marketing activities via operator channels conducted by our VAS unit during the year.

#### *Provision For Impairment*

In 2009, we recorded an impairment charge of \$2.5 million related to goodwill from our PC game business, which was offset by \$0.4 million related to partial recovery of certain overdue loans extended by our company to 9Sky entities. In 2010, we recorded an impairment charge of \$1.3 million related to loans extended by our company to Allied Pacific Sports Baseball Network Limited, or APBNL, in which we hold a direct 45% equity interest and an indirect interest through our 30% equity interest in APBNL's other shareholders, Allied Pacific Sports Network Limited, or APSN, which was partially offset by a gain on recovery of bad debts of \$0.1 million related to partial recovery of certain overdue loans extended by our company to 9Sky entities. The loans to APBNL and APSN were made in connection with the distribution of certain U.S. Major League Baseball-related interactive rights in selected countries in Asia, which arrangement was subsequently terminated. See "—Provision for Impairment" above.

#### *Interest and Other Income*

Interest income increased by 43.8% from \$1.6 million in 2009 to \$2.3 million in 2010, primarily due to an increase in interest-bearing short-term investments by 73.1% from \$19.7 million in 2009 to \$33.8 million in 2010.



Other income increased by 75% from \$0.4 million in 2009 to \$0.7 million in 2010. In 2010, other income mainly comprises subsidy income from local governments based on business and tax refunds.

#### *Income Tax Expense*

Income tax expense increased by 133.3% from \$0.6 million in 2009 to \$1.4 million in 2010. The increase was in line with the increase in profitability of our Chinese subsidiaries and VIEs and the inclusion of our profitable Indonesian subsidiary that was acquired during 2010.

#### *Discontinued Operations*

We generated net income of \$0.6 million and \$0.3 million from discontinued operations in 2009 and 2010. The net income in 2010 resulted from the waiver of certain accounts payable by suppliers.

### **Liquidity and Capital Resources**

Our primary sources of liquidity are the proceeds from our initial public offering in March 2004 and cash flow from operations, as well as the investment in our company by MNC in 2008. The following table sets forth the summary of our cash flows for the periods indicated:

	<b>Year ended December 31,</b>		
	<b>2009</b>	<b>2010</b>	<b>2011</b>
	\$	\$	\$
Net cash provided by operating activities of continuing operations	546,684	1,237,562	3,146,273
Net cash provided by operating activities of discontinued operations	4,395,367	—	—
Net cash used in investing activities of continuing operations	(6,480,967)	(25,686,289)	(22,093,815)
Net cash provided by/(used in) financing activities of continuing operations	(438,160)	3,188,321	(142,161)
Effect of exchange rate change on cash	(139,594)	658,652	1,136,122
Net (decrease) in cash and cash equivalents	(2,116,670)	(20,601,754)	(17,953,581)
Cash and cash equivalents, beginning of year	81,593,823	79,477,153	58,875,399
Cash and cash equivalents, end of year	79,477,153	58,875,399	40,921,818

The ability of our subsidiaries to obtain cash or other assets from our variable interest entities in China and Indonesia depends on the effectiveness and enforceability of our agreements with those entities and their owners. A description of these agreements is set forth under “— Arrangements with Consolidated Affiliates” above. In turn, the ability of our PRC subsidiaries to convert Renminbi into U.S. dollars and transfer them to our company is subject to the Chinese foreign exchange regulations, including primarily the restriction on foreign invested enterprises that they may only buy, sell and/or remit foreign currencies at those banks authorized to conduct foreign exchange business after providing valid commercial documents.

#### *Operating Activities of Continuing Operations*

Cash provided by operating activities was \$0.5 million, \$1.2 million and \$3.1 million in 2009, 2010 and 2011, respectively. The movements in cash provided by operating activities were generally in line with the movements in operating income/(loss) from continuing operations, excluding non-cash income statement items such as depreciation and amortization.

#### *Investing Activities of Continuing Operations*

Cash used in investing activities was \$6.5 million, \$25.7 million and \$22.1 million in 2009, 2010 and 2011, respectively. In 2009, net cash used in investing activities primarily consisted of an increase in short-term

investments of \$4.9 million and \$1.9 million cash paid in connection with financing arrangements involving PT MNC Sky Vision, an affiliate of our controlling shareholder, MNC, and Humax Co., Ltd., offset by cash of \$0.4 million collected from 9Sky entities. In 2010, net cash used in investing activities primarily consisted of short term investments of \$20.1 million and business acquisitions of \$13.7 million, partially offset by proceeds received from the maturity of time deposits of \$7.6 million, proceeds received from the disposal of property and equipment of \$2.0 million and net loans repayment from related party of \$0.9 million. In 2011, net cash used in investing activities primarily consisted of short term investments of \$43.7 million, and business acquisitions of \$6.7 million, offset by proceeds received from sales of short-term investments of \$28.5 million.

#### *Financing Activities of Continuing Operations*

In 2009, cash used in financing activities was \$0.4 million, consisting of the payment of remaining legal fees of \$0.5 million in connection with the investment by MNC which was offset in part by the net proceeds from the exercise of stock options. In 2010, cash provided by financing activities of \$3.2 million was from bank borrowings (denominated in Singapore dollars). In 2011, cash used in financing activities was \$0.1 million, consisting of \$1.4 million of funds used in our share repurchase program, which was offset by net proceeds of \$1.3 million from bank borrowings.

We have no written treasury or borrowing policy. We keep a portion of our cash in U.S. dollar or RMB or Indonesian rupiah denominated bank accounts, short-term time deposits or short-term, investment grade fixed income securities for two principal purposes: to finance our operations and to manage the interest rate and currency risks arising from our operations. We adjust the amount of cash held in U.S. dollars, RMB and Indonesian rupiah from time to time to maximize our interest rate returns and to ensure that we have sufficient RMB for our operational needs, including for lease and other commitments. We have also used a portion of our cash resources to acquire equity and debt securities from time to time in order to generate capital gains. Such investments have in the past included, and may continue to include, purchases and sales of securities of affiliates of MNC in the open market or negotiated transactions. These investments expose us to equity risk due to possible fluctuations in their fair market value. See Item 11 “— Equity Price Risk.” We have not historically used derivative instruments to hedge against market risks.

We believe that current cash and cash equivalents will be sufficient to meet anticipated working capital (net cash used in operating activities) commitments and capital expenditures in the foreseeable future. We may, however, require additional cash resources due to changed business conditions or other future developments, including any investments or acquisitions we may decide to pursue. If these sources are insufficient to satisfy cash requirements, we may seek to sell additional equity or debt securities or to obtain a credit facility. The sale of additional equity or convertible debt securities could result in additional dilution to shareholders. The incurrence of indebtedness would result in increased debt service obligations and could result in operating and financial covenants that would restrict operations. Financing may not be available in amounts or on terms acceptable to us, if at all.

#### *Research and Development*

We believe that a key part of our future success in VAS business will depend on our ability to develop and enhance our services by leveraging our expertise in entertainment-oriented VAS. Our total expenditures for research and development were \$3.3 million, \$2.8 million and \$3.2 million for the years ended December 31, 2009, 2010 and 2011, respectively. Previously, we had a dedicated mobile games product development team and an overseas product development team.

We develop a portion of the content for our services in-house and aggregate it from domestic and international providers or through acquisitions. We plan to enter into additional relationships with domestic and international providers, in particular with respect to the development of games and content for all of our 2.5G services which we are developing, in order to fully utilize the technological benefits of 2.5G and the

sophisticated premium content which users will demand. We are also developing 3G services for the Indonesian market. For aggregated third-party content, most of our efforts involve customization, localization and related development activities of the content for the Chinese market to create appealing, user-friendly products.

Certain provincial and local offices of the telecom network operators use different software and technology. Our product development department must conform our services so that they are interoperable with the networks of each network operator in China and Indonesia at all levels.

#### *Debt and Credit Facilities*

In October 2010 and May 2011, a bank in Singapore extended to our subsidiary, InnoForm, a term loan of SGD2.0 million (\$1.5 million) and a credit facility with a total facility limit of SGD10.0 million (\$7.7 million) and a sub-limit of SGD3.0 million (\$2.3 million) for overdraft facility. The facilities are secured by a corporate guarantee from MNC. As of December 31, 2011, we utilized \$4.3m of the credit facility and \$1.0 million of the term loan was outstanding.

The term loan is repayable in quarterly installments of SGD0.2 million (\$0.1 million) over 3 years. The financial covenants require InnoForm to maintain a minimum consolidated net worth and a consolidated gearing ratio.

#### **Intellectual Property and Proprietary Rights**

We rely primarily on a combination of copyright laws and contractual restrictions to establish and protect our intellectual property rights. We require our employees to enter into agreements to keep confidential all information relating to our customers, methods, business and trade secrets during and after their employment with us. Our employees are required to acknowledge and recognize that all inventions, trade secrets, works of authorship, developments and other processes, whether or not patentable or copyrightable, made by them during their employment are our property. They also sign agreements to substantiate our sole and exclusive right to those works and to transfer any ownership that they may claim in those works to us.

While we actively take steps to protect our proprietary rights, such steps may not be adequate to prevent the infringement or misappropriation of our intellectual property. This is particularly the case in China where the laws may not protect our proprietary rights as fully as in the United States. Infringement or misappropriation of our intellectual property could materially harm our business. We have registered 12 and 8 primary internet domain names in PRC and Singapore, respectively. Their domain names in English and Chinese are listed below:

<b>PRC</b>	<b>Singapore</b>
linktone.com	innoform.com.sg
vrhappy.com	innoform.com.my
vrhappy.net	innoform.com.hk
mhappy.net	innoform.com.tw
my1828.com	innokidz.com.sg
灵通网.com	innokidz.com.hk
掌上灵通.com	all-entertainment.com.sg
掌上灵通网.com	ltongroup.com
linktone.mobi	
go368.net	
uwise.com.cn	
ojava.com	

As of December 31, 2011, we had registered 107 trademarks with China Trademark Office, relating to our company name and logo and some of our services. We are in the process of applying for 49 additional trademarks in China. We have no trademarks registered in the other markets in which we operate, including Indonesia.

China's trademark law adopts a "first-to-file" system for obtaining trademark rights. As a result, the first applicant to file an application for registration of a mark will preempt all other applicants. Prior use of unregistered marks, except for statutorily defined "well known" marks, is generally not a basis for legal action in China. We may not be able to successfully defend or claim any legal rights in those trademarks for which applications have been made but for which the Trademark Office has not issued a registration certificate.

As of December 31, 2011, we had also obtained 27 copyright certificates in China for cartoons and images and 40 copyright certificates for computer software.

Many parties are actively developing and seeking patent protection for wireless services-related technologies. We expect these parties to continue to take steps to protect these technologies, including seeking patent protection. There may be patents issued or pending that are held by others and that cover significant parts of our technology, business methods or services. Disputes over rights to these technologies are likely to arise in the future. We cannot be certain that our products do not or will not infringe valid patents, copyrights or other intellectual property rights held by third parties. We may be subject to legal proceedings and claims from time to time relating to the intellectual property of others.

### **Trend Information**

Other than as disclosed in this annual report, we are not aware of any recent trends that are likely to have a material effect on our business.

### **Off-Balance Sheet Arrangements**

We do not have any outstanding derivative financial instruments, off-balance sheet guarantees, interest rate swap transactions or foreign currency forward contracts. We do not engage in trading activities involving non-exchange traded contracts.

### **Tabular Disclosure of Contractual Obligations**

We have bank loan obligations and lease obligations relating to our office premises with third parties. As of December 31, 2011, we had no commitments beyond three years. The following table sets forth our commitments as of December 31, 2011:

	<u>Loan from bank</u>	<u>Office Premises</u>
Less than one year	\$ 514,961	\$ 633,298
One to three years	\$ 511,878	\$ 831,884
Total	<u>\$1,026,839</u>	<u>\$1,465,182</u>

### **Inflation**

The inflation rate in China increased in 2011. According to the National Bureau of Statistics of China, the change in the Consumer Price Index in China was (0.7%), 4.8% and 5.4% in 2009, 2010 and 2011, respectively. Inflation has had and it may continue to have an impact on the costs of our operations, particular personnel-related costs.

Consumer Price Index in Singapore increased by 0.6%, 2.8% and 5.2%, in 2009, 2010 and 2011, respectively according to the Singapore Statistics Department. The changes in Consumer Price Index in Indonesia were 2.78%, 6.96% and 3.79% in 2009, 2010 and 2011, respectively according to Statistics Indonesia.

## Item 6. Directors, Senior Management and Employees

### A. Directors and Senior Management

The names of our current directors and executive officers, their ages and the principal positions with Linktone held by them, as of April 15, 2012, are as follows:

#### Directors and Officers (1)

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Class</u>
Hary Tanoesoedibjo	46	Chairman of our board and Chief Executive Officer	III
Oerianto Guyandi (2)	44	Director	II
Peck Joo Tan	50	Director and Chief Financial Officer	III
Billy Hsieh (3)	55	Director	I

- (1) Our director, Thomas Hubbs, and our chief financial officer and deputy chief executive officer, Colin Sung, resigned in January 2011.
- (2) Member of nominating and compensation committee.
- (3) Member of audit committee.

Our Amended and Restated Memorandum and Articles of Association provide for the division of our board of directors into three classes. Our Class I director is Billy Hsieh, our Class II director is Oerianto Guyandi and our Class III directors are Hary Tanoesoedibjo and Peck Joo Tan. The current terms of the Class I, II and III directors expire upon the election and qualification of directors at the annual general meetings to be held in 2014, 2012 and 2013, respectively. At each annual general meeting, directors who are elected will serve a three-year term until such director's successor is elected and is duly qualified, or until such director's earlier death, bankruptcy, insanity, resignation or removal. There are no family relationships among any of the directors or executive officers of our company.

#### 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 the President Director of MNC since March 2004. Also, he has been the President Director of PT Bhakti Investama Tbk., an investment company in Indonesia, PT Global Mediacom Tbk., a media company in Indonesia, PT MNC Sky Vision, a satellite television station in Indonesia, and PT Rajawali Citra Televisi, a privately owned television network in Indonesia, since June 2009, April 2002, July 2004, December 2006 and April 2008, respectively. He has been the director of MNC International Ltd. and MNC International Middle East Limited since March 2007 and May 2007, respectively. All these companies are affiliates of MNC. He received a Bachelor of Commerce (Honors) degree from Carleton University and a Master of Business Administration degree from Ottawa University.

*Oerianto Guyandi* has served on our board since July 2009 and has been a director of MNC since June 2009, as well as the Chief Financial Officer of PT Global Mediacom Tbk., the parent holding company of MNC, since December 2008. He has extensive experience in accounting and financial services. He held several senior positions in companies which are affiliates of MNC, such as a director of MNC International Ltd. and MNC International Middle East Limited since December 2007 and May 2010, respectively, a managing director at PT Rajawali Citra Televisi Indonesia, or RCTI, and PT Global Informasi Bermutu from 2007 to 2008, a director of finance at PT MNC Sky Vision from 2004 to 2008, a director of operations at RCTI from 2001 to 2004 and head of investment banking of PT Bhakti Investama & Bhakti Capital Indonesia from 1999 to 2001. His career began in the public accounting firm of Prasetio Utomo & Co. and in Salim Group. He holds a Bachelor's degree in Economics in Accounting from the University of Indonesia and a Bachelor's degree in Agricultural Engineering from Institute Pertanian Bogor in Indonesia.

*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 PT Media Nusantara Citra Tbk, the indirect majority shareholder of Linktone. Prior to that, she held various regional financial and general management positions in the Asian offices of MediaCorp Pte Ltd, Heinz, Pepsi, Fritolay, Starbucks and Delifrance. 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. He replaced Thomas Hubbs who resigned to pursue other professional commitments. Mr. Hsieh joined PricewaterhouseCoopers in San Francisco in 1986, was admitted as a partner in 1996 and served 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.

Hary Tanoesoedibjo and Oerianto Guyandi were appointed in connection with MNC's strategic investment in our company, which was completed in April 2008. As of March 31, 2012, MNC held 59.9% of our total outstanding ordinary shares.

## **B. Compensation**

### **Director Compensation**

In 2011, we paid an aggregate of approximately \$0.06 million to our non-executive directors. During 2011, no stock options to purchase our ordinary shares were granted to our non-executive directors. Directors who are also employed by our company do not receive separate fees as our directors.

All of our current directors have entered into indemnification agreements in which we agree to indemnify, to the fullest extent allowed by Cayman Islands law, our charter documents or other applicable law, those directors from any liability or expenses, unless the liability or expense arises from the director's own willful negligence or willful default. The indemnification agreements also specify the procedures to be followed with respect to indemnification. We currently maintain directors' and officers' liability insurance on behalf of our directors and officers.

### **Executive Officer Compensation**

In 2011, we paid an aggregate of \$0.4 million of total salary and benefits to our executive officers. On November 17, 2011, we granted an option to Peck Joo Tan to purchase ordinary shares (representing less than 1% of our total outstanding shares). This option has an exercise price of US\$0.113 per ordinary share and expires on November 16, 2021.

### **Employment Agreements**

We have entered into an employment agreement with Hary Tanoesoedibjos. In addition, Peck Joo Tan has executed an appointment letter with InnoForm.

The employment agreement between Hary Tanoesoedibjo and us is an open-term contract and Mr. Tanoesoedibjo is not entitled to any severance benefits under his employment agreement.

Under the appointment letter with InnoForm, Peck Joo Tan agreed, among other things, to assign all rights in company-related inventions to us, and to keep our proprietary information confidential. In addition, Ms. Tan is prohibited from directly or indirectly (i) being employed by or participate in the management or operation of any

business or entity that is or may be directly competitive with and offering similar products or services as us, for a period after termination of employment for any reason of one year if that business or entity is in Indonesia or for a period of three months if that business or entity is outside Indonesia, (ii) soliciting for employment any person who was employed by us during his/her employment with us, for a period of six months after termination of employment for any reason or (iii) soliciting or doing business with any supplier or agent of any supplier of ours during her employment with us, for a period of six months after termination of employment for any reason.

We do not have any service contracts with non-executive directors providing for benefits upon termination of service.

### **Aggregate Option Exercises in Last Fiscal Year and Fiscal Year-End Option Values**

Our executive officers did not exercise any stock options in 2011.

### **Summary of Stock Plans**

#### *2003 Stock Incentive Plan*

Our board of directors and shareholders adopted our 2003 Plan in November 2003. Under the 2003 Plan, we may grant awards (as defined below), including incentive stock options (also known as ISOs) within the meaning of Section 422 of the U.S. Internal Revenue Code of 1986, as amended, or the Code, to qualifying plan participants who are located in the U.S. or who are U.S. taxpayers. A general description of the terms of the 2003 Plan is set forth below.

*Types of Awards.* Awards that can be granted under the 2003 Plan consist of:

- our ordinary shares,
- options to purchase our ordinary shares,
- dividend equivalent rights, the value of which is measured by the dividends paid with respect to our ordinary shares,
- stock appreciation rights the value of which is measured by appreciation in the value of our ordinary shares, and
- any other securities the value of which is derived from the value of our ordinary shares and which can be settled for cash, our ordinary shares or other securities or a combination of cash, our ordinary shares or other securities.

*Plan Administration.* Our nominating and compensation committee, pursuant to delegated authority, currently administers the 2003 Plan.

*Eligibility.* Under the 2003 Plan, awards may be issued to employees, directors or consultants of our company or our subsidiaries, although ISOs may only be issued to our employees or the employees of our subsidiaries.

*Acceleration of Awards upon Corporate Transactions or Changes in Control.* The 2003 Plan provides for acceleration of awards upon the occurrence of specified corporate transactions or changes in control. In the event of certain corporate transactions, including specified types of reorganizations and acquisition transactions, each outstanding award granted under the 2003 Plan will automatically become fully vested and exercisable and be released from any restrictions on transfer (other than transfer restrictions applicable to the award) and repurchase or forfeiture rights immediately prior to the specified effective date of the corporate transaction, unless the award is assumed by the successor company or its parent company in connection with the corporate transaction. Upon consummation of the corporate transaction, each outstanding award will be terminated unless the award is

assumed by the successor company or its parent company. Assumed options automatically become fully vested and exercisable if the grantee is terminated by the successor company without cause within 12 months of the corporate transaction. The above excludes any such transaction or series of related transactions that the administrator determines shall not be a corporate transaction.

In the event of a change in control of our company (other than a change in control which is also a specified corporate transaction described in the paragraph above), and upon the termination of the continuous service of a grantee without cause by us or our related parties (including our subsidiaries or other entities in which we or our subsidiaries hold a substantial ownership interest) within 12 months after such change in control, the grantee's awards will become fully vested and exercisable and be released from any repurchase or forfeiture rights (other than repurchase rights exercisable at fair market value).

The administrator determined that the investment by MNC in April 2008 did not constitute a corporate transaction under the 2003 Plan.

*Evergreen Provision.* The 2003 Plan includes a mechanism for an automatic annual increase in the number of ordinary shares available under the plan equal to the lesser of 2.5% of the total shares outstanding or 15,175,000 ordinary shares. This mechanism is known as an "evergreen provision." Pursuant to the evergreen provision, as of January 1, 2012 the number of ordinary shares available under the 2003 Plan increased by 10,260,566 shares, resulting in a total of 85,893,917 shares authorized for issuance under the 2003 Plan.

*Awards.* Awards under the 2003 Plan 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 our board. 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 NQSOs) and may, but need not, include a provision whereby a grantee at any time during his or her employment with us may exercise any part or all of the award prior to full vesting of the award.

*Exercise Price and Term of Stock Options.* An option may be exercised when a holder delivers a written notice of such exercise to us. The option price to exercise the option for our ordinary shares must be paid at the time of exercise in full by cash, check or whole ordinary shares with a fair market value at least equal to the option price (or in another appropriate manner approved by us, such as in a combination of cash and whole ordinary shares or by cashless exercise of options through a broker-dealer).

Under the 2003 Plan, the exercise price for the options is specified in the award agreement for those options. In any event, the exercise price of ISOs cannot be less than the fair market value of our ordinary shares on the date of grant. However, in the case of an ISO granted to a grantee, who, at the time the ISO was granted, owned stock possessing more than 10.0% of the combined voting power of all classes of our share capital, the option price may not be less than 110.0% of the fair market value of our ordinary shares on the date of grant of such ISO. To the extent that the aggregate fair market value of our ordinary shares subject to options granted as ISOs under the 2003 Plan which become exercisable for the first time by a recipient during any calendar year exceeds \$100,000, then options represented by ordinary shares in excess of the \$100,000 limitation shall be treated as NQSOs.

The exercise price for NQSOs is determined by the administrator of the 2003 Plan.

The term of all ISOs and NQSOs will be stated in the applicable award agreement. The term of an ISO cannot exceed 10 years. In addition, the term of an ISO granted to a person, who, at the time of grant, owns stock possessing more than 10.0% of the combined voting power of all classes of our share capital, is limited to five years from the date of the grant of the award.



*Termination of Service.* The period following the termination of a grantee's employment with us during which the grantee can exercise his or her option, if any, will be provided in the award agreement, and it cannot end later than the last day of the original term of the award. Any ISO granted under the 2003 Plan, if not exercised within the time period provided by law for the exercise of ISOs following the termination of a grantee's employment with us, shall automatically convert to a NQSO thereafter.

*Amendment or Termination of 2003 Plan.* Under the 2003 Plan, our board may at any time terminate, suspend, or amend the 2003 Plan in any respect, except that no termination, suspension or amendment will be effective without shareholder approval if such approval is required to comply with any law, regulation or stock exchange rule and no such change may adversely affect any award previously granted without the written consent of the recipient. The 2003 Plan will expire on the tenth anniversary of the date that it was approved by the shareholders.

#### *2000-1 Employee Stock Option Scheme*

In November 2003, our board of directors approved the 2000-1 Scheme which governs all of our stock option grants outstanding as of that date for an aggregate of 29,991,700 ordinary shares. It is anticipated that all future stock incentive awards will be granted pursuant to the 2003 Plan or any other plan which is adopted from time to time. The 2000-1 Scheme is substantially identical to the 2003 Plan in all material aspects, except for the following:

*Awards.* Awards granted under the 2000-1 Scheme consist only of options for our ordinary shares.

*Evergreen Provision.* The 2000-1 Scheme does not contain an evergreen provision as described above.

*Exercise Price.* NQSOs granted pursuant to the 2000-1 Scheme can have an exercise price of no less than 85% of the fair market value of our ordinary shares on the date of grant.

*Acceleration of Awards upon Corporate Transactions or Changes in Control.* The 2000-1 Scheme's provision for acceleration of the vesting of awards upon the occurrence of specific significant corporate transactions does not depend on whether the options are assumed by the successor company or its parent company. In addition, the vesting of awards will accelerate in the event of a change in control of our company whether or not the grantee's continuous service is terminated without cause by us or our related parties within 12 months after such change in control.

### **C. Board Practices**

For information regarding the terms of our current directors and the period during which our officers and directors have served in their respective positions, please refer to Item 6.A. "Directors and Senior Management."

During 2011, our board of directors met in person or by phone four times. All of the directors who were serving in office during 2011 attended all the meetings of our board of directors and its committees on which such director served after becoming a member of our board of directors. We have no specific policy with respect to director attendance at our annual general meetings of shareholders. Our board has determined that one of our directors serving in office as of December 31, 2011, Mr. Hsieh, was "independent" as that term is defined in Rule 5605(a)(2) of the NASDAQ Listing Rules. As a "Controlled Company" as defined in the NASDAQ Listing Rules due to the fact that more than 50% of our voting power is held by MNC, we are exempted from the NASDAQ requirement that a majority of our directors qualify as independent directors.

Our board has two committees: the audit committee and the nominating and compensation committee.

During 2011, our audit committee held four meetings. As of December 31, 2011, the sole member of our audit committee was Billy Hsieh (Chairperson), who was a non-employee director as such term is defined in

Rule 16b-3 under the Exchange Act. Our board of directors has determined that the member of our audit committee is “independent” as that term is defined in Rule 5605(a) (2) of the NASDAQ Listing Rules. Our board has further determined that Mr. Hsieh was an “audit committee financial expert” as defined by applicable rules of the SEC.

Our board of directors has adopted a written audit committee charter pursuant to which our audit committee is responsible for overseeing the accounting and financial reporting processes of our company, including the appointment, compensation and oversight of the work of our independent auditors, monitoring compliance with our accounting and financial policies and evaluating management’s procedures and policies relative to the adequacy of our internal accounting controls.

During 2011, our nominating and compensation committee passed written resolutions in lieu of meetings two times. As of December 31, 2011, the sole member of our nominating and compensation committee was Oerianto Guyandi (Chairperson). The functions of our nominating and compensation committee are to monitor the size and composition of our board of directors and consider and make recommendations to our board of directors with respect to the nomination or election of directors. This committee also reviews and makes recommendations to our board regarding our compensation policies and all forms of compensation, including annual salary and bonuses, to be provided to our executive officers and directors and reviews stock compensation arrangements for all of our other employees.

Our nominating and compensation committee will consider and make recommendations to our board of directors regarding any shareholder recommendations for candidates to serve on our board of directors. Our nominating and compensation committee will review periodically whether a more formal policy should be adopted. Shareholders wishing to recommend candidates for consideration by our nominating and compensation committee may do so by writing to the Vice President of Legal Affairs of Linktone Ltd. at 27/F, Building 1, Landmark Towers, 8 North East Third Ring Road, Chao Yang District, Beijing 100004, People’s Republic of China, providing the candidate’s name, biographical data and qualifications, a document indicating the candidate’s willingness to act if elected, and evidence of the nominating shareholder’s ownership of our company’s ordinary shares or ADSs at least 120 days prior to the next annual general meeting to assure time for meaningful consideration by our nominating and compensation committee. There are no differences in the manner in which our nominating and compensation committee evaluates nominees for director based on whether the nominee is recommended by a shareholder. We currently do not pay any third party to identify or assist in identifying or evaluating potential nominees.

No interlocking relationships have existed between our board of directors or nominating and compensation committee and the board of directors or compensation committee of any other company.

#### D. Employees

As of December 31, 2009, 2010 and 2011, we had 270, 472 and 517 full-time employees, respectively. The following table summarizes the functional distribution of our full-time employees as of December 31, 2011:

<u>Department</u>	<u>Year ended December 31, 2011</u>
Management	14
Sales and Marketing	123
Product and Content Development	186
Finance	32
Operations	30
Warehouse and Store	23
Technical Support	30
Customer Service	23
Legal and Administrative	36
Human Resources	14
Business Development	2
Acquisition and Distribution	4
<b>Total</b>	<b><u>517</u></b>

None of our personnel are represented under collective bargaining agreements. We consider our relations with our employees to be good.

#### E. Share Ownership

The following table sets forth certain information known to us with respect to the beneficial ownership as of March 31, 2012

- all persons who are beneficial owners of five percent or more of our ordinary shares,
- our current executive officers and directors, and
- all current directors and executive officers as a group.

As of March 31, 2012, 409,243,820 of our ordinary shares were outstanding. The amounts and percentages of ordinary shares beneficially owned are reported on the basis of regulations of the SEC governing the determination of beneficial ownership of securities. Under the rules of the SEC, a person is deemed to be a “beneficial owner” of a security if that person has or shares “voting power,” which includes the power to vote or to direct the voting of such security, or “investment power,” which includes the power to dispose of or to direct the disposition of such security. A person is also deemed to be a beneficial owner of any securities of which that person has a right to acquire beneficial ownership within 60 days. Under these rules, more than one person may be deemed a beneficial owner of securities as to which such person has no economic interest. To our knowledge and unless otherwise indicated in the footnotes that follow, the parties named below have sole voting and dispositive powers over the shares beneficially owned by them as of March 31, 2012:

<u>Name and Address of Beneficial Owners</u>	<u>Number of Ordinary Shares Beneficially Owned</u>	
	<u>Number</u>	<u>Percentage</u>
<b>5% or more shareholders</b>		
MNC International Limited (1)	245,000,000	59.9%
<b>Executive Officers, Directors and Director Nominees (2)</b>		
Hary Tanoesoedibjo (1)	245,000,000	59.9%
Oerianto Guyandi	—	—
Peck Joo Tan	—	—
Billy Hsieh	—	—

- (1) Represents ordinary shares held by MNC International Limited, an indirect wholly owned subsidiary of MNC. MNC is an integrated media company in Indonesia and a subsidiary of PT Global Mediacom Tbk, which is itself a subsidiary of PT Bhakti Investama Tbk. Hary Tanoesoedibjo is the President Director of MNC and a director of MNC International Limited and he disclaims beneficial ownership of these ordinary shares. The address of MNC International Limited is in c/o Bridge Street Services Limited, Marquee Place, Suite 300, 430 West Bay Road, P.O. Box 30691, Grand Cayman KYI-1203, Cayman Islands.
- (2) The address of our current executive officers and directors is c/o Linktone Ltd., Unit C-D, 10F Long Life Building, 1566 West Yan An Road, Shanghai 200052, People’s Republic of China.

As of March 31, 2012, based on public filings with the SEC, there are no major shareholders holding 5% or more of our ordinary shares or ADSs representing ordinary shares, except as described above.

As of March 31, 2012, approximately 227,083 of our ordinary shares were held by 18 U.S. holders of record, excluding shares held by our ADS depository bank, JPMorgan Chase Bank, N.A., on behalf of our holders. JPMorgan Chase Bank, N.A. has advised us that as of that date, 23,886,820 ADSs representing 238,868,200 ordinary shares were held of record by the depository. We have no further information as to ordinary shares held, or beneficially owned, by U.S. persons.

Our major shareholders do not have different voting rights from each other or other shareholders of our company.

To our knowledge, except as disclosed above, we are not owned or controlled, directly or indirectly, by another corporation, by any foreign government or by any other natural or legal person or persons, severally or jointly.

To our knowledge, there are no arrangements the operation of which may at a subsequent date result in us undergoing a change in control.

## **Item 7. Major Shareholders and Related Party Transactions**

### **A. Major Shareholders**

Please refer to Item 6.E. “Directors, Senior Management and Employees — Share Ownership.”

## B. Related Party Transactions

See Item 4.A. “Information on the Company — History and Development of the Company” and Item 5. “Operating and Financial Review and Prospects — Our Corporate Structure” and “Operating and Financial Review and Prospects — Arrangements with Consolidated Affiliates” for information regarding our corporate structure and our arrangements with our consolidated affiliates.

Our primary internal source of funds is dividend payments from our subsidiaries. However, Chinese legal restrictions permit payment of dividends only out of net income as determined in accordance with Chinese accounting standards and regulations. Under Chinese law, Linktone Consulting, Huitong, Linktone Internet, Linktone Software, Wang You, Ruida and Xintong are also required to set aside a portion of their net income each year to fund certain reserve funds. These reserves are not distributable as cash dividends. Dividends paid to us by Brilliant and Beijing Ojava, which were incorporated in the British Virgin Islands, Noveltech and Linktone Media, which were incorporated in Hong Kong, and Linktone International, which was incorporated in United Arab Emirates, are not subject to tax.

In October 2008, we entered into a loan agreement in the principal amount of SGD11.5 million (\$9.0 million) to GLD Investments Pte. Ltd., or GLD, a limited liability company incorporated in Singapore which was 10% owned by Hary Tanoesoedibjo, one of the directors of our board and our chief executive officer, and 90% owned by the holding company of MNC. GLD’s principal asset is a commercial office building in Singapore. In June 2010, our newly acquired subsidiary in Singapore, InnoForm, acquired a 98.7% interest in GLD from its shareholders for a total consideration of SGD13.0 million (\$9.3 million). Concurrently, such loan was repaid by GLD. Mr. Tanoesoedibjo holds the remaining 1.3% of the equity interest in GLD. InnoForm has used the commercial office building of GLD as its principal office premise since the acquisition.

In April 2009, we entered into separate agreements with each of PT MNC Sky Vision, or Sky Vision, a limited liability company incorporated in the Republic of Indonesia and an affiliate of MNC, and Humax Co., Ltd., or Humax, a Korean-based equipment vendor. Sky Vision is a satellite television station in Indonesia and provides satellite television to subscribers. Pursuant to the relevant agreements, Sky Vision purchased certain set-up boxes from Humax under a supply agreement for a total amount of \$2.1 million. Humax assigned its receivable for this equipment from Sky Vision to us at a discounted value of \$1.9 million. We paid such amount to Humax in five installments in June and July 2009. Sky Vision agreed to repay us the principal of \$1.9 million in installments one year after we made our installment payments to Humax plus interest at a rate of 10% on such principal amount payable on a quarterly basis. Pursuant to a fiduciary guarantee deed dated April 29, 2009, such amount was secured by Sky Vision accounts receivable of 25,000 subscribers or equivalent to 2 times of such amount. In July 2010, the loan and interest receivable were fully repaid by Sky Vision.

In September 2009, we signed an exclusive multi-year licensing agreement with MLB Advance Media, L.P., or MLBAM, an interactive media and internet company of U.S. Major League Baseball or MLB. Under the terms of Linktone MLBAM agreement, Linktone became the exclusive licensee of certain MLB-related interactive media rights in South Korea, China (including Hong Kong and Macau), Indonesia and the Philippines. Such partnership was restructured in April 2010, and as a result, Allied Pacific Sports Baseball Network Limited, or APBNL, in which Linktone holds a direct 45% equity interest and an indirect interest through its 30% equity interest in such other party’s other shareholder, Allied Pacific Sports Network Limited or APSN, became MLBAM’s licensee and the licensed territory was expanded to include Thailand, Singapore and Vietnam. Simultaneously, the Linktone MLBAM agreement was mutually terminated by both parties and mutually released each other from all rights and obligations as set out in that agreement. We entered into an agreement with APSN to distribute MLBAM content via VAS in China. We also advanced a loan of \$1.25 million to APSN and APBNL, 50% of which was to be repayable at the end of 2011 and 2012. Because this business did not deliver the expected results in China, the project was subsequently terminated, and we recorded an impairment provision in 2010 of \$1.3 million with respect to the loan as it was deemed unlikely to be collectible.

In January 2010, Weilan acquired a 50.01% interest in Letang from its sole equityholder, Hefei Baofeng Cartoon Information Technology Co., Ltd., or Baofeng, in exchange for consideration of RMB17.5 million (US\$2.6 million) and a contribution of RMB5.0 million (US\$0.7 million) to the registered capital of Letang. We also agreed to pay additional cash consideration of up to RMB45.1 million (US\$6.6 million) to Baofeng if Letang achieves certain after-tax net profit targets between January 1, 2010 and March 31, 2012. As of December 31, 2011, we paid RMB13.8 million (US\$2.1 million) to Baofeng as additional consideration because it achieved its initial after tax net profit target. We reversed a contingent consideration payable of RMB10.2 million (US\$1.6 million) as we assessed Letang unable to meet the final net profit target for period April 1, 2011 to March 31, 2012. The primary purpose of the acquisition was to strengthen our company's mobile games portfolio and development capabilities. Concurrent with our investment in Letang, we entered into an equityholders agreement with Baofeng and Letang which contains various provisions regarding the corporate governance of Letang, including the holding of shareholder meetings, the composition and rights of the board of directors of Letang, information rights in favor of our company and the maintenance of books and records by Letang. The equityholders agreement also imposes restrictions on the equityholders' transfer of their equity interest in Letang, subject to certain exceptions. Letang agreed that if it issues any new equity, then we and Baofeng each have the right to purchase our pro rata percentage of such new issuance. In addition, we have a right of first refusal over any proposed transfers of the equity held by Baofeng. These rights will terminate when we or Baofeng no longer hold any equity of Letang or when there is an initial public offering of the equity of Letang.

In March 2010, we and MNC (through MIMEL) acquired 50% and 25% of the share capital of InnoForm respectively, for an aggregate consideration of SGD9.9 million (\$7.0 million) in cash. In June 2010, we subscribed for additional new shares of InnoForm for a total consideration of SGD13.0 million (\$9.3 million) and as a result of which we and MNC (through MIMEL) hold 75% and 12.5% of the equity interest of InnoForm, respectively. MNC (through MIMEL) also has the option to purchase the remaining 12.5% of the outstanding share capital of InnoForm, whereby 7.5% and 5% of the share capital can be purchased within 18 months and 30 months, respectively, of the agreement date. The owner of such 12.5% share capital also has the right to put such shares and has sent notice of its intention to exercise this right with respect to 7.5% of the share capital. MNC has agreed with us that it will bear all responsibility with respect to such put right. MNC is disputing its obligation to purchase such shares, and the matter is currently in arbitration in Singapore (Linktone and Linktone International have also been named parties to such arbitration). InnoForm is a Singapore-based company with regional offices in Malaysia, Hong Kong and Vietnam specializing in the production, acquisition, distribution and licensing of multi-platform edutainment and entertainment content.

In June 2010, we purchased mandatory convertible bonds issued by IDN (which has been renamed PT Linktone) from Starlight, a company incorporated under the laws of United Arab Emirates and the bond holder of PT Linktone, which bonds could be converted into 51% of the outstanding share capital of PT Linktone for a total consideration of \$13.2 million. The bonds were interest-free and were converted into shares of PT Linktone in September 2010. We currently own 51% of the outstanding shares of PT Linktone, with the remaining held by MNC Group. The purpose of the acquisition was in line with our expansion strategy in the region. Of the \$13.2 million consideration for the bonds, we paid \$8.6 million in June 2010 and \$4.6 million in 2011.

Prior to our acquisition of PT Linktone, it had entered into a cooperation agreement in October 2009 (as amended in February 2010) with Infokom, an affiliate of MNC. Under this agreement, PT Linktone is authorized to use short codes owned by Infokom to offer its VAS to users in Indonesia in exchange for 10% of the revenue generated from such services, net of the fees charged by the telecom network operators. This agreement has a term of 25 years from the date of the agreement. In October 2009, PT Linktone also entered into a cooperation agreement with MNC for the rights to a short code owned by MNC free of charge. This agreement has a term of 25 years from the date of the agreement. From September 1, 2010 (the date of our acquisition of PT Linktone for accounting purposes) to December 31, 2010, PT Linktone's total revenue generated from the use of short codes owned by Infokom and those owned by MNC was \$1.6 million and \$0.3 million, respectively. During this period, PT Linktone paid Infokom and MNC a total of \$0.3 million and nil, respectively. In 2011, MNC transferred to PT Linktone the short code owned by MNC which PT Linktone had used pursuant to the

cooperation agreement. Total revenue generated from the use of short codes owned by Infokom and the short code that was transferred from MNC to PT Linktone was \$4.7 million and \$2.3 million, respectively. In 2011, PT Linktone paid Infokom a total of \$0.2 million. See “Item 5. Operating and Financial Review and Prospects — Critical Accounting Policies and Estimates — Revenue and Cost of Revenue Recognition — Indonesia telecom value — added services.”

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. From September 1, 2010 to December 31, 2010, PT Linktone paid each of MNC TV and Global TV \$0.1 million. In 2011, PT Linktone paid each of MNC TV and Global TV \$0.7 million. Revenue generated from our cooperation with RCTI during these periods was insignificant.

In July 2010, RCTI, jointly with Sky Vision, secured the license rights to broadcast in Indonesia the UEFA EURO 2012, UEFA EURO 2016, UEFA European Under 21 Championships and UEFA Women’s Euro events (together, the “UEFA Programs”). In November 2010, RCTI signed a Memorandum of Understanding, or MOU, with PT Linktone, appointing PT Linktone as the sublicensee to develop and distribute mobile content for the UEFA Programs to end users within Indonesia. As compensation, PT Linktone will pay a license fee to RCTI in an amount to be agreed to by both parties. PT Linktone paid an advance of IDR3.3 billion (US\$0.4 million) to RCTI as a commitment for the performance of the MOU. This advance payment will be deducted from the license fee to be agreed and payable to RCTI.

In December 2010, we purchased US\$20 million of senior secured notes of Aerospace Satellite Corporation Holding B.V., or Aerospace, a wholly owned subsidiary of Sky Vision. The notes trade on Singapore Exchange Ltd., are due November 16, 2015, bear interest at a rate of 12.75% per annum and are payable semi-annually in arrears. The notes are guaranteed by Sky Vision. In 2011, we sold these notes in the open market and recorded gain on sales of investment of US\$1.1 million. Utilizing our proceeds from the sale of the Aerospace notes and the interest earned on such notes, we acquired stake of 2.6% in PT Global Mediacom Tbk., or Global Mediacom (the controlling shareholder of MNC), through the open market purchase of 357 million common shares at average price of IDR826 (approximately US\$0.095) per share. Global Mediacom is Indonesia’s largest integrated media company, operating the country’s leading free-to-air and pay television services.

In October 2010 and May 2011, a bank in Singapore extended to our subsidiary, InnoForm, a term loan of SGD2 million (\$1.5 million) and a credit facility with a total facility limit of SGD10 million (\$7.7 million) and a sub-limit of SGD3 million (\$2.3 million) for overdraft facility. The facilities are secured by a corporate guarantee from MNC. As of December 31, 2011, we utilized \$4.3m of the credit facility and \$1.0 million of the term loan was outstanding.

In March and April 2012, we sold 169 million shares of Global Mediacom for \$28.3 million and recorded a gain on sale of investment of \$12.2 million. Using the proceeds from the sale of Global Mediacom shares, we purchased 599 million common shares of PT Bhakti Investama Tbk., or Bhakti Investama, for \$28.2 million. Bhakti Investama is an Indonesia-based investment company and the ultimate shareholder of Global Mediacom and MNC.

### **C. Interests of Experts and Counsel**

Not applicable.

## **Item 8. Financial Information**

### **A. Consolidated Statements and Other Financial Information**

See Item 18. "Financial Statements" for our audited consolidated financial statements filed as part of this annual report.

#### **A.7 Legal Proceedings**

We are not involved in any legal matters that management believes will have a material adverse effect on our business.

#### **A.8 Dividend Policy**

We have never declared or paid any cash dividends on our ordinary shares, but it is possible that we may declare dividends in the future. We have historically retained earnings to finance operations and the expansion of our business. Any future determination to pay cash dividends will be at the discretion of our board of directors and will be dependent upon our financial condition, operating results, capital requirements and such other factors as our board of directors deems relevant.

### **B. Significant Changes**

See Item 18. "Financial Statements" for information regarding significant changes to us since December 31, 2011.

## **Item 9. The Offer and Listing**

Not applicable except for Item 9.A.4. and Item 9.C.

Our ADSs, each representing 10 of our ordinary shares, have been listed on the NASDAQ Global Market since March 4, 2004 and trade under the symbol "LTON."



The following table provides the high and low prices for our ADSs on the NASDAQ Global Market for the periods indicated.

	Price Per ADS (US\$)	
	High	Low
<b>Annual highs and lows</b>		
2007	5.40	2.03
2008	3.58	0.57
2009	3.21	1.01
2010	2.07	1.20
2011	1.77	0.72
<b>Quarterly highs and lows</b>		
First Quarter 2010	2.07	1.64
Second Quarter 2010	1.75	1.20
Third Quarter 2010	1.81	1.25
Fourth Quarter 2010	1.74	1.31
First Quarter 2011	1.77	1.31
Second Quarter 2011	1.40	0.85
Third Quarter 2011	1.12	0.75
Fourth Quarter 2011	1.42	0.72
First Quarter 2012	1.36	1.03
<b>Monthly highs and lows</b>		
October 2011	0.89	0.72
November 2011	1.33	0.82
December 2011	1.42	1.12
January 2012	1.36	1.17
February 2012	1.35	1.03
March 2012	1.35	1.21

## Item 10. Additional Information

### A. Share Capital

Not applicable.

### B. Memorandum and Articles of Association

We are a Cayman Islands exempted company and our affairs are governed by our amended and restated memorandum and articles of association and the Companies Law. The following are summaries of material provisions of our new amended and restated memorandum and articles of association and the Companies Law insofar as they relate to the material terms of our ordinary shares.

#### *Directors*

*Interested Transactions.* A director may vote in respect of any contract or transaction in which he is interested, provided however that the nature of the interest of any director in any such contract or transaction shall be disclosed by him at or prior to its consideration and any vote on that matter. A general notice or disclosure to the directors or otherwise contained in the minutes of a meeting or a written resolution of the directors or any committee thereof that a director is a shareholder of any specified firm or company and is to be regarded as interested in any transaction with such firm or company shall be sufficient disclosure and after such general notice it shall not be necessary to give special notice relating to any particular transaction.

*Remuneration and Borrowing.* The directors may determine remuneration to be paid to the directors, including in the absence of an independent quorum. The directors may exercise all the powers of our company to borrow money and to mortgage or charge its undertaking, property and uncalled capital or any part thereof, to issue debentures, debenture stock and other securities whenever money is borrowed or as security for any of our debts, liabilities, or obligations or those of any third party.

*Qualifications.* There are no membership qualifications for directors. Further, there are no share ownership qualifications for directors unless so fixed by us in a general meeting.

*Classes of Directors.* The directors are divided into three classes, as nearly equal in number as the then total number of directors permits. At each annual general meeting of shareholders, successors to the class of directors whose terms expire at that meeting shall be elected for a three-year term.

If the number of directors changes, any increase or decrease will be apportioned among the classes so as to maintain the number of directors in each class as nearly as possible. Any additional directors of a class elected to fill a vacancy resulting from an increase in such class will hold office for a term that coincides with the remaining term of that class. Decreases in the number of directors will not shorten the term of any incumbent director.

Nonetheless, whenever the holders of preferred shares have the right, voting separately as a class, to elect directors, the election, term of office, filling of vacancies and other features of directorships will be governed by the applicable terms of our articles of association and the rights attaching to those preferred shares.

These board provisions could make it more difficult for third parties to gain control of our company by making it difficult to replace members of the board.

#### ***Rights, Preferences and Restrictions of our Ordinary Shares***

*General.* All of our outstanding ordinary shares are fully paid and nonassessable. Certificates representing our ordinary shares are issued in registered form. Our shareholders who are nonresidents of the Cayman Islands may freely hold and vote their shares.

*Dividends.* The holders of our ordinary shares are entitled to such dividends as may be declared by our board of directors.

*Voting Rights.* Each ordinary share is entitled to one vote on all matters upon which our ordinary shares are entitled to vote, including the election of directors. Voting at any meeting of shareholders is by show of hands unless a poll is demanded. A poll may be demanded by our Chairman or any other shareholder present in person or by proxy. A quorum required for a meeting of shareholders consists of shareholders who hold at least one-third of our outstanding shares entitled to vote at the meeting present in person or by proxy.

Any ordinary resolution to be made by the shareholders requires the affirmative vote of a simple majority of the votes attaching to our ordinary shares cast in a general meeting, while a special resolution requires the affirmative vote of no less than two-thirds of the votes cast attaching to our ordinary shares. A special resolution is required for matters such as a change of name. Holders of our ordinary shares may by ordinary resolution, among other things, elect directors, appoint auditors, and make changes in the amount of our authorized share capital.

*Liquidation.* On a return of capital on winding up or otherwise (other than on conversion, redemption or purchase of our ordinary shares) assets available for distribution among the holders of our ordinary shares shall be distributed among the holders of our ordinary shares pro rata. If the assets available for distribution are insufficient to repay all of the paid-up capital, the assets will be distributed so that the losses are borne by our shareholders proportionately.

*Calls on our Ordinary Shares and Forfeiture of our Ordinary Shares.* Our board of directors may from time to time make calls upon shareholders for any amounts unpaid on their ordinary shares in a notice served to such shareholders at least 14 days prior to the specified time and place of payment. Our ordinary shares that have been called upon and remain unpaid are subject to forfeiture.

*Redemption of our Ordinary Shares.* We may issue shares that are, or at our option or at the option of the holders are, subject to redemption on such terms and in such manner as we may, before the issue of the shares, determine by special resolution.

### ***Preferred Shares***

Our amended and restated memorandum and articles of association provide for the authorization of preferred shares. The preferred shares may be issued from time to time at the discretion of the board of directors without shareholder approval. The board of directors is authorized to issue these shares in different classes and series and, with respect to each class or series, to determine the dividend rate, the redemption provisions, conversion provisions, liquidation preference and other rights and privileges not in conflict with our amended and restated memorandum and articles of association. We have no immediate plans to issue any preferred shares. The issuance of any of our preferred shares could provide needed flexibility in connection with possible acquisitions and other corporate purposes. However, the issuance could also make it more difficult for a third party to acquire a majority of our outstanding voting shares or discourage an attempt to gain control of us. In addition, the board of directors, without shareholder approval, can issue preferred shares with voting and conversion rights which could adversely affect the voting power and other rights of the holders of ordinary shares. These preferred shares may be used for a variety of corporate purposes, including future public offerings, to raise additional capital or to facilitate acquisitions.

### ***Variations of Rights of Shares***

All or any of the special rights attached to any class of shares may, subject to the provisions of the Companies Law, be varied either with the consent in writing of the holders of three-fourths of the issued shares of that class or with the sanction of a special resolution passed at a general meeting of the holders of the shares of that class.

### ***Related Party Transactions***

Any related party transaction or series of related party transactions with the same or similar subject matter(s) or business purpose(s), in either case with an aggregate value in excess of US\$5 million, must first be approved by a majority of the disinterested directors of our board pursuant to a board resolution.

### ***General Meetings of Shareholders***

The directors may whenever they think fit, and they shall on the requisition of our shareholders holding at the date of the deposit of the requisition not less than one-tenth of our paid-up capital as at the date of the deposit carries the right of voting at our general meetings, proceed to convene a general meeting of our Company. If the directors do not within 21 days from the date of the deposit of the requisition duly proceed to convene a general meeting, the requisitionists, or any of them representing more than one-half of the total voting rights of all of them, may themselves convene a general meeting, but any meeting so convened shall not be held after the expiration of three months after the expiration of such 21 days. Advance notice of at least five days is required for the convening of the annual general meeting and other shareholders meetings.

### ***Limitations on the Right to Own Shares***

There are no limitations on the right to own our shares.

### ***Limitations on Transfer of Shares***

There are no provisions in our amended and restated memorandum or articles of association that would have an effect of delaying, deferring or preventing a change in control and that would operate only with respect to a merger, acquisition or corporate restructuring.

### ***Disclosure of Shareholder Ownership***

There are no provisions in our amended and restated memorandum or articles of association governing the ownership threshold above which shareholder ownership must be disclosed.

### ***Changes in Capital***

We may from time to time by ordinary resolution increase the share capital by such sum, to be divided into shares of such amount, as the resolution shall prescribe. The new shares shall be subject to the same provisions with reference to the payment of calls, lien, transfer, transmission, forfeiture and otherwise as the shares in the original share capital. We may by ordinary resolution:

- (a) consolidate and divide all or any of our share capital into shares of larger amount than our existing shares;
- (b) sub-divide our existing shares, or any of them into shares of smaller amount than is fixed by our amended and restated memorandum of association, subject nevertheless to the provisions of Section 12 of the Companies Law; or
- (c) cancel any shares which, at the date of the passing of the resolution, have not been taken or agreed to be taken by any person.

We may by special resolution reduce our share capital and any capital redemption reserve fund in any manner authorized by law.

### ***Differences in Corporate Law***

The Companies Law is modeled after that of the United Kingdom but does not follow recent United Kingdom statutory enactments, and differs from laws applicable to United States corporations and their shareholders. Set forth below is a summary of the significant differences between the provisions of the Companies Law applicable to us and the laws applicable to companies incorporated in the United States and their shareholders.

*Mergers and Similar Arrangements.* The Companies Law provides that any two or more Cayman Islands companies limited by shares (other than segregated portfolio companies) may merge or consolidate in accordance with the Companies Law. The Companies Law also allows one or more Cayman Islands companies to merge or consolidate with one or more foreign companies (provided that the laws of the foreign jurisdiction permit such merger or consolidation). To effect a merger or consolidation of one or more Cayman Islands companies the directors of each constituent company must approve a written plan of merger or consolidation in accordance with the Companies Law. The plan of merger must then be authorized by each constituent company by a special resolution of members and such other authorization, if any, as may be specified in such constituent company's articles of association. Where a Cayman Islands parent is merging with one or more of its Cayman Islands subsidiaries, shareholder consent is not required if a copy of the plan of merger is given to every member of each subsidiary company to be merged, unless that member agrees otherwise. To effect a merger or consolidation of one or more Cayman Islands companies with one or more foreign companies, in addition to the approval requirements applicable to the merger or consolidation of Cayman Islands companies (in relation to Cayman Islands company(ies) only), the merger or consolidation must also be effected in compliance with the constitutional documents of, and laws of the foreign jurisdiction applicable to, the foreign company(ies).

In addition, there are statutory provisions that facilitate the reconstruction and amalgamation of companies, provided that the arrangement is approved by a majority in number of each class of shareholders and creditors with whom the arrangement is to be made, and who must in addition represent three-fourths in value of each such class of shareholders or creditors, as the case may be, that are present and voting either in person or by proxy at a meeting, or meetings, convened for that purpose. The convening of the meetings and subsequently the arrangement must be sanctioned by the Grand Court of the Cayman Islands. While a dissenting shareholder has the right to express to the court the view that the transaction ought not be approved, the court can be expected to approve the arrangement if it determines that:

- the statutory provisions as to majority vote have been complied with;
- the shareholders have been fairly represented at the meeting in question;
- the arrangement is such as a businessman would reasonably approve; and
- the arrangement is not one that would more properly be sanctioned under some other provision of the Companies Law.

When a take-over offer is made and accepted by holders of 90.0% of the shares within four months, the offeror may, within a two month period, require the holders of the remaining shares to transfer such shares on the terms of the offer. An objection can be made to the Grand Court of the Cayman Islands but this is unlikely to succeed unless there is evidence of fraud, bad faith or collusion.

If the arrangement and reconstruction is thus approved, the dissenting shareholder would have no rights comparable to appraisal rights, which would otherwise ordinarily be available to dissenting shareholders of United States corporations, providing rights to receive payment in cash for the judicially determined value of the shares.

*Shareholders' Suits.* Our Cayman Islands counsel is not aware of any reported class action or derivative action having been brought in a Cayman Islands court. In principle, we will normally be the proper plaintiff and a derivative action may not be brought by a minority shareholder. However, based on English authorities, which could be applied by a court in the Cayman Islands, exceptions to the foregoing principle apply in circumstances in which:

- a company is acting or proposing to act illegally or ultra vires;
- the act complained of, although not ultra vires, could be effected only if authorized by more than a simple majority vote;
- the individual rights of the plaintiff shareholder have been infringed or are about to be infringed; or
- those who control the company are perpetrating a "fraud on the minority."

*Indemnification.* Cayman Islands law does not (other than as set forth hereafter) limit the extent to which a company's organizational documents may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy, such as to provide indemnification against civil fraud or the consequences of committing a crime. Our Articles of Association provide for indemnification of officers and directors for losses, damages, costs and expenses incurred in their capacities as such, except through their own willful neglect or default.

### **C. Material Contracts**

We have not entered into any material contracts other than in the ordinary course of business and other than those described in Item 4. "Information on the Company" and Item 7.B. "Major Shareholders and Related Party Transactions — Related Party Transactions" or elsewhere in this annual report.

#### **D. Exchange Controls**

China's government imposes control over the convertibility of Renminbi into foreign currencies. Under the current unified floating exchange rate system, the People's Bank of China publishes a daily exchange rate for Renminbi, or the PBOC Exchange Rate, based on the previous day's dealings in the inter-bank foreign exchange market. Financial institutions authorized to deal in foreign currency may enter into foreign exchange transactions at exchange rates within an authorized range above or below the PBOC Exchange Rate according to market conditions.

Pursuant to the Foreign Exchange Control Regulations issued by the State Council on January 29, 1996 and effective as of April 1, 1996 (as amended on January 14, 1997 and further amended on August 5, 2008) and the Administration of Settlement, Sale and Payment of Foreign Exchange Regulations which came into effect on July 1, 1996, or the Regulations, conversion of Renminbi into foreign exchange by foreign investment enterprises for current account items, including the distribution of dividends and profits to foreign investors of joint ventures, is permissible. Foreign investment enterprises are permitted to remit foreign exchange from their foreign exchange bank account in China on the basis of, inter alia, the terms of the relevant joint venture contracts and board resolutions declaring the distribution of the dividend and payment of profits. Conversion of Renminbi into foreign currencies and remittance of foreign currencies for capital account items, including direct investment, loans and security investment, is still subject to the approval of SAFE, in each such transaction.

Under the Regulations, foreign investment enterprises are required to open and maintain separate foreign exchange accounts for capital account items (but not for other items). In addition, foreign investment enterprises may only buy, sell and/or remit foreign currencies at those banks authorized to conduct foreign exchange business upon the production of valid commercial documents and, in the case of capital account item transactions, document approval from SAFE.

Currently, foreign investment enterprises are required to apply to SAFE for "foreign exchange registration IC cards for foreign investment enterprises." With such foreign exchange registration IC cards (which are granted to foreign investment enterprises upon fulfilling specified conditions and which are subject to review and renewal by SAFE on an annual basis) or with the foreign exchange sales notices from the SAFE (which are obtained on a transaction-by-transaction basis), foreign-invested enterprises may enter into foreign exchange transactions at banks authorized to conduct foreign exchange business to obtain foreign exchange for their needs.

In addition, pursuant to regulations promulgated by SAFE, PRC subsidiaries of offshore parent companies may be prohibited from making distributions of profits to such offshore parent companies and from paying the offshore parent companies proceeds from any reduction in capital, share transfer or liquidation in respect of such PRC subsidiaries, if PRC shareholders with a direct or indirect stake in the offshore parent company fail to make the required SAFE registrations.

These regulations require PRC residents to file with the competent SAFE offices information about offshore companies in which they have directly or indirectly invested (including with respect to investments already made as of the inception of the new regulation) and to make follow-up filings in connection with certain material transaction involving such offshore companies, such as mergers or acquisitions, capital increases or decreases, and external equity investments or equity transfers. For additional information on the new SAFE regulations and the related risks to our company, see Item 3.D. "Risk Factors — Risks Related to Doing Business in China — Chinese regulations relating to acquisitions of Chinese companies by foreign entities may limit our ability to acquire Chinese companies and adversely affect the implementation of our acquisition strategy as well as our business and prospects."

Although the Monetary Authority of Singapore monitors the Singapore dollar currency, there is no foreign exchange control in Singapore. No approval is required for any payment, remittance or capital transfer in any currency or to any country. During 2011, the average rate of Singapore dollar to the U.S. dollar was SGD1.2558 with the highest and lowest rates being SGD1.3056 and SGD1.2040, respectively.

Foreign exchange controls in Indonesia were abolished in 1971. Indonesia operates a liberal foreign exchange system that permits the free flow of foreign exchange. Capital transactions, including remittances of capital, profits, dividends and interest are free of exchange controls. A number of regulations, however, have an impact on the exchange system. For example, only banks are authorized to deal in foreign exchange and execute exchange transactions related to the import and export of goods. In addition, Indonesian banks (including branches of foreign banks in Indonesia) are required to report to Bank Indonesia any fund transfers exceeding US\$10,000. Bank Indonesia holds the authority to issue rupiah currency and has the responsibility for maintaining the stability of the Indonesian rupiah. During 2011, the average rate of rupiah to the U.S. dollar was IDR8,718 with the highest and lowest rates being IDR9,047 and IDR8,418, respectively. Recently, however, there have been media reports that Bank Indonesia will announce measures on capital flows to control the frequent inflow and outflow of short-term funds. Accordingly, the imposition of foreign exchange controls in Indonesia is a possibility, but we cannot be sure when, or if, such controls will be imposed in the future.

## **E. Taxation**

The following summary of the material Cayman Islands, People's Republic of China and United States federal income tax consequences relevant to the purchase, ownership or sale of our shares or ADSs is based upon laws and relevant interpretations thereof in effect as of the date of this annual report, all of which are subject to change. The summary does not purport to be a comprehensive description of all of the tax considerations that may be relevant to any particular investor depending on its individual circumstances. Accordingly, beneficial owners of our shares or ADSs should consult their own tax advisers regarding the application of the considerations discussed below to their particular situations and the consequences, including U.S. federal estate or gift tax laws, foreign, state, or local laws, and tax treaties.

### **Cayman Islands Taxation**

There is, at present, no direct taxation in the Cayman Islands, and interest, dividends and gains payable to our company will be received free of all Cayman Islands taxes. We are registered as an "exempted company" pursuant to the Companies Law. We have received an undertaking from the Governor in Cabinet of the Cayman Islands to the effect that, for a period of twenty years from such date, no law that thereafter is enacted in the Cayman Islands imposing any tax or duty to be levied on profits, income or on gains or appreciation, or any tax in the nature of estate duty or inheritance tax, will apply to any property comprised in or any income arising under our company, or to the Shareholders thereof, in respect of any such property or income. There are no exchange control regulations or currency restrictions in the Cayman Islands.

### **People's Republic of China Taxation**

#### ***PRC taxation of us and our corporate group***

We are a holding company incorporated in the Cayman Islands and conduct our business in China solely through our wholly owned subsidiaries. The new EIT Law and its implementation rules, both of which became effective on January 1, 2008, provide that China-sourced income of foreign enterprises, such as dividends paid by a PRC subsidiary to its overseas parent, will normally be subject to PRC withholding tax at a rate of 10.0%, unless there are applicable treaties that reduce such rate. Under a special arrangement between China and Hong Kong, such dividend withholding tax rate is reduced to 5.0% if a Hong Kong resident enterprise owns over 25% of the PRC company distributing the dividends.

Under the new EIT Law, enterprises established under the laws of jurisdictions outside China with their "de facto management bodies" located within China may be considered to be PRC tax resident enterprises for tax purposes. If we are considered a PRC tax resident enterprise under the above definition, then our global income will be subject to PRC enterprise income tax at the rate of 25.0%. See Item 3.D. "Risk Factors — Risks Relating to Doing Business in China — Any changes to our tax incentives could have a material adverse effect on our operating results. Our foreign ADS holders may be subject to PRC withholding tax on the dividends payable by us and upon gains realized on their sales of our ADSs if we are classified as a PRC "resident enterprise."

### ***PRC taxation of our overseas shareholders***

The implementation rules of the new EIT Law provide that (i) if the enterprise that distributes dividends is domiciled in the PRC, or (ii) if gains are realized from transferring equity interests of enterprises domiciled in the PRC, then such dividends or capital gains are treated as China-sourced income. It is not clear how “domicile” may be interpreted under the new EIT Law, and it may be interpreted as the jurisdiction where the enterprise is a tax resident. Therefore, if we are considered as a PRC tax resident enterprise for tax purposes, any dividends we pay to our ADS holders as well as gains realized by our ADS holders from the transfer of ADSs may be regarded as China-sourced income and as a result become subject to PRC withholding tax. For additional discussion, please see Item 3.D. “Risk Factors — Risks Relating to Doing Business in China — Any changes to our tax incentives could have a material adverse effect on our operating results. Our foreign ADS holders may be subject to PRC withholding tax on the dividends payable by us and upon gains realized on their sales of our ADSs if we are classified as a PRC “resident enterprise.”

### **United States Federal Income Taxation**

The following discussion is a summary of certain United States federal income tax consequences applicable to the ownership and disposition of shares or ADSs by a U.S. Holder (as defined below), but does not purport to be a complete analysis of all potential United States federal income tax effects. This summary is based on the Internal Revenue Code of 1986, as amended (the “Code”), United States Treasury regulations promulgated thereunder, Internal Revenue Service (“IRS”) rulings and judicial decisions in effect on the date hereof. All of these are subject to change, possibly with retroactive effect, or different interpretations.

This summary does not address all aspects of United States federal income taxation that may be relevant to particular U.S. Holders in light of their specific circumstances (for example, U.S. Holders subject to the alternative minimum tax provisions of the Code) or to holders that may be subject to special rules under United States federal income tax law, including:

- dealers in stocks, securities or currencies;
- securities traders that use a mark-to-market accounting method;
- banks and financial institutions;
- insurance companies;
- regulated investment companies;
- real estate investment trusts;
- tax-exempt organizations;
- persons holding shares or ADSs as part of a hedging or conversion transaction or a straddle;
- persons deemed to sell shares or ADSs under the constructive sale provisions of the Code;
- persons who or that are, or may become, subject to the expatriation provisions of the Code;
- persons whose functional currency is not the United States dollar; and
- direct, indirect or constructive owners of 10% or more of the total combined voting power of all classes of our voting stock.

This summary also does not discuss any aspect of state, local or foreign law, or United States federal estate or gift tax law as applicable to U.S. Holders. In addition, this discussion is limited to U.S. Holders holding shares or ADSs as capital assets. Prospective purchasers are urged to consult their tax advisers about the United States federal, state and local tax consequences to them of the purchase, ownership and disposition of shares or ADSs.



For purposes of this summary, “U.S. Holder” means a beneficial holder of shares or ADSs who or that for United States federal income tax purposes is:

- an individual citizen or resident of the United States;
- a corporation or other entity classified as a corporation for United States federal income tax purposes created or organized in or under the laws of the United States, any state thereof or the District of Columbia;
- an estate, the income of which is subject to United States federal income taxation regardless of its source; or
- a trust, if a court within the United States is able to exercise primary supervision over the administration of such trust and one or more “U.S. persons” (within the meaning of the Code) have the authority to control all substantial decisions of the trust, or if a valid election is in effect to be treated as a U.S. person.

If a partnership or other entity or arrangement classified as a partnership for United States federal income tax purposes holds shares or ADSs, the United States federal income tax treatment of a partner generally will depend on the status of the partner and the activities of the partnership. This summary does not address the tax consequences of any such partner. If you are a partner of a partnership holding shares or ADSs, you should consult your tax advisers.

The discussion below is written on the basis that the representations contained in the deposit agreement are true and that the obligations in the deposit agreement and any related agreement will be performed in accordance with the terms. If you hold ADSs, you generally will be treated as the owner of the underlying shares represented by those ADSs for United States federal income tax purposes. Accordingly, deposits or withdrawal of shares for ADSs will not be subject to United States federal income tax.

## **U.S. Holders**

### ***Taxation of dividends and other distributions on the shares or ADSs***

As described below, we believe that we were a passive foreign investment company (“PFIC”) for United States federal income tax purposes for the previously ended taxable year and may be classified as a PFIC for the current taxable year. For special rules applicable to dividends and other distributions from a PFIC, see “Passive Foreign Investment Company Considerations” below.

The following rules will apply provided that our company has not been a PFIC for any taxable year included in a U.S. Holder’s holding period for shares or ADSs. Distributions paid by our company out of current or accumulated earnings and profits (as determined for United States federal income tax purposes) generally will be taxable to a U.S. Holder as foreign source dividend income, and will not be eligible for the dividends received deduction generally allowed to corporations. Distributions in excess of current and accumulated earnings and profits will be treated as a non-taxable return of capital to the extent of the U.S. Holder’s adjusted tax basis in the shares or ADSs and thereafter as capital gain. However, our company does not maintain calculations of our earnings and profits in accordance with United States federal income tax accounting principles. U.S. Holders should therefore assume that any distribution by our company with respect to the shares or ADSs will constitute dividend income. U.S. Holders should consult their own tax advisers with respect to the appropriate United States federal income tax treatment of any distribution received from our company.

For taxable years beginning before January 1, 2013, dividends paid by our company should be taxable to a non-corporate U.S. Holder at the special reduced rate normally applicable to long term capital gains, provided that certain conditions are satisfied. A U.S. Holder will not be able to claim the reduced rate for any year in which our company is treated as a PFIC. See “Passive Foreign Investment Company Considerations,” below. Dividends may be taxed at the lower applicable capital gains rate provided that (1) our shares or ADSs, as applicable, are readily tradable on an established securities market in the United States, (2) our company is not a

PFIC (as discussed below) for either our taxable year in which the dividends were paid or the preceding taxable year, and (3) certain holding period and other requirements are met. Since our ADSs are listed on the NASDAQ Global Market, they are considered for purposes of clause (1) above to be readily tradable on an established securities market in the United States.

In the event that dividends from our company are subject to withholding by the PRC, a U.S. Holder may be eligible, subject to a number of complex limitations, to claim a foreign tax credit in respect of any foreign withholding taxes imposed on dividends received on the shares or ADSs. A U.S. Holder who does not elect to claim a foreign tax credit for foreign income tax withheld, may instead claim a deduction, for United States federal income tax purposes, in respect of such withholdings, but only for a year in which such holder elects to do so for all creditable foreign income taxes. Dividends will constitute foreign source income for United States foreign tax credit purposes.

### **Taxation of disposition of shares or ADSs**

Subject to the PFIC rules discussed below, you will recognize taxable gain or loss on any sale or exchange of a share or ADS in an amount equal to the difference between the amount realized (in U.S. dollars) for the share or ADS and your tax basis (in U.S. dollars) in the share or ADS. The gain or loss will generally be capital gain or loss and will be long-term capital gain or loss if you have held the share or ADS for more than one year. Long-term capital gains of non-corporate U.S. Holders currently are eligible for reduced rates of taxation. The deductibility of a capital loss may be subject to limitations. Any gain or loss that you recognize generally will be treated as United States source gain or loss for United States foreign tax credit purposes.

### ***Passive foreign investment company considerations***

A foreign corporation will be classified as a PFIC for any taxable year in which, after taking into account the income and assets of the corporation and certain subsidiaries pursuant to applicable “look-through rules,” either (i) at least 75 percent of its gross income is “passive income” (the “income test”) or (ii) at least 50 percent of the average value of its assets is attributable to assets which produce passive income or are held for the production of passive income (the “asset test”).

For this purpose, cash and investment securities are categorized as passive assets and our company’s unbooked intangibles are taken into account. We will be treated as owning our proportionate share of the assets and earning our proportionate share of the income of any other corporation in which we own, directly or indirectly, more than 25% (by value) of the stock.

We believe we were a PFIC for United States federal income tax purposes for the previously ended taxable year and may be classified as a PFIC for the current taxable year. Under the income and asset tests, whether or not we are a PFIC will be determined annually based upon the composition of our income and the composition and valuation of our assets, all of which are subject to change. In addition, in valuing our assets, we have made a number of assumptions which we believe are reasonable. However, it is possible that the IRS may disagree with these assumptions, which may affect the determination of whether we are a PFIC in a given year. Because the PFIC determination is highly fact intensive and made at the end of each taxable year, there can be no assurance that we will or will not be a PFIC for the current or any future taxable year or that the IRS will not challenge our determination concerning our PFIC status.

If our company is classified as a PFIC for any taxable year during which a U.S. Holder owns shares or ADSs, the U.S. Holder, absent certain elections (including a mark-to-market election), will generally be subject to adverse rules (regardless of whether our company continues to be classified as a PFIC) with respect to (i) any “excess distributions” (generally, any distributions received by the U.S. Holder on the shares or ADSs in a taxable year that are greater than 125 percent of the average annual distributions received by the U.S. Holder in the three preceding taxable years or, if shorter, the U.S. Holder’s holding period for the shares or ADSs) and (ii) any gain realized on the sale or other disposition of shares or ADSs.

Under these adverse rules (a) the excess distribution or gain will be allocated ratably over the U.S. Holder's holding period, (b) the amount allocated to the current taxable year and any taxable year prior to the first taxable year in which our company is classified as a PFIC will be taxed as ordinary income, and (c) the amount allocated to each of the other taxable years during which our company was classified as a PFIC will be subject to tax at the highest rate of tax in effect for the applicable category of taxpayer for that year and an interest charge will be imposed with respect to the resulting tax attributable to each such other taxable year.

Alternatively, a U.S. Holder may be eligible to make a mark-to-market election under Section 1296 of the Code (a "Mark-to-Market Election"), but only if our shares or ADSs are marketable stock. Our shares are not currently listed on any exchange, but our ADSs will be "marketable stock" as long as they remain listed on the NASDAQ Global Market and are regularly traded. There can be no assurances, however, that our ADSs will be treated, or continue to be treated, as regularly traded. A U.S. Holder that makes a mark-to-market election must include in ordinary income, rather than capital gain, for each year an amount equal to the excess, if any, of the fair market value of the shares or ADSs, as applicable, at the close of the taxable year over the U.S. Holder's adjusted basis in the shares or ADSs. Additional complex rules apply and the election cannot be revoked without the consent of the IRS unless the shares or ADSs cease to be marketable.

In addition, if a U.S. Holder owns (or owned) shares or ADSs while we are (or were) a PFIC and the U.S. Holder makes an election to treat us as a qualified electing fund under Section 1295 of the Code (a "QEF Election"), the U.S. Holder generally will not be subject to the adverse rules discussed above. Instead, the U.S. Holder will be subject to current U.S. federal income tax on his, her or its pro rata share of our ordinary earnings and net capital gain, regardless of whether such amounts are actually distributed to the U.S. Holder by us. However, a U.S. Holder can make a QEF Election only if we agree to furnish the U.S. Holder annually with certain tax information, and we currently do not intend to prepare or provide such information.

If we are a PFIC in any year with respect to a U.S. Holder, the U.S. Holder will be required to file an annual return on IRS Form 8621 regarding distributions received on shares or ADSs and any gain realized on the disposition of shares or ADSs.

In addition, under recently enacted U.S. tax legislation and subject to future guidance, if we are a PFIC, U.S. Holders will be required to file an annual information return with the IRS (also on IRS Form 8621) relating to their ownership of our shares or ADSs. Pursuant to Notice 2011-55, the IRS has suspended this new filing requirement for U.S. Holders that are not otherwise required to file the current version of the IRS Form 8621 until the IRS releases a subsequent revision of IRS Form 8621, modified to reflect the recently enacted legislation. Guidance has not yet been issued regarding the information required to be included on such form. Prior to filing their annual income tax returns, U.S. Holders should consult their tax advisers regarding whether additional guidance has been issued with respect to this reporting requirement, and if so, how to comply with such guidance.

One or more of our subsidiaries may also be classified as PFICs now or in the future, and furthermore, we or one or more of our subsidiaries may invest in the equity of other foreign corporations that are PFICs. Generally, in a year in which we are a PFIC, U.S. Holders will also be subject to the PFIC rules with respect to their indirect ownership interests in such PFICs. U.S. Holders may not be able to make either a QEF Election or a Mark-to-Market Election with respect to any of our subsidiaries that are PFICs, and there can be no assurance that U.S. Holders will be able to make such elections with respect to any other PFICs in which we or one or more of our subsidiaries invests.

**Since the PFIC rules are complex, U.S. Holders should consult their tax advisers regarding the potential application of the PFIC regime, including eligibility for and the manner and advisability of making a mark-to-market election.**

***Information reporting and backup withholding***

The proceeds of a sale or other disposition, as well as dividends paid with respect to shares or ADSs by a United States payor (including any payments received from a U.S. financial intermediary), generally will be reported to the IRS and to the U.S. Holder as required under applicable regulations. Backup withholding tax may apply to these payments if the U.S. Holder fails to timely provide an accurate taxpayer identification number or otherwise fails to comply with, or establish an exemption from, such backup withholding tax requirements. Certain U.S. Holders (including, among others, corporations) are not subject to the information reporting or backup withholding tax requirements described herein. U.S. Holders should consult their tax advisers as to their qualification for exemption from backup withholding tax and the procedure for establishing an exemption.

Subject to specified exceptions and future guidance, recently enacted U.S. tax legislation generally requires a U.S. Holder (that is an individual or, to the extent provided in future guidance, a domestic entity) to report to the IRS on IRS Form 8938 such U.S. Holder's interests in stock or securities issued by a non-U.S. person (such as our company) for taxable years beginning after March 18, 2010.

**U.S. Holders should consult their tax advisers regarding the information reporting obligations that may arise from their acquisition, ownership or disposition of our shares or ADSs. Enforcement of Civil Liabilities**

We are incorporated in the Cayman Islands due to the following benefits found there:

- political and economic stability;
- an effective judicial system;
- a favorable tax system;
- the absence of exchange control or currency restrictions; and
- the availability of professional and support services.

However, certain disadvantages accompany incorporation in the Cayman Islands. These disadvantages include:

- (1) the Cayman Islands has a less developed body of securities laws as compared to the United States and provides significantly less protection to investors; and
- (2) Cayman Islands companies may not have standing to sue before the federal courts of the United States.

Our constituent documents do not contain provisions requiring that disputes, including those arising under the securities laws of the United States, between us, our officers, directors and shareholders be arbitrated.

A substantial portion of our current operations is conducted in China and other countries through our wholly owned subsidiaries which are incorporated in China, Hong Kong, the British Virgin Islands and United Arab Emirates. All or most of our assets are located in China and other countries. A majority of our directors and officers are nationals or residents of jurisdictions other than the United States and a substantial portion of their assets are located outside the United States. As a result, it may be difficult for a shareholder to effect service of process within the United States upon these persons, or to enforce against us or them judgments obtained in United States courts, including judgments predicated upon the civil liability provisions of the securities laws of the United States or any state in the United States.

Walkers, our counsel as to Cayman Islands law, have advised that there is no statutory mechanism by which a judgment obtained in the United States courts can be recognized or enforced in the Cayman Islands. At common law, a foreign judgment which is in personam (a judgment against a person or other legal entity such as a company) may be recognized if:

- (1) the judgment debtor was, at the time the foreign proceedings were instituted, present in the foreign country (which could be presence through an agent or representative office);
- (2) the judgment debtor was plaintiff, or counter-claimed, in the proceedings in the foreign country;
- (3) the judgment debtor, being a defendant in the foreign court, voluntarily submitted to the jurisdiction of that court by participating in the foreign proceedings; or
- (4) if the judgment debtor had, before the commencement of the foreign proceedings agreed, in respect of the subject matter of the proceedings, to submit to the jurisdiction of that court or the courts of that country.

The Cayman Islands court must also be satisfied that the judgment was not obtained by fraud and the proceedings in which the judgment was obtained were not contrary to natural justice and the judgment is final and conclusive on the merits. The usual procedure for enforcement of a foreign judgment is to commence proceedings on the judgment.

Our counsel as to Cayman Islands law has further advised us that the courts of the Cayman Islands would not entertain original actions brought in the Cayman Islands against us or our directors or officers which only relate to the securities laws of the United States or any state in the United States. An original action brought in the Cayman Islands must give rise to a cause of action in the Cayman Islands (whether pursuant to Cayman Islands statutes or the common law).

Jun He Law Offices, our counsel as to Chinese law, have advised us that there is uncertainty as to whether the courts of China would:

- (1) recognize or enforce judgments of United States courts obtained against us or our directors or officers predicated upon the civil liability provisions of the securities laws of the United States or any state in the United States; or
- (2) entertain original actions brought in China against us or our directors or officers predicated upon the securities laws of the United States or any state in the United States.

Our counsel as to Chinese law has advised us further that the recognition and enforcement of foreign judgments are provided for under Chinese Civil Procedures Law. Chinese courts may recognize and enforce foreign judgments in accordance with the requirements of Chinese Civil Procedures Law based either on treaties between China and the country or region where the judgment is made or on reciprocity between jurisdictions. In addition, according to the PRC Civil Procedures Law, courts in the PRC will not enforce a foreign judgment if they decide that the judgment violates the basic principles of PRC laws or national sovereignty, security or public interest.

#### **F. Dividends and Paying Agents**

Not applicable.

#### **G. Statement by Experts**

Not applicable.

#### **H. Documents on Display**

We have previously filed with the SEC our registration statement on Form F-1 and prospectus under the Securities Act with respect to our ADSs.

We are subject to the periodic reporting and other informational requirements of the Exchange Act. Under the Exchange Act, we are required to file reports and other information with the SEC. Specifically, we are required to file annually a Form 20-F: (1) within six months after the end of each fiscal year, which is December 31, for fiscal years ending before December 15, 2011, and (2) within four months after the end of each fiscal year for fiscal years ending on or after December 15, 2011. Copies of reports and other information, when so filed, may be inspected without charge and may be obtained at prescribed rates at the public reference facilities maintained by the SEC at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. You can request copies of these documents upon payment of a duplicating fee, by writing to the SEC. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference rooms. The SEC also maintains a website at [www.sec.gov](http://www.sec.gov) that contains reports, proxy and information statements, and other information regarding registrants that make electronic filings with the SEC using its EDGAR system. As a foreign private issuer, we are exempt from the rules under the Exchange Act prescribing the furnishing and content of quarterly reports and proxy statements, and officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act.

Our financial statements have been prepared in accordance with U.S. GAAP.

In accordance with Rule 5250(d) of the NASDAQ Listing Rules, we will post this annual report on our website at [http://www.linktone.com/sec\\_filings.jsp](http://www.linktone.com/sec_filings.jsp). In addition, we will provide hardcopies of our annual report free of charge to shareholders and ADS holders upon request.

## **I. Subsidiary Information**

Not applicable.

### **Item 11. Quantitative and Qualitative Disclosures About Market Risk**

#### *Interest Rate Risk*

Our exposure to risk for changes in interest rates relates primarily to our investments in short-term financial instruments in China, Indonesia and Singapore. Investments in both fixed rate and floating rate interest earning instruments carry some interest rate risk. The fair value of fixed rate securities may fall due to a rise in interest rates, while floating rate securities may produce less income than expected if interest rates fall. Partly as a result of this, our future interest income may fall short of expectations due to changes in interest rates, or we may suffer losses in principal if we are forced to sell securities that have fallen in estimated fair value due to changes in interest rates. However, as substantially all of our cash equivalents consist of bank deposits and short-term money market instruments, we do not expect any material change with respect to our net income as a result of an interest rate change.

#### *Foreign Currency Risk*

Our subsidiaries conduct most of their business transactions in their own measurement currencies, and we hold some assets or liabilities in foreign currencies other than measurement currency and the value of these assets and liabilities are subject to foreign currency risks resulting from fluctuations in exchange rates between the foreign-denominated currency and the measurement currency. We have not used hedging transactions to reduce our exposure to exchange rate fluctuations, and we may in the future experience economic loss as a result of any foreign currency exchange rate fluctuations. For more information on foreign currency translations of our financial reporting purpose, see note 2 to our consolidated financial statements beginning on page F-1 in this annual report.

It is possible that the Chinese government may elect to loosen further its current controls over the extent to which the Renminbi is allowed to fluctuate in value in relation to foreign currencies. Our business and the price of our ordinary shares and ADSs could be negatively affected by a revaluation of the Renminbi against the U.S.

dollar or by other fluctuations in prevailing Renminbi- U.S. dollar exchange rates. For example, to the extent that we need to convert U.S. dollars into Renminbi for our operational needs and should the Renminbi appreciate against the U.S. dollar at that time, our cash flows would be reduced which could materially adversely affect our business. Conversely, if we decide to convert our Renminbi into U.S. dollars for the purpose of declaring dividends on our ordinary shares or for other business purposes and the U.S. dollar appreciates against the Renminbi, the U.S. dollar equivalent of our earnings from our subsidiaries in China would be reduced. We also continue to hold Singapore dollars and Indonesian rupiah for our operations and investment purposes. Any significant changes in the exchange rates of those currencies could materially affect our results of operations.

During the year ended December 31, 2011, the foreign currency translation adjustments to our comprehensive income were \$1.7 million and the currency gain was \$1.7 million, primarily as a result of the Chinese Renminbi, Singapore dollar or Indonesian rupiah appreciating against the U.S. dollar. The following is a sensitivity analysis showing the impact of hypothetical changes in the value of the Chinese Renminbi, Singapore Dollar and Indonesian rupiah against the U.S. dollar as of December 31, 2011 on our results for 2011:

<u>Change in the Value of Foreign Currency against the U.S. Dollar from Actual Value as of December 31, 2011</u>	<u>Additional Translation Adjustments to Comprehensive Income (\$)</u>				<u>Additional Transaction Gain/(Loss) (\$)</u>
	<u>Chinese Renminbi</u>	<u>Singapore Dollar</u>	<u>Indonesian Rupiah</u>	<u>Total</u>	
2.5% Appreciation	(2,825,082)	(378,879)	(105,196)	(3,309,157)	(105,904)
5% Appreciation	(5,650,164)	(757,759)	(210,391)	(6,618,314)	(211,809)
2.5% Depreciation	2,825,082	378,879	105,196	3,309,157	105,904
5% Depreciation	5,650,164	757,759	210,391	6,618,314	211,809

#### *Equity Price Risk*

Our exposure to risk for changes in equity prices relates primarily to our investments in publicly traded securities. The fair value of publicly traded securities may fall due to a fall in equity prices. As a result, we may suffer investment losses if we are forced to sell securities at a price that is less than our acquisition price. The following is a sensitivity analysis showing the impact of hypothetical changes in the price of our publicly traded investment as of December 31, 2011.

<u>Change in the price of publicly traded investment</u>	<u>Additional Transaction Gain/(Loss) (\$)</u>
2.5% Appreciation	960,874
5% Appreciation	1,921,748
2.5% Depreciation	(960,874)
5% Depreciation	(1,921,748)

## **Item 12. Description of Securities Other than Equity Securities**

### **A. Debt Securities**

Not applicable.

### **B. Warrants and Rights**

Not applicable.

### **C. Other Securities**

Not applicable.

## D. American Depositary Shares

### Fees and charges our ADS holders may have to pay

JPMorgan Chase Bank, N.A. is our depository. The depository collects its fees for delivery and surrender of ADSs directly from investors depositing ordinary shares or surrendering ADSs for the purpose of withdrawal or from intermediaries acting for them. The depository collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay the fees. The depository may collect its annual fee for depository services by deducting from cash distributions or by directly billing investors or by charging the book-entry system accounts of participants acting for them. The depository may generally refuse to provide services for which fees are chargeable until such fees are paid.

#### ADS holders may have to pay:

US\$5 per 100 ADS

Up to US\$0.02 per ADS

US\$1.5 per certificate presented for transfer

Taxes and other governmental charges the depository or the custodian have to pay on any ADS or ordinary shares underlying an ADS, for example, stock transfer taxes, stamp duty or withholding taxes

Any charges, fees or expenses incurred by the depository or its agents for servicing the deposited securities

#### For:

- Issuance of ADSs, including issuances resulting from a distribution of ordinary shares or rights or other property
- Cancellation or withdrawals of ADSs
- Distribution of ADSs pursuant to stock dividends or stock split
- Distributions of securities other than ADSs or rights to purchase additional ADSs
- Distributions of cash dividends or other cash distributions
- Annual depository services
- Transfer of American depository receipts, or ADRs
- As necessary
- As necessary

### Fees and other payments made by the depository to us

The depository has agreed to reimburse us for certain reasonable expenses related to our ADS program, including expenses for investor relations servicing, investor related presentations, ADS-related advertising and public relations, legal fees and accountants' fee. For the year ended December 31, 2011, we were entitled to receive up to \$160,000 from the depository as reimbursement for such expenses.

The depository paid us \$49,923 as reimbursement for proxy expenses in January 2012 and waived a fee of \$295,000 for program maintenance with respect to the year ended December 31, 2011.

## PART II

### Item 13. Defaults, Dividend Arrearages and Delinquencies

Not Applicable.

### Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds

None.



## **Item 15. Controls and Procedures**

### **Evaluation of Controls and Procedures**

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of the end of the fiscal year covered by this annual report. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of December 31, 2011, our disclosure controls and procedures were not effective because of the material weakness described below under “—Management’s Report on Internal Control over Financial Reporting.” Our disclosure controls and procedures are designed to ensure that information required to be disclosed in reports filed or submitted by us under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely discussions regarding required disclosure.

### **Management’s Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act. Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of our internal control over financial reporting based on criteria established in the Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation, our management has concluded that our internal control over financial reporting as of December 31, 2011 was not effective because they have identified a material weakness in our internal control in relation to revenue recognition for a new business line which was established in the last quarter of 2011 by our Indonesian subsidiary, PT Linktone.

Since the identification of this material weakness, our management performed analysis and procedures to ensure that the consolidated financial statements included in this Annual Report were prepared in accordance with US GAAP. In particular, we have implemented specific measures to remediate the material weakness described above, including providing training to finance personnel of PT Linktone that analysis of new revenue transactions must be in accordance with the requirements of US GAAP. Going forward, the PT Linktone finance team will perform analysis of new revenue transactions in accordance with US GAAP. Our management will continue to monitor, review and evaluate the appropriateness of revenue recognition. We will also continue to provide training to our finance personnel on US GAAP and SEC related matters and to ensure adherence to the above mentioned policy.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

In accordance with applicable laws, this annual report does not include an attestation report of the company’s independent registered public accounting firm regarding internal control over financial reporting because our company did not qualify as an “accelerated filer,” as such term is defined in the rules promulgated under the Exchange Act, with respect to the year ended December 31, 2011.

### **Changes in Internal Control Over Financial Reporting**

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15 or 15d-15 of the Exchange Act that occurred during the period covered by this annual report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

### **Item 16A. Audit Committee Financial Expert**

Our board of directors has determined that during their term of service on our board, Mr. Thomas Hubbs (who was the sole member of our audit committee in 2010 and resigned from our board in February 2011) and Mr. Billy Hsieh (who became the sole member of our audit committee in February 2011), each qualify as an Audit Committee Financial Expert as defined by the applicable rules of the SEC and that they are “independent” as that term is defined in Rule 5605(a)(2) of the NASDAQ Listing Rules.

### **Item 16B. Code of Ethics**

We have adopted a Code of Business Conduct which applies to our employees, officers and non-employee directors, including our principal executive officer, principal financial officer, principal accounting officer or controller, and persons performing similar functions. This code is intended to qualify as a “code of ethics” within the meaning of the applicable rules of the SEC, and has been included as Exhibit 11.1 to our annual report on Form 20-F for the year ended December 31, 2005.

The Code of Business Conduct is available on our website at [www.linktone.com/governance.jsp](http://www.linktone.com/governance.jsp). To the extent required by law, any amendments to, or waivers from, any provision of the Code of Business Conduct will be promptly disclosed to the public. Copies of the Code of Business Conduct will be provided to any shareholder upon written request to the Vice President of Legal Affairs of Linktone Ltd., 27/F, Building 1, Landmark Towers, 8 North East Third Ring Road, Chao Yang District, Beijing 100004, People’s Republic of China.

### **Item 16C. Principal Accountant Fees and Services**

#### **Disclosure of Fees Charged by Independent Registered Public Accounting Firm**

The following table summarizes the fees charged by Ernst & Young Hua Ming, Shanghai (an independent registered public accounting firm engaged by us from September 2009 until September 2011), or E&Y Hua Ming, in 2010 and by Ernst & Young LLP, Singapore, or E&Y (an independent registered public accounting firm engaged by us from September 2011 until the present time), for certain services rendered to our company during 2010 and 2011:

	For the year ended December 31,	
	2010	2011
Audit fees (1)	\$ 823,556	\$ 704,025
Tax-related fees (2)	\$ 59,089	\$ 14,728

- (1) “Audit fees” means the aggregate fees charged in each of the fiscal years listed for our calendar year audits and reviews of financial statements.
- (2) “Tax-related fees” means the aggregate fees charged by E&Y Hua Ming and E&Y in 2010 and 2011 for professional services rendered for tax compliance and permissible tax advisory services.

#### **Audit Committee Pre-approval Policies and Procedures**

Our audit committee has adopted procedures which set forth the manner in which the committee will review and approve all audit and non-audit services to be provided by the independent public accounting firm engaged by us, before that firm is retained for such services. The pre- approval procedures are as follows:

- Any audit or non-audit service to be provided to us by the independent registered public accounting firm must be submitted to our audit committee for review and approval, with a description of the services to be performed and the fees to be charged.
- Our audit committee in its sole discretion then approves or disapproves the proposed services and documents such approval, if given, through written resolutions or in the minutes of meetings, as the case may be.

#### Item 16D. Exemptions from the Listing Standards for Audit Committees

Not applicable.

#### Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers

In August 2011, we announced the resumption of our ADS repurchase program, which had previously been approved by our board of directors in August 2006. At the time of such resumption, our board of directors authorized the purchase of up to \$5.0 million of ADSs over a six-month period. The share repurchase program does not obligate us to purchase any specific amount of ADSs.

The following table sets out certain information concerning purchases by us during 2011 on the open market:

Period	Total number of ADSs purchased	Average price paid per ADS (\$)	Total number of ADSs purchased as part of publicly announced plans or programs	Maximum dollar value of ADSs that may yet be purchased under the plans or programs
September 2011	38,666	0.93	38,666	\$4,964,185
October 2011	75,400	0.86	114,066	\$4,935,330
November 2011	268,307	1.16	382,373	\$4,687,808
December 2011	718,865	1.41	1,101,238	\$3,987,472
<b>Total</b>	<u>1,101,238</u>	<u>1.29</u>	<u>1,101,238</u>	<u>\$3,987,472</u>

#### Item 16F. Change in Registrant's Certifying Accountant

We appointed E&Y as our independent registered public accounting firm with effect from September 15, 2011 at our annual general meeting of our shareholders held on September 15, 2011. The decision to change the independent registered public accounting firm from Ernst & Young Hua Ming, Shanghai, or E&Y Hua Ming, our previous independent registered public accounting firm, to E&Y is in line with the company's strategy to seek expansion opportunities in Southeast Asia following our acquisition of PT Linktone and Innoform in 2010 and the relocation of our corporate finance team and chief financial officer to Singapore. In addition, a detailed review of the audit process by our audit committee together with our board of directors also suggested that a change of the auditors to match the physical location of our corporate finance team was desirable for cost effectiveness and would improve the efficiency of our financial reporting compliance. The decision to appoint E&Y as our new independent registered public accounting firm was approved by the board of directors upon the recommendation of our audit committee. E&Y Hua Ming's resignation became effective on September 15, 2011.

The audit report of E&Y Hua Ming on our consolidated financial statements as of and for the years ended December 31, 2009 and 2010 prepared in accordance with U.S. GAAP did not contain an adverse opinion or disclaimer of opinion and was not qualified or modified as to uncertainty, audit scope or accounting principles except that the disclosures in the accompanying 2009 and 2010 financial statements have been retrospectively adjusted for the change in the composition of reportable segments as discussed in Note 4(t) to the consolidated financial statements.

In connection with the audit of our consolidated financial statements as of and for the years ended December 31, 2009 and 2010, prepared in accordance with U.S. GAAP, and through September 15, 2011, there were no disagreements (as described in Item 16F(a)(1)(iv) of Form 20-F) with E&Y Hua Ming on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of E&Y Hua Ming, would have caused E&Y Hua Ming to make reference to the subject matter of the disagreement in connection with their report.

During the two fiscal years ended December 31, 2010 and through September 15, 2011, there were no "reportable events" (hereinafter defined) requiring disclosure pursuant to Item 16F(a)(1)(v) of Form 20-F. As

used herein, the term “reportable event” means any of the items listed in paragraphs (a)(1)(v)(A)-(D) of Item 16F of Form 20-F.

During the 2009 and 2010 fiscal years and the subsequent interim period prior to the appointment of E&Y as our independent registered public accounting firm, neither we nor anyone on our behalf consulted E&Y regarding either (i) the application of accounting principles to a specified completed or proposed transactions or the type of audit opinion that might be rendered on our financial statements and no written report or oral advice was provided by E&Y to us that E&Y concluded was an important factor considered by us in reaching a decision as to the accounting, auditing or financial reporting issue, or (ii) any matter that was the subject of a disagreement or a reportable event pursuant to Item 16F(a)(2) of Form 20-F.

**We provided a copy of the foregoing disclosure to E&Y Hua Ming and E&Y. Attached as Exhibit 15.1 is a copy of the letter of E&Y Hua Ming addressed to the SEC dated April 27, 2012.**

### **Item 16G. Corporate Governance**

We are an exempted company incorporated in the Cayman Islands and our ADSs have been listed on the NASDAQ Global Market since March 4, 2004. The significant differences between our corporate governance practices and those followed by U.S. domestic companies are as follows.

Rule 5605 of the NASDAQ Listing Rules requires that a majority of the board of directors be independent directors as defined in Rule 5605(a)(2). As of December 31, 2011, our board of directors consisted of four directors, one of which (Billy Hsieh) was determined by our board to be “independent” under Rule 5605(a)(2). This is because we are exempted from the NASDAQ requirement as a “Controlled Company” as defined in Rule 5615 due to the fact that more than 50% of our voting power is held by MNC.

Rule 5605 of the NASDAQ Listing Rules requires that the audit committee of an issuer is comprised of at least three members and that all members of the audit committee and the nominating and compensation committee are independent directors. As of December 31, 2011, we had an audit committee with one member (Billy Hsieh), and a nominating and compensation committee of one member. Our board has determined that Mr. Hsieh is “independent” as the term is defined in Rule 5605(a)(2) of the NASDAQ Listing Rules. Our current nominating and compensation committee member is not an independent director. This home country practice of ours differs from the requirements of the NASDAQ Listing Rules in these areas because there are no specific requirements under Cayman Islands law on the composition of audit committee, nominating committee and compensation committee.

## **PART III**

### **Item 17. Financial Statements**

The Company has elected to provide financial statements pursuant to Item 18.

### **Item 18. Financial Statements**

The consolidated financial statements for Linktone Ltd. and its subsidiaries are included at the end of this annual report.

### **Item 19. Exhibits**

1.1 Amended and Restated Memorandum and Articles of Association of the Company with an amendment dated April 3, 2008 (incorporated by reference to Exhibit 1.1 to Amendment No. 1 to the company’s Annual Report on Form 20F for the year ended December 31, 2007 filed with the SEC on July 17, 2008).

1.2 Amendment dated November 4, 2009 to the Amended and Restated Memorandum and Articles of Association of the Company (incorporated by reference to Exhibit 1.2 to the Company’s Annual Report on Form 20-F for the year ended December 31, 2009 filed with the SEC on June 29, 2010).

2.1 Specimen American Depositary Receipt of the Company (incorporated by reference to Exhibit 1 to the Company’s Registration Statement on Form F-6 (Registration No. 333-112897) as filed with the SEC on February 17, 2004).

2.2 Specimen Share Certificate of the Company (incorporated by reference to Exhibit 4.2 to the Company's Registration Statement on Form F-1 (Registration No. 333-112903) as filed with the SEC on February 17, 2004).

2.3 Amended and Restated Deposit Agreement dated April 26, 2007 among the Company, JPMorgan Chase Bank, N.A. and owners and beneficial owners of the American Depositary Receipts issued thereunder (incorporated by reference to Exhibit A to the Company's Registration Statement on Form F-6 (Registration No. 333-142133) as filed with the SEC on April 16, 2007).

4.1 Form of 2000-1 Employee Stock Option Scheme (incorporated by reference to Exhibit 10.1 to the Company's Registration Statement on Form F-1 (Registration No. 333-112903) as filed with the SEC on February 17, 2004).

4.2 Form of 2003 Stock Incentive Plan (incorporated by reference to Exhibit 10.2 to the Company's Registration Statement on Form F-1 (Registration No. 333-112903) as filed with the SEC on February 17, 2004).

4.3 Form of Indemnification Agreement with the Company's directors and officers (incorporated by reference to Exhibit 10.3 to the Company's Registration Statement on Form F-1 (Registration No. 333-112903) as filed with the SEC on February 17, 2004).

4.4 Translation of Domain Name License Agreement dated as of November 27, 2003 between the Company and Shanghai Weilan Computer Co., Ltd. (incorporated by reference to Exhibit 10.32 to the Company's Registration Statement on Form F-1 (Registration No. 333-112903) as filed with the SEC on February 17, 2004).

4.5 Translation of Domain Name License Agreement dated as of November 27, 2003 between the Company and Shanghai Weilan Computer Co., Ltd. (incorporated by reference to Exhibit 10.32 to the Company's Registration Statement on Form F-1 (Registration No. 333-112903) as filed with the SEC on February 17, 2004).

4.6 Translation of Domain Name License Agreement dated as of November 27, 2003 between Shanghai Linktone Consulting Co., Ltd. and Shanghai Unilink Computer Co., Ltd. (incorporated by reference to Exhibit 10.33 to the Company's Registration Statement on Form F-1 (Registration No. 333-112903) as filed with the SEC on February 17, 2004).

4.7 Translation of Domain Name Assignment Agreement dated as of November 27, 2003 between Shanghai Weilan Computer Co., Ltd. and Shanghai Linktone Consulting Co., Ltd. (incorporated by reference to Exhibit 10.34 to the Company's Registration Statement on Form F-1 (Registration No. 333-112903) as filed with the SEC on February 17, 2004).

4.8 Translation of Domain Name License Agreement dated as of November 27, 2003 between Shanghai Linktone Consulting Co., Ltd. and Shanghai Weilan Computer Co., Ltd. (incorporated by reference to Exhibit 10.35 to the Company's Registration Statement on Form F-1 (Registration No. 333-112903) as filed with the SEC on February 17, 2004).

4.9 Translation of Trademark License Agreement dated as of November 27, 2003 between the Company and Shanghai Weilan Computer Co., Ltd. (incorporated by reference to Exhibit 10.36 to the Company's Registration Statement on Form F-1 (Registration No. 333-112903) as filed with the SEC on February 17, 2004).

4.10 Translation of Trademark License Agreement dated as of November 27, 2003 between the Company and Shanghai Unilink Computer Co., Ltd. (incorporated by reference to Exhibit 10.37 to the Company's Registration Statement on Form F-1 (Registration No. 333-112903) as filed with the SEC on February 17, 2004).

4.11 Translation of Equity Interests Pledge Agreement dated May 12, 2006 between Shanghai Linktone Consulting Co., Ltd. and Yao Baoxin (incorporated by reference to Exhibit 4.48 to the Company's Annual Report on Form 20-F for the year ended December 31, 2006 filed with the SEC on July 13, 2007).

4.12 Translation of Equity Interests Pledge Agreement dated October 16, 2006 between Shanghai Linktone Consulting Co., Ltd. and Wang Wenlei (incorporated by reference to Exhibit 4.49 to the Company's Annual Report on Form 20-F for the year ended December 31, 2006 filed with the SEC on July 13, 2007).

4.13 Translation of Contract Relating to the Exclusive Purchase Right of Equity Interest dated May 12, 2006 among Shanghai Weilan Computer Co., Ltd., Linktone Ltd. and Yao Baoxin (incorporated by reference to Exhibit 4.50 to the Company's Annual Report on Form 20-F for the year ended December 31, 2006 filed with the SEC on July 13, 2007).

4.14 Translation of Contract Relating to the Exclusive Purchase Right of Equity Interest dated October 16, 2006 among Shanghai Weilan Computer Co., Ltd., Linktone Ltd. and Wang Wenlei (incorporated by reference to Exhibit 4.51 to the Company's Annual Report on Form 20-F for the year ended December 31, 2006 filed with the SEC on July 13, 2007).

4.15 Translation of Loan Agreement dated May 12, 2006 between Linktone Ltd. and Yao Baoxin (incorporated by reference to Exhibit 4.52 to the Company's Annual Report on Form 20-F for the year ended December 31, 2006 filed with the SEC on July 13, 2007).

4.16 Translation of Loan Agreement dated October 16, 2006 between Linktone Ltd. and Wang Wenlei (incorporated by reference to Exhibit 4.53 to the Company's Annual Report on Form 20-F for the year ended December 31, 2006 filed with the SEC on July 13, 2007).

4.17 Translation of Operating Agreement dated October 16, 2006 among Shanghai Linktone Consulting Co., Ltd., Shanghai Weilan Computer Co., Ltd., Wang Wenlei and Yao Baoxin (incorporated by reference to Exhibit 4.54 to the Company's Annual Report on Form 20-F for the year ended December 31, 2006 filed with the SEC on July 13, 2007).

4.18 Translation of Power of Attorney made by Yao Baoxin on May 12, 2006 (incorporated by reference to Exhibit 4.55 to the Company's Annual Report on Form 20-F for the year ended December 31, 2006 filed with the SEC on July 13, 2007).

4.19 Translation of Power of Attorney made by Wang Wenlei on October 16, 2006 (incorporated by reference to Exhibit 4.56 to the Company's Annual Report on Form 20-F for the year ended December 31, 2006 filed with the SEC on July 13, 2007).

4.20 Loan agreement dated October 10, 2008 between Linktone Ltd. and GLD Investments Pte. Ltd. (incorporated by reference to Exhibit 4.36 to the Company's Annual Report on Form 20-F for the year ended December 31, 2008 filed with the SEC on June 19, 2009).

4.21 Translation of Exclusive Consulting and Services Agreement dated January 1, 2009 between Shanghai Linktone Consulting Co., Ltd. and Shanghai Weilan Computer Co., Ltd. (incorporated by reference to Exhibit 4.24 to the Company's Annual Report on Form 20-F for the year ended December 31, 2009 filed with the SEC on June 29, 2010).

4.22 Translation of Software License Agreement dated January 1, 2009 between Shanghai Huitong Information Co., Ltd. and Shanghai Weilan Computer Co., Ltd. (PETS Cellphone Games Software) (incorporated by reference to Exhibit 4.25 to the Company's Annual Report on Form 20-F for the year ended December 31, 2009 filed with the SEC on June 29, 2010).

4.23 Translation of Software License Agreement dated January 1, 2009 between Shanghai Huitong Information Co., Ltd. and Shanghai Qimingxing E-commerce Co., Ltd. (PETS Cellphone Games Software) (incorporated by reference to Exhibit 4.26 to the Company's Annual Report on Form 20-F for the year ended December 31, 2009 filed with the SEC on June 29, 2010).

4.24 Translation of Software License Agreement dated January 1, 2009 between Shanghai Linktone Internet Technology Co., Ltd. and Shanghai Weilan Computer Co., Ltd. (IVR Background Operating Software System V1.0) (incorporated by reference to Exhibit 4.27 to the Company's Annual Report on Form 20-F for the year ended December 31, 2009 filed with the SEC on June 29, 2010).

4.25 Translation of Software License Agreement dated January 1, 2009 between Shanghai Huitong Information Co., Ltd. and Beijing Lianfei Wireless Communications Technology Company Limited (Linktone Photos and Tones Cellphone Software V1.0) (incorporated by reference to Exhibit 4.28 to the Company's Annual Report on Form 20-F for the year ended December 31, 2009 filed with the SEC on June 29, 2010).

4.26 Equity Interest Purchase and Capital Increase Agreement dated January 6, 2010 among Shanghai Weilan Computer Co., Ltd., Hefei Baofeng Cartoon Information Technology Co., Ltd. and Hefei Letang Cartoon Information Technology Co., Ltd. (incorporated by reference to Exhibit 4.30 to the Company's Annual Report on 20-F for the year ended December 31, 2010 filed with the SEC on June 30, 2010).

4.27 Equityholders Agreement dated January 6, 2010 among Shanghai Weilan Computer Co., Ltd., Hefei Baofeng Cartoon Information Technology Co., Ltd. and Hefei Letang Cartoon Information Technology Co., Ltd. (incorporated by reference to Exhibit 4.31 to the Company's Annual Report on 20-F for the year ended December 31, 2010 filed with the SEC on June 30, 2010).

4.28 Appointment Letter dated May 1, 2010 between InnoForm Media Pte Ltd and Peck Joo Tan (incorporated by reference to Exhibit 4.32 to the Company's Annual Report on 20-F for the year ended December 31, 2010 filed with the SEC on June 30, 2010).

8.1\* List of Principal Subsidiaries and Affiliated Variable Interest Entities of the Company.

11.1 Code of Business Conduct (incorporated by reference to Exhibit 11.1 to the Company's Annual Report on Form 20-F for the year ended December 31, 2004 filed with the SEC on June 30, 2005).

12.1\* Certification of Chief Executive Officer Required by Rule 13a-14(a).

12.2\* Certification of Chief Financial Officer Required by Rule 13a-14(a).

13.1\* Certification of Chief Executive Officer Required by Rule 13a-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code.

13.2\* Certification of Chief Financial Officer Required by Rule 13a-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code.

15.1\* Letter from Ernst & Young Hua Ming, Independent Registered Public Accounting Firm, pursuant to Item 16F

15.2\* Consent of Ernst & Young Hua Ming, Independent Registered Public Accounting Firm

15.3\* Consent of Ernst & Young LLP Singapore, Independent Registered Public Accounting Firm

15.4\* Consent of Walkers

15.5\* Consent of Jun He Law Offices

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\* Filed with this Annual Report on Form 20-F.



**SIGNATURES**

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

**LINKTONE LTD.**

By: /s/ Hary Tanoesoedibjo

Hary Tanoesoedibjo

Chief Executive Officer

Date: April 27, 2012

**LINKTONE LTD. AND SUBSIDIARIES**  
**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

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## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders of Linktone Ltd.

We have audited the accompanying consolidated balance sheet of Linktone Ltd. (the “Company”) and its subsidiaries (together, the “Group”) as of December 31, 2011, and the related consolidated statements of operations and comprehensive income/(loss), changes in shareholders’ equity and cash flows for the year ended December 31, 2011. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company’s internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our 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, 2011, 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.

/s/ Ernst & Young LLP  
Singapore

April 27, 2012

## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders of Linktone Ltd.

We have audited the accompanying consolidated balance sheet of Linktone Ltd. (the “Company”) and its subsidiaries (together, the “Group”) as of December 31, 2010, and the related consolidated statements of operations and comprehensive income/(loss), changes in shareholders’ equity and cash flows for each of the two years ended December 31, 2010. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company’s internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2010, and the consolidated results of their operations and their cash flows for each of the two years ended December 31, 2010, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 4(t) to the consolidated financial statements, the disclosures in the accompanying 2009 and 2010 financial statements have been retrospectively adjusted for the change in the composition of reportable segments.

/s/ Ernst & Young Hua Ming  
Shanghai, People’s Republic of China

June 30, 2011,  
except for Notes 4(t) and 22, as to which the date is April 27, 2012

**LINKTONE LTD. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
(In U.S. dollars, except number of shares)

	Note	As of December 31,	
		2010	2011
		\$	\$
<b>Assets</b>			
<b>Current assets:</b>			
Cash and cash equivalents	7	58,875,399	40,921,818
Restricted cash	8	573,784	603,088
Short-term investments	9	33,809,913	56,584,958
Accounts receivable, net	11	15,491,479	17,048,783
Tax refund receivable		2,767,084	1,177,761
Inventories	12	2,304,716	1,881,749
Due from related parties	28	2,398,114	2,375,450
Deferred tax assets	26	1,254,529	486,176
Deposits and other current assets	13	6,584,246	5,702,726
<b>Total current assets</b>		<b>124,059,264</b>	<b>126,782,509</b>
Property and equipment, net	14	11,796,390	11,195,432
Non-current assets held for sale	15	819,578	814,878
Intangible assets, net	16	11,546,227	9,525,908
Goodwill	6, 17	40,483,355	40,483,355
Deferred tax assets	26	72,480	369,706
Other long-term assets	18	2,499,426	1,024,442
<b>Total assets</b>		<b>191,276,720</b>	<b>190,196,230</b>
<b>Liabilities and shareholders' equity</b>			
<b>Current liabilities:</b>			
Account payable, accrued liabilities and other payables	19	22,971,156	14,980,545
Due to related parties	28	1,074,250	16,198
Short-term loans	20	3,153,697	4,781,181
Taxes payable		3,696,039	4,088,188
Deferred revenue		402,139	387,149
Deferred tax liabilities	26	1,078,403	126,034
<b>Total current liabilities</b>		<b>32,375,684</b>	<b>24,379,295</b>
Deferred tax liabilities	26	1,743,466	2,761,348
Long-term loan	20	1,037,894	511,878
Other long-term liabilities	21	2,412,068	67,688
<b>Total liabilities</b>		<b>37,569,112</b>	<b>27,720,209</b>
<b>Shareholders' equity</b>			
Ordinary shares (\$0.0001 par value; 500,000,000 shares authorized, 421,130,130 shares issued and outstanding as of December 31, 2010 and 421,130,130 shares issued and 410,422,650 outstanding as of December 31, 2011)		42,113	42,144
Additional paid-in capital		137,581,956	137,745,875
Treasury stock		—	(1,425,204)
Statutory reserves	25	2,466,165	2,466,165
Accumulated other comprehensive income:			
Unrealized gain on investment in marketable securities		2,376,723	4,453,157
Cumulative translation adjustments		9,306,938	10,973,973
Accumulated losses		(19,689,371)	(14,425,929)
<b>Total shareholders' equity</b>		<b>132,084,524</b>	<b>139,830,181</b>
Non-controlling interest		21,623,084	22,645,840
<b>Total shareholders' equity</b>		<b>153,707,608</b>	<b>162,476,021</b>
<b>Total liabilities and shareholders' equity</b>		<b>191,276,720</b>	<b>190,196,230</b>

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,		
		2009	2010	2011
		\$	\$	\$
Gross revenue from non-related parties		61,516,694	69,878,417	55,742,117
Gross revenue from related parties	28	700,000	1,829,608	4,935,056
<b>Gross revenue</b>	22	<b>62,216,694</b>	<b>71,708,025</b>	<b>60,677,173</b>
Sales tax		(2,303,289)	(2,087,121)	(1,591,748)
Net revenue		59,913,405	69,620,904	59,085,425
Cost of revenue		(38,941,272)	(47,137,394)	(36,202,433)
<b>Gross profit</b>		<b>20,972,133</b>	<b>22,483,510</b>	<b>22,882,992</b>
Operating expenses:				
Product development		(3,316,507)	(2,811,783)	(3,230,445)
Selling and marketing		(9,318,469)	(8,377,743)	(8,566,257)
General and administrative		(8,220,999)	(12,325,334)	(12,638,207)
Reversal of contingent consideration payable		—	—	1,618,816
(Provision for impairment)/Gain on recovery of bad debt		(2,068,127)	(1,102,265)	110,425
Total operating expenses		(22,924,102)	(24,617,125)	(22,705,668)
<b>Operating (loss)/income</b>		<b>(1,951,969)</b>	<b>(2,133,615)</b>	<b>177,324</b>
Interest income, net of financial expenses from non-related parties		1,289,495	2,192,999	2,398,065
Interest income, net of financial expenses from related parties		325,080	85,594	—
Other income/(loss), net of other expenses		431,005	701,884	(264,934)
Dividend income from short-term investments		—	—	314,300
Gain on sales of short-term investments	9	—	—	4,962,873
Income from continuing operations before income tax		93,611	846,862	7,587,628
Income tax expense	26	(579,270)	(1,439,261)	(1,299,981)
<b>(Loss)/income from continuing operations</b>		<b>(485,659)</b>	<b>(592,399)</b>	<b>6,287,647</b>
<b>Income from discontinued operations</b>	5	<b>596,551</b>	<b>315,256</b>	<b>—</b>
<b>Net income/(loss)</b>		<b>110,892</b>	<b>(277,143)</b>	<b>6,287,647</b>
Net loss attributable to non-controlling interest		—	(301,582)	(1,024,205)
<b>Net income/(loss) attributable to ordinary shareholders of the Company</b>		<b>110,892</b>	<b>(578,725)</b>	<b>5,263,442</b>
<b>Basic earnings/(loss) per ordinary share:</b>				
Continuing operations		0.00	0.00	0.01
Discontinued operations		0.00	0.00	0.00
Net income/(loss)		0.00	0.00	0.01
<b>Diluted earnings/(loss) per ordinary share:</b>				
Continuing operations		0.00	0.00	0.01
Discontinued operations		0.00	0.00	0.00
Net income/(loss)		0.00	0.00	0.01
<b>Weighted-average number of ordinary shares:</b>				
Basic		420,677,724	420,980,146	420,041,022
Diluted		420,677,724	420,980,146	420,088,521
<b>Comprehensive income/(loss):</b>				
Net income/(loss)		110,892	(277,143)	6,287,647
Other comprehensive income:				
Foreign currency translation adjustment		(145,899)	2,298,216	1,665,586
Unrealized gain on investment in marketable securities		437,250	1,939,473	2,076,434
<b>Comprehensive income, net of tax</b>		<b>402,243</b>	<b>3,960,546</b>	<b>10,029,667</b>
Comprehensive income attributable to non-controlling interest, net of tax		—	(510,147)	(950,532)
<b>Comprehensive income attributable to ordinary shareholders of the Company, net of tax</b>		<b>402,243</b>	<b>3,450,399</b>	<b>9,079,135</b>

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	Accumulated other comprehensive income	Cumulative Translation Adjustments	Accumulated losses	Non-Controlling interest	Total Shareholders' equity
	Shares	Amount								
<b>Balance as of December 31, 2008</b>	420,636,230	42,063	—	137,560,175	2,466,165	—	7,363,186	(19,221,538)	—	128,210,051
Issuance of ordinary shares from exercise of stock options	120,200	12	—	11,828	—	—	—	—	—	11,840
Stock-based compensation	—	—	—	266,887	—	—	—	—	—	266,887
Other comprehensive income/ (loss):										
Translation adjustment	—	—	—	—	—	—	(145,899)	—	—	(145,899)
Unrealized gain on investment in marketable securities	—	—	—	—	—	437,250	—	—	—	437,250
Net income	—	—	—	—	—	—	—	110,892	—	110,892
<b>Balance as of December 31, 2009</b>	<b>420,756,430</b>	<b>42,075</b>	<b>—</b>	<b>137,838,890</b>	<b>2,466,165</b>	<b>437,250</b>	<b>7,217,287</b>	<b>(19,110,646)</b>	<b>—</b>	<b>128,891,021</b>
Issuance of ordinary shares from exercise of stock options	373,700	38	—	36,772	—	—	—	—	—	36,810
Stock-based compensation	—	—	—	204,949	—	—	—	—	—	204,949
Acquisition of subsidiaries	—	—	—	—	—	—	—	—	20,614,282	20,614,282
Capital contributed to subsidiaries (Note 6)	—	—	—	(498,655)	—	—	—	—	498,655	—
Other comprehensive income:										
Translation adjustment	—	—	—	—	—	—	2,089,651	—	208,565	2,298,216
Unrealized gain on investment in marketable securities	—	—	—	—	—	1,939,473	—	—	—	1,939,473
Net loss	—	—	—	—	—	—	—	(578,725)	301,582	(277,143)
<b>Balance as of December 31, 2010</b>	<b>421,130,130</b>	<b>42,113</b>	<b>—</b>	<b>137,581,956</b>	<b>2,466,165</b>	<b>2,376,723</b>	<b>9,306,938</b>	<b>(19,689,371)</b>	<b>21,623,084</b>	<b>153,707,608</b>
Issuance of ordinary shares from exercise of stock options	304,900	31	—	30,002	—	—	—	—	—	30,033
Share repurchase	(11,012,380)	—	(1,425,204)	—	—	—	—	—	—	(1,425,204)
Stock-based compensation	—	—	—	133,917	—	—	—	—	—	133,917
Other comprehensive income:										
Translation adjustment	—	—	—	—	—	—	1,667,035	—	(1,449)	1,665,586
Unrealized gain on investment in marketable securities	—	—	—	—	—	2,076,434	—	—	—	2,076,434
Net income	—	—	—	—	—	—	—	5,263,442	1,024,205	6,287,647
<b>Balance as of December 31, 2011</b>	<b>410,422,650</b>	<b>42,144</b>	<b>(1,425,204)</b>	<b>137,745,875</b>	<b>2,466,165</b>	<b>4,453,157</b>	<b>10,973,973</b>	<b>(14,425,929)</b>	<b>22,645,840</b>	<b>162,476,021</b>

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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,		
	2009	2010	2011
	\$	\$	\$
<b>Cash flow from operating activities</b>			
Net income/(loss)	110,892	(277,143)	6,287,647
Less: Income from discontinued operations	(596,551)	(315,256)	—
(Loss)/income from continuing operations	(485,659)	(592,399)	6,287,647
Adjustments to reconcile net income/(loss) from continuing operations to net cash provided by continuing operating activities:			
Stock-based compensation expense	266,887	204,949	133,917
Loss on disposal/write off of property and equipment	41,964	12,828	27,695
Provision for impairment, net	2,068,127	1,102,264	—
Depreciation	556,239	721,451	815,532
Amortization of intangible assets	65,199	1,550,691	2,152,750
Amortization of other long-term assets	112,092	—	—
Provision for doubtful debts	697,247	118,594	605,977
Deferred income tax expense/(benefit)	564,381	(365,966)	536,640
Foreign exchange (gain)/loss	(222,887)	(706,033)	153,454
Dividend income	—	—	(314,300)
Realized gain on short-term investments	—	—	(4,962,873)
Reversal of contingent consideration payable	—	—	(1,618,816)
Changes in assets and liabilities, net of effect of acquisitions:			
Decrease/(increase) in accounts receivable	1,231,262	2,265,145	(1,084,576)
(Increase)/decrease in tax refund receivable	(711,191)	(727,482)	1,680,469
(Increase)/decrease in deposits and other assets	(790,023)	1,598,515	161,639
(Increase)/decrease in inventories	—	(217,868)	411,828
Increase in restricted cash	—	(573,784)	—
(Increase)/decrease in other assets	—	(742,423)	1,354,024
(Decrease)/increase in taxes payable	(1,076,765)	481,766	258,553
Increase/(decrease) in long-term liabilities	—	735,718	(871,910)
Decrease in accounts payable, accrued liabilities and other payables and due to related parties	(1,770,189)	(3,628,404)	(2,581,377)
Net cash provided by operating activities of continuing operations	546,684	1,237,562	3,146,273
Net cash provided by operating activities of discontinued operations	4,395,367	—	—
Net cash provided by operating activities	4,942,051	1,237,562	3,146,273
<b>Cash flow from investing activities:</b>			
Proceeds from sale of short-term investments	—	7,584,758	28,389,570
Proceeds from disposal of property and equipment	5,990	1,997,317	73,101
Loans repayment from related party	—	10,087,400	—
Settlement of loans receivable	395,257	—	—
Loan to associates	—	(1,250,000)	—
Purchase of property and equipment	(102,920)	(1,013,333)	(417,909)
Loans advanced to related parties	(1,901,700)	—	—
Loan repayment to related parties	—	(9,214,669)	—
Cash paid for short-term investments	(4,877,594)	(20,118,750)	(43,714,750)
Cash paid for business acquisitions, net of cash acquired (Note 6)	—	(13,759,012)	(6,738,127)
Dividend income received	—	—	314,300
Net cash used in investing activities	(6,480,967)	(25,686,289)	(22,093,815)

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)

	<b>For the year ended December 31,</b>		
	<b>2009</b>	<b>2010</b>	<b>2011</b>
	\$	\$	\$
<b>Cash flow from financing activities:</b>			
Share repurchase	—	—	(1,425,204)
Cash received from bank borrowings	—	3,188,283	2,381,454
Repayment of bank loan	—	—	(1,128,444)
Proceeds from the exercise of stock options	11,840	38	30,033
Cash paid for cost incurred in connection with issuance of new shares	(450,000)	—	—
Net cash (used in)/provided by financing activities	(438,160)	3,188,321	(142,161)
Effect of exchange rate change on cash and cash equivalents	(139,594)	658,652	1,136,122
<b>Net decrease in cash and cash equivalents</b>	<b>(2,116,670)</b>	<b>(20,601,754)</b>	<b>(17,953,581)</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>81,593,823</b>	<b>79,477,153</b>	<b>58,875,399</b>
<b>Cash and cash equivalents, end of year</b>	<b>79,477,153</b>	<b>58,875,399</b>	<b>40,921,818</b>
	<b>Year ended December 31,</b>		
	<b>2009</b>	<b>2010</b>	<b>2011</b>
	\$	\$	\$
<b>Supplemental disclosures of cash flow information</b>			
Business and other taxes on revenues	(5,648,133)	(3,717,443)	(1,956,302)
Value-added tax refund	2,326,649	1,642,170	2,974,741
Income tax paid	(993,747)	(426,256)	(926,811)
Interest paid	—	(41,365)	(237,629)
<b>Supplemental disclosures of non-cash activities</b>			
Conversion of MCB to the interests in PT Linktone (Note 6 (c))	—	13,168,568	—
Business acquisitions included in the other payables (Note 6)	—	8,123,835	—

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

**LINKTONE LTD. AND SUBSIDIARIES**  
**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”) is a provider of (i) telecom value-added services (“VAS”) in People’s Republic of China (“PRC”) and Indonesia; (ii) mobile and online PC game services to consumers and enterprises in the PRC; and (iii) video and audio distribution and related services in Singapore, Malaysia, Vietnam and Hong Kong. As of December 31, 2011, Linktone is 59.7% owned by PT. Media Nusantara Citra Tbk, an Indonesian corporation (“MNC”).

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:

<u>Name of Subsidiary</u>	<u>Name in Short Form</u>	<u>Note</u>	<u>Principal Business</u>	<u>Group Equity Interest</u>	<u>Country of Incorporation</u>
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		Software development	100% by Noveltech Enterprise Limited	PRC
Shanghai Xintong Information Technology Co., Ltd.	Xintong		Software development; Dormant	100% by Noveltech Enterprise Limited	PRC
Shanghai Linktone Software Co., Ltd.	Linktone Software		Software development	100% by Linktone	PRC
Beijing Ruida Internet Technology Co., Ltd.	Ruida		Software development; Dormant	100% by Ojava Overseas Ltd	PRC

**LINKTONE LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(In U.S. dollars, unless otherwise stated)

<u>Name of Subsidiary</u>	<u>Name in Short Form</u>	<u>Note</u>	<u>Principal Business</u>	<u>Group Equity Interest</u>	<u>Country of Incorporation</u>
InnoForm Media Pte Ltd	InnoForm Media		Publisher, licensee, importer, exporter and distribution of entertainment programs	75% by Linktone International Limited; Acquired in March 2010	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
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 Digital		Supplying and leasing of karaoke-on-demand hardware and software	100% by InnoForm Media Pte Ltd	Singapore

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

<u>Name of Subsidiary</u>	<u>Name in Short Form</u>	<u>Note</u>	<u>Principal Business</u>	<u>Group Equity Interest</u>	<u>Country of Incorporation</u>
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		Provides information technology and publishing services	98.7% by InnoForm Media Pte Ltd Singapore	Singapore
PT Linktone Indonesia	PT Linktone		Provides telecom VAS	51% by Linktone International Acquired in June 2010	Indonesia

**LINKTONE LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(In U.S. dollars, unless otherwise stated)

<u>Name of Variable Interest Entity (“VIE”)</u>	<u>Name in Short Form</u>	<u>Note</u>	<u>Principal Business</u>	<u>Group Equity Interest</u>	<u>Loan to Nominee Shareholders \$’000</u>	<u>Country of Incorporation</u>
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
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

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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
PT Cakrawala Alam Semesta	Cakrawala		Investment holding company	100% by Indonesian individuals affiliated with Linktone	Nil each	Indonesia

- (i) Controlled through contractual agreements and is 50% owned by each of two of the Company's employees / former employees.

In April 2008, MNC, through its wholly owned subsidiary incorporated in the Cayman Islands, MNC International Limited ("MIL"), acquired approximately 6 million American Depositary Shares ("ADSs") in a tender offer process and subscribed for approximately 180 million newly issued ordinary shares of Linktone for total consideration of \$68.4 million. After giving effect to the subscription, the acquisition of ADSs and ordinary shares in the tender offer, MNC held approximately 57.1% of Linktone's total outstanding ordinary shares and became the majority shareholder of Linktone.

In May 2010, MNC, through MIL, acquired an additional 0.5 million ADSs from a third party through a privately negotiated transaction. After this acquisition, MNC held approximately 58.2% of Linktone's total outstanding ordinary shares.

Between August 2011 and February 2012, the Company repurchased 12,191,210 shares in the open market purchases. As a result, MNC's shareholding as at December 31, 2011 increased to 59.7% and to 59.9% as at February 29, 2012.

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. In addition, to comply with Indonesian laws and regulations that prohibit foreign ownership of investment holding companies, the Company holds its short-term investments in Indonesia via Cakrawala, its VIE located in Indonesia. These VIEs are wholly owned by individuals authorized by the Company, majority of whom are either employees or former employees of the Group. 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.

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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.

*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. These powers of attorney do not extend to votes by the shareholders of the Company or its subsidiaries.

*Operating Agreements*

The VIEs have granted the Company a security interest over all of their assets. The Company has the right of first refusal with respect to future loan guarantees. 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, as well as accept the Company's guidance regarding their day-to-day operations, financial management and the hiring and dismissal of their employees. 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 services agreements are renewable every year. 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.

*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](http://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](http://www.linktone.com)) in December 2006.

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*Contracts Relating to the Exclusive Purchase Right of Equity Interest*

The Company or the Company's designee have an exclusive option to purchase from each such shareholder all or part of his or her equity interest in the VIEs at book value, to the extent permitted by Chinese law. The term of these agreements is 10 years, renewable by the Company for an additional 10-year term at the Company's 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, 2010 and 2011 were \$14.0 million in aggregate.

*Equity Interests Pledge Agreements*

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 and Software License Agreements described above. If the VIEs breach any of their obligations under the Equity Interests Pledge Agreements, the Company is entitled to sell the equity interests held by the relevant shareholders, and retain the proceeds of such sale or require any of them to transfer to the Company his or her equity interest in the applicable affiliated entity.

Despite the lack of technical majority ownership, there exists a parent-subsidary relationship between the Company, through its direct ownership of the WFOEs, 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 Company believes that its contractual arrangements with the VIEs in PRC and Indonesia are in compliance with applicable laws and are legally 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.

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As of December 31, 2010 and 2011, the carrying amount of the aggregate total assets and total liabilities of the VIEs is as follows (in millions of U.S. dollars):

	<u>2010</u>	<u>2011</u>
	\$	\$
<b>PRC</b>		
Total assets	53.5	48.1
Total liabilities	9.3	7.9
<b>Indonesia</b>		
Total assets	15.8	16.5
Total liabilities	0.5	0.3

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, 2011, the Company does not hold any investments accounted for under the cost or equity method.

The Company consolidates the VIEs in accordance with Securities and Exchange Commission (“SEC”) Rule SX-3A-02 and Accounting Standards Codification (“ASC”) subtopic 810-10 *Consolidation: Overall*, through the signed Contractual Agreements. The Company is required to continue to consolidate the VIEs under the guidance in Accounting Standards Update (“ASU”) 2009-17 effective January 1, 2010, because the Company has determined that 1) the WOFEs are most closely associated with the VIEs among the members of the related party group who share the power to direct the activities of the VIEs that most significantly impact their economic performance, and 2) has the obligation to absorb losses or the right to receive benefits of the VIEs that could potentially be significant to the VIEs.

*Foreign currency*

The accompanying consolidated financial statements are presented in U.S. dollars (“US\$”). The functional currency of the Company is US\$ while those of the Company’s operating subsidiaries and consolidated VIEs in the PRC, Singapore and Indonesia are the Renminbi (“RMB”), 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 in the PRC, Singapore and Indonesia 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.



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**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, 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 equivalents and restricted cash*

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.

Cash that is legally restricted for withdrawal or use is recorded as restricted cash.

*(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. The marketable securities are classified as available-for-sale and carried at estimated fair value with unrealized gains or losses recorded as a component of accumulated other comprehensive income in shareholders' equity. Realized gains or losses are recognized in the statement of operations during the period in which the gain or loss is realized. If the Company determines a decline in fair value is other than temporary, the cost basis of the individual security is written down to fair value as a new cost basis and the amount of the write-down is accounted for as a realized loss. The new cost basis will not be changed for subsequent recoveries in fair value. Determination of whether declines in value are other-than-temporary requires significant judgment and consideration of various factors including the severity and duration of the impairment, anticipated recovery, financial condition and near-term prospects of the investee, and our ability and intent to hold that security until the anticipated recovery in value occurs. Subsequent increases and decreases in the fair value of available-for-sale investments are included in comprehensive income except for an other-than-temporary impairment, which is recognized in the statement of operations.

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.

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.

*(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

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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) Prepaid 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. The amounts paid are recorded as prepaid 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. For the years ended December 31, 2010 and 2011, the Group recorded a provision for stock obsolescence of \$51,725 and \$83,758 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.

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*(g) Intangible assets*

The Company 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. In December 2009, an impairment charge of \$2.5 million was recorded against goodwill assigned to the PC game reporting unit. No impairment of goodwill was recorded in 2010 and 2011.

The Company performed its annual goodwill impairment test as of December 31, 2011, and did not incur any impairment charge. The Company 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, the Company may be required to record impairment charges at a later date, which could materially and adversely affect our financial results.

*(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.” The Company assesses the recoverability of its long-lived assets by comparing

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the carrying amount to the estimated future undiscounted cash flows associated with the related assets. The Company recognizes impairment of long-lived assets in the event that the net book value of such assets exceeds the estimated future undiscounted cash flows attributable to such assets. The Company 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 2009, 2010 or 2011.

*(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.

China VAS, mobile game & PC game

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"), Java™ ("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.

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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 adjust the cost of revenue by adjusting the design or marketing of the 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.

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, 2009, 2010, and 2011, 1.0%, 1.6% and 3.3% , respectively, of the Group's revenues were based on management's estimate.

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 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.

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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. 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, 2010 and 2011, an immaterial amount of the Group's revenues from Indonesia was based on management's estimate.

Media contents

The Group's media sales arrangements are evidenced by individual 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.

*(l) Income and other taxes*

The Group accounts for income taxes pursuant to ASC 740-10, "Income Taxes — Overall," 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 740-10, 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.

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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%. The Group is entitled to a tax refund equivalent to the portion of VAT expense in excess of 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%. 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%. The export of goods from Indonesia is zero-rated (i.e., subject to VAT at 0%).

*(m) Advertising expenses*

Advertising expenses generally represent the cost of promoting the Group’s products and services and are expensed as incurred. Advertising expenses totaled \$3,575,313, \$1,892,109 and \$2,410,975 during the years ended December 31, 2009, 2010 and 2011 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 on a straight-line basis 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.

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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.

*(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.

The Company also provides long-term employment benefit other than pension which are unfunded.

*(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 \$382,836, \$467,809 and \$20,406 during the years ended December 31, 2009, 2010 and 2011, respectively.

*(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



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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). Diluted net income or loss per share for 2009 and 2010 excluded the potentially dilutive effect of 0.6 million and 0.3 million options to purchase ordinary shares, respectively, as their effect was anti-dilutive.

*(s) Fair value of financial instruments*

The Company 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, restricted cash, 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 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 2009, the Group operated in two business segments, namely (i) China VAS & mobile game and (ii) PC game. In 2010, the Group operated in four business segments, namely (i) China VAS & mobile game, (ii) Indonesia VAS, (iii) Media content, and (iv) PC game. 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. The reported segment information for 2009 and 2010 has been retrospectively adjusted in order to conform to the change in segment presentation in 2011.

*(u) Comparative information*

Certain items in prior years’ consolidated financial statements have been reclassified to conform to the current period’s presentation to facilitate comparison.

*(v) Recent accounting pronouncements*

In December 2011, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2011- 11, Disclosures about Offsetting Assets and Liabilities. The revised guidance specifies that an entity should disclose

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both gross information and net information about both instruments and transactions eligible for offset in the statement of financial position and instruments and transactions subject to an agreement similar to a master netting arrangement. The revised guidance affects all entities that have financial instruments and derivative instruments. The revised guidance is effective for interim or annual periods beginning after January 1, 2013. The Company is currently evaluating the impact on its consolidated financial statements of adopting this guidance.

In September 2011, the FASB issued ASU No. 2011- 08, Testing of Goodwill for Impairment. The revised guidance specifies that an entity has the option to first assess qualitative factors to determine whether it is necessary to perform the current two-step test. If an entity believes, as a result of its qualitative assessment, that it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount, the quantitative impairment test is required. Otherwise, no further testing is required. An entity can choose to perform the qualitative assessment on none, some or all of its reporting units. Moreover, an entity can bypass the qualitative assessment for any reporting unit in any period and proceed directly to step one of the impairment test, and then resume performing the qualitative assessment in any subsequent period. The revised guidance is effective to both public and nonpublic entities that have goodwill reported in their financial statements during interim and annual periods beginning after December 15, 2011. The Company is currently evaluating the impact on its consolidated financial statements of adopting this guidance.

In June 2011, the FASB issued ASU No. 2011- 05, Presentation of Comprehensive Income. The new guidance eliminates the current option to report other comprehensive income and its components in the statement of changes in equity. Instead, an entity will be required to present either a continuous statement of net income and other comprehensive income or in two separate but consecutive statements. The new guidance will be effective for the Company beginning January 1, 2012.

In May 2011, the FASB issued ASU No. 2011- 04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirement in U.S. GAAP and IFRS. The new guidance limits the highest-and-best-use measure to nonfinancial assets, permits certain financial assets and liabilities with offsetting positions in market or counterparty credit risks to be measured at a net basis, and provides guidance on the applicability of premiums and discounts. Additionally, the new guidance expands the disclosures on Level 3 inputs by requiring quantitative disclosure of the unobservable inputs and assumptions, as well as description of the valuation processes and the sensitivity of the fair value to changes in unobservable inputs. The new guidance will be effective for the Company beginning January 1, 2012. Other than requiring additional disclosures, the Company does not anticipate any material impact on its consolidated financial statements upon adoption.

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**5 Discontinued operations**

The Group discontinued its television advertising operations by terminating its partnership agreements with CYL in association with QTV in July 2008 and TJSTV in September 2008. The terminations were in line with the Group's decision to streamline its operations and return its focus on profitable business segments. As a result of the above terminations, the television advertising business was accounted for as a discontinued operation. Accordingly, the results of the advertising business have been classified as discontinued operations in the consolidated statements of operations and comprehensive income.

	Year ended December 31,		
	2009	2010	2011
	\$	\$	\$
Gross revenues	—	—	—
Sales tax	—	—	—
Cost of revenue	—	—	—
	—	—	—
Gross loss	—	—	—
Operating income	596,551	315,256	—
Provision for impairment	—	—	—
	596,551	315,256	—
Net income from discontinued operations before tax	596,551	315,256	—
Tax benefit	—	—	—
	596,551	315,256	—
Net income from discontinued operations	596,551	315,256	—

At the discontinuance of the advertising operations, the Group performed a specific review on all the assets and liabilities related to the advertising segment, and provided an allowance for doubtful accounts and impaired other receivables, intangible assets and other long-term assets. All fixed assets previously used by the advertising operations, such as office equipment and computers, were either transferred to other reporting units or disposed of as of the end of 2008. Certain liabilities of \$361,307 were assumed by CYL.

In 2009, the Company received cash of \$103,266 from a customer for sales of an advertising time slot run on a revenue-share basis. As the revenue-share amount could not be determined due to lack of available information, the revenue was only recorded upon receipt of cash during the second half of 2009. The Company also adjusted its allowance for doubtful accounts by \$389,323 due to cash collected from customers and for its payables by \$161,219 due to a reduction in the payable finalized with its suppliers. These adjustments totaling \$653,808 recorded in operating income were offset against operating expenses of \$57,257.

In 2010, the Company reduced its payables by \$315,256 after reaching an agreement with its suppliers whereby the suppliers agreed to waive balances owing to them. Such amount was recorded in operating income.

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The following table presents the Group's advertising business assets and liabilities:

	<u>As of December 31,</u>	
	<u>2010</u>	<u>2011</u>
	\$	\$
Assets	—	—
Total assets of discontinued operations	<u>—</u>	<u>—</u>
Liabilities:		
Account payable, accrued liabilities and other payables	160,643	160,643
Taxes payable	<u>92,784</u>	<u>92,784</u>
Total liabilities of discontinued operations	<u>253,427</u>	<u>253,427</u>

There are no carrying values of assets of the discontinued operations as the accounts receivable of \$291,812 and nil as of December 31, 2010 and 2011, respectively, have been fully reserved. There is no discontinued operation in 2011.

**6 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.

*(a) Acquisition of Letang*

On January 13, 2010, Wei Lan, a VIE of the Group, completed the acquisition of a 50.01% interest in Letang, a private Chinese company specializing in the development of mobile games, for total consideration of RMB46.5 million (\$6.8 million). As a result of the acquisition, Letang became a subsidiary of Wei Lan. The primary purpose of the acquisition was to strengthen the Company's mobile games portfolio and development capabilities.

Purchase consideration

	<u>2010</u>
	\$
Cash consideration (Note (a))	3,295,115
Contingent consideration in cash (Note (b))	<u>3,514,836</u>
Total fair value of purchase price consideration	<u>6,809,951</u>

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Details on the purchase consideration are as follows:

- (a) The cash consideration was paid in January 2010.
- (b) The contingent consideration payable in cash is determined based on the achievement by Letang of certain net income targets in accordance with the sales and purchase agreement for the 15-month period ended March 31, 2011 and the following 12-month period ending March 31, 2012. The above contingent consideration amounts are derived from the Company's assessment of whether Letang will meet the certain contractually stipulated targets and the fair value is determined using the income approach through application of the discounted cash flow method. In June 2011, the Group paid RMB13.8 million (\$2.1 million) as Letang met its contractually stipulated target for period January 1, 2010 to March 31, 2011. The remaining payable of RMB10.2 million (\$1.6 million) was reversed in 2011, as the Group assessed that the stipulated target for period April 1, 2011 to March 31, 2012 will likely not be met.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed as the date of acquisition:

	<b>2010</b>
	<b>\$</b>
Cash	713,576
Other current assets	69,124
Fixed assets	77,326
Intangible assets	<u>2,420,843</u>
Total assets acquired	<u>3,280,869</u>
Deferred tax liabilities	<u>283,063</u>
Total liabilities assumed	283,063
Net assets acquired	<u>2,997,806</u>
Aggregate of:	
Purchase consideration	6,809,951
Non-controlling interest	<u>5,377,698</u>
Total	<u>12,187,649</u>
Goodwill (Note 17)	<u>9,189,843</u>

The Group has completed the valuations necessary to assess the fair values of the tangible and intangible assets acquired and liabilities assumed, the fair value of non-controlling interest, and the amount of goodwill recognized as of the acquisition date. The fair values of the assets acquired and liabilities assumed were determined using the income approach.

The unaudited pro forma consolidated financial information which reflects the Group's consolidated results of operations as if the acquisition had occurred at the beginning of 2010 was not prepared due to the impracticability of estimating such impact.

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*(b) Acquisition of InnoForm*

On March 16, 2010, the Group entered into a purchase agreement to acquire 50% of the share capital of InnoForm, a Singapore corporation specializing in the development, distribution and licensing of edutainment and entertainment products, mainly in Singapore and Malaysia. Under the terms of the agreement, the Group paid SGD 6.5 million (or \$4.7 million) in cash for the transaction. On the same day, MNC International Middle East Limited (“MIMEL”), a United Arab Emirates (“UAE”) corporation, which is a subsidiary of MNC, acquired 25% of the share capital of InnoForm. The Group obtained control of InnoForm through direct voting interests and majority representation on the board of directors of InnoForm. The purpose of the acquisition was in line with the Company’s expansion strategy in the region and to enhance the Group’s content portfolio with InnoForm’s product and service offerings.

The purchase price allocation is as follows:

	<u>2010</u>
	\$
Cash	1,597,420
Accounts receivable	3,328,785
Inventory	2,086,848
Other current assets	4,931,419
Fixed assets	3,143,274
Intangible assets	3,288,080
Other non-current assets	1,174,859
Total assets acquired	<u>19,550,685</u>
Current liabilities	<u>12,577,366</u>
Total liabilities assumed	<u>12,577,366</u>
Net assets acquired	<u>6,973,319</u>
Aggregate of:	
Purchase consideration	4,737,880
Non-controlling interest	<u>4,596,097</u>
Total	<u>9,333,977</u>
Goodwill (Note 17)	<u>2,360,658</u>

On June 30, 2010, the Company subscribed for 1,002,308 shares newly issued by InnoForm for consideration of SGD 13.0 million (or \$9.3 million). After the subscription, the Company’s interest in InnoForm increased to 75% and the increase in ownership was accounted for as an equity transaction. As a result of the transaction, the difference of SGD 684,119 (or \$498,655) between the consideration paid by the Company and the adjustment to the carrying amount of the non-controlling interest was recognized as additional paid-in capital.

The Group has completed the valuations necessary to assess the fair values of the tangible and intangible assets acquired and liabilities assumed, the fair value of non-controlling interests, and the amount of goodwill recognized as of the acquisition date. The fair values of the assets acquired and liabilities assumed were determined using the income approach.

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The unaudited pro forma consolidated financial information which reflects the Group's consolidated results of operations as if the acquisition had occurred at the beginning of 2010 was not prepared due to the impracticability of estimating such impact.

*(c) Acquisition of PT Linktone*

On June 10, 2010, the Company purchased a mandatory convertible bond ("MCB") issued by PT Inti Idaman Nusantara ("IDN," subsequently renamed PT Linktone) from the MCB seller, Starlight Ltd. ("Starlight"), a UAE Company and the MCB holder of IDN, for total consideration of \$13.2 million. The MCB is interest free. On September 1, 2010, the Company converted the MCB and became a 51% interest holder of PT Linktone. As a result, PT Linktone became a consolidated subsidiary of the Company. According to the MCB purchase agreements, the Company paid \$8.6 million, or 65% of the total consideration, in cash upon the transaction closing date on June 10, 2010, and paid the remaining \$4.6 million, or 35% of the consideration, in August 2011.

The purchase price allocation is as follows:

	<u>2010</u>
	\$
Cash	360,164
Accounts receivable	3,233,488
Other current assets	801,933
Fixed assets	383,964
Intangible assets	<u>7,062,668</u>
Total assets acquired	<u>11,842,217</u>
Current liabilities	3,207,944
Deferred tax liabilities	1,765,667
Non-current liabilities	<u>47,405</u>
Total liabilities assumed	<u>5,021,016</u>
Net assets acquired	<u>6,821,201</u>
Aggregate of:	
Purchase consideration	13,168,568
Non-controlling interest	<u>10,501,275</u>
Total	<u>23,669,843</u>
Goodwill (Note 17)	<u>16,848,642</u>

The Group has completed the valuations necessary to assess the fair values of the tangible and intangible assets acquired and liabilities assumed, the fair value of non-controlling interests, and the amount of goodwill recognized as of the acquisition date. The fair values of the assets acquired and liabilities assumed were determined using the income approach.

The unaudited pro forma consolidated financial information which reflects the Group's consolidated results of operations as if the acquisition had occurred at the beginning of 2010 and 2009 was not prepared due to the impracticability of estimating such impact.

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*(d) Acquisition of GLD Investment Pte Ltd*

On June 30, 2010, InnoForm acquired a 90% interest in GLD Investment Pte Ltd (“GLD”) from PT Global Land Development TBK (“PTGLD”) for cash consideration of SGD 90,000 (\$65,601), and simultaneously subscribed for 686,470 shares newly issued by GLD for cash consideration of SGD 12.94 million (\$9.3 million). As a result, InnoForm became a 98.7% interest holder of GLD after the transactions. Prior to the acquisition, 10% of GLD’s equity interest was owned by the chairman of the board of directors and CEO of the Company, and the remaining 90% equity interest was owned by PTGLD, a company owned by the management of PT Bhakti Investama TBK, intermediate holding company of MNC.

The purchase price allocation is set out below:

	<u>2010</u>
	\$
Cash	9,294,802
Receivables	37,864
Building	9,438,328
Payables and accruals	(68,012)
Related-party borrowings	(9,252,532)
Non-controlling interest	<u>(139,212)</u>
Purchase consideration	<u>9,311,238</u>

**7 Cash and cash equivalents**

	<u>As of December 31,</u>	
	<u>2010</u>	<u>2011</u>
	\$	\$
Cash	38,116,101	24,775,703
Investment in money market accounts	5,188,172	1,430
Time deposits	<u>15,571,126</u>	<u>16,144,685</u>
Total	<u>58,875,399</u>	<u>40,921,818</u>

Interest income earned from the above cash and cash equivalents amounted to \$541,419, \$1,012,497 and \$2,547,963 for the years ended December 31, 2009 and 2010 and 2011, respectively.

**8 Restricted cash**

As of December 31, 2011, restricted cash amounting to \$603,088 (2010: \$573,784) relates to cash that was temporarily frozen by a local court of justice for withdrawal or use. On April 30, 2010, Sichuan Province Yangzhou Information Industry Co., Ltd. (“Yangzhou,” the plaintiff) filed two lawsuits against Unilink, a VIE, and Linktone Internet, a subsidiary, alleging that Unilink had breached the wireless value-added service cooperation agreement entered into between Yangzhou and Unilink on June 30, 2008, which resulted in alleged economic losses suffered by the plaintiff. Linktone Internet, as guarantor of Unilink, is jointly liable in the lawsuits. Based on the plaintiff’s application, the local court of justice temporarily froze cash of RMB3.8 million (\$603,088) for the purpose of ensuring enforcement of potential judgments in the lawsuits if decided against Unilink and Linktone Internet.



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**9 Short-term investments**

	As of December 31,	
	2010	2011
	\$	\$
Available-for-sale investments:		
— Secured notes, at market value	19,800,000	—
— Privately managed fund, at market value	6,001,850	—
— Publicly traded securities, at market value	—	38,434,951
	25,801,850	38,434,951
Time deposits	8,008,063	18,150,007
Total	33,809,913	56,584,958

On December 20, 2010, the Group purchased secured notes issued by Aerospace Satellite Corporation Holding (“Aerospace Satellite”), a wholly owned subsidiary of PT MNC Sky Vision (“Sky Vision”), for \$20 million. The secured notes are traded on Singapore Exchange Ltd., due November 16, 2015, bear interest at a rate of 12.75% per annum, and payable semi-annually in arrears. The secured notes are guaranteed by Sky Vision, a sister company of MNC. The Group sold the notes in 2011 and realized a gain of \$1,110,646, of which \$200,000 loss was reclassified out of accumulated other comprehensive income into earnings on a specific identification basis.

The Group also held an investment in a privately managed fund, which in turn invests in other marketable equity securities. Based on the quoted market price of the marketable equity securities in the fund, the fair value of the fund was \$6,001,850 as of December 31, 2010. Net unrealized gain on available-for-sale investments included in other comprehensive income amounted to \$437,250 and \$1,939,473 for the years ended December 31, 2009 and 2010, respectively.

The Group sold the investment in the fund in May 2011 for \$7,278,924 and realized a gain of \$3,852,227, of which \$2,576,723 was reclassified out of accumulated other comprehensive income into earnings on a specific identification basis.

In 2011, the Group purchased 357 million common shares of PT Global Mediacom TBK., through the open market, at an average price of IDR826 (\$0.095) per share. Net unrealized gain of available-for-sale investment included in other comprehensive income amounted to \$4,453,157 for the year ended December 31, 2011.

As of December 31, 2010 and 2011, all time deposits have original maturity terms more than three months and are due within one year.

**10 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 marketplace.
- Level 3 — Unobservable inputs which are supported by little or no market activity.

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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 on a recurring basis*

In accordance with ASC 820-10, the Group measures cash equivalents, short-term investments, including fixed-rate investments and available-for-sale investments, non current assets held for sale, as well as contingent consideration payable in connection with the Letang acquisition at fair value. Cash equivalents and available-for-sale investments are valued using quoted market prices. The fair value of the Group's fixed-rate investments are determined based on a discounted cash flow model with market interest rates as discount curve and fair value of leasehold property held for sale is based on independent valuer report. The fair value of the Group's contingent consideration payable in connection with Letang acquisition is determined using the income approach through application of the discounted cash flow method.

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

	Fair value at December 31, 2010			Fair value at December 31, 2010
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Unobservable inputs (Level 3)	
	\$	\$	\$	\$
<b>Cash equivalents:</b>				
Time deposits	15,571,126	—	—	15,571,126
Money market fund	5,188,172	—	—	5,188,172
<b>Short-term investments:</b>				
Fixed rate investments	—	8,008,063	—	8,008,063
Available-for-sale investments	25,801,850	—	—	25,801,850
<b>Non-current assets held for sale:</b>				
Leasehold property held for sale	—	819,578	—	819,578
<b>Accounts payable, accrued liabilities and other payables:</b>				
Contingent consideration payable in connection with Letang acquisition	—	—	3,623,899	3,623,899
<b>Short-term loans:</b>				
Bank Overdrafts	—	1,191,671	—	1,191,671
Revolving term loans	—	1,441,520	—	1,441,520
Term loan facility	—	520,506	—	520,506
<b>Long-term loan:</b>				
Term loan facility	—	1,037,894	—	1,037,894
	<u>46,561,148</u>	<u>13,019,232</u>	<u>3,623,899</u>	<u>63,204,279</u>

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	Fair value at December 31, 2011			Fair value at December 31, 2011
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Unobservable inputs (Level 3)	
	\$	\$	\$	\$
<b>Cash equivalents:</b>				
Time deposits	16,144,685	—	—	16,144,685
Money market fund	1,430	—	—	1,430
<b>Short-term investments:</b>				
Fixed rate investments	—	18,150,007	—	18,150,007
Available-for-sale investments	38,434,951	—	—	38,434,951
<b>Non-current assets held for sale:</b>				
Leasehold property held for sale	—	814,878	—	814,878
<b>Short-term loans:</b>				
Bank Overdrafts	—	1,876,430	—	1,876,430
Revolving term loans	—	2,389,790	—	2,389,790
Term loan facility	—	514,961	—	514,961
<b>Long-term loan:</b>				
Term loan facility	—	511,878	—	511,878
	<u>54,581,066</u>	<u>24,257,944</u>	<u>—</u>	<u>78,839,010</u>

The following table presents a reconciliation for the Group's liabilities measured and recorded at fair value on a recurring basis, using significant unobservable inputs (Level 3) for the year ended December 31, 2011:

	Significant unobservable inputs (Level 3)
	\$
Fair value at January 1, 2011	3,623,899
Contingent consideration payable in connection with Letang acquisition paid during the year	(2,132,394)
Reversal of contingent consideration in connection with Letang acquisition during the year (Note 6a)	(1,618,816)
Translation difference	<u>127,311</u>
Fair value at December 31, 2011	<u>—</u>

*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, 2009, 2010 and 2011, the Group recognized impairment loss on goodwill of \$2,500,000, nil and nil, with a charge to earnings, 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.

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**11 Accounts receivable, net**

	<u>As of December 31,</u>	
	<u>2010</u>	<u>2011</u>
	\$	\$
Account receivable	17,737,019	19,135,478
Less: Allowance for doubtful receivables	<u>(2,245,540)</u>	<u>(2,086,695)</u>
	<u>15,491,479</u>	<u>17,048,783</u>
Movement in allowance for doubtful receivables:		
Balance at beginning of year	(2,126,946)	(2,245,540)
Write-off against provision	—	36,605
Write back of provision	—	266,405
Additional provision	<u>(118,594)</u>	<u>(144,165)</u>
Balance at the end of year	<u>(2,245,540)</u>	<u>(2,086,695)</u>

Gross accounts receivable includes those of discontinued operations of \$291,812 (allowance of \$291,812) as of December 31, 2010 and 2011.

**12 Inventories**

	<u>As of December 31,</u>	
	<u>2010</u>	<u>2011</u>
	\$	\$
Raw materials	263,318	308,440
Finished goods	<u>2,093,123</u>	<u>1,657,067</u>
	2,356,441	1,965,507
Allowance for inventory obsolescence	<u>(51,725)</u>	<u>(83,758)</u>
	<u>2,304,716</u>	<u>1,881,749</u>
Movement in allowance for inventory obsolescence:		
Balance at beginning of year	—	(51,725)
Additional provision	(51,725)	(39,120)
Translation difference	—	7,087
Balance at the end of year	<u>(51,725)</u>	<u>(83,758)</u>

The Group had \$306,609 and \$212,500 of inventory held at consignment locations which are included in finished goods as of December 31, 2010 and December 31, 2011, respectively.

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**13 Deposits and other current assets**

	<u>As of December 31,</u>	
	<u>2010</u>	<u>2011</u>
	\$	\$
Prepaid minimum guarantees	2,837,186	1,552,425
Rental and other deposits	715,340	1,523,358
Staff advances	323,794	386,310
Prepayments to VAS advertising, content and other suppliers	1,954,469	2,284,462
Interest income receivable from non-related parties	—	7,629
Interest income receivable from short-term investments	318,750	—
Unbilled receivables	—	499,084
Others	527,113	270,082
	<u>6,676,652</u>	<u>6,523,350</u>
Less: Allowance for doubtful receivables	(92,406)	(820,624)
	<u>6,584,246</u>	<u>5,702,726</u>
 Movement in allowance for doubtful receivables:		
Balance at beginning of year	(240,141)	(92,406)
Write-off against provision	147,735	—
Additional provision	—	(728,218)
Balance at the end of year	<u>(92,406)</u>	<u>(820,624)</u>

**14 Property and equipment, net**

	<u>As of December 31,</u>	
	<u>2010</u>	<u>2011</u>
	\$	\$
<b>Cost</b>		
Buildings	10,285,440	10,175,880
Computer hardware and other equipment	4,566,458	4,694,360
Office equipment	1,474,458	1,689,664
Leasehold improvements	1,408,602	1,426,775
Motor vehicles	378,189	311,155
	<u>18,113,147</u>	<u>18,297,834</u>
Less: Accumulated depreciation	(6,316,757)	(7,102,402)
	<u>11,796,390</u>	<u>11,195,432</u>

During the years ended December 31, 2009, 2010 and 2011, the depreciation charges amounted to \$556,239, \$721,451 and \$815,532, respectively.

The Group incurred losses of \$41,964, \$12,828 and gain of \$16,012 from disposal of property and equipment during the years ended December 31, 2009, 2010 and 2011 respectively. The Group wrote off \$43,707 of property and equipment in 2011.

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**15 Non-current assets held for sale**

	As of December 31,	
	2010	2011
	\$	\$
Cost		
Leasehold property — held for sale	819,578	814,878

In 2010, a leasehold property owned by InnoForm was put up for sale as it was unutilized. In 2011, the leasehold property was not sold due to weak property prices for commercial properties in Singapore. As of December 31, 2011, there was no change in management's intention to sell the leasehold property, and InnoForm will continue to market the property for sale.

**16 Intangible assets, net**

The following table summarizes intangible assets, net:

	As of December 31,	
	2010	2011
	\$	\$
<b>Cost</b>		
Technology	2,559,208	2,559,208
Customer base	171,523	171,523
Licenses	525,671	525,671
Partnership and non-compete agreements	7,451,997	7,413,817
Domain names	82,347	82,347
VAS Short Codes licensed to PT Linktone	7,062,653	7,062,653
Software	183,064	353,202
	18,036,463	18,168,421
<b>Accumulated amortization</b>		
Technology	(1,944,327)	(2,099,345)
Customer base	(99,761)	(171,522)
Licenses	(523,714)	(525,671)
Partnership and non-compete agreements	(3,659,766)	(5,144,731)
Domain names	(82,347)	(82,347)
VAS Short Codes licensed to PT Linktone	(88,789)	(371,295)
Software	(91,532)	(247,602)
	(6,490,236)	(8,642,513)
Acquired intangible assets, net	11,546,227	9,525,908

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

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

During the years ended December 31, 2009, 2010 and 2011, the aggregate amortization charges amounted to \$65,199, \$1,550,691 and \$2,152,750 respectively.

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

	\$
2012	1,984,528
2013	1,061,574
2014	631,406
2015	300,076
2016	300,076
	<u>4,277,660</u>

**17 Goodwill**

The following table summarizes the activity in the balance of goodwill during the years ended December 31, 2010 and 2011 by reporting units:

	<u>2010</u>				
	<u>China VAS &amp; mobile game</u>	<u>Indonesia VAS</u>	<u>Media content</u>	<u>PC game</u>	<u>Total</u>
	\$	\$	\$	\$	\$
Balance at beginning of year	8,550,715	—	—	3,533,497 <sup>(1)</sup>	12,084,212
Goodwill recognized from acquisitions	9,189,843	16,848,642	2,360,658	—	28,399,143
Goodwill impairment	—	—	—	—	—
Balance at end of year	<u>17,740,558</u>	<u>16,848,642</u>	<u>2,360,658</u>	<u>3,533,497</u>	<u>40,483,355</u>
	<u>2011</u>				
	<u>China VAS &amp; mobile game</u>	<u>Indonesia VAS</u>	<u>Media content</u>	<u>PC game</u>	<u>Total</u>
	\$	\$	\$	\$	\$
Beginning and ending balance at end of year	<u>17,740,558</u>	<u>16,848,642</u>	<u>2,360,658</u>	<u>3,533,497</u>	<u>40,483,355</u>

(1) Net of impairment of \$2,500,000.

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As of December 31, 2011, the Company performed impairment tests on goodwill assigned to each reporting unit 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. The discounted cash flows for each reporting unit were based on five-year projections using compound annual growth rates of 42%, 26%, 23% and 22% for China VAS & mobile game, Indonesia VAS, PC game and Media content reporting units, respectively (2010: 15%, 47%, 7% and 28% for China VAS & mobile game, Indonesia VAS, PC game and Media content reporting units). Cash flow projections were based on past experience, actual operating results and management's best estimates about future developments as well as certain market assumptions. Cash flows after the fifth year were estimated using a terminal value calculation, which adopted terminal value growth rates of 5% for China VAS & mobile game, Indonesia VAS and PC game and 1.5% for Media content reporting units (2010: 4% for Indonesia VAS and 3% for China VAS & mobile game, PC game and Media content reporting units). The discount rates used in the valuations reflect a market assessment of the risks specific to each reporting unit and are based on the weighted-average cost of capital for the respective reporting units. The discount rates used were 17.5%, 15.5%, 16.8%, 14.7% for China VAS & mobile game, Indonesia VAS, PC game and Media content reporting units, respectively (2010: 19.0% for China VAS & mobile game, Indonesia VAS and PC game and 18.0% for Media content reporting units). Based on the annual impairment tests as of December 31, 2011, the above reporting units' fair values are higher than their carrying values and hence management did not recognize any impairment expense.

**18 Other long-term assets**

	<u>As of December 31,</u>	
	<u>2010</u>	<u>2011</u>
	\$	\$
Investment deposit (a)	2,470,382	2,470,382
Prepaid minimum guarantees	1,101,231	862,858
Prepayment for insurance policy	1,398,195	161,584
	<u>4,969,808</u>	<u>3,494,824</u>
Less: Impairment loss on investment deposit (a)	<u>(2,470,382)</u>	<u>(2,470,382)</u>
Total	<u>2,499,426</u>	<u>1,024,442</u>

- (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 Linktone 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 Linktone's investment deposit of \$3 million in January 2008. Linktone 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.



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**19 Accounts payable, accrued liabilities and other payables**

	As of December 31,	
	2010	2011
	\$	\$
Accounts payable	2,749,812	2,092,530
Accrued payroll and welfare benefits	592,258	1,597,117
Accrued professional and consulting fees	71,863	755,963
Payable for acquisition of Letang (Note 6(a))	2,083,742	—
Payable for acquisition of PT Linktone MCB (Note 6(c))	4,608,983	—
Accrued VAS content fees	8,996,549	5,330,287
Accrued expenses	2,221,885	3,754,093
Other payables	1,646,064	1,450,555
Total	<u>22,971,156</u>	<u>14,980,545</u>

**20 Loans and borrowings**

	As of December 31,	
	2010	2011
	\$	\$
Current		
Bank overdrafts	1,191,671	1,876,430
Revolving term loans	1,441,520	2,389,790
Term loan, current portion	520,506	514,961
	<u>3,153,697</u>	<u>4,781,181</u>
Non-current		
Term loan, non current portion	1,037,894	511,878
	<u>4,191,591</u>	<u>5,293,059</u>

The Group's subsidiary in Singapore, InnoForm has a SGD2.0 million (\$1.5 million) term loan and a credit facility with total facility limit of SGD10.0 million (\$7.7 million), with a sub-limit of SGD3.0 million (\$2.3 million) for overdraft facility, from a bank in Singapore. The facilities are secured by a corporate guarantee from MNC. As of December 31, 2010 and 2011, InnoForm has utilized SGD1.5 million (\$1.2 million) and SGD2.4 million (\$1.9 million) of the overdraft facility respectively and SGD1.8 million (\$1.4 million) and SGD3.1 million (\$2.4 million) of the short-term revolving loans facility respectively.

The details of bank loans are as follow:

- SGD3.1 million (\$2.4 million) three-month revolving loans. Interest rates are by quotation from the bank payable quarterly in arrears. The effective interest rate was 4.02% for both years ended December 31, 2010 and 2011 respectively.
- SGD2.0 million (\$1.5 million) term loan extended to the Company in October 2010. Term loan is repayable in quarterly installments of SGD0.2 million (\$0.1 million), over 3 years. As of December 31, 2010 and 2011, SGD2.0 million (\$1.6 million) and SGD1.3 million (\$1.0 million) of the term loan was

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outstanding respectively. The financial covenants require InnoForm to maintain a minimum consolidated net worth of SGD1.7 million (\$1.3 million) at all times, and a consolidated gearing ratio of not more than 1.4 times at all times. InnoForm did not breach the financial covenants for 2011. The interest on the outstanding loan balance is based on the bank's floating rate plus a margin of 4.0% p.a..

**21 Other long-term liabilities**

	As of December 31,	
	2010	2011
	\$	\$
Payable for acquisition of Letang (Note 6(a))	1,540,157	—
Other long-term payables	871,911	67,688
	2,412,068	67,688

**22 Segment information**

Following the acquisitions in 2010, the Group operates in four business segments — China VAS & mobile game, Indonesia VAS, Media content and PC game, 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").

For the year ended December 31, 2011, in line with business growth, the Group's CODM reviews results by geographic segments as revenue streams are clearly identifiable, when making decisions about allocating resources and assessing performance of the Group. Hence, the 2 operating units in China — China VAS & mobile game and PC game are now combined as a single business unit. The 2009 and 2010 reported segment information has been retrospectively adjusted in order to conform to the change in segment presentation in 2011.

*Statement of Operations Information:*

	2009			Total
	China VAS, mobile game & PC game	Indonesia VAS	Media content	
	\$	\$	\$	\$
Gross revenues	62,216,694	—	—	62,216,694
Sales tax	(2,303,289)	—	—	(2,303,289)
Segment cost of revenue	(38,941,272)	—	—	(38,941,272)
Segment gross profit	20,972,133	—	—	20,972,133
Segment operating expenses	(20,855,975)	—	—	(20,855,975)
Segment impairment charge	(2,068,127)	—	—	(2,068,127)
Segment profit/(loss) from operations	(1,951,969)	—	—	(1,951,969)

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	<b>2010</b>			
	<b>China VAS, mobile game &amp; PC game</b>	<b>Indonesia VAS</b>	<b>Media content</b>	<b>Total</b>
	\$	\$	\$	\$
Gross revenues	57,691,760	1,805,746	12,210,519	71,708,025
Sales tax	(2,087,121)	—	—	(2,087,121)
Segment cost of revenue	(37,725,651)	(587,532)	(8,824,211)	(47,137,394)
Segment gross profit	17,878,988	1,218,214	3,386,308	22,483,510
Segment operating expenses	(19,658,330)	(266,867)	(4,691,928)	(24,617,125)
Segment profit/(loss) from operations	<u>(1,779,342)</u>	<u>951,347</u>	<u>(1,305,620)</u>	<u>(2,133,615)</u>

	<b>2011</b>			
	<b>China VAS, mobile &amp; PC game</b>	<b>Indonesia VAS</b>	<b>Media content</b>	<b>Total</b>
	\$	\$	\$	\$
Gross revenues	35,570,974	8,196,431	16,909,768	60,677,173
Sales tax	(1,591,748)	—	—	(1,591,748)
Segment cost of revenue	(19,999,661)	(4,949,871)	(11,252,901)	(36,202,433)
Segment gross profit	13,979,565	3,246,560	5,656,867	22,882,992
Segment operating expenses	(15,100,882)	(950,106)	(6,654,680)	(22,705,668)
Segment profit/(loss) from operations	<u>(1,121,317)</u>	<u>2,296,454</u>	<u>(997,813)</u>	<u>177,324</u>

The following table summarizes the gross revenue by product in China segment:

	<b>2009</b>	<b>2010</b>	<b>2011</b>
	\$	\$	\$
China VAS	61,120,605	54,373,735	31,500,303
Mobile game	—	2,204,319	2,632,558
PC game	1,096,089	1,113,706	1,438,113
Total	<u>62,216,694</u>	<u>57,691,760</u>	<u>35,570,974</u>

*Balance Sheet Information:*

	<b>As of December 31, 2010</b>			
	<b>China VAS, mobile &amp; PC game</b>	<b>Indonesia VAS</b>	<b>Media content</b>	<b>Total</b>
	\$	\$	\$	\$
Current assets	106,142,252	5,618,519	12,298,493	124,059,264
Non-current assets	23,888,245	25,793,506	17,535,705	67,217,456
Total assets	130,030,497	31,412,025	29,834,198	191,276,720
Current liabilities	(18,203,203)	(4,326,123)	(9,846,358)	(32,375,684)
Non-current liabilities	(1,540,157)	(2,615,377)	(1,037,894)	(5,193,428)
Total liabilities	<u>(19,743,360)</u>	<u>(6,941,500)</u>	<u>(10,884,252)</u>	<u>(37,569,112)</u>
<b>Net assets</b>	<u>110,287,137</u>	<u>24,470,525</u>	<u>18,949,946</u>	<u>153,707,608</u>

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	As of December 31, 2011			
	China VAS, mobile & PC game	Indonesia VAS	Media content	Total
	\$	\$	\$	\$
Current assets	107,037,695	7,099,104	12,645,710	126,782,509
Non-current assets	42,428,349	7,039,599	13,945,773	63,413,721
Total assets	149,466,044	14,138,703	26,591,483	190,196,230
Current liabilities	(11,227,208)	(3,194,028)	(9,958,059)	(24,379,295)
Non-current liabilities	(278,215)	(1,718,332)	(1,344,367)	(3,340,914)
Total liabilities	(11,505,423)	(4,912,360)	(11,302,426)	(27,720,209)
<b>Net assets</b>	<u>137,960,621</u>	<u>9,226,343</u>	<u>15,289,057</u>	<u>162,476,021</u>

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

	2009	2010	2011
	\$	\$	\$
PRC	62,216,694	57,691,760	35,570,974
Indonesia	—	1,805,746	8,196,431
Singapore	—	11,596,837	15,096,754
Malaysia	—	613,682	1,813,014

The following table summarizes the Group's total assets (excluding intangible assets and goodwill) by geographic region:

	As of December 31,	
	2010	2011
	\$	\$
PRC	71,850,900	91,160,447
Indonesia	44,535,904	24,018,196
Singapore	20,811,318	23,008,913
Malaysia	<u>2,049,016</u>	<u>1,999,411</u>

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**23 Risks and uncertainties**

*(a) Dependence on the Operators*

In 2011, 59%, 28% and 13% of the Group's gross revenue is contributed by China VAS, mobile game and PC game segment in China, Media Content segment in Singapore and Indonesia VAS in Indonesia, respectively. 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, 2009, 2010 and 2011 were \$46.3 million, \$37.6 million and \$25.2 million, respectively, representing 74%, 52% and 71% of China gross revenues, respectively.
- Amounts due from China Mobile as of 2010 and 2011 amounted to \$10.4 million and \$7.8 million respectively, representing 82% and 87% of accounts receivable, respectively.
- Revenues earned from China Telecom for the years ended December 31, 2009, 2010 and 2011 were \$7.9 million, \$9.6 million and \$6.8 million, respectively, representing 13%, 13% and 17% of China gross revenues, respectively.
- Amounts due from China Telecom as of 2010 and 2011 amounted to \$1.2 million and \$0.4 million respectively, representing 10% and 5% of accounts receivable, respectively.

*Indonesia*

- Revenues earned from Telkomsel for the years ended December 31, 2010 and 2011 were \$1.1 million and \$5.6 million, respectively, representing 63%, and 68% of Indonesia gross revenues, respectively.
- Amounts due from Telkomsel as of 2010 and 2011 amounted to \$1.9 million and \$4.0 million, respectively, representing 64%, and 81% of accounts receivable, respectively.
- Revenues earned from Indosat for the years ended December 31, 2010 and 2011 were \$0.3 million and \$0.4 million, respectively, representing 18%, and 5% of Indonesia gross revenues, respectively.
- Amounts due from Indosat as of 2010 and 2011 amounted to \$0.4 million and \$0.2 million, respectively, representing 14% and 3% of accounts receivable, respectively.

*(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. The Group has \$97.5 million in cash and cash equivalents and short-term investments. The Group has \$35.0 million in cash, bank deposits and money market funds in the PRC, which constitute 35.9% of total cash and cash equivalents and short-term investments. 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.

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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 \$15.5 million and \$17.0 million in accounts receivable as of December 31, 2010 and 2011, 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

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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 complain against operators of premium messaging.

## **24 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 \$951,330, \$1,055,043 and \$892,016 for the years ended December 31, 2009, 2010 and 2011, 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. In 2010 and 2011, the Group, via its Singaporean subsidiary acquired in 2010, recorded an expense of \$286,262 and \$339,710 respectively.

### Indonesian contribution plan

PT Linktone, the Group's Indonesian subsidiary acquired in 2010, 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 \$18,398 and \$23,176 was charged to the statement of operations and comprehensive income/loss during the year ended December 31, 2010 and 2011, respectively.

## **25 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

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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, 2010 and 2011, the Group had balance of \$2,466,165 in these non-distributable reserve funds. No transfers were made to reserve funds in 2010 and 2011 either because such funds have reached 50% of the respective company's registered capital or because the respective company was in a loss position.

**26 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 and Linktone 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 and Cakrawala is subject to tax on income at 25% (2009: 28%).

*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.



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Zhong Tong, Linktone Software, Wang You and Ling Yu are located in either the economic development zones in coastal cities or the Pudong new district. Accordingly, they are subject to a preferential statutory rate of 15% pre-2008. The reduced tax rate is transitioned to 25% starting in 2008 and the transitional rates are 20%, 22% and 24% for 2009, 2010 and 2011, respectively.

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 by the tax bureau in May 2010 and, therefore, entitled to a favorable tax rate of 15% for the years 2009 to 2011, subject to meeting certain criteria on an annual basis. Linktone Internet started its tax holiday of two years exemption followed by three years of 50% reduced tax rate from 2005 and enjoyed 12.5% tax rate in 2008 and 2009. Its 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. Yuan Hang's tax holiday started in 2004 and expired in 2008. Cosmos' tax holiday started in 2003 and expired in 2008. Lian Fei's tax holiday started in 2002 and expired in 2007. Beijing Ojava's tax holiday started in 2004 and expired in 2009. Furthermore, Yuan Hang, Cosmos, and Beijing Ojava qualified as high and new technology enterprises, which is effective starting in 2008 and enjoyed the reduced tax rate of 15%, instead of the tax holiday for Cosmos and Beijing Ojava, for 2009 and 2010. 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 and Beijing Ojava did not qualify as high and new enterprises and the applicable tax rates will be at 25%.

Letang qualified as a "high and new technology" 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. 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, 2011, the Group did not make any provision on withholding tax of profit earned by some of its PRC subsidiaries in 2011 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,

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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:

	<b>Year ended December 31,</b>		
	<b>2009</b>	<b>2010</b>	<b>2011</b>
	\$	\$	\$
Cayman	(75,287)	(2,879,085)	5,528,390
Indonesia	314,378	2,673,218	3,077,937
Singapore	—	(1,710,126)	(1,114,203)
Malaysia	—	223,771	(106,148)
PRC	(145,480)	2,539,084	201,652
Total income before taxes from continued operations	<u>93,611</u>	<u>846,862</u>	<u>7,587,628</u>

The (provision for) benefit from taxes on income from continuing operations consists of:

	<b>Year ended December 31,</b>		
	<b>2009</b>	<b>2010</b>	<b>2011</b>
	\$	\$	\$
Current	(14,889)	(1,805,227)	(763,341)
Deferred	(564,381)	365,966	(536,640)
Total	<u>(579,270)</u>	<u>(1,439,261)</u>	<u>(1,299,981)</u>

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

	<b>Year ended December 31,</b>		
	<b>2009</b>	<b>2010</b>	<b>2011</b>
Statutory Enterprise Income Tax rate	25%	25%	25%
Effect of tax holiday	54%	(20)%	(1)%
International tax rate differences	(2)%	95%	(19)%
Non-deductible expenses/non-taxable income	(106)%	4%	17%
Change in valuation allowance	656%	2%	(17)%
PRC tax rate differences	(133)%	(33)%	—
Unrecognized tax benefit	30%	—	—
Adjustment to prior-year tax provision	(93)%	97%	(6)%
Deferred tax on outside tax basis	188%	—	(2)%
Expired carry forward tax losses	—	—	20%
Effective EIT rate for continuing operations	<u>619%</u>	<u>170%</u>	<u>17%</u>

The aggregate effect of the tax holiday in 2009, 2010 and 2011 was \$51,000, \$173,172 and \$90,445 respectively.

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

	<u>As of December 31,</u>	
	<u>2010</u>	<u>2011</u>
	\$	\$
Deferred tax		
Intangible and other assets	208,550	127,067
Deferred revenue	277,779	69,090
Accrued liabilities and other payables	3,680,306	3,192,891
Advertising expenses	343,704	560,229
Net operating losses	1,980,258	1,956,003
Others	125,799	176,113
Total deferred tax assets for continuing operations	<u>6,616,396</u>	<u>6,081,393</u>
Valuation allowance for continuing operations	(2,139,558)	(2,884,640)
Total deferred tax assets for discontinued operations	5,464,105	4,420,487
Valuation allowance for discontinued operations	<u>(5,320,546)</u>	<u>(3,682,878)</u>
Total deferred tax assets, net of valuation allowance	<u>4,620,397</u>	<u>3,934,362</u>
Deferred tax liabilities:		
Accrued income	(3,138,136)	(2,466,905)
Intangible assets	(2,833,562)	(2,572,958)
Others	—	(188,390)
Deferred tax liabilities for continuing operations	<u>(5,971,698)</u>	<u>(5,228,253)</u>
Deferred tax liabilities for discontinued operations	<u>(143,559)</u>	<u>(737,609)</u>
Total deferred tax liabilities	<u>(6,115,257)</u>	<u>(5,965,862)</u>
Net deferred tax liabilities	<u>(1,494,860)</u>	<u>(2,031,500)</u>
Deferred tax assets — current	1,254,529	486,176
Deferred tax liabilities — current	(1,078,403)	(126,034)
Deferred tax assets — non-current	72,480	369,706
Deferred tax liabilities — non-current	<u>(1,743,466)</u>	<u>(2,761,348)</u>
Net deferred tax liabilities	<u>(1,494,860)</u>	<u>(2,031,500)</u>

The Group's valuation allowance movements during 2010 and 2011 are as follows:

	<u>Year ended December 31,</u>			
	<u>Continuing Operations</u>		<u>Discontinued Operations</u>	
	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>
	\$	\$	\$	\$
Beginning Balance	2,493,972	2,139,558	4,857,314	5,320,546
Movement	(429,466)	634,103	310,822	(1,835,533)
Translation Difference	75,052	110,979	152,410	197,865
Ending Balance	<u>2,139,558</u>	<u>2,884,640</u>	<u>5,320,546</u>	<u>3,682,878</u>

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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 \$7,460,104 and \$6,567,518 as of December 31, 2010 and 2011, respectively, to reduce the deferred tax assets to the amount management believes is more likely than not realizable.

The Group has a net tax operating loss carry forward of \$23,387,643 attributed to 10 PRC subsidiaries (including discontinued operations of \$16,357,946) as of December 31, 2011. The net operating losses will expire between 2012 and 2015 if unutilized.

The Company intends to permanently reinvest all undistributed earnings of its foreign subsidiaries as of December 31, 2011. 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. It is possible that the tax position will change in the next twelve months; however, an estimate of the range of the possible change cannot be made at this time.

	<b>Year ended December 31,</b>	
	<b>2010</b>	<b>2011</b>
Beginning and ending balance	\$ <u>100,671</u>	\$ <u>100,671</u>

The Group recognizes interest and penalties related to uncertain tax positions in income tax expense. The Group recorded accrued interest expense of \$129,693 and \$159,656 as of December 31, 2010 and 2011, respectively. Provision for penalties of \$50,336 was brought forward since 2007.

The Group's tax years 2007 through 2011 remain open to possible examination by relevant tax authorities.

**27 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 NQSSs) 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.

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The 2003 Plans include a mechanism for an automatic annual increase in the number of ordinary shares available under the plan equal to the lesser of 2.5% of the total shares outstanding or 15,175,000 ordinary shares, which is known as the evergreen provision. A total of 75,633,351 and 85,893,917 ordinary shares were available for issuance under both plans as of December 31, 2010 and 2011 respectively. 373,700 and 304,900 new shares were issued from the exercise of stock options in the year ended December 31, 2010 and 2011, respectively.

*Stock-based compensation cost*

The compensation cost charged as an expense was \$266,887, \$204,949 and \$133,917 for the years ended December 31, 2009, 2010 and 2011, 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. The following are the assumptions used for each respective period (no new options were issued during the year ended December 31, 2010):

	Year ended December 31,		
	2009	2010	2011
Risk-free interest rate (%)	(1) 2.20-2.87	—	1.20-2.50
Expected life (years)	(2) 6	—	6
Expected dividend yield (%)	—	—	—
Volatility (%)	(3) 60-65	—	63-65

- (1) The risk-free interest rate for periods within the contractual life of the option is based on the U.S. Treasury zero-coupon yield in effect at the time of grant.
- (2) In the absence of sufficient historical data in the exercise behavior of the option holders, the Company continued to use the simplified method, under which the expected term is based on the mid-point between the vesting date and the end of the contractual term.
- (3) The Company used its own historical data to estimate the stock price volatility.

*Award activity information*

The following table summarizes the option activity under the Company's stock option (shares) program for the periods presented:

<u>Share options granted to employees</u>	<u>Number of shares</u>	<u>Weighted-average exercise price</u>	<u>Weighted average remaining contractual term (years)</u>	<u>Aggregate intrinsic value</u>
		\$		\$
Outstanding, December 31, 2010	8,016,900	0.30	6.99	48,780
Granted	4,000,000	0.13		
Exercised	(304,900)	0.10		
Forfeited	(2,634,934)	0.37		
Expired	(1,473,366)	0.18		
Outstanding, December 31, 2011	7,603,700	0.22	8.06	10,309
Vested and expected to vest as of December 31, 2011	5,103,700	0.28	7.16	309
Exercisable as of December 31, 2011	2,353,700	0.40	5.84	309

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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, 2010 for those awards that have an exercise price currently below the fair value of the Company's shares. The total intrinsic value of options exercised during 2009, 2010 and 2011 was \$14,604, \$18,237 and \$13,568, respectively.

The weighted-average estimated fair value of options granted to employees of the Group during 2009 and 2011 was \$0.10 and \$0.08 per option, respectively. The weighted average fair value of options vested during the years ended December 31, 2009, 2010 and 2011 was \$0.34, \$0.12 and nil per option, respectively.

The following is additional information relating to options outstanding as of December 31, 2011:

<u>Range of exercise price</u>	<u>Options outstanding as of December 31, 2011</u>			<u>Options exercisable as of December 31, 2011</u>		
	<u>Options outstanding</u>	<u>Weighted average remaining contractual life (years)</u>	<u>Weighted average exercise price (\$)</u>	<u>Number exercisable</u>	<u>Weighted average remaining contractual life (years)</u>	<u>Weighted average exercise price (\$)</u>
\$0.07~\$0.11	2,516,700	9.82	0.11	16,700	0.00	0.10
\$0.15~\$0.29	4,450,000	7.81	0.18	1,700,000	7.03	0.20
\$0.68~\$0.78	277,000	3.67	0.71	277,000	3.67	0.71
\$1.02~\$1.40	360,000	2.13	1.08	360,000	2.13	1.08
	7,603,700	8.06	0.22	2,353,700	5.84	0.40

As of December 31, 2011, there was \$0.3 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 2.21 years. 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, 2011 is nil.

**28 Related party transactions**

Due from (to) related parties include:

	<u>As of December 31,</u>	
	<u>2010</u>	<u>2011</u>
	\$	\$
Accounts receivable (i), (ii)	2,398,114	2,359,182
Receivable from other related parties	—	16,268
Due from related parties	<u>2,398,114</u>	<u>2,375,450</u>
Content fee payable to MNC and its subsidiaries (i)	(1,071,775)	—
Payable to other related parties	<u>(2,475)</u>	<u>(16,198)</u>
Due to related parties	<u>(1,074,250)</u>	<u>(16,198)</u>

The Group and the following entities are under the common control of MNC or MNC's direct shareholder, PT Global Mediacom:

- 1) Infokom
- 2) PT Rajawali Citra Televisi Indonesia ("RCTI")
- 3) Global TV
- 4) Sky Vision

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- (i) In October 2009, PT Linktone entered into cooperation agreements with Infokom and MNC. Infokom is an Indonesia corporation and controlled by the same shareholder of MNC. Pursuant to these agreements, PT Linktone operated its VAS business in Indonesia through the VAS access numbers owned by Infokom and MNC. From September 1, 2010, the PT Linktone acquisition closing date, to December 31, 2010, PT Linktone's total revenue generated from the VAS Short Codes owned by Infokom was \$1,569,369. PT Linktone's total revenue generated from the VAS access number owned by MNC was \$260,239. As of December 31, 2010, amounts due from Infokom and MNC were \$2,171,951 and \$ 226,163, respectively.

In 2011, PT Linktone has successfully changed the ownership of VAS access number owned by MNC to PT Linktone. Total revenue generated from the use of short codes owned by Infokom and self-owned was \$4,671,003 and \$2,316,087. As of December 31, 2011, amounts due from Infokom was \$2,333,799.

PT Linktone also purchases VAS contents from MNC and its subsidiaries for its operation. From September 1, 2010, the acquisition date, to December 31, 2010, PT Linktone purchased contents of \$354,620 from MNC and its subsidiaries and the amounts due to these related-party content vendors, including payables assumed in the acquisition, was \$1,071,775 as of December 31, 2010.

In 2011, PT Linktone purchased contents of \$326,490 from Infokom.

- (ii) In 2011, PT Linktone has generated revenue other than VAS including TV promotions and trading from MNC amounting to \$264,053. As of December 31, 2011, amounts due from MNC was \$25,383.
- (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. From September 1, 2010 to December 31, 2010, PT Linktone paid each of MNC TV and Global TV \$0.1 million. In 2011, PT Linktone paid each of MNC TV and Global TV \$0.7 million. Revenue generated from our cooperation with RCTI during these periods were insignificant.

- (iv) Short-term investments

On December 20, 2010, the Group purchased secured notes issued by Aerospace Satellite Corporation Holding ("Aerospace Satellite"), a wholly owned subsidiary of Sky Vision (an affiliate of MNC), for consideration of \$20,000,000. The secured notes are traded on Singapore Exchange Ltd., due November 16, 2015, bear interest at a rate of 12.75% per annum, and are payable semi-annually in arrears. The secured notes are guaranteed by Sky Vision. The fair value of the secured notes as of December 31, 2010 of \$19,800,000 was based on the quoted market price on December 31, 2010. The corresponding interest of \$318,750 has been recorded in interest income. The Group sold the notes in 2011 and realized a gain of \$1,110,646.

In 2011, the Group purchased 357 million common shares of PT Global Mediacom TBK. (controlling shareholder of MNC), through the open market, at an average price of IDR826 (\$0.095) per share. Net unrealized gain of available-for-sale investment included in other comprehensive income amounted to \$4,453,157 for the year ended December 31, 2011.

- (v) Credit facility

In October 2010 and May 2011, a bank in Singapore extended to the Group's subsidiary, Innoform, a term loan of SGD2 million and a credit facility with a total facility limit of SGD10 million (\$7.7 million) and a

**LINKTONE LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(In U.S. dollars, unless otherwise stated)**

sub-limit of SGD3 million (\$2.3 million) for overdraft facility. The facilities are secured by a corporate guarantee from MNC. As of December 31, 2011, the Group utilized \$4.3m of the credit facility and \$1.0 million of the term loan was outstanding.

**29 Commitments and contingencies**

*(a) Operating lease commitments*

The Group rents offices under operating lease agreements. As of December 31, 2011, the net aggregate minimum future lease payments under non-cancelable operating leases are as follows:

	\$
2012	633,298
2013	536,307
2014	<u>295,577</u>
Total	<u><u>1,465,182</u></u>

As of December 31, 2011, the Group had no operating lease commitments beyond 2014.

For the years ended December 31, 2009, 2010 and 2011, the Group incurred total office rental expense of \$893,398, \$760,982 and \$677,569, respectively.

*(c) Significant legal proceedings*

On April 30, 2010, Yangzhou, as the plaintiff, filed two lawsuits against Unilink and Linktone Internet (See Note 8).

**30 Subsequent events**

Subsequent to the year ended December 31, 2011, the Company sold 169 million shares of Global Mediacom for \$28.3 million, and recorded a gain on sale of investment of \$12.2 million. The proceeds from the sale were utilized to purchase 599 million common shares of PT Bhakti Investama Tbk, for \$28.2 million. PT Bhakti Investama Tbk is the controlling shareholder of Global Mediacom, MNC and the Company.

In addition, the Shanghai arbitration committee ruled against one of the Group's VIEs in the PRC, and enforced a payment of \$0.1 million pursuant to a claim by a VAS content partner in 2009. The Group had made a provision for this amount in the year ended December 31, 2011.

**31 Additional information — Condensed financial statements of the Company**

Relevant PRC laws and regulations permit PRC companies to pay dividends only out of their retained earnings after certain appropriations to statutory reserves, if any, as determined in accordance with PRC accounting standards and regulations. As a result of these and other restrictions under PRC laws and regulations, the Company's PRC subsidiaries and VIEs are restricted in their ability to transfer a portion of their net assets to the Company either in the form of cash, dividends, loans or advances. The restricted portion amounted to \$44.2 million and \$40.2 million, or 29% and 25%, of the Company's total consolidated net assets as of December 31, 2010 and 2011, respectively. Even though the Company currently does not require any such dividends, loans or advances from its PRC subsidiaries and affiliates for working capital and other funding purposes, the Company may in the future require additional cash resources from our PRC subsidiaries and VIEs due to changes in business conditions, to fund future acquisitions and developments, or merely declare and pay dividends or distributions to the Company's shareholders.



**LINKTONE LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(In U.S. dollars, unless otherwise stated)

The condensed financial statements of the Company are presented below.

**a) Condensed balance sheets**

	<u>Note</u>	<u>As of December 31,</u>	
		<u>2010</u>	<u>2011</u>
		\$	\$
<b>Assets</b>			
Current assets:			
Cash and cash equivalents		16,729,503	5,506,797
Short-term investments		26,120,600	38,434,951
Deposits and other current assets		273,986	477,863
Total current assets		<u>43,124,089</u>	<u>44,419,611</u>
Investments in subsidiaries and VIEs	d	74,948,558	74,547,895
Due from subsidiaries and VIEs		14,038,501	21,874,218
Other long-term assets		252,190	140,103
<b>Total assets</b>		<u><u>132,363,338</u></u>	<u><u>140,981,827</u></u>
<b>Liabilities and shareholders' equity</b>			
Current liabilities:			
Accrued liabilities and other payables		267,128	851,646
Total current liabilities		267,128	851,646
Due to subsidiaries and VIEs		11,686	300,000
<b>Total liabilities</b>		<u><u>278,814</u></u>	<u><u>1,151,646</u></u>
<b>Shareholders' equity</b>			
Ordinary shares (\$0.0001 par value; 500,000,000 shares authorized, 421,130,130 shares issued and outstanding as of December 31, 2010 and 421,130,130 shares issued and 410,422,650 outstanding as of December 31, 2011)		42,113	42,144
Additional paid-in capital		137,581,956	137,745,875
Treasury stock		—	(1,425,204)
Accumulated other comprehensive income:			
Unrealized gain on investment in marketable securities		2,376,723	4,453,157
Cumulative translation adjustments		9,306,938	10,973,973
Accumulated losses		<u>(17,223,206)</u>	<u>(11,959,764)</u>
<b>Total shareholders' equity</b>		<u><u>132,084,524</u></u>	<u><u>139,830,181</u></u>
<b>Total liabilities and shareholders' equity</b>		<u><u>132,363,338</u></u>	<u><u>140,981,827</u></u>

**LINKTONE LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(In U.S. dollars, unless otherwise stated)

**b) Condensed statements of operations and comprehensive income/ (loss)**

	Year ended December 31,		
	2009	2010	2011
	\$	\$	\$
Net revenues	—	—	—
Cost of revenue	—	—	—
Gross profit	—	—	—
Total operating expenses	(1,260,418)	(2,070,580)	(1,325,077)
Gain on recovery of bad debt/(Provision for impairment)	431,873	(1,139,810)	110,425
Loss from operations	(828,545)	(3,210,390)	(1,214,652)
Equity in profit (loss) of subsidiaries and VIEs, net	186,179	2,315,416	182,134
Interest income	—	—	1,088,391
Other income (expenses), net	753,258	316,249	(69,604)
Dividend income from available-for-sales securities	—	—	314,300
Gain on sales of short-term investments	—	—	4,962,873
Income (loss) before tax	110,892	(578,725)	5,263,442
Income tax expense	—	—	—
Net income (loss)	110,892	(578,725)	5,263,442
Other comprehensive income (loss)			
Foreign currency translation adjustment	(145,899)	2,089,651	1,739,259
Unrealized gain on investments in marketable securities	437,250	1,939,473	2,076,434
Comprehensive income	402,243	3,450,399	9,079,135

**c) Condensed statements of cash flows**

	Year ended December 31,		
	2009	2010	2011
	\$	\$	\$
Net cash used in operating activities	(1,286,268)	(1,984,322)	59,372
Net cash used in investing activities	(36,621,700)	(41,980,867)	(9,886,907)
Net cash (used in) provided by financing activities	(438,160)	31,164,425	(1,395,171)
Net decrease in cash and cash equivalents	(38,346,128)	(12,800,764)	(11,222,706)
<b>Cash and cash equivalents, beginning of year</b>	67,876,395	29,530,267	16,729,503
<b>Cash and cash equivalents, end of year</b>	29,530,267	16,729,503	5,506,797

**LINKTONE LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(In U.S. dollars, unless otherwise stated)**

**d) Basis of presentation**

The condensed financial statements of the Company have been prepared in accordance with U.S. GAAP, except for accounting of the Company's subsidiaries and VIEs, and certain footnote disclosures as described below.

The Company is generally a holding company of certain subsidiaries and VIEs. The Company records its investments in its subsidiaries and VIEs under the equity method of accounting. Such investments are presented in the condensed balance sheets as "Investments in subsidiaries and VIEs" and 100% of the subsidiaries' and VIEs' profit or loss as "Equity in profit (loss) of subsidiaries and VIEs, net" in the condensed statements of operations and comprehensive income.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted by reference to the consolidated financial statements.

**e) Commitments, long term obligations and guarantees**

The Company does not have any significant commitments, long-term obligations or guarantees as of any of the years presented, except for those disclosed in the consolidated financial statements (Note 29).

**List of Principal Subsidiaries and Affiliated Variable Interest Entities  
of Linktone Ltd. as of December 31, 2010**

<u>Name of Subsidiary</u>	<u>Note</u>	<u>Jurisdiction of Incorporation</u>
Brilliant Concept Investments Ltd.		British Virgin Islands
Noveltech Enterprises Limited		Hong Kong SAR
Linktone Media Limited		Hong Kong SAR
Ojava Overseas Ltd.		British Virgin Islands
Linktone International Limited		United Arab Emirates
Wang You Digital Technology Co., Ltd.	(1)	People's Republic of China
Shanghai Linktone Consulting Co., Ltd.	(2)	People's Republic of China
Shanghai Huitong Information Co., Ltd.	(2)	People's Republic of China
Shanghai Linktone Internet Technology Co., Ltd.	(2)	People's Republic of China
Shanghai Xintong Information Technology Co., Ltd.	(2)	People's Republic of China
Shanghai Linktone Software Co., Ltd.	(3)	People's Republic of China
Beijing Ruida Internet Technology Co., Ltd.	(4)	People's Republic of China
InnoForm Media Pte Ltd	(5)	Republic of Singapore
InnoForm Media (HK) Limited	(6)	Hong Kong SAR
InnoForm Media (Taiwan) Co. Limited	(6)	Taiwan
InnoForm Media (M) Sdn Bhd	(6)	Malaysia
InnoForm Entertainment Pte Ltd	(6)	Republic of Singapore
InnoForm Digital Media Pte Ltd	(6)	Republic of Singapore
Alliance Entertainment Singapore Pte Ltd	(6)	Republic of Singapore
GLD Investments Pte Ltd	(6)	Republic of Singapore
PT Linktone Indonesia	(5)	Republic of Indonesia
<u>Name of Affiliated Variable Interest Entity</u>		<u>Jurisdiction of Incorporation</u>
Shanghai Weilan Computer Co., Ltd.	(7)	People's Republic of China
Shanghai Unilink Computer Co., Ltd.	(7)	People's Republic of China
Shenzhen Yuan Hang Technology Co., Ltd.	(7)	People's Republic of China
Beijing Cosmos Digital Technology Co., Ltd.	(7)	People's Republic of China
Hainan Zhong Tong Computer Network Co., Ltd.	(7)	People's Republic of China
Beijing Lian Fei Wireless Communications Technology Co., Ltd.	(7)	People's Republic of China
Shanghai Qimingxing E-commerce Co., Ltd.	(7)	People's Republic of China
Beijing Ojava Wireless Information Technology Co., Ltd.	(7)	People's Republic of China
Shanghai Ling Yu Cultural and Communication Ltd.	(7)	People's Republic of China
Zhong Qing Wei Lian Cultural Communication Co., Ltd.	(7)	People's Republic of China
Beijing Lian Yu Interactive Technology Development Co., Ltd.	(7)	People's Republic of China
Shanghai Lang Yi Advertising Co., Ltd.	(7)	People's Republic of China
Beijing Xian Feng Li Liang Media Co., Ltd.	(7)	People's Republic of China
PT Cakrawala Alam Semesta	(7)	Republic of Indonesia
Letang Game Limited	(8)	People's Republic of China

- (1) Indirectly, through our ownership in Brilliant Concept Investments Ltd.
- (2) Indirectly, through our ownership in Noveltech Enterprise Limited.
- (3) Indirectly through our ownership in Linktone Media Limited
- (4) Indirectly, through our ownership in Ojava Overseas Ltd.
- (5) Indirectly, through our ownership in Linktone International Limited
- (6) Subsidiaries of InnoForm Media Pte Ltd.
- (7) Controlled through contractual agreements and is 50% owned by each of two of the Company or MNC Group's employees/ex- employees/our VIEs
- (8) 50.01% owned by Shanghai Weilan Computer Co., Ltd.

**CERTIFICATION**

I, Hary Tanoesoedibjo, certify that:

1. I have reviewed this annual report on Form 20-F of Linktone Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Dated: April 27, 2012

By: /s/ Hary Tanoesoedibjo  
Hary Tanoesoedibjo  
Chief Executive Officer

**CERTIFICATION**

I, Peck Joo Tan, certify that:

1. I have reviewed this annual report on Form 20-F of Linktone Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Dated: April 27, 2012

By: /s/ Peck Joo Tan  
Peck Joo Tan  
Chief Financial Officer

**906 CERTIFICATION**

Securities and Exchange Commission  
100 F Street, N.E. Washington, D.C. 20549

Ladies and Gentlemen:

In connection with the periodic report of Linktone Ltd. (the "Company") on Form 20-F for the year ended December 31, 2011 as filed with the Securities and Exchange Commission (the "Report"), I, Hary Tanoesoedibjo, the Chief Executive Officer of the Company, hereby certify as of the date hereof, solely for purposes of Title 18, Chapter 63, Section 1350 of the United States Code, that to the best of my knowledge:

1. the Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the dates and for the periods indicated.

This Certificate has not been, and shall not be deemed, "filed" with the Securities and Exchange Commission.

Dated: April 27, 2012

By: /s/ Hary Tanoesoedibjo  
Hary Tanoesoedibjo  
Chief Executive Officer

906 CERTIFICATION

Securities and Exchange Commission  
100 F Street, N.E.  
Washington, D.C. 20549

Ladies and Gentlemen:

In connection with the periodic report of Linktone Ltd. (the "Company") on Form 20-F for the year ended December 31, 2011 as filed with the Securities and Exchange Commission (the "Report"), I, Peck Joo Tan, the Chief Financial Officer of the Company, hereby certify as of the date hereof, solely for purposes of Title 18, Chapter 63, Section 1350 of the United States Code, that to the best of my knowledge:

1. the Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and

2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the dates and for the periods indicated.

This Certificate has not been, and shall not be deemed, "filed" with the Securities and Exchange Commission.

Dated: April 27, 2012

By: /s/ Peck Joo Tan  
Peck Joo Tan  
Chief Financial Officer



April 27, 2012  
Securities and Exchange Commission  
100 F Street, N.E.  
Washington, DC 20549  
USA

**Item 16-F to Form 20-F**

Dear Sir:

We have read Item 16-F of Form 20-F dated April 27, 2012 of Linktone Ltd. and are in agreement with the statements contained in the first to fourth paragraphs of Item 16-F therein. We have no basis to agree or disagree with other statements of the registrant contained therein.

/s/ Ernst & Young Hua Ming  
Shanghai, People's Republic of China

**cc: Linktone Ltd.**

**Consent of Independent Registered Public Accounting Firm**

We consent to the incorporation by reference in the Registration Statements (Forms S-8 No. 333-114752 and No. 333-124893), pertaining to the 2000-1 Employee Stock Option Scheme and the 2003 Stock Incentive Plan of Linktone Ltd. of our report dated June 30, 2011, except for Notes 4(t) and 22, as to which the date is April 27, 2012, with respect to the consolidated financial statements of Linktone Ltd., included in this Annual Report (Form 20-F) for the year ended December 31, 2011.

/s/ Ernst & Young Hua Ming  
Shanghai, People's Republic of China

April 27, 2012

**Consent of Independent Registered Public Accounting Firm**

We consent to the incorporation by reference in the Registration Statements (Forms S-8 No. 333-114752 and No. 333-124893), pertaining to the 2000-1 Employee Stock Option Scheme and the 2003 Stock Incentive Plan of Linktone Ltd. of our report dated April 27, 2012, with respect to the consolidated financial statements of Linktone Ltd., included in this Annual Report (Form 20-F) for the year ended December 31, 2011.

/s/ Ernst & Young LLP  
Singapore

April 27, 2012

[Walkers Letterhead]

April 27, 2012

Linktone Ltd.  
Unit C-D, 10F Long Life Building  
1566 West Yan Road  
Shanghai 200052, People's Republic of China

Dear Sirs,

**LINKTONE LTD.**

We have acted as legal advisors as to the laws of the Cayman Islands to Linktone Ltd., an exempted company incorporated with limited liability in the Cayman Islands (the "**Company**"), in connection with the filing by the Company with the United States Securities and Exchange Commission of an annual report on Form 20-F for the year ended December 31, 2011.

We hereby consent to the reference of our name under the heading "Enforcement of Civil Liabilities" in the Form 20-F.

Yours faithfully

/s/ Walkers

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Walkers

[Jun He Law Offices Letterhead]

April 27, 2012

Linktone Ltd.  
Unit C-D, 10F Long Life Building  
1566 West Yan Road  
Shanghai 200052, People's Republic of China

Dear Sirs,

**LINKTONE LTD.**

We have acted as legal advisors as to the laws of the People's Republic of China to Linktone Ltd., an exempted company incorporated with limited liability in the Cayman Islands (the "**Company**"), in connection with the filing by the Company with the United States Securities and Exchange Commission of an annual report on Form 20-F for the year ended December 31, 2011.

We hereby consent to the reference of our name under the heading "Enforcement of Civil Liabilities" in the Form 20-F.

Yours faithfully,

/s/ Jun He Law Offices

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Jun He Law Offices

Contact: Adam Li  
Direct Tel: (86-21) 2208-6298  
Email: liqi@junhe.com