

NINETOWNS INTERNET TECHNOLOGY GROUP CO LTD

Form 20-F

June 24, 2009

**Table of Contents**

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

**FORM 20-F**

**(Mark One)**

**o REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
OR**

**þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

**For the fiscal year ended December 31, 2008**

**OR**

**o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

**OR**

**o 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 000-51025**

**Ninetowns Internet Technology Group Company Limited**

**(Exact name of Registrant as specified in its charter)**

**Cayman Islands**

**(Jurisdiction of incorporation or organization)**

**22nd Floor, Building No.1,**

**Capital A Partners, No.20 Gong Ti East Road,**

**Chaoyang District Beijing 100020,**

**The People's Republic of China**

**(Address of principal executive offices)**

**Contact Person: Tommy Siu Lun Fork**

**Chief Financial Officer**

**Phone: +852-9021-9597**

**Facsimile: +852-2868-4483**

**Address: 22nd Floor, Building No. 1, Capital A Partners,**

**No.20 Gong Ti East Road, Chaoyang District Beijing 100020, China**

**(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.**

**Title of each class**

**35,791,834 ordinary shares**

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

**Name of each exchange on which registered**

**Nasdaq Global Market**

**None**

(Title of Class)

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

American Depositary Shares,

each representing one ordinary share, par value HK\$0.025 per share

(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.

35,791,834 ordinary shares, par value HK\$0.025 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

Note: Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

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

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes  No



**Table of Contents**

	<b>Page</b>
<u>Item 1. Identity of Directors, Senior Management and Advisors</u>	1
<u>Item 2. Offer Statistics and Expected Timetable</u>	1
<u>Item 3. Key Information</u>	1
<u>Item 4. Information on the Company</u>	29
<u>Item 4A. Unresolved Staff Comments</u>	56
<u>Item 5. Operating and Financial Review and Prospects</u>	56
<u>Item 6. Directors, Senior Management and Employees</u>	77
<u>Item 7. Major Shareholders and Related Party Transactions</u>	88
<u>Item 8. Financial Information</u>	91
<u>Item 9. The Offering and Listing</u>	92
<u>Item 10. Additional Information</u>	94
<u>Item 11. Quantitative and Qualitative Disclosures About Market Risk</u>	102
<u>Item 12. Description of Securities Other than Equity Securities</u>	102
<u>Item 13. Defaults, Dividend Arrearages and Delinquencies</u>	103
<u>Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds</u>	103
<u>Item 15. Controls and Procedures</u>	103
<u>Item 16A. Audit Committee Financial Expert</u>	105
<u>Item 16B. Code of Ethics</u>	105
<u>Item 16C. Principal Accountant Fees and Services</u>	105
<u>Item 16D. Exemptions from the Listing Standards for Audit Committee</u>	106
<u>Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers</u>	106
<u>Item 16F. Change in Registrant's Certifying Accountant</u>	106
<u>Item 16G. Corporate Governance</u>	106

<u>Item 17. Financial Statements</u>	107
<u>Item 18. Financial Statements</u>	107
<u>Item 19. Exhibits</u>	107
<u>Exhibit 4.78</u>	
<u>Exhibit 4.79</u>	
<u>Exhibit 4.80</u>	
<u>Exhibit 4.81</u>	
<u>Exhibit 4.82</u>	
<u>Exhibit 4.83</u>	
<u>Exhibit 4.84</u>	
<u>Exhibit 4.85</u>	
<u>Exhibit 4.86</u>	
<u>Exhibit 4.87</u>	
<u>Exhibit 8.1</u>	
<u>Exhibit 12.1</u>	
<u>Exhibit 12.2</u>	
<u>Exhibit 13.1</u>	
<u>Exhibit 13.2</u>	
<u>Exhibit 15.1</u>	
<u>Exhibit 15.2</u>	
<u>Exhibit 15.3</u>	

**Table of Contents**

**Introduction**

This annual report on Form 20-F includes our audited consolidated financial statements for the years ended December 31, 2006, 2007 and 2008, and as of December 31, 2007 and 2008. References to 2006, 2007, 2008, 2009 and 2010 are, where appropriate, references to the years ended or ending December 31, 2006, 2007, 2008, 2009 and 2010, respectively.

Discrepancies in tables between totals and sums of the amounts listed are due to rounding.

References to China or the PRC are to the People's Republic of China, excluding Taiwan, Hong Kong and Macau.

Facts and statistics in this annual report relating to the enterprise software and related services market, the PRC import/export industry and economic data are derived from various government and research publications.

**Forward-looking statements**

This annual report contains forward-looking statements that relate to future events or our future financial performance.

In some cases, you can identify forward-looking statements by terminology such as anticipate, believe, continue, could, estimate, expect, forecast, intend, may, plan, potential, predict, project, should, or will terms or other comparable terminology. These statements involve known and unknown risks, uncertainties, and other factors that may cause our or our industry's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. These risks, uncertainties and other factors include, among other things, those listed under Risk factors as well as those included elsewhere in this annual report.

These forward-looking statements include, but are not limited to, statements relating to:

- our anticipated capital expenditures and our ability to fund such expenditures;
- our expectations about growth in demand for our products and services;
- acquisitions or investments in businesses, products or technologies that are complementary to our own;
- our ability to adjust to technological change; and
- our belief about the effects of government regulation on our business.

You should not place undue reliance on forward-looking statements and you should read these statements in conjunction with the risk factors disclosed in Item 3 of this annual report, Key Information Risk factors. We undertake no obligation to publicly update or revise any forward-looking statements whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions the forward-looking events discussed in this annual report might not occur and our actual results could differ materially from those anticipated in these forward-looking statements.

**Table of Contents****Item 1. Identity of Directors, Senior Management and Advisors.**

Not applicable.

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

Not applicable.

**Item 3. Key Information.****A. Selected financial data**

The following table shows selected consolidated financial information and other data for our business. You should read the following information in conjunction with Item 5 of this annual report, Operating and Financial Review and Prospects. The statement of operations data and cash flow data for the years ended December 31, 2006, 2007 and 2008, and the balance sheet data as of December 31, 2007 and 2008, are derived from our audited consolidated financial statements and related notes thereto, which are included in this annual report beginning on page F-1. These audited consolidated financial statements and the related notes thereto have been prepared in accordance with accounting principles generally accepted in the United States, or U.S. GAAP.

The statement of operations data for 2004 and 2005, and the balance sheet data as of December 31, 2004, 2005 and 2006, are derived from our audited consolidated financial statements which have not been included in this annual report.

**In thousands, except per share, per ADS and operating data and percentages****For the years ended December 31,**

	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2008<sup>(1)</sup></b>
	<b>RMB</b>	<b>RMB</b>	<b>RMB</b>	<b>RMB</b>	<b>RMB</b>	<b>US\$</b>
<b>Statement of operations data:</b>						
Total net revenues:						
Enterprise software and related customer maintenance services	188,720	203,488	116,833	77,327	84,965	12,454
Software development services	12,723	35,700	36,017	25,642	19,458	2,852
Computer hardware sales	104	678	398			
Business-to-business search services				489	2,496	366
Other					94	14
	201,547	239,866	153,248	103,458	107,013	15,686
Cost of revenues:						
Enterprise software and related customer maintenance services	(1,528)	(495)				
Software development services	(2,970)	(18,192)	(16,805)	(17,748)	(12,423)	(1,821)
Computer hardware sales	(9)	(482)	(134)			
Business-to-business search services				(5,109)	(19,707)	(2,889)
Other					(76)	(11)
	(4,507)	(19,169)	(16,939)	(22,857)	(32,206)	(4,721)



**Table of Contents**

<b>In thousands, except per share, per ADS and operating data and percentages</b>	<b>For the years ended December 31,</b>					
	<b>2004 RMB</b>	<b>2005 RMB</b>	<b>2006 RMB</b>	<b>2007 RMB</b>	<b>2008 RMB</b>	<b>2008<sup>(1)</sup> US\$</b>
Gross profit	197,040	220,697	136,309	80,601	74,807	10,965
Operating expenses:						
Selling and marketing	(15,977)	(25,752)	(13,604)	(41,086)	(30,338)	(4,447)
General and administrative	(36,572)	(49,538)	(65,928)	(108,729)	(98,517)	(14,440)
Research and development	(4,819)	(11,249)	(29,825)	(32,003)	(27,699)	(4,060)
Impairment of property and equipment					(4,339)	(636)
Impairment of intangible assets					(43,747)	(6,412)
Impairment of goodwill				(193,570)	(78,081)	(11,445)
Total operating expenses	(57,368)	(86,539)	(109,357)	(375,388)	(282,721)	(41,440)
Government subsidies	1,340	447	705	1,015		
Income (loss) from operations	141,012	134,605	27,657	(293,772)	(207,914)	(30,475)
Interest income	3,768	17,625	19,302	13,885	7,026	1,030
Gain from sales of short-term investments				43,546	9,866	1,446
Gain from disposal of investment under cost method					2,187	321
Other income					358	52
Income (loss) before provision for income tax and minority interests	144,780	152,230	46,959	(236,341)	(188,477)	(27,626)
Income tax (expense) benefit	(1,823)	(626)	(1,031)	(243)	13,382	1,961
Income (loss) before minority interests	142,957	151,604	45,928	(236,584)	(175,095)	(25,665)
Minority interests	(9,006)			6,053	5,483	804
Net income (loss)	133,951	151,604	45,928	(230,531)	(169,612)	(24,861)
Net income (loss) per share and ADS:						
Basic	4.96	4.39	1.32	(6.59)	(4.85)	(0.71)
Diluted	4.74	4.25	1.30	(6.59)	(4.85)	(0.71)
<b>Cash flow data:</b>						
Net cash provided by (used in) operating activities	143,270	146,372	40,832	(2,941)	(24,015)	(3,521)
Net cash (used in) provided by investing activities	(179,405)	(110,851)	(176,483)	57,193	(47,232)	(6,922)
Net cash provided by financing activities	565,597	2,044	6,328	1,268		
			<b>As of December 31,</b>			
	<b>2004 RMB</b>	<b>2005 RMB</b>	<b>2006 RMB</b>	<b>2007 RMB</b>	<b>2008 RMB</b>	<b>2008<sup>(1)</sup> US\$</b>

**Balance sheet data:**

Cash and cash equivalent	696,993	731,474	598,648	649,863	576,642	84,521
Restricted cash				853	670	98
Trade receivables, net of allowance for doubtful accounts, from:						
external customers	38,190	17,459	18,775	31,096	27,938	4,095
related parties	30,940	29,752	28,330	6,350	6,005	880
Term deposits	150,913	207,000	307,209	26,000	28,000	4,104
Total assets	1,222,182	1,345,773	1,365,289	1,171,180	953,325	139,732
Deferred revenue	97,230	67,886	26,383	32,472	21,392	3,136
Total liabilities	131,130	98,808	60,309	92,793	53,145	7,790
Total shareholders' equity	1,090,452	1,246,365	1,304,980	1,072,904	900,180	131,942
Number of ordinary shares outstanding <sup>(2)</sup>	34,391,834	34,991,834	34,991,834	34,991,834	35,791,834	35,791,834

(1) For the convenience of the reader, RMB amounts are expressed in U.S. dollars at the rate of RMB6.8225 to US\$1.00, the noon buying rate in effect on December 31, 2008 as quoted by the Federal Reserve Bank of New York.

(2) In 2008, 800,000 of the Company's ordinary shares were converted into American Depositary Shares to facilitate our employees' cashless exercise of vested stock options. Stock options for 6,186 ordinary shares were exercised in 2008.



**Table of Contents**

## Exchange rate information

Our business is primarily conducted in China and denominated in Renminbi. This annual report contains translations of Renminbi amounts into U.S. dollars at a specific rate solely for the convenience of the reader. The conversion of Renminbi into U.S. dollars in this annual report is based on the noon buying rate in The City of New York for cable transfers of Renminbi as certified for customs purposes by the Federal Reserve Bank of New York. Unless otherwise noted, all translations from Renminbi to U.S. dollars and from U.S. dollars to Renminbi in this annual report were made at a rate of RMB6.8225 to US\$1.00, the noon buying rate in effect as of December 31, 2008. We make no representation that any Renminbi amounts could have been, or could be, converted into U.S. dollars at any particular rate, the rates stated below, or at all. In addition, such translations should not be construed to be the amounts that would have been reported under U.S. GAAP. The PRC government imposes controls 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 information concerning exchange rates between Renminbi and U.S. dollars for the periods indicated. These rates are provided solely for your convenience and are not necessarily the exchange rates that we used in this annual report or will use in the preparation of our periodic reports or any other information to be provided to you. The source of these rates is the noon buying rate in the City of New York for cable transfers of RMB as certified for customs purposes by the Federal Reserve Bank of New York.

	Period End	Noon Buying Rate		
		Average <sup>(1)</sup> (RMB per US\$1.00)	Low	High
2003	8.2767	8.2771	8.2880	8.2765
2004	8.2765	8.2768	8.2774	8.2764
2005	8.0702	8.1936	8.2765	8.0702
2006	7.8041	7.9723	8.0702	7.8041
2007	7.2946	7.6058	7.8127	7.2946
2008	6.8225	6.9477	7.2946	6.7800
2009				
January	6.8392	6.8360	6.8403	6.8225
February	6.8395	6.8363	6.8470	6.8241
March	6.8329	6.8360	6.8438	6.8240
April	6.8180	6.8304	6.8361	6.8180
May	6.8278	6.8235	6.8326	6.8176
June <sup>(2)</sup>	6.8352	6.8328	6.8371	6.8264

(1) Annual and monthly averages are calculated using the average of the daily rates during the relevant period.

(2) For the period to and including June 12, 2009.



**Table of Contents**

***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 currently generate substantially all of our total net revenues from either PRC government agencies or in connection with PRC government agency filings, and our failure to maintain a continued working relationship with certain PRC government agencies and, in particular, the PRC Inspections Administration, would result in the reduction or loss of substantially all of our total net revenues.***

Sales of our enterprise software and related customer maintenance services and software development services that are either used by the State Administration for Quality Supervision and Inspection and Quarantine of the PRC, or the PRC Inspections Administration, or by regional PRC inspection and quarantine bureaus, have accounted for substantially all of our total net revenues. We expect that, in the near future, we will continue to generate a substantial portion of our total net revenues through (i) sales of enterprise software and related customer maintenance services and (ii) software development services that will be used in connection with the PRC Inspections Administration filings. Net revenues from sales of enterprise software and related customer maintenance services for PRC Inspections Administration filings accounted for 76.2%, 74.7% and 79.4% of our total net revenues in 2006, 2007 and 2008, respectively.

We cannot assure you that we will be able to maintain our working relationship with the PRC Inspections Administration or other PRC government agencies in connection with new enterprise software or in relation to the continued use of our existing enterprise software. If the PRC Inspections Administration ceases to cooperate with us in researching and developing new enterprise software; ceases to use the electronic infrastructure that we helped develop and build; reduces its spending on, or commitment to, or ceases or slows down the implementation of, the digitization of its processes for data collection and administration; encourages our competitors or alternate means of data collection; or requires us to lower the prices of our products and services; then our market position, revenues and profitability would be materially and adversely affected. Furthermore, such a change in our relationship with the PRC Inspections Administration could result in the loss of what we perceive to be our first mover advantage in developing software products compatible with the systems implemented by the PRC Inspections Administration. The loss of such an advantage would result in slower growth and/or reduced sales, which would require us to increase our research and development and sales and marketing expenditures.

For example, Beijing iTowNet Cyber Technology Ltd., or iTowNet, has developed its own platform for providing software development services and now provides software development services directly to its customers, such as the PRC Inspections Administration, that are similar to the software development services that we provide to our customers. As a result, iTowNet became one of our competitors in our software development services business. Due to the fact that iTowNet is majority owned by the PRC Inspections Administration, our software development services relating to the PRC Inspections Administration could become obsolete, which would result in the reduction or loss of substantially all of our revenues from that business.

**Table of Contents**

***Our revenues would be adversely affected if the PRC Inspections Administration, or any other government agency to which our products relate, develops, endorses or adopts an alternative to our enterprise software.***

Our business would be adversely affected if the PRC Inspections Administration or any other government agency or affiliate to which our products relate decides to develop its software and platform internally, endorses software provided by others or permits filings to be made online without independently produced software. In such case, we would not only face enhanced competition, but our software products and services relating to the PRC Inspections Administration or any such government agency or affiliate could become obsolete, which would result in the reduction or loss of substantially all of our revenues.

In August 2005, the PRC Inspections Administration selected our company as the winning bidder in connection with the PRC Inspections Administration's request for proposals for the development of a software product that has certain basic functionalities similar to those of iDeclare.CIQ and iProcess.CIQ. The PRC Inspections Administration agreed to pay a one-time fee of RMB3.3 million to purchase the ownership of the software product that we developed. In February 2006, the PRC Inspections Administration commenced the distribution of the software products that our company developed, free-of-charge to end-users. As certain basic functionalities of the newly developed software products are similar to those of iDeclare.CIQ and iProcess.CIQ, the provision of such software products free-of-charge by the PRC Inspections Administration has a material adverse effect on our results of operations and on our future profitability. For example, we sold, together with our franchisees, approximately 2,200, 1,000 and 400 software packages of iDeclare.CIQ during the first quarter of 2007, 2008 and 2009, respectively, which is significantly lower than the approximately 8,000 software packages of iDeclare.CIQ sold by our company and our former distributors and franchisees during the first quarter of 2005. In May 2007, the PRC Inspections Administration selected our company as one of the winning bidders in connection with the PRC Inspections Administration's request for proposals for servicing the free import/export e-filing software provided by the PRC Inspections Administration. We believe that the PRC Inspections Administration decreased its efforts to promote its free software and we believe there is uncertainty surrounding the PRC Inspections Administration's future promotional plans for its free software products. ***We are in the process of diversifying our business focus to include other businesses in addition to the sales of our enterprise software and related customer maintenance services and the provision of software development services. Our new potential business ventures and limited operating history in such potential business ventures may make it difficult for you to evaluate our business, and our limited resources may affect our ability to manage the growth we expect to achieve.***

We generated substantially all of our total net revenues from the sales of our enterprise software and related customer maintenance services, and the provision of software development services in 2008. Currently, we are in the process of expanding our business focus from the development of software products and the provision of software development services to other potential business ventures. We anticipate that a material portion of our net revenue in the future will be derived from businesses that are not directly related to sales of our enterprise software and related customer maintenance services or the provision of software development services.

From 2006 to 2008, we focused on developing our business-to-business, or B2B, business and strategy. We pursued selective strategic acquisitions and investments in companies such as Global Market Group Ltd., or Global Market, Ample Spring Holdings Limited, or Ample Spring (a related party of Beijing Baichuan Tongda Science and Technology Development Company Ltd., or Baichuan, which is one of our variable interest entities, or VIEs), and Hangzhou Tophere InfoTech Inc., or Hangzhou Tophere. We launched our new B2B vertical search platform, tootoo.com in May 2007 through which we offered our B2B business and services. In March 2009, we announced our decision to wind down our B2B business.

**Table of Contents**

In the second half of 2009, we aim to expand our research and development initiatives to include opportunities in the business-to-consumer, or B2C business. Our B2C business is under development and we may not successfully introduce it as one of our primary businesses. We do not have a significant operating history in respect to such new B2C business upon which you can evaluate our business and prospects. Furthermore, as part of our operation and expansion, we need to continue to develop and improve our staff training, financial and management controls and our reporting systems and procedures. We cannot assure you that we will be able to efficiently or effectively manage or grow our new businesses, and any failure to do so may limit our future growth and materially and adversely affect our business, financial condition and results of operations.

***Our significant shareholders, related parties and management personnel have potential conflicts of interest with us, which may result in their taking corporate actions which you may not believe to be in your best interests or in the best interests of our company.***

As of May 31, 2009, Shuang Wang, our Chief Executive Officer and a director of our company, or Mr. Wang, and Min Dong, our Senior Vice President of Legal Affairs, Administration and Human Resources and the spouse of Mr. Wang, or Ms. Dong, beneficially own 17.67% of our ordinary shares. Mr. Wang and Ms. Dong will have substantial influence over the management and policies of our company and the outcome of most corporate actions. In addition, we understand from publicly available information that Mr. Yong Ping Duan, or Mr. Duan, and Technology Pioneer Corp., or Technology Pioneer, beneficially own 19.76% and 8.58% of our American Depositary Shares, or ADSs, respectively. Mr. Duan and Technology Pioneer will also have substantial influence over the outcome of most corporate actions. As a result, Mr. Wang, Ms. Dong, Mr. Duan and Technology Pioneer have the power to take corporate actions which other shareholders may not believe are in their best interests or in the best interests of our company. There can be no assurance that Mr. Wang, Ms. Dong, Mr. Duan and Technology Pioneer will not cause our company to take such corporate actions.

Mr. Wang and Ms. Dong beneficially own 100.0% of Ninetowns Import & Export e-Commerce Co., Ltd., or Import & Export, which in turn owns a 49.0% equity interest in iTowNet, the operator of the PRC Inspections Administration's data exchange platforms and electronic processing system. iTowNet is 51.0% owned by the PRC Inspections Administration and operates the data exchange platforms that interface between international trade enterprises using our enterprise software and the PRC Inspections Administration's internal electronic processing systems. iTowNet receives a fee of RMB5 from the end-users for each submission made over its data exchange platforms. Mr. Wang is a non-executive director and the vice-chairman of the board of directors of iTowNet. Due to their ownership interest in iTowNet and Mr. Wang's position as a director of iTowNet, the interests of Mr. Wang and Ms. Dong may also differ from those of our other shareholders.

Mr. Xiaoguang Ren, who is our President, or Mr. Ren, is also a non-executive director of iTowNet. Mr. Bolin Wu, who is our General Manager, Research and Development and Chief Technology Officer, or Mr. Wu, is the sole supervisor of iTowNet. As the supervisor of iTowNet, Mr. Wu is responsible for overseeing the financial operations of iTowNet, the actions of its board of directors and senior management and their compliance with relevant laws and iTowNet's charter documents.

iTowNet has developed its own platform for providing software development services and now provides software development services directly to its customers, such as the PRC Inspections Administration, that are similar to the software development services that we provide to our customers. As a result, iTowNet became one of our competitors in our software development services business. Due to the fact that iTowNet is majority owned by the PRC Inspections Administration, our software development services relating to the PRC Inspections Administration could become obsolete, which would result in the reduction or loss of substantially all of our revenues from that business.



**Table of Contents**

We derived RMB21.2 million, RMB2.9 million and RMB2.5 million (US\$0.4 million), or 13.9%, 2.8% and 2.3% of our total net revenues in 2006, 2007 and 2008, respectively, from Shenzhen Ninetowns Enke Software Technology Co., Ltd., or Ninetowns Enke, which is our related party and also one of our franchisees. We derived RMB0.5 million, RMB6.4 million and RMB12.0 million (US\$1.8 million), or 0.3%, 6.2% and 11.2% of our total net revenues in 2006, 2007 and 2008, respectively, from Guangzhou Ninetowns Wang Li Software Co., Ltd., or Ninetowns Wang Li, which is our related party and also one of our franchisees.

We cannot assure you that our transactions with Ninetowns Enke and Ninetowns Wang Li would have occurred on their current terms, or at all, had these relationships not existed; nor can there be any assurance as to the effect these relationships will have on our future business dealings with Ninetowns Enke and Ninetowns Wang Li. See Item 7 of this annual report, Major Shareholders and Related Party Transactions Related party transactions.

***Since a significant part of our total net revenues prior to 2007 was generated from software development services, a decline in demand for those services starting in 2007 resulted in a significant reduction in our net revenues from the provision of software development services and our total net revenues.***

We have provided software development services to iTowNet since April 2002. In addition, we provide software development services either directly, or indirectly as a sub-contractor for eGrid Technology Ltd., or eGrid, to iTowNet. Net revenues from the provision of software development services, either directly to iTowNet or indirectly to iTowNet through eGrid, accounted for approximately 8.4% of our total net revenues and 35.9% of our net revenues from the provision of software development services in 2006. We did not derive any revenue from iTowNet and eGrid in 2007 and 2008. We cannot assure you that we can obtain any new software development contract from iTowNet or from eGrid. As a result, we experienced a significant decline in our net revenues from the provision of software development services starting in 2007 and expect such decline to continue over time due to decreasing demand for such services.

***A significant portion of our total net revenues are generated by our major customers, and the loss of all or part of our net revenues from any of these customers would result in a decline in our total net revenues and a significant increase in our sales and marketing expenditures.***

As of May 31, 2009, we have franchise agreements with our four franchisees including (i) Beijing Ninetowns Zhi Fang Software Technology Co., Ltd., or Ninetowns Zhi Fang, (ii) Beijing Ninetowns Xin He Software Technology Co., Ltd., or Ninetowns Xin He, (iii) Ninetowns Wang Li and (iv) Ninetowns Enke, who as a result of their purchases of enterprise software and related customer maintenance services for distribution to end-users, are also four of our largest customers. We currently do not have any distributor.

Our net revenues from sales of our enterprise software and related customer maintenance services from Ninetowns Zhi Fang were RMB10.0 million, RMB17.6 million and RMB18.5 million (US\$2.7 million), which represented 6.5%, 17.0% and 17.3% of our total net revenues for 2006, 2007 and 2008, respectively.

Our net revenues from sales of our enterprise software and related customer maintenance services from Ninetowns Xin He were RMB9.2 million, RMB23.8 million and RMB21.3 million (US\$3.1 million), which represented 6.0%, 23.0% and 19.9% of our total net revenues for 2006, 2007 and 2008, respectively.

Our net revenues from sales of our enterprise software and related customer maintenance services from Ninetowns Wang Li were RMB0.5 million, RMB6.4 million and RMB12.0 million (US\$1.8 million), which represented 0.3%, 6.2% and 11.2% of our total net revenues for 2006, 2007 and 2008, respectively.

Our net revenues from sales of our enterprise software and related customer maintenance services from Ninetowns Enke were RMB21.2 million, RMB2.9 million and RMB2.5 million (US\$0.4 million) or 13.9%, 2.8% and 2.3% of our total net revenues in 2006, 2007 and 2008, respectively.

**Table of Contents**

To our knowledge, none of our franchisees are PRC government agencies.

eGrid and iTowNet have historically been our two largest customers for software development services. However, starting in 2007, we experienced a decline in our revenues from eGrid and iTowNet for software development services. Our net revenues from the provision of software development and other services to eGrid were RMB16.4 million, RMB0.2 million and nil or 10.7%, 0.2% and nil of our total net revenues in 2006, 2007 and 2008, respectively. We did not recognize any net revenues from software development services to iTowNet in 2006, 2007 and 2008. To our knowledge, iTowNet and eGrid are not PRC government agencies, but iTowNet is 51.0% owned by the PRC Inspections Administration.

In the event one or more of our customers discussed above discontinues their businesses or their dealings with us, and we are unable to find an adequate replacement for such customer in a timely manner, we would suffer a decline in total net revenues and in turn would need to significantly increase our sales and marketing expenditures.

***Our trade receivables, which include trade receivables from related parties, are significant and if customers fail to pay amounts owed, our profitability and financial position could decline.***

As of December 31, 2008, our total net trade receivables amounted to approximately RMB33.9 million (US\$5.0 million), of which our net trade receivables from related parties amounted to RMB6.0 million (US\$0.9 million). Our total net trade receivables as of December 31, 2008 represented approximately 5.2% of our total current assets. As of December 31, 2008, we had an allowance for doubtful debts of approximately RMB5.3 million (US\$0.8 million). We have written off trade receivables of RMB20.9 million (US\$3.1 million) identified as uncollectible against corresponding allowances as of December 31, 2008. If any of our franchisees or any of our other customers fails to pay, or delays payment on, all or part of these receivables, we would be required to make additional allowances for doubtful debts and our profitability and financial position could be affected.

***Our existing major shareholders have substantial control over us and could delay or prevent a change in corporate control, which could in turn reduce the market price of your ADSs.***

Our executive officers, directors and shareholders with 5.0% or more shareholding of our company and their affiliates beneficially own approximately 56.1% of our outstanding ordinary shares. Such concentration of ownership might have the effect of delaying or preventing a change in control of our company which could in turn reduce the market price of our ADSs and the voting and other rights of our other shareholders.

***Our failure to market our customer maintenance services to our existing users could impair our planned revenue growth.***

We offer one year of customer maintenance services with our iDeclare.CIQ basic package, and charge a fee of RMB1,500 per licensee for customer maintenance services each year thereafter. In 2008, we offered customer maintenance service contracts to approximately 40,500 users, so that approximately 29% of the total number of users due for a maintenance contract renewal in 2008 paid for the renewal. However, we believe that not all of our users and potential users were accustomed to being charged for this type of service. In 2008, we recognized approximately RMB45.1 million (US\$6.6 million) from the provision of customer maintenance services.

**Table of Contents**

Our success in marketing customer maintenance services to our users depends in part on whether users require software updates. Software updates can implement modifications to forms, programs and information systems necessary to address changes imposed by the PRC Inspections Administration.

Therefore, the desirability and usefulness of our customer maintenance services is dependent in part on changes occurring in government policies. If we fail to market our customer maintenance services to, or to collect customer maintenance service fees from, our users in the future, our planned revenue growth could be impaired.

***We currently depend on our iDeclare.CIQ product for a substantial majority of our total net revenues and our failure to develop or license additional enterprise software or a decline in demand for iDeclare.CIQ could materially reduce our total net revenues.***

Sales of iDeclare.CIQ and related customer maintenance services accounted for approximately 70.4%, 73.9% and 79.4% of our total net revenues in 2006, 2007 and 2008, respectively. Any of the following events could materially reduce our total net revenues.

- Any decrease in the demand for or price of iDeclare.CIQ or any increase in competition to iDeclare.CIQ, including but not limited to as a result of the PRC Inspections Administration's and iTowNet's endorsement of a comparable product,

- Any failure by our company to develop additional enterprise software, any significant shift in our marketing efforts,

- Any lasting or prolonged interruption that prevents our enterprise software from delivering data to government entities due to system failures or other factors,

- Any other adverse development specific to iDeclare.CIQ, or

- Continued slowdown of China's economy.

In February 2006, the PRC Inspections Administration promoted and distributed a software product that has certain basic functionalities similar to our iDeclare.CIQ, free-of-charge to end-users. As a result of competition from such free software, our sales of iDeclare.CIQ have declined significantly and will likely continue to decline. Additionally, as a result of the slowdown in China's economy caused in part by the recent global crisis in the financial services and credit markets, our sales of iDeclare.CIQ have also been negatively impacted. See Item 3D of this annual report, "Risk factors - Risks related to our business - we may be adversely affected by the slowdown of China's economy caused in part by the recent global crisis in the financial services and credit markets." For example, we sold, together with our franchisees, approximately 400 software packages of iDeclare.CIQ during the first quarter of 2009, which is significantly lower than the approximately 1,000 software packages of iDeclare.CIQ sold by our company and our franchisees during the first quarter of 2008. In the event such decline continues, we expect to experience a significant decline in our total net revenues.

**Table of Contents**

***Competition could reduce our profit margins and revenues.***

Companies that have expertise in marketing and providing government-related software products and services may begin to compete with us. There are companies that provide software products and services similar to ours. In addition, there are companies in China that provide such products and services to PRC government agencies other than the PRC Inspections Administration. In particular, there are regional software providers in China implementing systems for provincial branches of government agencies such as the Customs General Administration of the PRC, or PRC Customs. Furthermore, we are aware of one other software provider in China, Fujian Ronji Software Development Co., Ltd., or Ronji, that provides enterprise software for PRC Inspections Administration-related filings. We are also aware of several software developers that provide software development services to our customers, in particular to iTowNet. See Item 4 of this annual report, Information on the Company Business overview Competition. There can be no assurance that other companies will not pursue opportunities relating to the needs of international trade enterprises making government filings in China.

Our competitors may have greater marketing, programming, research and development, capital and other resources than we do. These resources could enable our competitors to take aggressive action to gain market share. Additionally, we face competition from the free software distributed by the PRC Inspections Administration and from companies with established reputations and political relationships with PRC government agencies. If we do not compete effectively or if we experience any pricing pressure from our potential competitors, we may experience loss of market share and reduced profit margins and revenues.

***Future acquisitions and investments could divert our management's attention, which may have an adverse effect on our ability to manage our business and expose us to potential risks.***

Selective acquisitions and investments in new businesses form a part of our strategy to further expand our business. In 2006, we made an investment in a leading Chinese B2B trade facilitator. In 2007, we made investments in a leading Chinese B2B vertical search engine operator and a leading Chinese B2B food and beverage trade facilitator.

Following our acquisition of these businesses as a part of our B2B strategy, we launched our new B2B vertical search platform, tootoo.com in May 2007 and we launched the second generation of tootoo.com in June 2007. In March 2009, we announced our decision to wind down our B2B business. In the second half of 2009, we aim to expand our research and development initiatives to include exploration of opportunities in the B2C business. We are exploring potential expansion of our business to include a B2C e-commerce platform, specifically in the food products and services industries. Our B2C business is under development and we may not successfully introduce it as one of our primary businesses.

If we are presented with additional opportunities, we may acquire additional complementary companies, products or technologies, or invest in new businesses. Future acquisitions and investments and the subsequent integration of new companies, assets or business ventures would require significant time and attention from our management. The diversion of our management's attention to integrate such acquisitions or investments and any difficulties encountered in any integration process could have a material adverse effect on our ability to manage our business and expose us to potential risks, including risks associated with the integration of new operations, technologies and personnel, unforeseen or hidden liabilities, the diversion of resources from our existing businesses and technologies, the inability to generate sufficient revenues to offset the costs and expenses of acquisitions and investments, and potential loss of, or harm to, our relationships with employees, customers and suppliers.

**Table of Contents**

***We may be adversely affected by the slowdown of China's economy caused in part by the recent global crisis in the financial services and credit markets.***

We rely substantially on the international trade enterprises that use our enterprise software and related customer maintenance services in connection with the PRC Inspections Administration filings made by such international trade enterprises. China's economic growth experienced a slowdown after the second quarter of 2007, when the quarterly growth rate of China's gross domestic product reached 11.9%. We believe that a number of factors contributed to this slowdown, including appreciation of the Renminbi, which has 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 inflation. We believe that the slowdown was further exacerbated by the recent global crisis in the financial services and credit markets, which in recent months has resulted in extreme volatility and dislocation of the global capital markets. In the first quarter of 2009, the growth rate of China's gross domestic product decreased to 6.1%, and the closing of the Shanghai Stock Exchange Composite Index dropped from a high of 6,092 reached on October 16, 2007 to 2721.28 on June 1, 2009.

It is uncertain how long the global crisis in the financial services and credit markets will continue and how much adverse impact it will have on the global economy in general and the economies in China. If our customers import/export businesses are adversely affected or our customers choose other less expensive or free software applications, our business may be adversely affected.

***Our business depends substantially on the continuing efforts of our executive officers and our business may be severely disrupted if we lose their services.***

Our success depends substantially on the expertise and experience of our executive officers, who have extensive skills in and knowledge about the international trade industry and the software industry in China. They also have established relationships with our major customers, our suppliers, government regulators and our shareholders. We do not maintain key-man life insurance for any of our executive officers. The loss of services of any or all of our executive officers in the absence of suitable replacements could have a material adverse effect on our operations and future profitability.

In addition, if any of our executive officers joins a competitor or forms a competing company, we may lose customers, suppliers, research and development expertise and employees and our relationship with the PRC Inspections Administration could be materially and adversely affected. Although all of our executive officers have entered into service agreements with us which contain confidentiality and non-competition provisions, it may be difficult to enforce such provisions in China in light of uncertainties relating to China's legal system. See Risks related to doing business in China The uncertain legal environment in China could limit the legal protections available to you and could adversely affect our ability to provide our products and services in China.

***Our inability to attract and retain experienced personnel may adversely affect our ability to create enterprise software for international trade enterprises or provide software development services to PRC government agencies.***

Our success depends on our ability to attract, retain, train and motivate highly skilled employees, including experienced software engineers, technical personnel and sales and marketing personnel, all of whom are in great demand in China. In particular, we depend on software engineers who have expertise and experience in creating enterprise software for international trade enterprises as well as providing software development services to PRC government agencies. We may not be able to attract or retain the key personnel that we will need to achieve our business objectives. At times our ability to find and train new employees who have the requisite business experience may not meet the growing demands of our business. As the PRC economy continues to develop, demand for personnel with the skills that we require will increase, which could raise our costs or make it impracticable for us to hire skilled or experienced personnel. Certain of our senior software engineers, technical officers or staff members are not bound by non-competition agreements and those who are not bound could decide to resign or work for our competitors at any time without any contractual restriction. The departure of any of these personnel could have a material adverse effect on our ability to create enterprise software for international trade enterprises, provide software development services to PRC government agencies or develop and expand our business.



**Table of Contents**

If we continue to grant employee share options and other share-based compensation in the future, our net income could be materially and adversely affected.

We have the 2003 Plan, the Amended and Restated 2004 Plan, and the 2006 Share Incentive Plan, or collectively, the Plans. As of December 31, 2008, we granted options under the Plans with the right to purchase a total of 3,839,169 ordinary shares and we granted 401,686 restricted shares, of which 874,328 unexercised options and 21,126 unvested restricted shares had been returned to the pool of our share-based awards as a result of resignation from employment by a few former employees.

Until December 31, 2005, we accounted for options granted to our directors and employees in accordance with Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, or APB 25, and its related interpretations, which required us to recognize compensation expenses for share options that we grant if the exercise price is less than the deemed fair value of our ordinary shares on the date of the grant. However, the Financial Accounting Standards Board, or FASB, issued Statement No. 123 (Revised 2004), Share-Based Payments, or SFAS 123 (R), which requires all companies to recognize, as an expense, the fair value of share options and other share-based compensation to employees at the beginning of the first annual or interim period after June 15, 2005. As a result, beginning on January 1, 2006, we account for compensation costs for certain share options using a fair-value based method and recognize expenses in our consolidated statement of operations in accordance with the relevant rules under U.S. GAAP, which may have a material and adverse effect on our reported earnings. Moreover, the additional expenses associated with share-based compensation may reduce the attractiveness of such incentive plan to us. However, if we reduce the scope of the Plans, we may not be able to attract and retain key personnel, as share options are an important employee recruitment and retention tool. If we grant employee share options or other share-based compensation in the future, our net income could be adversely affected.

***Without PRC government action, we may not be able to introduce or enhance our enterprise software products, which may restrict our ability to expand our business and revenues.***

Our ability to offer enterprise software to international trade enterprises depends on the ability of various PRC government agencies to accept electronic filings from users of our enterprise software. This includes some PRC government agencies permitting electronic filings for the first time and other PRC government agencies which already permit some electronic filings allowing additional types of filings to be made. Factors such as a government agency's budget, timing, decision-making process, ability to implement our enterprise software, willingness of local offices to implement our enterprise software and other factors beyond our control could constrain our ability to expand our business or increase our revenues.

***Our failure to adequately manage our business expansion could result in a deterioration in our results of operations and financial condition.***

Our plans for expansion into new business opportunities is likely to continue to place a significant strain on our managerial, operational, financial and other resources. Our future success will depend, in part, upon the ability of our senior management to manage our business expansion effectively. Such effective management will require us to implement additional management information systems, to develop further our operating, administrative, financial and accounting systems and controls and to maintain close coordination among our software design, software coding, accounting, finance, marketing, sales and operations organizations. Any failure to implement or improve systems or controls to manage our business expansion effectively could result in a deterioration in our results of operations and financial condition.

**Table of Contents**

***We often commence work on software development projects based on verbal agreements and if our customers do not pay us for these services, our working capital requirements and expenses may increase without a corresponding increase in net revenues, which would adversely affect our profitability.***

As we believe is consistent with the practice of other software development companies in China engaged in government-related work, we often commence software development projects based on oral commitments from our customers. As a result, we may need to substantially increase our expenses without assurance that we will be paid for our software development services. Furthermore, we may not recognize any revenue from software development projects in any given period because we recognize revenue from such services only when a contract has been signed. If our customers do not pay us, or delay paying us, for our software development services, our working capital requirements and expenses may increase without a corresponding increase in net revenues, which would adversely affect our profitability.

***It may be difficult for us to maintain our market position and brand recognition in a rapidly developing market or in the face of competition, which could severely hamper our ability to operate profitably.***

We believe that market position and brand recognition are critical to attracting potential customers in the PRC market. In particular, we believe that our sales through indirect channels such as our four franchisees rely significantly on our reputation and brand recognition. However, there is no assurance that we can retain our reputation or capitalize on our current leading market share, reputation or brand recognition as our market develops and attracts new competitors. Our failure to promote and enhance our brand name could result in reduced sales or slower growth, each of which may require us to increase spending on marketing or to increase fees to our franchisees, which could reduce our profitability.

***Programming errors or flaws in our enterprise software or other product defects could decrease market acceptance of our software, which would reduce our revenues and profitability.***

Software as complex as our enterprise software frequently contains undetected defects that may be identified at any point in the software's life. There can be no assurance that, despite repeated testing, defects will not occur in existing or new software. Such defects could result in loss of or delay in receiving revenues, loss of market share, failure to achieve market acceptance, diversion of development resources, injury to our reputation or increased service and warranty costs. Any of the above consequences could adversely impact our business, results of operations and financial condition. Furthermore, our software development services typically involve working with sophisticated software, computing and networking systems. Our failure or inability to meet customer expectations or project milestones in a timely manner could also result in loss of revenues or delay in revenue recognition, loss of market share, failure to achieve market acceptance, injury to reputation and increased costs. Because our customers rely on our products and services for critical trade transactions, any significant defects or errors in our products or services might discourage our customers or potential customers from utilizing our products and services or result in tort or warranty claims. We do not maintain any insurance against product liability or legal claims. Any imposition of liability on us may adversely affect our business and increase our costs, resulting in reduced revenues and profitability.



**Table of Contents**

***We may not be able to adequately protect our intellectual property rights and others may claim that we have infringed on their intellectual property rights, which could cause us to be less competitive, may expose us to litigation and may negatively impact our business, results of operations and financial condition.***

We rely on a combination of copyrights, trademarks and other methods to protect our intellectual property rights. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy or otherwise obtain and use our technology. In addition, there can be no assurance that others will not independently develop comparable intellectual property. We cannot be certain that the steps we have taken will prevent misappropriations of our technology. From time to time, we may have to resort to litigation or other measures to try to enforce our intellectual property rights, which could result in substantial costs and diversion of our resources. We may be unable to enforce our intellectual property rights even through litigation or other measures, particularly in China. See Risks related to doing business in China The uncertain legal environment in China could limit the legal protections available to you and could adversely affect our ability to provide our products and services in China. In particular, we are aware of an online video game company in China whose name is substantially similar to our name in Chinese. We cannot assure you that such company will not take actions against us for trademark infringement. We have registered our trademark in the United States and we are in the process of registering our other trademarks in China under the food and beverage categories.

There can be no assurance that infringement or other claims will not be asserted or prosecuted against us in the future or that any past or future assertions or prosecutions will not materially and adversely affect our business, results of operations and financial condition. Any such claims, with or without merit, could be time-consuming, result in costly litigation and diversion of technical and management personnel or require us to develop non-infringing technology or enter into royalty or licensing agreements. Such royalty or licensing agreements, if required, may not be available on terms acceptable to us, or at all. In the event of a successful claim of infringement against us, our revenues may decrease and our expenses to obtain or develop non-infringing technology or to license the infringed or similar technology may increase. In addition, our failure or inability to develop non-infringing technology or license the infringed or similar technology on a timely basis may cause our business, results of operations and financial condition to be negatively affected. See Item 4 of this annual report, Information on the Company Business overview Intellectual property rights.

***Any reduction of our preferential tax treatment as a PRC high and new technology enterprise could materially reduce our net income.***

We receive from the PRC government a 14.0% rebate for value added tax on sales of software and software-related services, or VAT rebate. We cannot assure you that we will continue to enjoy this preferential tax treatment in the future, either due to a change in the PRC government's tax policies or because a subsidiary or VIE fails to satisfy the financial and operational criteria necessary to maintain its eligibility for such preferential tax treatment. Any reduction in our preferential tax treatment could materially reduce our net income.

On March 16, 2007, the National People's Congress adopted the Enterprise Income Tax Law, or the New EIT Law, which went into effective on January 1, 2008. The New EIT Law imposes a unified income tax rate of 25.0% for domestic and foreign enterprises. High and New Technology Enterprise will enjoy a favorable tax rate of 15%. The New EIT Law also provides a five-year transitional period for those entities established before March 16, 2007, which enjoy a favorable income tax rate less than 25.0% under the previous income tax laws, to gradually change their rates to 25.0%. In addition, the New EIT Law provides grandfather treatment for enterprises which were qualified as High and New Technology Enterprises under the previous income tax laws and were established before March 16, 2007, if they continue to meet the criteria for High and New Technology Enterprises after January 1, 2008.

**Table of Contents**

Under the New EIT Law, if the PRC subsidiaries and VIEs wish to qualify for a preferential rate for years commencing on or after January 1, 2008, they will need to qualify as a High and New Technology Enterprise Strongly Supported by the State under the new rules. Until the PRC subsidiaries and VIEs receive official approval for this new status, they will be subject to the statutory 25% tax rate. As the New EIT Law and its implementation rules only recently went into effect, there are uncertainties on their future interpretation and implementation.

Furthermore, under the New EIT Law, a resident enterprise which includes an enterprise established outside of the PRC with de facto management bodies located in the PRC, will be subject to PRC income tax. If the PRC tax authorities subsequently determine that the Company and its subsidiaries registered outside the PRC should be deemed a resident enterprise, the Company and its subsidiaries registered outside the PRC will be subject to the PRC income tax at a rate of 25%.

On April 14, 2008, the Ministry of Science and Technology, Ministry of Finance and State Administration of Taxation promulgated the new Measures for Recognition of High and New Technology Enterprise, which became effective on January 1, 2008. If we fail to comply with the requirements for recognition of high and new technology enterprises, our subsidiaries and VIEs may not continue to qualify as high and new technology enterprises that are supported by the PRC government. Before the subsidiaries and VIEs are re-recognized as high and new technology enterprises, we will be subject to a 25.0% income tax rate for all of our subsidiaries in China, except for Guangdong Ninetowns Technology Co., Ltd., or Guangdong Ninetowns Technology, which was re-recognized as a high and new technology enterprise on December 29, 2008 with validity for a three-year period and therefore enjoys a preferential income tax rate of 15.0%.

***There are significant uncertainties under the New EIT Law, which became effective on January 1, 2008, regarding our PRC enterprise income tax liabilities, such as tax on dividends paid to us by our PRC subsidiaries. The New EIT Law also contains uncertainties regarding possible PRC withholding tax on dividends we pay to our shareholders outside of China and gains realized from the transfer of our shares by our shareholders outside of China.***

We are a holding company incorporated in the Cayman Islands, which indirectly holds, through New Take Limited., or New Take and Shielder Limited., or Shielder, which are Hong Kong companies, our equity interest in our PRC 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 25.0% of the PRC company distributing the dividends. As New Take and Shielder, are Hong Kong companies and own 90.0% of Beijing New Take Electronic Commerce Limited, or Beijing New Take and Beijing Ninetowns Times Electronic Commerce Limited, or Ninetowns Times, respectively, dividends that Beijing New Take and Ninetowns Times pay New Take and Shielder, respectively, will be subject to a withholding tax at the rate of 5.0%, provided that New Take and Shielder and our company are not considered to be PRC tax resident enterprises. Furthermore, according to the Circular regarding the Implementation of Dividend-related Provisions in the Tax Treaty issued by the State Administration of Taxation on February 22, 2009, if the main purpose of an offshore arrangement is to obtain a preferential tax treatment, the PRC tax authorities have the discretion to adjust the preferential tax rate enjoyed by the relevant offshore entity. As New Take and Shielder are intermediate holding companies and not engaged in any commercial activities in Hong Kong, the tax authorities may regard the main purpose of New Take and Shielder as obtaining a lower withholding tax rate of 5.0%. As a result, the tax authorities could levy a higher withholding tax rate to dividends received by New Take and Shielder from Beijing New Take and Ninetowns Times.

**Table of Contents**

Furthermore, 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 unclear how domicile will be interpreted. It may be interpreted as the jurisdiction where the enterprise is a tax resident. Therefore, if we and New Take and Shielder are considered as PRC tax resident enterprises for tax purposes, any dividend we pay to our shareholders outside of China or ADS holders as well as gains realized by such shareholders or ADS holders from the transfer of our shares or ADSs will be regarded as China-sourced income and as a result be subject to PRC withholding tax at a rate of up to 10.0%.

Additionally, under the New EIT Law, enterprises established under the laws of foreign countries or regions whose de facto management bodies are located within the PRC are considered resident enterprises and will generally be subject to the EIT at the rate of 25.0% on its global income. However, the New EIT Law does not define the term de facto management bodies. Substantially all of our management is currently located in the PRC and if they remain located in the PRC after the effective date of the New EIT Law, we may be considered to be a resident enterprise and therefore may be subject to the EIT at the rate of 25.0% on our global income in the PRC.

***It is likely that we would be considered a passive foreign investment company for 2008, which could lead to additional taxes for U.S. holders of ADSs.***

Special U.S. federal income tax rules apply to U.S. holders of shares of a non-U.S. corporation that is classified as a passive foreign investment company, or PFIC, for U.S. federal income tax purposes. The determination of our PFIC status principally depends upon the composition of our assets, including goodwill, and the amount and nature of our income, from time to time. The amount of goodwill will depend in part on the market value of our ADSs or ordinary shares, which may be especially volatile in a technology-related enterprise. We have limited control over these variables. Accordingly, there can be no assurance that we would not be considered a PFIC for any taxable year. It is likely that we would be classified as a PFIC for 2008. As a result, U.S. holders of shares may be subject to United States federal income tax consequences that are less favorable than those that would apply if we were not a PFIC. For example, gain from the sale of our shares may be ineligible for preferential capital gains rates and may be subject to an interest charge. Please see Item 10 of this annual report, Additional Information Taxation United States federal income taxation.

**Risks related to our industry**

***Our industry is subject to rapid changes in technology and our failure to develop and introduce new enterprise software could reduce our market competitiveness and ability to generate revenues.***

Our industry is characterized by rapid technological changes and evolving customer, industry and government standards. Our future success will depend, to a large extent, on our ability to keep pace with technological advances in a timely and cost-effective manner by improving our existing enterprise software or developing new enterprise software that addresses changing customer requirements. Our development of new enterprise software or the enhancement of our existing enterprise software will entail substantial investments in research and development, which we expect to fund with our cash flow from operations and our available cash. Nevertheless, there can be no assurance that our research and development efforts will result in the successful introduction of new enterprise software or the enhancement of our existing enterprise software, nor that any of such new or enhanced enterprise software will be accepted by the market. The success of our new enterprise software is dependent on several factors, including differentiation of our enterprise software from products of our competitors and market acceptance. There can be no assurance that we will be successful in developing and marketing new enterprise software that responds to competitive and technological developments and changing customer needs.

**Table of Contents**

Our failure to develop and introduce new enterprise software successfully on a timely basis or to achieve market acceptance could reduce our market competitiveness and ability to generate net revenues. In addition, the widespread adoption of new Internet, networking or telecommunication technologies or standards or other technological changes could require substantial expenditures by us to modify or adapt our products and services. To the extent that a method other than submission by Internet is adopted to enable trusted and secure communications with the PRC Inspections Administration and other trade-related PRC government agencies, sales of our existing and planned enterprise software products will be adversely affected and our enterprise software could be rendered unmarketable or obsolete. Such consequences would have a negative impact on our business, results of operations and financial condition.

***Government policies, standards, rules and regulations may force us to implement changes to our existing enterprise software or change how we provide products and services to our customers, which could increase our expenses and decrease our profitability.***

The software industry in China and the regulatory environment has been and continues to be subject to uncertainty. Although the PRC government adopted policies to encourage the development of the PRC electronic government, or e-government, industry through the Three Digitizations Project, there can be no assurance that policies and the government's standards, rules and regulations relating to the e-government software industry, such as the Regulations for the Protection of Computer Software, will not be implemented, interpreted or revised in a manner that may force us to implement changes to our existing enterprise software or change how we provide products and services to our customers, which could increase our expenses and decrease our profitability. See Item 4 of this annual report,

Information on the Company Business overview Regulation for a discussion of the laws and regulations that apply to our company. We cannot accurately predict the circumstances that would cause the PRC government to implement, interpret or revise its policies in such a manner. Nevertheless, the PRC government could adopt measures to more closely regulate the use of the Internet or the software industry in China in order to enhance the government's control over the Internet or over the content of software being distributed in China.

For example, we may be subject to potential liability for selling software that is subsequently deemed to be illegal by the relevant PRC regulatory authorities for having non-approved technology. These potential liabilities may include fines, product confiscation and criminal sanctions. We cannot assure you that our business, financial condition and results of operations will not be negatively affected by the application of these regulations.

Furthermore, China and the United States may afford different patent protection to software programs. For example, there are jurisdictional variations in the enforcement of patent rights in China because most patent infringement disputes are resolved by courts at the municipal or provincial level or by local administrative authorities for patent affairs, which may be subject to varying local economic and political influences in rendering their decisions. By contrast, all patent disputes in the United States are reviewable by a single federal circuit court, which generally provides greater uniformity to the adjudication of patent disputes. We cannot predict whether the PRC authorities would centralize the enforcement or adjudication of patent rights in the future or how such centralized enforcement or adjudication would affect our rights. If the PRC authorities further de-centralize the regulation of the software industry, or centralize its enforcement or adjudication policy in a way that is detrimental to our company, we may be forced to implement changes to our existing enterprise software or change how we provide products and services to our customers, which could increase our expenses and decrease our profitability.

**Table of Contents**

**Risks related to doing business in China**

*Adverse economic, political, social or legal developments or a decrease in domestic demand in China could result in a reduction in international trade activities involving China, which could in turn reduce the demand for our products and services.*

All of our total net revenues have been, and are for the foreseeable future expected to be, derived from the PRC market and substantially all of our operating assets are located in China. Accordingly, our operating results and financial condition are largely subject to economic, political, social and legal developments in China as well as changes in the demand for our enterprise software and software development services by international trade enterprises and PRC government agencies in China. There can be no assurance that such developments will not adversely affect our performance and profitability.

We cannot predict the future direction of the economic reform measures that have been adopted by the PRC government or the effects these measures may have on our business, results of operations or financial position. Many laws and regulations governing economic matters implemented by the PRC government are at an early stage of development and their interpretation and enforcement involve more uncertainties than in most countries belonging to the Organization for Economic Cooperation and Development, or OECD. In addition, the PRC economy differs from the economies of most countries belonging to the 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 PRC economy were similar to those of other OECD member countries.

In addition, there can be no assurance that any growth in the PRC economy will be steady or that any slowdown will not have a negative effect on our business; that deflation will not reoccur in the PRC economy in the foreseeable future; or that the level of international trade to and from China will not cease to grow at historical rates or even decrease, which could negatively impact demand for our enterprise software. Finally, our results of operations and financial condition could be negatively affected by adverse changes in government monetary policies, import/export policies and regulations, tax regulations or policies and regulations affecting the software industry. In recent years, the PRC government implemented a number of measures, such as raising bank reserves against deposit rates, to place additional limitations on the ability of commercial banks to make loans, in order to slow growth in certain segments of the PRC economy it believed to be overheating. These actions, as well as future actions and policies of the PRC government, could result in a reduction in international trade activities involving China, which could in turn reduce the demand for our products and services.

**Table of Contents**

***The uncertain legal environment in China could limit the legal protections available to you and could adversely affect our ability to provide our products and services in China.***

We conduct our business entirely through our operating subsidiaries and VIEs incorporated in China. Our subsidiaries are generally subject to laws and regulations applicable to foreign investment in China and, in particular, laws applicable to wholly foreign-owned enterprises. The PRC 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 PRC government began to promulgate a comprehensive system of laws and regulations governing economic matters. However, these laws, regulations and legal requirements are relatively new and are evolving rapidly, and their interpretation and enforcement involve uncertainties. These uncertainties could limit the legal protections available to foreign investors and entities, including you and us, such as the right of foreign-invested enterprises to hold licenses and permits such as customs-related business licenses and permits, software licenses and licenses and approvals necessary to provide services to government enterprises. As the PRC legal system matures, changes in its legislation or interpretation of its legislation may adversely affect our ability to provide our products and services in China.

***If the PRC government determines that the VIE structure for operating our business does not comply with PRC government restrictions on foreign investment in the telecommunications industry, we could face severe penalties.***

Various regulations in China currently restrict or prevent foreign-invested entities from engaging in the telecommunications services, including Internet-related businesses such as B2B and B2C e-commerce. Because of these restrictions, our B2B operations in the PRC have been conducted through our VIEs, Beijing Ronghe Tongshang Network Technology Limited, or Ronghe Tongshang and Baichuan, both of which are PRC companies which are effectively controlled by our subsidiary, Beijing Ninetowns Network and Software Co., Ltd., or Ninetowns Network, through a series of contractual arrangements.

A circular issued by Ministry of Industry and Information Technology (formerly the Ministry of Information Industry), or MIIT in July 2006, or the MIIT circular, reiterated the regulations on foreign investment in the telecommunications businesses. Under this circular, a domestic company that holds a license for the provision of Internet information service, or an ICP license, or a license to conduct any value-added telecommunications business in China, is prohibited from leasing, transferring or selling the license to foreign investors in any form, and from providing any assistance, including providing resources, sites or facilities, to foreign investors to conduct value-added telecommunications businesses in China.

Furthermore, the relevant trademarks and domain names that are used in the value-added telecommunications business must be owned by the local ICP license holder or its shareholders. The circular further requires each ICP license holder to have the necessary facilities for its approved business operations and to maintain such facilities in the regions covered by its license. In addition, all value-added telecommunications service providers are required to maintain network and information security in accordance with the standards set forth under relevant PRC regulations. Due to a lack of interpretative materials from the regulators, it is uncertain whether MIIT would consider our corporate structures and contractual arrangements as a kind of foreign investment in telecommunication services. Therefore, it is unclear what impact this circular will have on us or the other Chinese Internet companies that have adopted the same or similar corporate structures and contractual arrangements as ours.

**Table of Contents**

In the opinion of our PRC counsel, (i) the ownership structure and the business and operation model of each of Ninetowns Network and our VIEs are in compliance with applicable PRC laws and regulations in all material aspects, and (ii) each contract that Ninetowns Network entered into with our VIEs and their shareholders is valid and binding, and will not result in any violation of PRC laws or regulations currently in effect. However, there are substantial uncertainties regarding the interpretation and application of PRC laws and regulations, including the MIIT circular discussed above. Accordingly, we cannot assure you that the PRC regulatory authorities will ultimately take a view that is consistent with the opinion of our PRC counsel.

If we are found to be in violation of any existing or future PRC laws or regulations, including the MIIT circular, the relevant regulatory authorities would have broad discretion in dealing with such violation, including levying fines, confiscating our income, revoking Ronghe Tongshang's or Baichuan's business or operating licenses, requiring us to restructure the relevant ownership structure or operations, and requiring us to discontinue all or any portion of our related operations. Any of these actions could cause significant disruption to our business operations.

***Ninetowns Network's contractual arrangements with Ronghe Tongshang and Baichuan and their shareholders may not be as effective in providing control over them and such shareholders may have potential conflicts of interest with us.***

We do not have ownership interest in our VIEs and we conduct substantially all of our B2B operations through contractual arrangements that Ninetowns Network entered into with Ronghe Tongshang and Baichuan and their shareholders. Such contractual arrangements are designed to provide us with effective control over our VIEs. We depend on our VIEs to hold and maintain certain licenses necessary for our B2B businesses. Our VIEs also own all of the necessary intellectual properties, facilities, employees and other assets relating to the operation of our B2B business.

Contractual arrangements may not be as effective in providing us with control over our VIEs as direct ownership. If we had direct ownership of our VIEs, we would be able to exercise our rights as a shareholder to effect changes in the board of directors of our VIEs, which in turn could effect changes, subject to any applicable fiduciary obligations, at the management level. Due to our VIE structure, we have to rely on contractual rights to effect control and management of our VIEs, which exposes us to the risk of potential breach of contract by the shareholders of our VIEs. In addition, as both of our VIEs are jointly owned by their shareholders, it may be difficult for us to change our corporate structure if such shareholders refuse to cooperate with us.

The shareholders of our VIEs may breach, or cause our VIEs to breach, the contracts for a number of reasons. For example, their interests as shareholders of our VIEs and the interests of our company may conflict and we may fail to resolve such conflicts; the shareholders may believe that breaching the contracts will lead to greater economic benefit for them; or the shareholders may otherwise act in bad faith. If any of the foregoing were to happen, we may have to rely on legal or arbitral proceedings to enforce our contractual rights, including specific performance or injunctive relief, and claiming damages. Such arbitral and legal proceedings may cost us substantial financial and other resources, and result in disruption of our business, and we cannot assure you that the outcome will be in our favor. In addition, as all of these contractual arrangements are governed by PRC law and provide for the resolution of disputes through arbitration in the PRC, they would be interpreted in accordance with PRC law and any disputes would be resolved in accordance with PRC legal procedures. The legal environment in the PRC is not as developed as in other jurisdictions, such as the United States. As a result, uncertainties in the PRC legal system could further limit our ability to enforce these contractual arrangements. Furthermore, these contracts may not be enforceable in China if PRC government authorities or courts take a view that such contracts contravene PRC laws and regulations or are otherwise not enforceable for public policy reasons. In the event we are unable to enforce these contractual arrangements, we may not be able to exert effective control over our VIEs, and our ability to conduct our business may be materially and adversely affected.

**Table of Contents**

***The laws and regulations governing the telecommunications industry in China are evolving and subject to future changes. We may fail to obtain or maintain all applicable permits and approvals.***

The telecommunications industry in China is highly regulated by the PRC government. Various regulatory authorities of the PRC central government, such as the State Council, the MIIT, the General Administration of Press and Publication, the Ministry of Culture and the Ministry of Public Security, are empowered to issue and implement regulations governing various aspects of the telecommunications industry.

We are required to obtain applicable permits, approvals from or registration with different regulatory authorities in order to operate our websites. If we fail to maintain any of our permits, approvals or registrations or to apply for permits, approvals or registrations on a timely basis, we may be subject to various penalties, including fines and the discontinuation or restriction of our operations.

As the telecommunications industry is at an early stage of development in China, new laws and regulations may be adopted from time to time to require additional licenses and permits other than those we currently have, and address new issues that arise. In addition, substantial uncertainties exist regarding the interpretation and implementation of current and any future PRC laws and regulations applicable to the telecommunications industry. We cannot assure you that we will be able to obtain timely, or at all, required licenses or any other new license required in the future. We cannot assure you that we will not be found in violation of any current PRC laws or regulations should their interpretations change, or that we will not be found in violation of any future PRC laws or regulations.

***Landlords for some of our leased properties may not possess valid title to their properties and we could be forced to vacate such properties should their title be challenged.***

PRC law requires that lessors of properties possess title certificates to the leased properties. We currently have approximately four leases for properties that we use as employee housing or as our offices for technical support centers in Guangdong Province, China. None of the lessors can provide copies of their title certificates to us. If there are disputes over the ownership of any of these leased properties for which the lessors do not possess title certificates, our leases may be deemed invalid by the PRC courts and we may be forced to vacate these properties.

***The recurrence of SARS, H5N1 influenza, or avian influenza, or H1N1 influenza, or swine flu, may result in a reduction in business activity in and related to Asia, which could have an adverse effect on our total net revenues, growth and profits.***

In early 2003, several economies in Asia, including Hong Kong and China, were affected by the outbreak of Severe Acute Respiratory Syndrome, or SARS. Several confirmed or suspected SARS cases were reported in early 2004 in Beijing and Anhui Province in China. In addition, lethal outbreaks of avian influenza infection among poultry were reported by several countries in Asia, including China in 2005. In March 2007, February 2008, and early 2009, several fatal cases of avian influenza were reported in various provinces across China. In April 2009, lethal outbreaks of swine flu were reported by several economies around the world, including Hong Kong and various provinces across China. If there is a recurrence of an outbreak of SARS, avian influenza or swine flu, it may adversely affect our total net revenues, growth and profits. For instance, a recurrence of SARS, avian influenza, swine flu or any other epidemic may reduce the level of economic activity in affected areas and negatively impact international trade activities involving China, which could have a negative impact on our business. In addition, health or other government regulations may require temporary closure of our offices, government offices or the offices of our customers, which will severely disrupt our business operations and have a material adverse effect on our total net revenues, growth and profits.



**Table of Contents**

***Restrictions on currency exchange may limit our ability to receive and use our revenues to, among other things, pay dividends and make distributions.***

Because almost all of our future revenues will be in the form of Renminbi, any future restrictions on currency exchanges may limit our ability to use revenues generated in Renminbi to fund future business activities outside China or to make dividend or other payments in U.S. dollars. There are significant restrictions on the convertibility of the Renminbi, including the restriction that foreign-invested enterprises may only buy, sell and/or remit foreign currencies after providing valid commercial documents at banks authorized to conduct foreign exchange business. In addition, conversion of Renminbi for capital account items, including direct investment and loans, is subject to approval of the State Administration of Foreign Exchange of the PRC, or SAFE, and companies are required to open and maintain separate foreign exchange accounts for capital account items. We cannot be certain that the PRC regulatory authorities will not impose more stringent restrictions on the convertibility of the Renminbi, especially with respect to foreign exchange transactions.

***The value of our ordinary shares and our ADSs, and the value of your investment in our company, may decrease due to changes in the foreign exchange rate between U.S. dollars and Renminbi.***

The value of our ordinary shares and our ADSs will be affected by the foreign exchange rate between U.S. dollars and Renminbi. For example, to the extent that we need to convert U.S. dollars into Renminbi for our operational needs and if the Renminbi appreciates against the U.S. dollar at that time, our financial condition and the price of our ordinary shares and our ADSs may be adversely affected. 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 and VIEs in China would be reduced.

The value of your investment in our ADSs may fluctuate with the foreign exchange rate between the U.S. dollar and the Renminbi, because the value of our business is largely denominated in Renminbi, while our ADSs will be traded in U.S. dollars.

***PRC regulations relating to offshore investment activities by PRC residents may increase our administrative burden and restrict our overseas and cross-border investment activity. If our shareholders who are PRC residents fail to make any required applications and filings under such regulations, we may be unable to distribute profits and may become subject to liability under PRC law.***

In October 2005, SAFE issued the Notice on Issues Relating to the Administration of Foreign Exchange in Fund Raising and Return Investment Activities of Domestic Residents Conducted via Offshore Special Purpose Companies, or Notice 75, which took effect on November 1, 2005. Notice 75 supersedes prior SAFE regulations promulgated in January and April of 2005. Notice 75 requires PRC residents to register with the relevant local SAFE branch in connection with their establishment or control of an offshore entity established for the purpose of overseas equity financing involving onshore assets or equity interests held by them. The term PRC residents as used in Notice 75 includes PRC citizens as well as other persons who habitually reside in the PRC for economic benefit. Such PRC residents are required to complete amended registrations with the relevant SAFE branch upon (i) injection of equity interests or assets of an onshore enterprise into the offshore entity, (ii) subsequent overseas equity financing by such offshore entity, or (iii) any material change in the shareholding or capital of the offshore entity, such as changes in share capital, share transfers and long-term equity or debt investments, and providing security. PRC residents who have already incorporated or gained control of offshore entities that made onshore investments in the PRC before Notice 75 was promulgated was required to register with the relevant local SAFE branch on or before March 31, 2006. In addition, such PRC residents are required to repatriate into China all of their dividend profits or capital gains from their shareholdings in the offshore entity within 180 days of their receipt of such profits or gains.

**Table of Contents**

The registration and amendment procedures set forth by Notice 75 are prerequisites for other approval and registration procedures necessary for capital inflow from the offshore entity, such as inbound investment or shareholders loans, or capital outflow to the offshore entity, such as the payment of profits or dividends, liquidating distributions, equity sale proceeds or the return of funds upon a capital reduction.

A number of terms and provision in Notice 75 remain unclear. Because of uncertainty over how Notice 75 will be interpreted and implemented, we cannot predict how it will affect our business operations or future strategies. For example, our present and prospective PRC subsidiaries or VIEs ability to conduct foreign exchange activities, such as remitting dividends and foreign-currency denominated borrowings, may be subject to compliance with Notice 75 requirements by our PRC resident shareholders. Despite our efforts to fully comply with the SAFE regulations, we cannot assure you that we will obtain, or receive waivers from, any necessary approvals or not be found in violation of the SAFE regulations or any other related foreign exchange regulations. In particular, we cannot assure you that we will be able to cause all our present or prospective PRC resident shareholders to comply with all SAFE regulations. A failure by our PRC resident shareholders to comply with Notice 75 or our inability to secure required approvals or registrations may subject us to fines or legal sanctions, limit our subsidiaries ability to make distributions or pay dividends, restrict our overseas or cross-border investment activities or affect our ownership structure, any of which could affect our business and prospects.

***All participants in our existing equity compensation plans who are PRC citizens may be required to register with SAFE. We may also face regulatory uncertainties that could restrict our ability to adopt additional equity compensation plans for our directors, employees and other parties under PRC law.***

On April 6, 2007, the capital account department of SAFE issued the Operating Procedures for Administration of Domestic Individuals Participating in the Employee Stock Option Plan or Stock Option Plan of An Overseas Listed Company, Hui Zong Fa 2007 No. 78, or Circular 78. It is not clear at this time whether Circular 78 covers only equity compensation plans that provide for the grant of stock options or any type of equity compensation plan, such as a plan which authorizes the grant of restricted share awards. For any plan that is so covered and was adopted by a non-PRC listed company (such as our company) after April 6, 2007, Circular 78 requires all participants who are PRC citizens to register with and obtain approvals from SAFE prior to their participation in the plan. In addition, Circular 78 also requires PRC citizens to register with SAFE and make the necessary applications and filings by July 5, 2007 if they participated in an overseas listed company s covered equity compensation plan prior to April 6, 2007. We believe that the registration and approval requirements contemplated in Circular 78 will be burdensome and time consuming. If it is determined that our equity compensation plans are subject to Circular 78, failure to comply with such provisions may subject us and the participants of our equity compensation plans who are PRC citizens to fines and legal sanctions and prevent us from being able to grant equity compensation to our personnel, which is currently a significant component of the compensation of many of our PRC employees. In that case, our business operations may be materially adversely affected.

**Table of Contents**

**Risks related to our ADSs and ordinary shares**

***Your ability to participate in any future rights offerings may be limited, which may cause dilution to your holdings.***

We may from time to time distribute rights to our shareholders, including rights to acquire our securities. Under the deposit agreement, the depository will not offer you those rights unless the distribution to ADS holders of both the rights and any related securities are either registered under the U.S. Securities Act of 1933, as amended, or the Securities Act, or exempt from registration under the Securities Act. We are under no obligation to file a registration statement with respect to any such rights or securities or to cause such a registration statement to be declared effective. Moreover, we may not be able to establish an exemption from registration under the Securities Act. Accordingly, you may be unable to participate in our rights offerings and may experience dilution in your holdings.

***The future sales by our directors, officers and our current shareholders of a substantial number of our ordinary shares could result in the supply of our ADSs in the public market exceeding demand, which in turn could lower the market price of our ADSs.***

If our shareholders sell substantial amounts of our ordinary shares or ADSs, including those issued upon the exercise of outstanding options, in the public market, the market price of our ADSs could fall. Such sales also might make it more difficult for us to sell equity or equity-related securities in the future at a time and price that we deem appropriate. If any existing shareholder or shareholders sell a substantial amount of ordinary shares, the supply of our ADSs in the public market may exceed demand, which in turn could lower the market price for our ADSs and thus the value of your investment could be adversely affected.

***The market price for our ADSs may be volatile, and the value of your investment in our ADSs may decrease.***

The market price for our ADSs may be highly volatile and subject to wide fluctuations in response to the factors set forth elsewhere in this section, as well as:

- actual or anticipated fluctuations in our quarterly or semi-annual operating results;
- actual or anticipated fluctuations in the market price of Internet and PRC-related companies;
- announcements of new products or services by us or our competitors;
- conditions in the international trade industry; and
- announcements by us or our competitors of significant acquisitions, strategic partnerships, joint ventures or capital commitments.

In particular, the performance and fluctuation of the market prices of other PRC technology companies that have listed their securities in the United States may affect the trading and price volatility of our ADSs. In recent years, a number of PRC companies have listed their securities, or are preparing to list their securities, in the United States. Some of these securities have experienced significant volatility, including significant price declines in connection with or in the periods following their initial public offerings. The trading performances of these companies' securities may affect the investor sentiment towards PRC companies listed in the United States in general, which may impact the trading performance of our ADSs. These broad market and industry factors may significantly affect the market price and volatility of our ADSs.

**Table of Contents**

***You may not be able to exercise your right to vote.***

The SEC generally exempts foreign private issuers such as our company from its proxy solicitation requirements. As a holder of ADSs, you may instruct the depository of our ADSs to vote the ordinary shares underlying your ADSs, but only if we ask the depository to ask for your instructions. Otherwise, you will not be able to exercise your right to vote unless you withdraw the ordinary shares. However, you may not know about the meeting enough in advance to withdraw the shares. If we ask for your instructions, the depository will notify you of the upcoming vote and arrange to deliver our voting materials to you. We cannot assure you that you will receive the voting materials in time to ensure that you can instruct the depository to vote your ordinary shares. In addition, the depository and its agents are not responsible for failing to carry out voting instructions or for the manner of carrying out voting instructions. This means that you may not be able to exercise your right to vote and there may be nothing you can do if the ordinary shares underlying your ADSs are not voted as you request.

***We and the depository may amend the deposit agreement at any time without your consent, and by doing so may change your rights thereunder in a manner with which you disagree.***

We may agree with the depository to amend the deposit agreement without your consent for any reason. If you continue to hold your ADRs after being notified of such amendment, you will be deemed to have agreed to such amendment. In the event you disagree with any such amendment, your only recourse may be to sell your ADSs.

***You may not receive distributions on ordinary shares or any value for them if it is illegal or impractical to make them available to you and these restrictions may reduce the value of your ADSs.***

The depository of our ADSs has agreed to pay to you the cash dividends or other distributions it or the custodian receives on our ordinary shares or other deposited securities after deducting its fees and expenses. However, the depository is not required to do so if it decides that it is unlawful or impractical to make a distribution available to any holders of ADSs. We have no obligation to register ADSs, ordinary shares, rights or other securities under U.S. securities laws. We also have no obligation to take any other action to permit the distribution of ADSs, ordinary shares, rights or anything else to holders of ADSs. This means that you may not receive the distributions we make on our ordinary shares or any value for them if it is illegal or impractical for us to make them available to you. These restrictions may reduce the value of your ADSs.

***You may be subject to limitations on transfer of your ADSs.***

Your ADSs represented by the ADRs are transferable on the books of the depository. However, the depository may close its transfer books at any time or from time to time when it deems it expedient to do so in connection with the performance of its duties. In addition, the depository may refuse to deliver, transfer or register transfers of ADSs generally when our books or the books of the depository are closed, or at any time if we or the depository thinks it advisable to do so because of any requirement of law or of any government or governmental body, or under any provision of the deposit agreement, or for any other reason.

We have not adopted any policy regarding the closing of our books relating to our ADSs, nor is there any provision under Cayman Islands law or New York law, or the deposit agreement, that would prevent the transferability of ADSs. Under the deposit agreement, however, the depository may close its books for our ADR facility from time to time at its discretion, which may prevent you from transferring your ADSs when you wish to do so.

**Table of Contents*****If our subsidiaries are restricted from paying dividends and other distributions to us, our primary source of funds would decrease.***

We are a holding company, and we rely on dividends from our Chinese subsidiaries and servicing, licensing and other fees paid to our Chinese subsidiaries by our Chinese affiliated entities and their subsidiaries, including servicing any debt we may incur. If our subsidiaries incur debts on their own behalf in the future, the instruments governing the debts 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. PRC regulations permit payment of dividends only out of accumulated profits as determined in accordance with PRC accounting standards and regulations. Our subsidiaries in China are also required to set aside a portion of their after-tax profits according to PRC accounting standards and regulations to fund certain reserve funds that are not distributable as cash dividends.

Other than restrictions imposed by PRC law as set forth under Item 8 of this annual report, Financial Information Consolidated statements and other financial information Dividend policy, and except as set forth below, our subsidiaries in China are not currently subject to any restriction that would prevent them from paying any dividend or any other form of distribution to us, but there can be no assurance that PRC legal restrictions will not prevent the payment of dividends or distributions in the future.

Relevant PRC laws and regulations permit payments of dividends by our PRC subsidiaries only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. In addition, the statutory general reserve fund, which requires annual appropriations of 10% of net after-tax income should be set aside prior to payment of any dividends until the cumulative amount of such reserves reaches 50% of its registered capital. As a result of these and other restrictions under PRC laws and regulations, our PRC subsidiaries and affiliates are restricted in their ability to transfer a portion of their net assets to us either in the form of dividends, loans or advances, restricted portion amounted to approximately 60.1% of our total consolidated net assets as of December 31, 2008.

Even though we currently do not require any such dividends, loans or advances from our PRC subsidiaries, we may in the future require additional cash resources from our PRC subsidiaries due to changes in business conditions, to fund future acquisitions or developments, or merely to declare and pay dividends or distributions to our shareholders, although we currently have no intention to do so.

Pursuant to the New EIT Law, which went into effect on January 1, 2008, dividends payable by a foreign invested enterprises, or FIEs, to its foreign investors are subject to a 10% withholding tax, unless the foreign investor's jurisdiction of incorporation has a tax treaty with China that provides for a different withholding arrangement. The Cayman Islands, where we are incorporated, does not have a tax treaty with China. Although the New EIT Law contemplates the possibility of exemptions from withholding taxes for China-sourced income of FIEs, the Chinese tax authorities have not promulgated any related implementation rules and it remains unclear whether we would be able to obtain exemptions from Chinese withholding taxes for dividends distributed to us by our Chinese subsidiaries.

***You may face difficulties in protecting your interests, and our ability to protect our rights through the U.S. federal courts may be limited, because we are incorporated under Cayman Islands law.***

Our corporate affairs are governed by our amended and restated memorandum and articles of association, the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) and the common law of the Cayman Islands. The rights of shareholders to take action against the directors and actions by minority shareholders are to a large extent governed by the common law of the Cayman Islands. Cayman Islands law in this area may not be as established and may differ from provisions under statutes or judicial precedent in existence in the United States. As a result, our public shareholders may face different considerations in protecting their interests in actions against our management, directors or our controlling shareholders than would shareholders of a corporation incorporated in a jurisdiction of the United States.

**Table of Contents**

The rights of shareholders and the responsibilities of management, members of the board of directors and controlling shareholders under Cayman Islands law, such as in the areas of fiduciary duties, are different from those applicable to a company incorporated in a jurisdiction of the United States. For example, the Cayman Islands courts are 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
- in original actions brought in the Cayman Islands, to impose liabilities against us based on certain civil liability provisions of U.S. securities laws that are penal in nature.

As a result, our public shareholders may have more difficulty in protecting their interests in connection with actions taken by our management, members of our board of directors or our controlling shareholders than they would as public shareholders of a U.S. company.

***Our ability to protect our rights through the U.S. federal courts may be limited because we are incorporated under Cayman Islands law.***

Cayman Islands companies may not have standing to initiate a derivative action in a federal court 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.

***Your ability to bring an action against us or against our directors and officers, or to enforce a judgment against us or them, will be limited because we are incorporated in the Cayman Islands, a substantial portion of our operations are in China and the majority of our directors and officers reside outside of the United States.***

We are incorporated in the Cayman Islands, and we conduct substantially all of our operations through our operating subsidiaries and VIEs in China. Most of our directors and officers reside outside of the United States and substantially all of the assets of those persons are located outside of the United States. As a result, it may be difficult or impossible for you to bring an action against us or against these individuals in the United States in the event that you believe that your rights have been infringed under the U.S. securities laws or otherwise. Even if you are successful in bringing an action of this kind, the laws of the Cayman Islands and of China may render you unable to enforce a judgment against our assets or the assets of our directors and officers. For more information regarding the relevant laws of the Cayman Islands and China, see Item 10 of this annual report, **Additional Information** **Taxation** **United States federal income taxation** **Enforceability of civil liabilities**.

***We may be at risk of securities class action litigation.***

In the past, securities class action litigation has been brought against companies following declines in the market price of their securities. If we are faced with such litigation, it could result in substantial costs and a diversion of our management's attention and resources, which could have a material adverse effect on our business, results of operation, financial condition and the trading price of our ADSs.

**Table of Contents**

***We are required to implement additional controls and procedures in finance and accounting systems to satisfy U.S. reporting requirements. Failure to complete the required assessment as to the adequacy of our internal control over financial reporting or unavailability of an unqualified report as to the effectiveness of our internal controls over financial reporting provided by our independent registered public accounting firm could result in the loss of confidence in the reliability of such controls, which may adversely affect the trading price of our ADSs.***

As a public reporting company, we are required to comply with the Sarbanes-Oxley Act of 2002 and the related rules and regulations of the Securities and Exchange Commission, including expanded disclosures and accelerated reporting requirements. Compliance with Section 404 of the Sarbanes-Oxley Act of 2002 and other requirements may increase our costs and require additional management resources. We have recently been upgrading and implementing additional controls and procedures in our finance and accounting systems and will need to continue to do so as we grow our business and organization and to satisfy new reporting requirements. If we are unable to complete the required assessment as to the adequacy of our internal control over financial reporting or if our independent registered public accounting firm qualifies its report as to the effectiveness of our internal controls over financial reporting, investors could lose confidence in the reliability of our internal controls over financial reporting, which could adversely affect the trading price of our ADSs.

Our management has determined that our internal control over financial reporting as at December 31, 2008 was effective. During the audit of our 2008 financial statements, our independent registered public accounting firm did not identify any material weaknesses. However, it is possible that we or our independent registered public accounting firm may identify other significant deficiencies or material weakness in future periods. Such results could cause our investors to lose confidence in the reliability of our internal controls over financial reporting, which could adversely affect the trading price of our ADSs. Furthermore, we anticipate that we will continue to incur increased costs and devote significant management resources to comply with Section 404 of the Sarbanes-Oxley Act of 2002.

***Our ordinary shares or ADSs may be deemed as penny stock, which imposes significant restrictions on broker-dealers recommending our securities for purchase.***

The SEC's regulations define penny stock to include securities that have a market price of less than US\$5.00 per share, subject to certain exceptions. These regulations include the following requirements: broker-dealers must deliver, prior to the transaction, a disclosure schedule prepared by the SEC relating to the penny stock market; broker-dealers must disclose the commissions payable to the broker-dealer and its registered representative; broker-dealers must disclose current quotations for the securities; if a broker-dealer is the sole market-maker, the broker-dealer must disclose this fact and the broker-dealer's presumed control over the market; and a broker-dealer must furnish its customers with monthly statements disclosing recent price information for all penny stocks held in the customer's account and information on the limited market in penny stocks. Additional sales practice requirements are imposed on broker-dealers who sell penny stocks to persons other than established customers and accredited investors. For these types of transactions, the broker-dealer must make a special suitability determination for the purchaser and must have received the purchaser's written consent to the transaction prior to sale. If our ordinary shares or ADSs become subject to these penny stock rules, these disclosure requirements may have the effect of reducing the level of trading activity in the secondary market for our securities, if such trading market should ever develop. Accordingly, this may result in a lack of liquidity in our ordinary shares or ADSs, and investors may be unable to sell our securities at prices considered reasonable by them.

**Table of Contents**

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

***A. History and development of the Company***

Our predecessor, Beijing Ninetowns Technology Group Limited, or Ninetowns Technology, a share cooperative enterprise formed under PRC law on March 22, 1995, focused on the research and development of software related to the declaration process, in addition to selling the computer hardware and accessories.

We were incorporated in the Cayman Islands on February 8, 2002 as Ninetowns Digital World Trade Technology Holdings Limited. We changed our name to Ninetowns Digital World Trade One Technology Holdings Limited on June 11, 2002 and then to Ninetowns Digital World Trade Holdings Limited on April 7, 2003.

On November 9, 2004, we effected a 4-for-1 split of our ordinary shares in preparation for our initial public offering.

On December 3, 2004, we listed our ADSs on the Nasdaq Global Market, under the symbol NINE. On December 8, 2004, we completed the initial public offering of our ADSs, each of which represented one ordinary share.

On September 15, 2006, we changed our name to Ninetowns Internet Technology Group Company Limited.

On April 2, 2008, we established Beijing Ninetowns Software Co., Ltd., or Ninetowns Software, a PRC company with a registered capital of RMB100 million. Ninetowns Software is wholly-owned by Beijing Ninetowns Ports Software and Technology Co., Ltd., or Ninetowns Ports.

On May 23, 2008, we established Dongguan Ninetowns Software Technology Co., Ltd., or Dongguan Ninetowns, a PRC company with a registered capital of RMB5 million. Ninetowns Ports and Ninetowns Network contributed RMB2 million and RMB3 million in exchange for a 40% and 60% equity interest in Dongguan Ninetowns, respectively.

On January 12, 2009, we formed NineKitchens e-Catering Services Holdings Limited, a British Virgin Islands company, which changed its name to Nine Masters (China) E-Catering Services Holdings Company Limited, or Nine Masters, on February 2, 2009. Nine Masters is wholly-owned by Ixworth Enterprises Limited., or Ixworth.

On February 6, 2009, we formed Ninetowns Organic Agricultural Holdings Limited, or Organic Agricultural, a British Virgin Islands company. Organic Agricultural is wholly-owned by Ixworth.

On February 19, 2009, Guangzhou Yuejiu Inspection Services Limited terminated its registration with Administration of Industry & Commerce of Guangzhou City.

On February 26, 2009, we established Beijing Ninetowns Sky Eco-agriculture Co., Ltd., or Sky Eco-agriculture, a PRC company with a registered capital of RMB50 million. Sky Eco-agriculture is wholly owned by Ronghe Tongshang.

On March 13, 2009, we acquired a 100% equity interest through Shanghai New Take Digital Technology Co., Ltd., or Shanghai New Take, in Shanghai Meihuilong Catering Services Co., Ltd., or Meihuilong, for a consideration of RMB100,000. Shanghai New Take transferred all equity interest in Meihuilong to Ninetowns Software on May 7, 2009 for a consideration of RMB0.5 million. Shanghai New Take's business license expired on May 10, 2009, and we are in the process of terminating its registration with the relevant governmental authorities.



**Table of Contents**

On May 5, 2009, we established Guangdong Nine Masters E-Catering Management Co., Ltd., or Guangdong Nine Masters, a PRC company with a registered capital of RMB50 million. Guangdong Nine Masters is wholly-owned by Ninetowns Software.

We conduct our business in China through ten PRC subsidiaries, namely (i) Beijing New Take, (ii) Beijing Ninetowns Digital Technology Limited, or Ninetowns Digital, (iii) Ninetowns Times, (iv) Ninetowns Ports, (v) Meihuilong, (vi) Guangdong Ninetowns Technology, (vii) Ninetowns Network, (viii) Dongguan Ninetowns, (ix) Ninetowns Software and (x) Guangdong Nine Masters; and two VIEs, namely (i) Ronghe Tongshang and (ii) Baichuan, which we effectively control, through a series of contractual agreements entered into in 2006, 2007 and 2009. Our principal executive offices are located at 22nd Floor, Building No. 1, Capital A Partners, No.20 Gongti East Road, Chaoyang District Beijing 100020, People's Republic of China. Our telephone number in China is (86 10) 65899922. We have appointed CT Corporation System, 111 Eighth Avenue, New York, NY 10011, as our agent for service of process in the United States.

Our capital expenditures for 2006, 2007 and 2008, which totaled approximately RMB75.9 million, RMB191.6 million and RMB55.7 million (US\$8.2 million), respectively, consisted primarily of purchases of property and equipment as well as copyright for software and acquisition of interests in subsidiaries and other investments. During 2006 and 2007, we paid deposits for the acquisition of property and equipment in the amounts of RMB0.4 million and RMB34.8 million respectively. We did not pay any deposit for the acquisition of property and equipment in 2008. We anticipate that we will incur capital expenditures in 2009 of approximately RMB10 million (US\$1.5 million) to purchase equipment and software products to support our new software development projects and development of our new business initiatives and services and approximately RMB20 million (US\$3 million) for strategic acquisitions and investments. We expect to use our cash flow from operations and our available cash to fund such capital expenditures (including capital expenditures for development of new software products and functions) and to execute our business strategy.

***B. Business overview***

We are a leading PRC software company that enables enterprises and trade-related PRC government agencies to streamline the import/export process in China; we believe we are a leader in our market based on revenues and market share. We achieve this by leveraging our international trade expertise and our insight into the needs and procedures of trade-related PRC government agencies. To date, we have focused on providing enterprise software and related services for the completion over the Internet of the declaration process. In order to secure our market position, we assisted in designing and building, and continue to help maintain and upgrade, the electronic systems of the PRC Inspections Administration that enable our enterprise software to process electronic declarations over the Internet. We have pioneered the implementation of enterprise software that enables, among other things:

- (i) electronic application to the PRC Inspections Administration for an Origin Certificate;
- (ii) electronic application to the PRC Inspections Administration for goods inspection;
- (iii) electronic transfer of various import/export documents between the local inspection agency branch office where an international trade enterprise is located and the branch office at the discharging port or station through which the relevant goods are being imported into or exported from the PRC; and
- (iv) electronic transfer of documents from the PRC Inspections Administration to PRC Customs.

**Table of Contents**

Our enterprise software products consists of standardized, easy-to-install applications that simplify the declaration and approval process for international trade enterprises. Our enterprise software automates and facilitates the processing of the required import/export declarations and approvals in a cost-efficient, user-friendly and legally-compliant manner over the Internet, utilizing an electronic infrastructure we helped build that links together numerous branch offices of the PRC Inspections Administration.

Through our software development services, we assist in the development and maintenance of (i) the software systems used to process electronic filings by the PRC Inspections Administration and (ii) the data exchange platforms which serve as the interface between such systems and our enterprise software users. The infrastructure used by the PRC Inspections Administration in the declaration process was developed as a result of the collaborative efforts of our company and the PRC Inspections Administration. We and the PRC Inspections Administration used shared knowledge in connection with the implementation at the PRC Inspections Administration of a PRC e-government initiative widely known as the Three Digitizations Project. The Three Digitizations Project became particularly active following China's accession into the World Trade Organization, or WTO, and seeks to enhance the transparency of the administration and improve the internal organization and workflow management of PRC government agencies. The PRC Inspections Administration infrastructure we helped implement includes internal electronic processing systems and data exchange platforms, operated by iTowNet, that interface between international trade enterprises using our enterprise software and the PRC Inspections Administration's internal electronic processing system. We believe e-government initiatives relating to import/export processes will continue to be an important factor in PRC international trade as China becomes more fully integrated into the WTO.

We believe the market for our enterprise software is large and relatively under-penetrated. The market for our enterprise software relating to the declaration process consists of international trade enterprises in China. According to the PRC Ministry of Commerce, there were approximately 666,000 foreign-invested companies registered to do business in China as of April 30, 2009, many of which engage in importing goods into and exporting goods from China, as well as millions of PRC-based companies which do not have foreign investment but which do engage in importing and exporting. Of these companies, as of April 30, 2009, only approximately 160,000 engaged in electronic import/export declaration processing. We believe approximately 141,000, or approximately 88.1%, of such users use our enterprise software to complete the declaration process with the PRC Inspections Administration.

In August 2005, the PRC Inspections Administration selected our company as the winning bidder in connection with the PRC Inspections Administration's request for proposals for the development of a software product that has certain basic functionalities similar to those of iDeclare.CIQ and iProcess.CIQ. The PRC Inspections Administration agreed to pay a one-time fee of RMB3.3 million to purchase the ownership of the software product that we developed. The development of such software product was completed in December 2005 and the PRC Inspections Administration commenced to distribute such software products free-of-charge to end-users in February 2006. The distribution of free software products had a significant adverse effect on our business, our results of operations and profitability. For example, we sold, together with our franchisees, approximately 400 software packages of iDeclare.CIQ during the first quarter of 2009, which is significantly lower than the approximately 2,200, and 1,000 software packages of iDeclare.CIQ sold by our company and franchisees during the first quarter of 2007 and 2008, respectively.

In 2007 and 2008, we derived 74.7% and 79.4% of our total net revenues from sales of enterprise software and related customer maintenance services and 24.8% and 18.2% from software development services. Specifically, we recognized net revenues from sales of our enterprise software and related customer maintenance services of RMB116.8 million, RMB77.3 million and RMB85.0 million (US\$12.5 million) in 2006, 2007 and 2008, respectively. We believe there were approximately 130,000, 138,000 and 140,900 licensees of our enterprise software registered on their data exchange platforms as of December 31, 2006, 2007 and 2008, respectively.

**Table of Contents**

In May 2007, the PRC Inspections Administration selected our company as one of the winning bidders in connection with the PRC Inspections Administration's request for proposals for servicing the free import/export e-filing software provided by the PRC Inspections Administration. In 2008, we believe that the PRC Inspections Administration decreased its efforts to promote its free software and we believe there is uncertainty surrounding the PRC Inspections Administration's future promotional plans for its free software. Our financial outlook from maintenance servicing of the free software product has been negatively impacted for the reasons stated above. As a result, we revised the financial performance assumptions of our business-to-government, or B2G division, which incorporates our enterprise software and related customer maintenance services and software development services reporting units, and re-assessed the goodwill in connection with our pre-IPO acquisitions. Accordingly, we recorded an one-time non-cash goodwill impairment charge of RMB193.6 million in the fiscal year 2007.

Our B2B business and services have been offered through tootoo.com, our B2B vertical search platform that was launched in May 2007. In June 2007, we launched the second generation of tootoo.com. In March 2009, we announced our decision to wind down our B2B business. In conjunction with the winding down of our B2B business, we revised our estimate of future cash flows in our annual impairment test. As a result, the fair value of our long-lived assets and goodwill was significantly reduced and we recognized an impairment charge of RMB48.1 million (US\$7.0 million) against our long-lived assets and an impairment of RMB78.1 million (US\$11.4 million) against our goodwill related to our B2B business in fiscal year 2008.

In the second half of 2009, we aim to expand our research and development initiatives to include opportunities in the B2C business. We are exploring potential expansion of our business to include a B2C e-commerce platform, specifically in the food products and services industries. Our B2C business is under development and we may not successfully introduce it as one of our primary businesses.

We plan to leverage our existing quality control related expertise and experience to develop and expand our business offerings as future opportunities present themselves. Specifically, we believe our expertise and experience in B2G software development, quality control and e-service solutions, along with the infrastructure developed in the course of our B2B expansion, such as our online search technology, quality risk control algorithm and our quality-driven supplier evaluation system, are tools that give us a unique advantage in the e-commerce and service industries. We intend to increase our revenues primarily by leveraging and strengthening our market reputation, enhancing value for our clients through broader product offerings and improved customer maintenance services, expanding our client base through increased marketing, maintaining our leadership in technical and industry knowledge and pursuing selective strategic acquisitions and investments. However, given the uncertain impact on our business resulting from the distribution and promotion of free software products by the PRC Inspections Administration to end-users and the uncertainties related to expansion into new businesses, we cannot predict the growth in our revenues, if there are any at all.

## **Table of Contents**

### **Advantages of our enterprise software products**

Our enterprise software primarily facilitates declaration processing in a cost-efficient and user-friendly manner over the Internet, utilizing data exchange platforms that we helped build. The key advantages of our products are:

#### ***Ease of deployment***

Our enterprise software consists of standardized programs that can be easily installed onto most computers from a CD-ROM or through the Internet and be fully operational in less than 30 minutes. Our enterprise software is broadly applicable to all international trade enterprises seeking to complete the declaration process electronically and does not require customization. We helped build the PRC Inspections Administration's internal electronic processing systems and the data exchange platforms within the PRC Inspections Administration offices. We have leveraged our experience and expertise with these data exchange platforms, which interface between international trade enterprises and the PRC Inspections Administration's own internal electronic processing systems, to design enterprise software with optimal compatibility with the PRC Inspections Administration's systems and internal requirements. We intend to continue to help maintain and upgrade the data exchange platforms. Given our knowledge of such data exchange platforms and our role in continuing to maintain and upgrade such systems, we believe we are in a unique position to provide enterprise software that is easy to deploy, fully integrated and optimally compatible with the PRC Inspections Administration's systems and internal requirements.

#### ***Fast, efficient and accurate transfers***

Our enterprise software eliminates the need for the manual preparation and submission of paperwork in the declaration process and can reduce the time required to complete the declaration process from approximately two or more days to as quick as one hour. Our enterprise software enables nearly immediate submission of electronic filings and notice of most submission errors, allowing for fast and accurate submissions. In addition, demands on staff time are reduced and the risk of delayed responses from the PRC Inspections Administration due to delivery failures is minimized because transmissions to and feedback from the PRC Inspections Administration are delivered electronically.

Furthermore, since data is submitted in electronic format, there is reduced risk of error and delay related to the PRC Inspections Administration's inability to read or accurately copy required data. The electronic forms contained in our enterprise software are regularly updated, ensuring that all required information is submitted to the PRC Inspections Administration.

#### ***Reduction of costs associated with declaration filings***

We believe our enterprise software significantly reduces the costs associated with the PRC Inspections Administration filings and that the increased efficiency and accuracy derived from using our enterprise software results in reduced need for staff to complete the declaration process. In addition, there is a reduction in travel expenses traditionally associated with making declarations in person at the PRC Inspections Administration. Furthermore, faster processing can result in reduced transportation time for goods, which is particularly important for perishable goods and reduces an importer's or exporter's working capital allocated to inventory.

#### ***Convenience of filing anytime and from anywhere over the Internet***

Traditionally, an international trade enterprise would send a representative to a PRC Inspections Administration branch office in China during business hours to make a declaration filing. The PRC Inspections Administration branch office would then process and forward the documentation to the PRC Inspections Administration branch office at the port or station through which the relevant goods were being imported into or exported from China. Our enterprise software allows international trade enterprises to make declaration filings with the PRC Inspections Administration electronically over the Internet. Declarations can be made at any time, whether the PRC Inspections Administration's branch offices are open for business or not, and from anywhere in the world through a computer on which our enterprise software is installed and which is connected to the Internet. In addition, our enterprise software and the electronic systems we helped build allow the PRC Inspections Administration branch office processing the electronic filing to electronically transmit various import/export documents to the PRC Inspections Administration branch office at the relevant import or export port or station. This system increases the efficiency and accuracy of communications between the PRC Inspections Administration's branch offices and saves time and expense for the PRC Inspections Administration.



**Table of Contents**

***User-friendly software***

Our user-friendly enterprise software simplifies the declaration process. Our users benefit from an interface that requires very little training and is updated regularly to reflect revisions to the regulations related to the declaration process. Our enterprise software has auto-correction functions that automatically detect errors and suggest corrections. We also offer additional software functions that our users can purchase to expand their software capabilities as their business requires.

***Competitive advantages***

We believe we have achieved the leading position in our industry, in part, by establishing the competitive strengths described below:

***First to market, setting the industry standard***

We assisted in designing and building the electronic infrastructure used by the PRC Inspections Administration to accept and process electronic declarations. We believe our enterprise software for PRC Inspections Administration filings is perceived by our customers and others to be the industry standard in our market because:

we helped build the PRC Inspections Administration's system for accepting and processing electronic declarations,

our enterprise software is highly reliable,

we believe our enterprise software was the first made available for electronic declaration processing with the PRC Inspections Administration,

we believe our enterprise software was the first product endorsed by the PRC Inspections Administration for use in such declarations, and

as of April 30, 2009, our enterprise software is being used by approximately 88.1% of all filers making electronic PRC Inspections Administration declarations.

Based on the foregoing, we believe we are the leading provider of enterprise software to international trade enterprises using the electronic declaration process in China.

***Proven ability to establish and maintain collaborative relationships with the PRC Inspections Administration***

We believe we were the first company to work with the PRC Inspections Administration to develop enterprise software related to the declaration process. As a result of our long-standing relationship with the PRC Inspections Administration, we have developed a detailed understanding of the PRC Inspections Administration's and international trade enterprises' declaration processing and other trade-related requirements. We continue to work closely with the PRC Inspections Administration to refine our enterprise software to reflect changes in the PRC Inspections Administration's information systems, procedures, rules and regulations and to create new software functions to address additional aspects of the declaration process. For more information regarding our relationship with the PRC Inspections Administration. See Item 3D of this annual report, *Risk factors - Risks related to our business - We currently generate substantially all of our total net revenues from either PRC government agencies or in connection with PRC government agency filings, and our failure to maintain a continued working relationship with certain PRC government agencies and, in particular, the PRC Inspections Administration, would result in the reduction or loss of substantially all of our total net revenues.* We also believe that our solid track record with the PRC Inspections Administration will assist us in establishing collaborative relationships with other PRC government agencies, such as PRC Customs.

**Table of Contents**

***Scalable, modular and secure software***

The data exchange platform that we built for iTowNet is designed to effectively and efficiently handle a large number of concurrent transactions for a large number of users. We believe such scalability enables the PRC Inspections Administration to adapt to the growing and changing PRC market at minimal cost. Our enterprise software is designed to be modular, which allows our users to easily add functions by installing additional software over the Internet with minimal cost to us. Furthermore, all users must be authenticated as having a licensed copy of our enterprise software and as having a properly registered account with the PRC Inspections Administration in order to conduct electronic transactions over the PRC Inspections Administration's data exchange platforms, thus making it difficult to use pirated copies of our enterprise software.

***Strong market reputation***

We believe we have earned a strong market reputation among international trade enterprises in China for fast, user-friendly, efficient, cost-effective and convenient declaration processing over the Internet, as well as for our customer maintenance service. We believe that the endorsement of iDeclare.CIQ by the PRC Inspections Administration and our significant market share have established us as the market leader in our industry. iDeclare.CIQ has been recognized by various PRC agencies and authorities for its quality.

***Extensive distribution and support network***

Currently, through our own sales team and our franchisees, we maintain four technical support centers, and also cooperate with our franchisees to jointly maintain 44 technical support centers to reach most of the major import/export cities in China. Through them, we provide coverage, sales and marketing and customer maintenance services to most of the major import/export cities in China.

***Experienced management team with strong product development capabilities***

Our management team has significant experience in the enterprise software business. They have extensive knowledge of international trade enterprises, the inner-workings of the PRC Inspections Administration and the rapidly changing PRC trade-related regulations. In addition, our management has been recognized for its expertise in the information technology industry in China. We believe our management team's (i) close relationship with the PRC Inspections Administration, (ii) deep and broad experience with PRC import/export processes, (iii) knowledge of PRC import/export policies and business requirements and (iv) strong product development capabilities provide us with the ability to develop high-quality software to serve the needs of our markets.

**Table of Contents**

**Business strategy**

Our primary goal is to create long-term shareholder value and to become the leading software company that enables enterprises and government agencies to streamline their import/export processes in China. In the second half of 2009, we aim to expand our research and development initiatives to include opportunities in the B2C business. We are exploring potential expansion of our business to include a B2C e-commerce platform, specifically in the food products and services industries. Our B2C business is under development and we may not successfully introduce it as one of our primary businesses. We believe China's rapidly growing import/export activities, continuous import/export policy changes and evolving import/export filing requirements, coupled with the PRC government's initiative to streamline and use the Internet to carry out various government operations, provide us with significant growth opportunities. We intend to use our cash flow from operations and our available cash to pursue the following strategies:

***Leverage and strengthen our market reputation by creating new products***

We believe that we have a strong market reputation for enabling international trade enterprises to complete electronic declarations over the Internet efficiently and cost effectively. We intend to expand this brand recognition for PRC Inspections Administration-related products to other PRC trade-related government agencies and trade-related third parties such as banks, insurers and logistics providers. We believe that building a strong brand is an essential element of our sales and marketing strategy because brand recognition allows us to grow our revenues rapidly without incurring significant marketing costs.

***Enhance value for existing clients through broader product offerings and improved customer maintenance services***

We intend to develop new functions for our existing products to enhance the interaction between our users and the PRC Inspections Administration, other PRC trade-related government agencies and related third parties. For example, we are in the process of developing additional functions to further expand our existing iDeclare.CIQ products, such as applications for permits to import used equipment, paint, food and cosmetic products. In addition, we currently support our existing users jointly with our four franchisees through four technical support centers operated and maintained by us and 40 technical support centers operated and maintained by our four franchisees located in most of the major import/export cities in China.

***Expand our client base through increased marketing and broader product offerings***

We intend to grow our client base by expanding the use of our franchisees and our own distribution network for marketing and front-line technical support throughout China. In addition, we plan to upgrade all of our existing technical support centers to full-service customer relations management centers. As a result, we do not intend to engage new distributors in the near future. In addition, we intend to develop new products and services which will appeal to international trade enterprises that do not currently use our enterprise software.

***Maintain leadership in technical and industry knowledge***

We intend to continue to invest in our research and development efforts to enhance our existing enterprise software and develop new products that will increase the efficiency and cost-effectiveness of the declaration process and related processes. In addition, we expect to continue to accumulate import/export-related industry knowledge and technical expertise in order to provide software for potential import/export-related processes. Both software technology and the import/export regulatory environment in China are continuously changing and we believe that continuous accumulation of both technical and industry knowledge is crucial in providing the best software for our customers.



**Table of Contents**

***Pursue selective strategic acquisitions, investments, joint ventures or collaborative arrangements***

We expect that our enterprise software user base will grow with the expected expansion of the PRC export manufacturing sector and the increase in domestic demand for imported goods. In response to this growth in our base of potential users, we intend to pursue strategic acquisitions, investments, joint ventures or other collaborative arrangements that complement our existing enterprise software. We are reviewing selective investments in order to increase the scale of our business and strengthen our position as a leading provider of enterprise software for international trade enterprises.

In March 2009, we announced our decision to wind down our B2B business. In the second half of 2009, we aim to expand our research and development initiatives to include opportunities in the B2C business. We are exploring potential expansion of our business to include a B2C e-commerce platform, specifically in the food products and services industries. Our B2C business is under development and we may not successfully introduce it as one of our primary businesses.

We plan to leverage our existing quality control related expertise and experience to develop and expand our business offerings as future opportunities present themselves. Specifically, we believe our expertise and experience in B2G software development, quality control and e-service solutions, along with the infrastructure developed in the course of our B2B expansion, such as our online search technology, quality risk control algorithm and our quality-driven supplier evaluation system, are tools that give us a unique advantage in the e-commerce and service industries.

**Products and services**

In 2007 and 2008, we derived 74.7% and 79.4% of our total net revenues from sales of enterprise software and related customer maintenance services, 24.8% and 18.2% of our total net revenues from provision of software development services and 0.5% and 2.3% of our total net revenues from provision of B2B search services.

The products and services we offered in 2008 included the following:

**Enterprise software**

We have three enterprise software products currently available commercially or in trial version: (i) iDeclare.CIQ, (ii) iProcess.CIQ, and (iii) iQM.

*iDeclare.CIQ series*

Commercially introduced in August 2000, the iDeclare.CIQ series of products enables international trade enterprises to complete the declaration process electronically over the Internet. We initially offered the iDeclare.CIQ basic package, which included two separate software functions, for a one-time license fee of RMB6,800, including one year of customer maintenance services. In September 2001, we started to offer the current iDeclare.CIQ basic package, which includes six separate software functions, for a one-time license fee of RMB4,500, including one year of basic customer maintenance services. In September 2006, we also developed Ninetowns Network Quality Supervision Software v1.0, the newest version of software in the iDeclare.CIQ series. We charge RMB1,500 for each additional year of customer maintenance services, which includes a number of value-added services in addition to the basic maintenance services, such as site visits to carry out maintenance procedures and automatic updates of software relating to changes in codes associated with goods, countries and regions and changes to import/export regulations. In 2006, 2007 and 2008, we generated RMB107.9 million, RMB76.5 million and RMB79.5 million (US\$11.6 million), respectively, of net revenues from sales of the iDeclare.CIQ basic package and related customer maintenance services (including the per transaction fees as described below), which represented a substantial portion of our net revenues from sales of enterprise software in each of those periods.

**Table of Contents**

Prior to 2008, we provided a Pay-Per Transaction option to our customers in Dongguan. In 2008, we expanded the Pay-Per Transaction option to various customers in other areas, who did not want to pay the annual maintenance fees. Net revenues from sales of enterprise software included RMB21.9 million, RMB21.7 million and RMB27.0 million (US\$4.0 million) of such per-use fees, 18.7%, 28.1% and 31.8% of our net revenues for sales of enterprise software in 2006, 2007 and 2008, respectively.

We offer trial versions of our new software functions to existing users until we commercially launch such software functions. Once commercially launched, these new software functions are not offered as part of the iDeclare.CIQ basic package and a user must pay additional fees in order to use the new software functions.

Our iDeclare.CIQ product series users include a variety of international trade enterprises operating in a wide range of businesses. They include the PRC branch offices of multinational trading companies that might purchase multiple copies of iDeclare.CIQ, as well as smaller PRC companies focused on niche businesses that might buy only one copy of iDeclare.CIQ. We rely mainly on our franchisees to sell our iDeclare.CIQ product series.

Our iDeclare.CIQ product series allows users to submit encrypted applications to the PRC Inspections Administration for examination, comment and approval over the Internet. In addition, iDeclare.CIQ is capable of generating electronic documents with information inter-linking ability to efficiently replicate documents required for international trade transactions. Such documents include invoices for export, packaging forms, bills, customs clearing forms and approval forms for special goods. Additional software functions are designed for easy installation and incorporation into the iDeclare.CIQ product series. When a customer purchases and installs a new module, new tabs and folders appear in the existing user interface, allowing customers to add new software functions while maintaining a familiar and easy-to-use environment.

Currently, the iDeclare.CIQ product series has three main applications: (i) Origin Certificate processing, (ii) declaration processing and (iii) registration and permit processing.

The Origin Certificate processing application allows users to apply for and obtain over the Internet an Origin Certificate, which is a required document showing the place of origin of goods imported or exported.

iDeclare.CIQ's Origin Certificate processing application has five software functions that allow an international trade enterprise to obtain Origin Certificates. The different software functions relate to the import/export regulations of different countries and can help an enterprise determine if it qualifies for favorable tariffs between China and a second country. To date, all five software functions have been included in the iDeclare.CIQ product series.

The declaration processing application allows users to declare their imported or exported goods for inspection by the PRC Inspections Administration, which typically involves a general inspection of the goods, the packaging material and the shipping container. To date, the declaration for inspection of goods has been included in the iDeclare.CIQ product series. A package inspection function and container inspection function are new software functions available only in trial versions; we expect to charge our users a fee to use each of these software functions when they are launched commercially.

The registration and permit processing application allows users to register goods to be imported or exported and to apply for a permit for such import/export transaction. This application is currently used when animals, plants or related products are imported or exported. The registration and permit processing application is a new function and is only available in a trial version; we expect to charge our users a fee to use this function when it is launched commercially. See Item 5 of this annual report, "Operating and Financial Review and Prospects" Research and development.

**Table of Contents**

Our iDeclare.CIQ product series transmits all user submissions to the PRC Inspections Administration electronically in an encrypted format over the data exchange platforms operated by iTowNet. iTowNet receives a fee for each submission made over its platforms. Once received by the PRC Inspections Administration, such transmissions are examined and electronically approved or returned to the user for revision.

The table below sets forth the benefits of electronic filings, as compared to paper filings:

**Traditional paper-based filing method**

declaration form filled manually

declaration form physically submitted to the PRC

Inspections Administration

long waiting time in the process of declaration

incomplete information or mistakes in declaration form

cause delay, stress and additional costs

*iProcess.CIQ series*

In June 2005, we launched iQS, one component of a new product series called iProcess.CIQ, in certain major cities of the PRC including Ningbo, Qingdao, Dalian, Hangzhou, Jinan, Tianjin and Shanghai. Our iProcess.CIQ product series enables international trade enterprises and their suppliers to submit product quality-related data to the PRC Inspections Administration throughout the production process. In addition, our iProcess.CIQ product series enables manufacturers to submit production-related data over the Internet to the PRC Inspections Administration regarding the nature and quality of the components and materials being used by the manufacturers in creating their products. Such information can be submitted prior to the manufacturers exporting their products from the PRC. The PRC Inspections Administration may, but is not required to, use such information to assess the products and determine whether an inspection is necessary prior to such products being exported from the PRC. A determination by the PRC Inspections Administration that an inspection is not required will likely expedite the declaration process for such products. Furthermore, users of our iDeclare.CIQ product series that have paid their annual maintenance fees may share data between the iDeclare.CIQ and iProcess.CIQ product series. This will not only reduce data input requirements for iDeclare.CIQ users, but may also encourage existing iDeclare.CIQ product series users to pay their annual maintenance fees.

In 2006, 2007 and 2008, we generated RMB5.5 million, RMB0.07 million and nil, respectively, of net revenues from sales of the iProcess.CIQ product series.

In 2007, we recorded a non-cash impairment charge of RMB193.6 million due to the negative impact on our financial outlook for maintenance servicing of the free software offered by the Chinese government. We believe that the Chinese government's decreased efforts to promote its free software have resulted in a corresponding decline in the need for our maintenance services. Additionally, we believe there is some uncertainty surrounding the Chinese government's future promotional plans for its free software. Our management continues to believe in the long-term potential of our iDeclare.CIQ product series and is committed to the continued development and promotion of this product.

**iDeclare.CIQ electronic filing method**

electronic input minimizes mistakes arising from illegible handwriting

submission of electronic declaration form reduces cost and time

no physical queue-up for submission required

built-in error detection function helps prevent omissions and mistakes

**Table of Contents**

iQM series

Our iQM product series was introduced in 2007. The most recently launched version of our iQM product series is used by international trade enterprises to collect, analyze, monitor, correct and track product quality-related data from the raw material stages to final production. Our iQM product series is also used to provide disqualification alerts and assist with order processing and laboratory management.

Our iQM product series provides the following functions to our enterprise customers: (i) the declaration of electronic supervision data, (ii) enterprise quality management, (iii) a mobile business platform and (iv) statistics and quality analyses. Our iQM product series is a production quality management application that connects enterprises and the electronic supervision system of the PRC Inspections Administration via the Internet. Our product focuses on live production procedures at our enterprise customers facilities by utilizing real-time data collection and supervision of the main aspects of production procedures, including information regarding management of raw materials, certain production procedures, monitoring of finished goods and storage management, all in accordance with the requirements of the Hazard Analysis Critical Control Point, or HACCP, and ISO 9001 quality management systems. HACCP is a process control system which identifies where potential hazards may occur in the food production process chain and implements stringent preventative measures. ISO 9001 is one among a series of documents that define certain requirements for quality management system standards. Since all of the data collected using our iQM product series can be transferred directly to the PRC Inspections Administration, our iQM product series significantly improves the efficiency level for governmental inspection of enterprises that use our product and the overall efficiency of the export process.

The quality management product is still relatively new to the market and as yet, we believe that no market leader has emerged in this industry. We believe that our iQM product series is the first of its kind on the market. Currently, our iQM product series is available only in Guangdong Province, China on a trial basis and the available versions of our products are industry-specific, ranging from toys and foods processing, aquatic and livestock breeding and vegetation planting. We recognized RMB0.5 million and RMB5.5 million (US\$0.8 million) in net revenues from sales of iQM and related software maintenance services in 2007 and 2008, respectively. As of March 31, 2009, we had approximately 1,100 paying enterprise customers who use our iQM product series.

***Software development services***

We provide software development services to PRC government agencies, their related entities and their third party service providers in order to enhance electronic data exchange, processing and monitoring capabilities. Our software development services consist of the design, development and maintenance of, and enhancement to: (i) the internal software systems used by PRC government agencies and their related entities to process electronic filings made with our enterprise software, and (ii) the data exchange platforms which serve as the interface between such systems and users of our enterprise software.

In 2003, we provided software development services primarily to eGrid in connection with eGrid's contracts to provide software development services for iTowNet. Under this arrangement, eGrid designs software for iTowNet and subcontracts the software coding work to us. We enter into all contracts with iTowNet and eGrid on an arm's length basis. See Item 7 of this annual report, Major Shareholders and Related Party Transactions Related party transactions.

**Table of Contents**

On February 16, 2006 and February 28, 2006, we entered into two software development contracts with the PRC Inspections Administration pursuant to which we contracted to develop an electronic monitoring system and an import and export hygiene monitoring system for the PRC Inspections Administration for RMB3.3 million and RMB1.6 million respectively. On April 26, 2007, we entered into a series of software development contracts with the PRC Inspections Administration pursuant to which we contracted to develop an electronic monitoring system data exchange platform for RMB7.8 million.

We generally recognize revenue from software development services based on a percentage of the work that is completed and do not recognize any revenue until a contract is signed with customers.

***Technology***

Our enterprise software operates on a sophisticated data processing platform called iCSP. iCSP is our proprietary Internet-based services management platform with centralized data exchange capabilities that we have been developing since 1999. Our iCSP platform allows our enterprise software to incorporate the utility and power of the Internet. Our iCSP platform has two components. One component supports Microsoft Windows clients and is a part of our enterprise software. The other component supports a variety of Microsoft, UNIX and Linux servers and is a part of the software that we assisted in developing for iTowNet. We used development tools such as Microsoft.Net and Sun Java2EE to develop our iCSP platform.

The iCSP platform is a modular, scalable and secure client/server architecture, which suits the rapidly changing demands of enterprise users. The basic software architecture of the iCSP platform allows for (i) dynamic application management for enterprise users, (ii) seamless data exchange among multiple enterprises and government agencies and (iii) automatic data synchronization.

At the core platform level, the service management system provides various basic system functions, such as downloading of applications, authentication of user licenses and performance of routine system maintenance. The architecture separates data exchange (oDex), data synchronization (oCox) and application logic (oAfx) into different units to maintain flexibility and scalability.

oDex is the data exchange system which supports common data exchange protocols such as EDI, x.12, EBXML and RossetaNet. oDex converts document formats and processes documents based on pre-determined programming rules.

oCox is the data synchronization system which replicates data across different users, systems and institutions.

oAfx is the application library system which contains the various enterprise software functions.

The iCSP platform also has a comprehensive security system which performs security auditing and management to maintain data security and integrity.

***Products under development***

We usually have numerous new software products and features in development. The process of researching and developing software products and features typically involves steps to: (i) work with the relevant PRC government agency to identify needs and parameters; (ii) begin research and development; (iii) test product or function feasibility; (iv) establish product launch plan and timetable with the PRC government agency; and (v) launch the product or function. The following are examples of new enterprise software and enhancements to our existing products which are currently under development:

## **Table of Contents**

### *iDeclare.CGA Series*

Similar to the PRC Inspections Administration, the PRC Customs has a standardized set of forms used by international trade enterprises and we plan to work with the PRC Customs to develop enterprise software that will facilitate electronic filings of such forms. We intend for this enterprise software to enable electronic filings of customs, manifest, bill of lading, export goods receipt and other declarations. In addition, we also plan to work with PRC local tax authorities to develop a product to facilitate electronic filings of tax and ATA Carnet declarations, which are international customs documents that permit duty-free and tax-free temporary import of goods for up to one year. Research and development work on the iDeclare.CGA product series commenced in 2004. In 2008, we decided to discontinue our promotion of customs related software development due to a change in demand for our iDeclare.CGA product series by the PRC Customs.

### *New Initiatives*

We plan to leverage our existing quality control related expertise and experience to develop and expand our business offerings as future opportunities present themselves. Specifically, we believe our expertise and experience in B2G software development, quality control and e-service solutions, along with the infrastructure developed in the course of our B2B expansion, such as our online search technology, quality risk control algorithm and our quality-driven supplier evaluation system, are tools that give us a unique advantage in the e-commerce and service industries. In October 2008, we acquired land use rights from the Beijing Municipal Bureau of Land and Resources Economic-Technological Development Area Branch pursuant to which we plan to develop, among other things, technological research centers.

### **Production and hardware design**

In the past, the principal steps involved in production of our enterprise software are duplicating CDs, printing boxes and related materials such as user manuals, and assembling and shipping our final products. We had production arrangements with several outside contractors under which they provide all necessary outsourced production services related to our enterprise software. Currently, we generally distribute our iDeclare enterprise software through the Internet and therefore incur minimal outsourcing costs and costs associated with packaging and shipping of software.

### **Seasonality**

There is no particular seasonal fluctuation in our sales except that net revenues from sales of our enterprise software in the first quarter are typically lower than in other quarters. This is primarily due to decreased business activities throughout China before, during and after the Chinese New Year holidays, which occur in January or February each year. In addition, net revenues from software development services are typically higher in the third and fourth quarters of each year because our software development contracts are usually signed during that time. However, we cannot predict when our software development contracts will be signed in the future, or if they will be signed at all.

Our future revenues and results of operations may fluctuate significantly due to a combination of factors, including:

- acceptance of our products and services in China;
- the strength of our relationships with the PRC Inspections Administration, the PRC Customs and other PRC government agencies;

**Table of Contents**

our ability to attract and retain users;  
our ability to develop new software products and services;  
PRC government regulation of software sales and development; and  
general economic conditions in China.

**Quality**

We are committed to delivering enterprise software and services of consistently superior quality to our customers. We believe our commitment to quality and our total quality management system are key elements to our operation as a leading provider of enterprise software to international trade enterprises and trade-related PRC government agencies. On August 3, 2004, we were awarded the ISO 9001:2000 Quality Management System Recognition Certificate. ISO 9001:2000 is a worldwide quality management system certification program regarding management system standards administered by the International Organization for Standardization. The certificate is renewable every three years and our current certificate is valid until July 25, 2010. Our enterprise software has also been endorsed by the PRC Inspections Administration for electronic customs declaration.

**Sales and marketing**

We have implemented our sales and marketing initiative in three phases. In the first phase, we relied mainly on direct sales of new software products to international trade enterprises. In the second phase, we used authorized distributors to reach additional international trade enterprises. We are currently implementing the third phase of our sales and marketing initiative by helping third parties establish franchisees to sell our software products. Our intention is to continue to use a focused strategy designed to further enhance our brand name and acquire new customers by recruiting franchises, who will use the Ninetowns brand name in the sales and marketing of our enterprise software.

***Direct sales and marketing***

We re-defined our regional markets and changed our business model from direct sales to a regional franchise model. As of December 31, 2008, we had a sales and marketing force consisting of approximately 49 people, serving mainly the southern regions of China for our enterprise software. Our sales and marketing representatives also perform customer maintenance services.

The market operations center at our principal executive offices in Beijing is responsible for national marketing policies, strategies and budgets. The market operations center is divided into two departments: the corporate communication department and the market operations department.

The corporate communication department is responsible for brand promotion, package design and marketing functions. The market operations department is responsible for the collection of marketing intelligence. In addition to the corporate communication department and the market operations department, we also have salespersons in our own four technical support centers. The salespersons in such centers are responsible for regional marketing strategies, including (i) organizing promotional conferences in which existing and potential clients are introduced to our products, and (ii) participating in national and regional trade shows. On the local level, our salespersons promote our enterprise software products mainly by holding seminars for international trade enterprises, making telephone calls to potential customers and sending promotional materials by mail.

**Table of Contents**

Our annual sales targets are set by our general manager of sales and marketing according to regional sales plans and are reviewed quarterly. We have an incentive-based sales scheme whereby salespersons are rewarded based on achievement of sales targets.

***Sales by authorized distributors***

We had previously contracted with distributors to undertake marketing, distribution and service activities in certain provinces in China but the distribution agreements with our two former authorized distributors, expired and we chose not to renew them. We currently do not have any distributors.

For 2006, net revenues from sales of enterprise software we recognized from our former authorized distributors amounted to approximately RMB17.0 million. We did not recognize any revenue from sales from our former authorized distributors in 2007 and 2008. We do not expect to recognize any revenue from sales from our former distributors for 2009.

***Sales by our franchisees***

It is our current strategy to expand our franchisee network to undertake marketing, distribution and service activities using the Ninetowns brand name. As of December 31, 2008, we have four franchisees, Ninetowns Enke, Ninetowns Zhi Fang, Ninetowns Xin He and Ninetowns Wang Li.

Our franchise relationship with Ninetowns Enke began in February 2004. Ninetowns Enke is also our sales agent for sale of after sales maintenance services for our enterprise software to our customers. In August 2008, we entered into new franchise agreements with Ninetowns Enke for two of our software products, iQs under the iProcess.CIQ series and iDeclare.CIQ basic package. Each of these franchise agreements expires December 31, 2009 and does not contain any minimum sales commitment.

Our relationship with Ninetowns Zhi Fang began in 2005. In August 2008, we entered into new franchise agreements with Ninetowns Zhi Fang for iQs and iDeclare.CIQ basic package. Each of these franchise agreements expires on December 31, 2009 and does not contain any minimum sales commitment.

Our relationship with Ninetowns Xin He began in 2006. In August 2008, we entered into new franchise agreements with Ninetowns Xin He for iQs and iDeclare.CIQ basic package. Each of the franchise agreements with Ninetowns Xin He expires on December 31, 2009 and does not contain any minimum sales commitment.

Our relationship with Ninetowns Wang Li began in 2006. In August 2008, we entered into new franchise agreements with Ninetowns Wang Li for iQs and iDeclare.CIQ basic package. Each of these franchise agreements with Ninetowns Wang Li expires on December 31, 2009 and does not contain any minimum sales commitment.

Our franchisees provide customer maintenance services to our enterprise software users. We intend to focus on establishing new franchisee arrangements in the future.



**Table of Contents**

For 2006, 2007 and 2008, net revenues from the sale of enterprise software and related customer maintenance services generated by our franchisees amounted to approximately RMB40.9 million, RMB50.7 million and RMB54.3 million (US\$8.0 million), respectively.

**Customers**

In 2008, our customers for sales of enterprise software and related customer maintenance services include our franchisees and international trade enterprises that we sell our software to directly. Our users are engaged in a wide variety of import and export activities in China. For 2006, 2007 and 2008, our four largest enterprise software customers, which consisted primarily of our distributors and franchisees, accounted for approximately 49.1%, 65.9% and 63.8%, respectively, of our net revenues from sales of enterprise software and related customer maintenance services.

Our customers for software development services include the PRC Inspections Administration, iTowNet, eGrid and other third party customers. iTowNet and eGrid accounted for substantially all of our net revenues for provision of software development services in 2006. In 2007 and 2008, we did not generate any revenue from provision of software development services to iTowNet and eGrid.

**Customer maintenance services**

We believe our ability to provide customer maintenance services is one of the key factors to building user loyalty. We offer one year of free customer maintenance services with our iDeclare.CIQ basic package, and charge a fee of RMB1,500 for customer maintenance services each year thereafter.

The free customer maintenance services we provide in connection with our software products generally include:

- after-sales software maintenance;
- help-desk via telephone; and
- non-specific enhancement of the software on a when-and-if-available basis.

The paid customer maintenance services we provide in connection with our software products generally include:

- site visits to carry out maintenance procedures;
- support via facsimile and email;
- updates and enhancement to the software through the Internet and our website;
- automatic updates of software relating to changes in codes associated with goods, countries and regions and changes to import/export software; and
- training for new updates to our enterprise software.

**Table of Contents**

Our franchisees also provide customer maintenance services, including help-desk support via telephone or e-mail, site visits for maintenance procedures and software training.

Each of our technical support centers functions as a call center that responds to calls from customers located in the surrounding areas. As of December 31, 2006, 2007 and 2008, we had together with our four franchisees, 128, 192 and 155 customer service and technical support personnel, respectively.

**Competition**

We believe there are only two enterprise software products, namely our iDeclare.CIQ product series and Easy Inspection offered by Ronji, that have been endorsed by the PRC Inspections Administration. We are not aware of any other products or services which compete with our enterprise software. Therefore, we believe we only have one competitor engaged in providing enterprise software to international trade enterprises for transactions with the PRC Inspections Administration. In addition, we face competition from the PRC Inspections Administration's free software product.

We compete with several software developers in bidding for software development projects. In particular, we compete against eGrid, which is a related party of our company and historically, one of our major customers in our software development business, to provide software development services to iTowNet. iTowNet has developed its own platform for providing software development services and now provides software development services directly to its customers, such as the PRC Inspections Administration, that are similar to the software development services that we provide to our customers. As a result, iTowNet became one of our competitors in our software development services business.

We believe that the principal factors upon which we compete are:

- reputation in the market;
- understanding of the needs of PRC international trade-related government agencies, such as the PRC Inspections Administration, as well as endorsements from such agencies;
- the quality of our products and services;
- responsiveness to the needs of users;
- installed base of international trade enterprise customers;
- cost-effectiveness; and
- distribution network.

We believe that we compete favorably with respect to the above-listed factors.

**Table of Contents**

**Intellectual property rights**

We rely on a combination of nondisclosure, confidentiality and other contractual arrangements with the PRC Inspections Administration, certain of our directors, employees and customers, as well as PRC privacy and trade secret laws, to protect and limit the distribution of the proprietary software and processes we have developed in connection with our products and services.

As of December 31, 2008, we had registered 46 software copyrights and 12 trademarks in China and one registered trademark for our name Ninetowns in the United States. We are in the process of registering certain of our other trademarks in Hong Kong.

If we fail to adequately protect our intellectual property rights or proprietary technology or if we become involved in litigation relating to our intellectual property rights or proprietary technology, our business could be harmed. Any actions we take may not be adequate to protect our rights and other companies may develop technologies that are similar or superior to our proprietary technology.

Although we believe that our products and services do not infringe on the intellectual property rights of others and that we have all rights needed to use the intellectual property employed in our business, it is possible that we could in the future become subject to claims alleging infringement of third party intellectual property rights. Any such claims could subject us to costly litigation and may require us to pay damages and develop non-infringing intellectual property or acquire licenses to the intellectual property that is the subject of the alleged infringement.

We are aware of an online video games company in China whose Chinese name is substantially similar to ours and which may therefore infringe on our trademark.

**Winding Down of B2B Business and Focus on Business Opportunities**

On October 19, 2006, our indirect wholly-owned subsidiary, Beprecise Investments Limited., or Beprecise, acquired a 16.25% interest in Global Market, a leading Chinese B2B trade facilitator headquartered in Guangzhou. However, our equity interest in Global Market decreased to 9.9% in March 2008 due to dilution caused by Global Market's financing activities. In November 2008, Global Market re-purchased approximately 300,000 of its series A shares from us for approximately US\$1.1 million which resulted in a net gain for us of approximately RMB2.2 million (US\$300,000).

On April 27, 2007, Ixworth, our wholly owned subsidiary, acquired a 70.0% interest in Ample Spring, a related party of Baichuan, a leading Chinese B2B vertical search engine operator. We launched our new B2B vertical search platform, tootoo.com in May 2007, through which we offered our B2B business and services. We launched the second generation of tootoo.com in June 2007. On December 14, 2007, we acquired a 19.8% interest in Hangzhou Tophere, a leading Chinese business-to-business food and beverage trade facilitator headquartered in Hangzhou.

Throughout 2007, 2008 and the first fiscal quarter of 2009, we focused our efforts on developing our B2B business. However, in March 2009, we announced our decision to wind down our B2B business. This decision was made in light of the recent major changes in the global economic environment and is expected to enable Ninetowns to better manage its investments for long-term growth.

We plan to leverage our existing quality control related expertise and experience to develop and expand our business offerings as future opportunities present themselves. Specifically, we believe our expertise and experience in B2G software development, quality control and e-service solutions, along with the infrastructure developed in the course of our B2B expansion, such as our online search technology, quality risk control algorithm and our quality-driven supplier evaluation system, are tools that give us a unique advantage in the e-commerce and service industries.

**Table of Contents**

In 2007, we registered two patents for our search technology in the PRC. In 2008, we registered two patents, one for our search technology and the other for containing sealing by means of our one-time lead sealing patented technology. In 2009 and 2010, we plan to continue our efforts to provide quality-driven services and improve and upgrade the interaction and functionality of our B2C services.

**Regulation**

**Political, legal, economic and social considerations in China**

Since 1979, many laws and regulations dealing with economic matters with respect to general foreign investment have been promulgated in China. In 1982, the PRC National People's Congress amended the PRC Constitution to authorize foreign investments and guarantee the lawful rights and interests of foreign investors in China. In 2004, the PRC Constitution was further amended to recognize the right to private property for all PRC citizens. Subsequent legislation has enhanced significantly the protection afforded to foreign and domestic investors and allowed more active control of investors over their private enterprises in China. In the last two decades, the PRC government has introduced substantial economic and legal reforms. However, the legal system of the PRC is still underdeveloped when compared to the systems of the advanced western nations. The implementation and interpretation of existing laws may therefore be uncertain.

**Foreign investment policies**

According to the Foreign Investment Industry Policy Guidelines promulgated on March 4, 2002, as amended on November 30, 2004 and on October 31, 2007, foreign investors are encouraged to invest in the development and manufacturing of software products. No restrictions or prohibition is currently imposed on the foreign ownership of businesses engaged in the development and production of software products in China.

**New regulation relating to the administration of an office**

In April 2006, State Administration of Industry and Commerce, Ministry of Commerce, State General Custom and SAFE jointly promulgated Implementation Opinion on Certain Issues about Application of Laws on Administration of Approval and Registration for Companies with Foreign Investment, or the Opinion. According to the Opinion, the registration requirements for companies with foreign investment apply to companies registered under the PRC Company Law, as amended on October 27, 2005 and effective on January 1, 2006, and the Regulations on Administration of Companies, amended on December 18, 2005, except otherwise stipulated by the laws and regulations specifically governing companies with foreign investment. According to the Opinion, the registration of offices established by companies with foreign investment is required to cease. The Opinion also provides that the procedures of variation or renewal for the offices that have been registered will not be carried out. Once the operating term of an office expires, the procedure of cancellation of registration will be implemented. If necessary, such company can choose to establish a branch office.

In the opinion of our PRC counsel, Commerce & Finance Law Offices, the ownership structures, businesses and operations of our subsidiaries and VIEs in China comply with applicable PRC laws in all material aspects, rules and regulations. In addition, our PRC counsel has confirmed that no consent, approval or license, other than those already obtained, is required for such ownership structures, businesses and operations in order for us to comply with existing PRC laws rules and regulations.

**Table of Contents**

**Regulation of the software industry**

**Software copyright**

The State Council of the PRC, or the State Council, promulgated the Regulations for the Protection of Computer Software, or the Software Protection Regulations, on December 20, 2001, and such regulations became effective on January 1, 2002. The Software Protection Regulations were promulgated, among other things, to protect the copyright of computer software in China. According to the Software Protection Regulations, computer software that is independently developed and exists in a physical form will be protected. However, such protection does not apply to any ideas, mathematical concepts, processing and operation methods used in the development of software products. Under the Software Protection Regulations, PRC citizens, legal persons and organizations enjoy copyright protection for computer software they develop, regardless of whether the software has been published. In addition, foreigners or any person without a nationality enjoy copyright protection of computer software they develop, if such computer software was first distributed in China.

Under the Software Protection Regulations, software copyright holders enjoy the rights of publication, authorship, modification, duplication, issuance, lease, transmission on the information network, translation, licensing and transfer. The software copyright comes into being on the day of completion of its development. In the case of software developed by legal persons and other organizations, the protection period is 50 years and ends on the thirty-first day of December of the fiftieth year from the date the software product was first published. However, the Software Protection Regulations will not protect the software if it has never been published within 50 years since the completion of development. A written license contract is required to license the right to use the software copyright and a written assignment contract is required for transfer of any software copyright.

Enforcement actions available under the Software Protection Regulations against infringements of copyright include, among other things, cessation of the infringement, elimination of the effects, apology, compensation for losses and other civil responsibilities. Disputes regarding infringements of software copyright can be mediated. In addition, the parties may apply for arbitration in accordance with the arbitration provision set forth in the copyright contract or the arbitration agreement otherwise entered into between or among the parties. If the parties do not have an arbitration agreement, they can resolve the dispute through the PRC courts.

**Software copyright registration**

Pursuant to the Copyright Law of the PRC, or the Copyright Law, which was adopted at the 15th Meeting of the Standing Committee of the Seventh National People's Congress on September 7, 1990 and effective from June 1, 1991 as amended on October 27, 2001, works including computer software developed by PRC citizens, legal persons or other entities without legal personality, whether published or not, are protected under the Copyright Law. On February 20, 2002, the State Copyright Administration of the PRC promulgated the Measures Concerning Registration of Computer Software Copyright Procedures, or the Registration Procedures, to implement the Regulations for the Protection of Computer Software and to promote the development of China's software industry. The Registration Procedures apply to the registration of software copyrights and software copyright exclusive licensing contracts and assignment contracts. The registrant of a software copyright will be the copyright owner and the natural person, legal person or other organization in whom the software copyright becomes vested through succession, assignment or inheritance.

**Table of Contents**

Pursuant to the Registration Procedures, the software to be registered must (i) have been independently developed or (ii) significantly improve in its function or performance after modification from the original software, with the permission of the original copyright owner. If the software being registered is developed by more than one person, the copyright owners may nominate one person to handle the copyright registration process on behalf of the other copyright owners. If the copyright owners fail to reach an agreement with respect to the registration, any of the copyright owners may apply for registration but the names of the other copyright owners must be recorded on the application.

The parties to a software copyright assignment contract or exclusive licensing contract may apply to the Copyright Protection Center of the PRC, or the CPC, for registration of such contracts. In registering a contract, the following materials must be submitted: (1) a completed contract registration form; (2) a copy of the contract; and (3) the applicant's identification documents.

The CPC will complete its examination of an accepted application within 60 days of the date of acceptance. If an application complies with the requirements of the Software Protection Regulations and the Registration Procedures, a registration will be granted, a corresponding registration certificate will be issued and the registration will be publicly announced.

**Software products registration**

On March 1, 2009, the MIIT issued the new Measures Concerning Software Products Administration, which became effective on April 10, 2009, to regulate and administer software products and promote the development of the software industry in China.

Pursuant to the new Measures Concerning Software Products Administration, software products are required to be registered and filed with the MIIT or the provincial software industry authorities. Before the provincial software industry authorities issue software products registration numbers and software products registration certificates to the applicants, the application materials should be filed with the MIIT and the software products should be announced without objection for a seven-day period. To produce software products in China, the software production units should have the copyright of the software or are licensed to produce such software products. If the software products are sold through a distribution agent, there must be a contract between the software developer and the agent, and between the agent and its sub-agents, if any, specifying the distribution rights, distribution territory and distribution terms as well as the technical services to be provided by the distribution agent. The MIIT and other relevant departments may carry out supervision and inspection over the development, production, operation and import/export activities of software products in China.

**Policies to encourage the development of software and integrated circuit industries**

On June 24, 2000, the State Council issued Certain Policies to Encourage the Development of Software and Integrated Circuit Industries, or the Policies, to encourage the development of the software and integrated circuit industries in China and to enhance the international competitiveness of the PRC information technology industry. The Policies encourage the development of the software and integrated circuit industries in China through various methods, including:

- (i) encouraging investment in the software industry and providing or assisting software enterprises to raise capital overseas;

**Table of Contents**

- (ii) providing tax incentives, including a tax rebate for taxpayers who sell self-developed software products, before 2010, the amount of the 17.0% statutory value added tax that exceeds 3.0%, will be refunded immediately when paid. There is a full exemption from the PRC enterprise income tax, or EIT, for two years starting from the first profit-making year of operations and a 50.0%-relief from the PRC EIT for the following three years for recognized newly established enterprises that are engaged in the software industry. The software enterprises of particular importance pursuant to the state stipulations, which do not enjoy any tax exemption benefit in a given year, will be subject to a reduced EIT rate of 10.0% in that year. Moreover, software enterprises that import certain equipment for the development of their self-developed software, with limited exemptions, are also entitled to the exemption of import related value-added tax;
- (iii) providing government support, such as government funding in the development of software technology;
- (iv) providing preferential treatment, such as credit facilities with low interest rates to enterprises that export software products;
- (v) taking various strategies to ensure the software industry has sufficient expertise; and
- (vi) implementing measures to enhance intellectual property protection in China.

**Regulation of foreign exchange and dividend distribution**

**Foreign exchange**

The principal regulations governing foreign exchange in China are the Foreign Exchange Control Rules (1996), as amended in 1997 and 2008. On June 20, 1996, the People's Bank of China promulgated the Administration Rules of Settlement, Sale and Payment of Foreign Exchange, or the FX Administration Rules, which became effective on July 1, 1996.

Under the FX Administration Rules, Renminbi is generally freely convertible for trade and service-related foreign exchange transactions, but not for foreign direct investment, foreign loans or issuance of securities outside China unless the prior approval of SAFE is obtained.

Pursuant to the FX Administration Rules, foreign investment enterprises in China generally may purchase foreign exchange without the approval or review of SAFE for trade and service-related foreign exchange transactions by providing commercial documents evidencing these transactions. They may also retain foreign exchange, subject to a cap approved by SAFE, under current account items. However, the relevant PRC government authorities may limit or eliminate the ability of foreign investment enterprises to purchase and retain foreign currencies in the future. Foreign investment enterprises are permitted to distribute their profits or dividends in foreign currencies out of their foreign exchange accounts or exchange Renminbi for foreign currencies through banks authorized to conduct foreign exchange business.

**Dividend distribution**

The principal PRC regulations governing the distribution of dividends by our wholly foreign-owned enterprises are

- (i) The Wholly Foreign-Owned Enterprise Law (1986), as amended in 2000; and (ii) Implementation Regulations under the Wholly Foreign-Owned Enterprise Law (2001); and (iii) the Company Law (1993), as amended in 2005.

**Table of Contents**

Under these regulations, wholly foreign-owned enterprises in China may only pay dividends out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, a wholly foreign-owned enterprise in China is required to set aside at least 10.0% of its after-tax income each year, if any, to fund a reserve fund until the accumulated reserve amounts to 50.0% of its registered capital. It is also required to set aside funds for the employee bonus and welfare fund from its after-tax income each year at percentages determined at its sole discretion. These reserves are not distributable as cash dividends.

**Restricted net assets**

Relevant PRC laws and regulations permit payments of dividends by our PRC subsidiaries only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. In addition, the statutory general reserve fund, which requires annual appropriations of 10% of net after-tax income should be set aside prior to payment of any dividends. As a result of these and other restrictions under PRC laws and regulations, our PRC subsidiaries and affiliates are restricted in their ability to transfer a portion of their net assets to us either in the form of dividends, loans or advances. The restricted portion of their net assets amounted to approximately RMB541.0 million (US\$79.3 million), or 60.1% of our total consolidated net assets as of December 31, 2008. Even though we currently do not require any such dividends, loans or advances from our PRC subsidiaries, we may in the future require additional cash resources from our PRC subsidiaries due to changes in business conditions, to fund future acquisitions or developments, or merely to declare and pay dividends or distributions to our shareholders, although we currently have no intention to do so.

**Regulation of the import/export industry**

**The State Administration for Quality Supervision and Inspection and Quarantine of the PRC**

In April 2001, the PRC Inspections Administration was established by combining the former State Import and Export Commodity Inspection Quarantine Bureau of the PRC and the State Quality and Technique Supervision Bureau of the PRC, which oversees the inspection work of import and export commodities for the PRC in accordance with the institutional reform plan of the State Council. The PRC Inspections Administration, which is primarily an administrative and law enforcement institution governing, among others, the health quarantine of imported and exported animals and plants, the inspection, appraisal, certification and supervision of imported and exported commodities, has the following responsibilities, among others:

- executing the inspection and quarantine, appraising and supervising of import and export commodities;
- implementing the quarantine and supervision for the import and export of animals and plants and the inspection, supervision and administration of the sanitary and food quality;
- administering health registrations of import and export food products and their production units and external registration for export enterprises; administering the import and export inspection and quarantine marks, import safety licenses, and export quality licenses; and implementing the import and export-related quality authentication and accreditation;
- administering the issuance of Origin Certificates for commodities and the general certificates of origin;
- formulating the development plan of technologies for commodity inspection and quarantine; and
- developing international cooperation and technology exchanges related to commodity inspection and quarantine and carrying out the implementation work relating to technological barriers to trade, as stipulated.



**Table of Contents**

**Customs General Administration of the PRC**

The PRC Customs, General Administration is the highest authority for supervising and administering the customs points for entering into and departing from the PRC and is responsible for customs administration throughout the nation.

The PRC Customs Law is intended to protect PRC sovereignty and interests and to strengthen the administration of customs supervision. In accordance with the PRC Customs Law, the PRC Customs, General Administration has primary responsibility for:

- supervising the entering into and departing from the PRC of transportation tools, goods, luggage, postal items and other articles;
- collecting customs duties and other taxes and fees;
- investigating and suppressing smuggling; and
- preparing customs statistics and conducting other customs affairs.

**Import/ Export license system**

The import and export license system is an important administrative measure in the international trade regulations of the PRC. Since the early 1990 s, the PRC government has gradually relaxed its control over import activities including abandoning or reducing the range of import licenses, import quotas and import control. Since 1998, the PRC government has removed its control of import licenses and export quotas over a wide range of commodities which previously required import licenses. On December 10, 2001, the State Council issued the Regulations of the People s Republic of China on Administration of Import and Export, or the Regulations, which apply to the import of goods into China and the export of goods from China, to standardize administration of import and export of goods and to promote the development of foreign trade in China. Pursuant to the Regulations, goods for importation are divided into three categories: (i) prohibited for imports, (ii) restricted for imports, and (iii) free for imports. The lists of prohibited and restricted imports is formulated by the State Council department responsible for foreign trade and economic cooperation after consulting other relevant State Council departments. Restricted imports are further divided into quota-controlled imports, license-controlled imports and tariff- and quota-controlled imports. Import quotas are distributed to quota applicants annually based on specific criteria. Import licenses are issued on a case-by-case basis. Exported goods are also divided into prohibited exports, restricted exports and free exports. The lists of prohibited and restricted exports is formulated by the State Council department responsible for foreign trade and economic cooperation after consulting other relevant State Council departments. Restricted exports are further divided into quota-controlled exports and license-controlled exports. Export quotas are distributed annually and may be distributed through direct allocation, invitation of bids or other methods. Export licenses are issued on a case-by-case basis. Under certain circumstances, the relevant State Council departments may take certain temporary measures to restrict or prohibit certain imports.

**Table of Contents**

**Administrative provisions on the Origin Certificate**

All exporters may apply for origin certificates in respect of the products to be exported out of China. In compliance with the Regulations of the People's Republic of China on Origin of Imported and Exported Goods issued on September 3, 2004, which became effective on January 1, 2005, and the Provisions for the Issuance of the Origin Certificate for Export Goods of the PRC (Trial Implementation), which became effective on January 1, 1996, and to strengthen the administration of the issuance of Origin Certificates, the Ministry of Foreign Trade and Economic Cooperation, currently known as the Ministry of Commerce, promulgated the Administrative Provisions of the PRC on Origin Certificate on March 8, 1996, or the Administrative Provisions. The Administrative Provisions are aimed at facilitating the implementation of a national EDI project by the Ministry of Commerce. The Ministry of Commerce made use of the recommended standard form of the Origin Certificate issued by the then State Technology Supervision Administration of the PRC on July 1, 1996, to standardize and regulate the administration, subscription, printing, transportation, record-keeping, issuance, calculation and examination of the Origin Certificate, thus minimizing or eliminating the occurrence of forged or fake Origin Certificates. The new standard form of the Origin Certificate bears a uniform serial number.

**Commodity quality inspection and quarantine inspection**

**Commodity quality inspection**

The Law on the People's Republic of China on Import and Export Commodity Inspection adopted by the Standing Committee of the Seventh National People's Congress on February 21, 1989, which became effective on August 1, 1989, as amended on April 28, 2002, provides that all imported and exported commodities included in a published inspection list must be inspected in accordance with the relevant compulsory inspection standards or other standards specified by the state inspection authorities prior to export out of China or use or sale in China for imported goods. On August 31, 2005, the State Council promulgated the Implementing Provisions for the Law of the People's Republic of China on Import and Export Commodity Inspection, which became effective on December 1, 2005 and stipulates particular requirements for the import and export commodity inspection.

**Quarantine inspection**

The Standing Committee of the PRC National People's Congress adopted the Import & Export Animals and Plants Quarantine Law on April 1, 1992, which provides the legal basis for the quarantine inspection of animals, plants and other products and the containers and packaging materials used for transporting or packing these items. On December 2, 1996, the State Council issued Implementing Regulations for the Import & Export Animals and Plants Quarantine Law which provides detailed procedures for quarantine inspection of animals, plants and other products. The PRC Inspections Administration is currently responsible for carrying out import and export commodity inspections.

**Table of Contents**

***C. Organizational structure***

We conduct substantially all of our business through ten PRC subsidiaries and two VIEs in China. The following diagram illustrates our subsidiaries, their country of incorporation and the proportion of our ownership of each as of May 31, 2009.

**Table of Contents**

For details of the above subsidiaries and VIEs, see History and development of the company.

**D. Property, plants and equipment**

Our principal executive offices occupy a total of approximately 7,992 square meters on the 19th to 23rd and 25<sup>th</sup> floors of Building No. 1, Capital A Partners, No. 20 Gongti East Road, Chaoyang District, Beijing 100020 PRC. In addition, we occupy a representative office of approximately 10 square meters at 11F, KaWah Bank Centre, 232 Des Voeux Road, Central, Hong Kong. As of May 31, 2009, we have two premises that we own and we have also leased four premises in the following cities and municipalities to serve as technical support centers and quarters for our technical support staff:

Location of Leased Properties	Space (in square meters)	Number of employees
Dongguan	364.85	28
Guangzhou	120.85	27
Beijing	328.74	37
Shanghai	139.00	2
Total	953.44	94

Further, on October 30, 2008, Ninetowns Software and the Beijing Municipal Bureau of Land Resources Economic-Technological Development Area Branch entered into a land grant contract and a supplemental agreement, pursuant to which Ninetowns Software acquired land use rights for 58,526.58 square meters of land located in Lu Dong District, Beijing Economic-Technological Development Area. As of May 31, 2009, Ninetowns Software has not yet received the State-Owned Land Use Right Certificate.

We currently support our existing users jointly with our four franchisees through four technical support centers operated and maintained by us and 40 technical support centers operated and maintained by our four franchisees located in most of the major import/export cities in China.

**Insurance**

We do not maintain business liability insurance and to our knowledge, other software companies in China do not maintain such insurance. We do maintain vehicle liability insurance. While business disruption insurance is available, we have determined that the risks of disruption and the cost of insurance are such that we do not require it at this time. Any business disruption, litigation or natural disaster might therefore result in substantial costs and diversion of our resources.

We do not maintain key-man life insurance for any member of senior management. We maintain directors and officers insurance for our directors and members of senior management.

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

Not applicable.

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

We are a leading PRC software company that enables enterprises and trade-related PRC government agencies to streamline the import/export process in China; we believe we are a leader in our market based on revenues and market share. We achieve this by leveraging our international trade expertise and our insight into the needs and procedures of certain trade-related PRC government agencies. To date, we have focused on providing enterprise software and related customer maintenance services for the completion over the Internet of the declaration process. In order to secure our market position, we assisted in designing and building, and continue to maintain and upgrade, the electronic systems of the PRC Inspections Administration, that enable our enterprise software to process electronic declarations over the Internet.

**Table of Contents**

From 2006 to 2008, we were in the process of developing our B2B business and strategy. We pursued selective strategic acquisitions and investments in companies such as Global Market, Ample Spring (a related party of Baichuan) and Hangzhou Tophere. We launched our new B2B vertical search platform, tootoo.com in May 2007, through which we offered our B2B business and services. In March 2009, we announced our decision to wind down our B2B business. In conjunction with the winding down of the B2B business, we revised the estimate of future cash flows used in our annual impairment test. As a result, the fair value of our long-lived assets and goodwill was significantly reduced and we recorded a one-time non-cash impairment charge of approximately RMB126.2 million (US\$18.5 million) in 2008 against our long-lived assets and goodwill related to our B2B business. We do not expect this non-cash impairment charge to have an adverse impact on our current cash position, current cash flows from operating activities, or future cash expenditures.

We generated total net revenues of RMB153.2 million, RMB103.5 million and RMB107.0 million (US\$15.7 million) in 2006, 2007 and 2008, respectively. The increase in our total net revenues in 2008 was primarily due to increased sales from our iQM product series and the popularity of Pay-Per Transaction pricing terms, but off-set by the significant decline in iDeclare.CIQ software package sales. Our advertising and marketing expansion efforts also increased our B2B revenues. Our net income in 2006 was RMB45.9 million, decreasing to a net loss of RMB230.5 million in 2007 and a net loss of RMB169.6 million (US\$24.9 million) in 2008. The net loss in 2008 was mainly attributable to (i) impairment of goodwill and long-lived assets, (ii) the increased costs of pursuing our B2B strategy in 2008, and (iii) increased depreciation and amortization expenses. We believe there were approximately 130,000, 138,000 and 140,900 licensees of our enterprise software registered to effect electronic import/export processing with the PRC Inspections Administration as of December 31, 2006, 2007 and 2008, respectively. The major factors affecting our results of operations and financial condition include:

***Focus on sales of enterprise software and related customer maintenance services***

Historically, we engaged in three main lines of business: (i) sales of enterprise software and related customer maintenance services, (ii) provision of software development services, and (iii) B2B search services. In March 2009, we announced our decision to wind down our B2B business. Furthermore, the provision of software development services has become a less significant line of business over time. We intend to continue deploying our resources on sales of enterprise software and related customer maintenance services that enable enterprises and trade-related PRC government agencies to streamline the import/export process in China. In addition, we also intend to leverage our existing expertise in quality control and e-service solutions to explore and develop other business opportunities.

***Slowdown of the import/export industry in China***

Our financial results have been, and we expect them to continue to be, affected by the import/export industry in China. The growth of China's import/export volume experienced a slowdown in 2008, falling from over 20% each year for the prior six consecutive years to 17.8% in 2008. China's import/export volume for the first quarter of 2009 decreased by 24.9% compared to the first quarter of 2008. We believe that a number of factors have contributed to this slowdown, including appreciation of the Renminbi and tightening macroeconomic measures and monetary policies adopted by the PRC government aimed at preventing overheating of China's economy and controlling inflation. We believe that the slowdown was further exacerbated by the recent global crisis in the financial services and credit markets, which in recent months has resulted in extreme volatility and dislocation of the global capital markets. However, we believe China's import/export volume will continue to grow and create additional demand for our products and services.

**Table of Contents**

***Change in number of potential users***

In February 2006, the PRC Inspections Administration commenced the distribution of the software products that our company developed, free-of-charge to end-users. As certain basic functions of the free software are similar to those of iDeclare.CIQ and iProcess.CIQ, the provision of such software products free-of-charge by the PRC Inspections Administration has a material adverse effect on our results of operations and on our future profitability.

Although the number of users of our enterprise software has increased significantly since we first launched our iDeclare.CIQ software products in August 2000, the growth of the number of potential users has declined significantly in recent years. The initial increase was partially attributable to the increasing number of PRC international trade enterprises and partially attributable to the increasing demand from such enterprises for more efficient import/export processing methods. The recent decrease was due to the PRC Inspections Administration's distribution of its free software. We expect an increase in the number of PRC international trade enterprises as the PRC economy continues to expand over time, but such increase may also be slowed significantly by the recent global financial crisis. We believe the long term growth of the import/export market will increase demand for our enterprise software and related customer maintenance services and software development services, as international trade enterprises seek an efficient means of completing the declaration process.

While the growth rate of our user base has decreased continuously, we believe that we have continued to make sales of our iDeclare.CIQ software packages and related customer maintenance services due to certain benefits offered to our paid customers that are not offered to users of the free software. The PRC Inspections Administration's distribution of free software products, while in the long run will likely increase the number of e-filers and hence increase demand for our enterprise software services, has had a significant adverse effect on our total net revenue, our results of operations and profitability in the short-term. For example, we sold, together with our franchisees, approximately 400 software packages of iDeclare.CIQ during the first quarter of 2009, which is significantly lower than the approximately 1,000 software packages of iDeclare.CIQ sold by our company and our franchisees during the first quarter of 2008. In 2008, we believe that the PRC Inspections Administration decreased its efforts to promote its free software and we believe there is uncertainty surrounding the PRC Inspections Administration's future promotional plans for its free software. Additionally, the slowdown in China's economy caused in part by the recent global crisis in the financial services and credit markets has also negatively impacted our sales of iDeclare.CIQ software packages.

***Expanding our user base through franchisees***

We believe our user base has substantial growth potential due to the high number of international trade enterprises that possess import/export rights in China. According to the PRC Ministry of Commerce, there were approximately 666,000 foreign-invested companies registered to do business in China as of April 30, 2009. In addition, there are numerous PRC-based companies that possess import/export rights. A key component of our growth strategy is to secure new customers through the efforts of our franchisees and we intend to engage additional franchisees to expand our marketing and distribution network. Currently, we have engaged four franchisees to undertake marketing, distribution and service activities in China.

**Table of Contents**

***Description of revenues, cost items and trade receivables***

We primarily operate in two business segments: (i) B2G services and (ii) B2B search services. Our B2G business segment includes sales of enterprise software and related customer maintenance services and software development services. Currently, our total net revenues are primarily derived from our sales of enterprise software and related customer maintenance services. We decided to wind down our B2B business in March 2009, so we do not expect to generate significant revenue from our B2B segment after March 2009.

***Total net revenues***

Currently, we generate total net revenues primarily from our B2G segment which includes (i) sales of enterprise software and related customer maintenance services and (ii) fees from software development services. We also generated an insignificant amount of total net revenues from fees from B2B search services.

Except for VAT rebates from the Chinese tax authorities as part of the PRC government's policy of encouraging software development in the PRC, we report total net revenue net of business taxes. Our sales of enterprise software products and computer hardware and accessories are generally subject to a VAT of 17.0%. Our fees charged for software development services and customer maintenance service for enterprise software products are generally subject to a 5.0% business tax. Pursuant to the laws and regulations of the PRC, four of our subsidiaries in China are entitled to a 14.0% VAT rebate for certain self-developed software products. We recognize the VAT rebates at the same time we recognize net revenues from sales of enterprise software. VAT rebates are included in our net revenues from sales of enterprise software. In 2008, we recognized RMB2.9 million (US\$0.4 million) in VAT rebates. We cannot predict how much our net revenues from sales of our enterprise software and related customer maintenance services or software development services will increase in the future, or if they will increase at all.

Enterprise software and related customer maintenance services. Our net revenues from enterprise software are derived primarily from sales of our iDeclare.CIQ basic package and related customer maintenance service fees. We charge users of our iDeclare.CIQ product series a license fee of RMB4,500 per software package, which includes a one-year basic customer maintenance service period. We also charge RMB1,500 for each additional year of customer maintenance services, which includes a number of value-added services in addition to the basic maintenance services. Enterprise software revenues and fees from customer maintenance services are recognized ratably over a 12-month period. Enterprise software revenues received or receivable but not yet recognized are accounted for as deferred revenue on our balance sheets. Deferred revenue is reduced proportionately as enterprise software revenues are recognized ratably over the 12-month period.

We currently sell our enterprise software and provide related customer maintenance services through four franchisees. Our per-unit license fee for enterprise software products charged to our franchisees is based on our negotiated sales arrangement with the franchisee, and is less than the RMB4,500 per-unit license fee we receive from direct sales. We also sell iDeclare.CIQ products on a Pay-Per Transaction basis to a limited number of users, substantially all of whom are located in Guangdong Province, China. In 2008, we offered the Pay-Per Transaction option to various customers in areas outside of Guangdong Province. Our ability to grow our net revenues from sales of enterprise software and related customer maintenance services will depend on (i) the rate of increase in the number of new users of such product, (ii) the market's acceptance of our planned new software products, (iii) the success of our plans to engage additional franchisees, and (iv) our increased efforts in marketing our customer maintenance services to our users. The distribution of free enterprise software by the PRC Inspections Administration has adversely affected our ability to grow our net revenues from sales of enterprise software and related customer maintenance services.

**Table of Contents**

Notwithstanding that we charge for such maintenance services, we believe our users and potential customers are not accustomed to being charged for this type of service and it is unclear to us how many of our users will pay for such maintenance services. In 2008, we collected customer maintenance service fees from approximately 40,500 users, representing approximately 29% of our users due to the renewal of their maintenance service agreements. We intend to continue to increase our marketing and collection efforts with respect to these customer maintenance service fees. We expect our profit margin from sales of enterprise software to decrease if the VAT rebate is eliminated or reduced by the PRC tax authorities. We expect net revenues from Pay-Per Transaction fees to increase with our increased sales of enterprise software, but to remain stable as a percentage of our total net revenues.

Software development services. Our net revenues from software development services are derived primarily from contracts related to PRC government agency software development projects, such as our services for the PRC Inspections Administration. As we believe is consistent with the practice of other software development companies in China engaged in government-related work, we often commence work on software development projects based on oral commitments from our customer and sign the contract after the commencement of work. Once a contract has been signed, we begin recognizing net revenues from these projects based on the percentage-of-completion method, in which revenue recognition is based on the percentage of actual hours incurred to date for each contract to the estimated total hours to be incurred for each contract at completion. We experienced a significant decline in our net revenues from the provision of software development services starting in 2007 and we expect such decline to continue over time due to decreasing demand for such services and an increase in competition for software development service contracts from other service providers. For example, iTowNet has developed its own platform for providing software development services and now provides software development services directly to its customers, such as the PRC Inspections Administration, that are similar to the software development services that we provide to our customers. B2B search services. Net revenues from this business currently represents an insignificant portion of our total net revenues because we have only introduced our B2B service products in trial versions. We expect this business to continue to represent an insignificant portion of our total net revenue in the future as we are winding down this business.

***Cost of revenues***

Our cost of revenues consists principally of costs related to (i) sales of our enterprise software and related customer maintenance services, (ii) our provision of software development services, and (iii) our provision of B2B search services.

Enterprise software and related customer maintenance services. In 2006, we changed our business model from distributing our software directly to end-users to distributing them through our franchisee network via the Internet. As such, the costs of revenues for our enterprise software were reduced significantly as we incurred less production costs, packaging costs and shipment costs. Additionally the franchisees have been providing a majority of our software maintenance services to customers for us. We therefore incurred declining direct costs to provide software maintenance services to customers.

As a result of the above factors, cost of revenues for enterprise software and related customers maintenance services was immaterial.



**Table of Contents**

Software development services. Our cost of software development services is comprised mainly of personnel expenses, office rental expenses and other expenses directly related to our provision of software development services. We record cost of revenues for software development services on a percentage-of-completion method by reference to the man-hours incurred and estimated to be incurred for each contract at completion. We expect our cost of revenues related to software development services to decrease in line with a decrease in the demand for our services.

B2B search services. We only introduced our B2B service products in trial versions and are in the process of winding down this business. Our cost of revenues from B2B search services in 2008 includes the expenses associated with the operation of our data centers, including depreciation, labor and office rental. We expect our overall cost of revenues from B2B search services to decrease as we eventually exit our B2B business.

***Gross profit margin***

Our gross profit margin is primarily affected by our net revenues from sales of enterprise software and related customer maintenance services, the cost of revenues for our software development services and the cost of revenues for our B2B search services. We expect our enterprise software and related customer maintenance services gross profit margin to remain stable. We expect our software development services gross profit margin to decrease as we invest in more advanced technologies in new software development projects.

***Operating expenses***

Our operating expenses consist of (i) selling expenses, (ii) general and administrative expenses, (iii) research and development expenses, and (iv) (allowance for) recovery of doubtful accounts. We do not allocate operating expenses to individual lines of business when making decisions about allocation of resources or assessing the performance of our lines of business. Effective January 1, 2006, the Company adopted SFAS 123R which supersedes APB 25 and recognized stock-based compensation cost on a straight-line basis over the requisite service period, which is the vesting method.

Selling expenses. Selling expenses consist primarily of sales, marketing and personnel expenses, customer service expenses, associated rental expenses, marketing and advertising expenses and travel and entertainment expenses for our sales and marketing staff. We expense all selling expenses as they are incurred. We expect to expand our marketing and advertising campaigns to promote our new B2C business, specifically in the food products and services industries. However, we are winding down our B2B business and expect future selling expenses for our B2B business to decrease significantly. As a result of the above, we generally expect a decrease in our selling expenses for 2009.

General and administrative expenses. General and administrative expenses consist primarily of personnel expenses, office rental expenses, general office expenses, travel and entertainment expenses and professional fees. We expense all general and administrative expenses as they are incurred. In 2008, we incurred higher general and administrative expenses than in earlier years as a result of increases in (i) share-based compensation charges (ii) depreciation and amortization charges on fixed assets and intangible assets, and (iii) compensation costs incurred from staff reduction.

**Table of Contents**

Research and development expenses. Research and development expenses consist primarily of research and development personnel expenses and associated rental expenses. We expense research and development expenses as they are incurred. In addition, because technological feasibility for our software products ordinarily occurs right before such products are commercially launched and because costs incurred between technological feasibility and commercial launch are immaterial, such costs are expensed as incurred. We generally expect our research and development expenses to increase as a result of (i) our investment in the research and development of new enterprise platform products and search platform products, (ii) an increase in the number of research and development personnel, (iii) an expected increase in our potential new business ventures and (iv) our investment in software licenses for development tools to increase the productivity of our overall research and development efforts. However, research and development expenses decreased in 2008. This decrease was mainly attributable to the reduction in our employees and rental and utility expenses, which resulted from our relocation to our newly acquired building. For 2009, we expect to incur additional research and development expenses as we shift our focus from B2B to B2C and expand our research and development initiatives to include other service offerings. Specifically, we are exploring the potential expansion of our business by leveraging our experience in B2G quality control and e-service solutions, along with existing infrastructure from our B2B business. We have focused our research and development initiatives to include B2C offerings, specifically in the food products and services industries. Our B2C business is under development and we may not successfully introduce it as one of our primary businesses.

Provision for doubtful accounts. In 2007, we believe that the PRC Inspections Administration decreased its efforts to promote its free software and we believe there is uncertainty surrounding the PRC Inspections Administration's future promotional plans for its free software. Accordingly, we made a provision of approximately RMB19.9 million for doubtful accounts against our receivables specifically in relation to our building of certain electronic systems for the PRC Inspections Administration that enable the free software to process electric declarations over the Internet. In 2008, we wrote off these trade receivables against the allowance for doubtful accounts. In addition, in 2008 we made a further provision of RMB2.9 million (US\$0.4 million) based on aging analysis of trade receivables, customers credit-worthiness, past collection history, and changes in a customer's payment terms.

As a result of the cumulative effect of the factors described above, we expect in the future our total operating expenses will increase.

**Taxation**

Under the current laws of the Cayman Islands, our company is not subject to tax on its income or capital gains. In addition, payment of dividends by us is not subject to withholding tax in the Cayman Islands.

PRC EIT. Our PRC operating subsidiaries and VIEs are subject to PRC EIT on their taxable income. Pursuant to PRC tax laws effective January 1, 2008, EIT is generally assessed at the rate of 25.0% of taxable income.

Shanghai New Take was subject to a 16.5% EIT from January 1, 2005 to December 31, 2007 and is currently subject to a 25.0% EIT. Ninetowns Ports was subject to a 7.5% EIT for the period from January 1, 2006 to December 31, 2007 and is currently subject to a 25.0% EIT. Guangdong Ninetowns Technology was entitled to an exemption from EIT from January 1, 2006 to December 31, 2007 and is currently subject to a 7.5% EIT. Ninetowns Network was entitled to an exemption from EIT from January 1, 2006 to December 31, 2007 and is currently subject to a 25.0% EIT.

Ninetowns Digital, Beijing New Take, Ninetowns Times, Ninetowns Ports and Ninetowns Network were qualified as High and New technology enterprises and were granted preferential EIT rates based on such status. Shanghai New Take was granted preferential EIT rates based on its status as a software company. Relevant PRC government authorities specify certain financial and operational criteria for a company to comply with in order to maintain its status as a High and New technology enterprise. Since the promulgation of the new Measures for Recognition of High and New Technology Enterprise effective as of January 1, 2008, Shanghai New Take, Ninetowns Ports, Beijing New Take, Ninetowns Times, Ninetowns Digital and Ninetowns Network have been temporarily subject to a 25.0% EIT.

**Table of Contents**

Baichuan, Ronghe Tongshang, Ninetowns Software and Dongguan Software are currently subject to a 25.0% EIT. PRC business tax. Our PRC operating subsidiaries are also subject to PRC business tax. We primarily pay business tax on our net revenues generated from software development services and customer maintenance services. Our PRC operating subsidiaries and VIEs generally pay a 5.0% business tax on our net revenues derived from software development services and customer maintenance services and this business tax is deducted from our total net revenues.

Value-added tax. Our PRC operating subsidiaries are also generally subject to a VAT of 17.0% on sales of enterprise software products. Pursuant to PRC tax regulations, Ninetowns Network and Ninetowns Ports are entitled to a 14.0% VAT rebate on sales of certain registered self-developed software products. Our net revenues from sales of such enterprise software include VAT rebates in the amount of RMB10.5 million, RMB4.3 million and RMB2.9 million (US\$0.4 million) in 2006, 2007 and 2008, respectively.

Upon expiration of these preferential EIT rates and VAT rebates, we will consider available options, if any, in accordance with applicable law, that would enable us to qualify for further tax incentives.

**Critical accounting policies**

The methods, estimates and judgments we use in applying our accounting policies have a significant impact on the results we report in our consolidated financial statements. Some of our accounting policies require us to make difficult and subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain. We have summarized below our accounting policies that we believe are both important to the portrayal of our financial results and involve the need to make estimates about the effect of matters that are inherently uncertain.

***Revenue recognition***

Our revenue is mainly derived from three primary sources: (i) sale of enterprise software and related services; (ii) software development services; and (iii) B2B search services.

Revenue from the sale of enterprise software and maintenance service is recognized when there is evidence of an arrangement, the delivery or service has occurred, the fee is fixed or determinable, and collectability is probable. As we do not have vendor-specific objective evidence to establish the fair values of the undelivered elements, we recognize revenue from sales of enterprise software and maintenance service on a straight-line basis over the service period which is typically 12 months.

For certain customers, we install the software at the customer's place of business and charge the customer a fixed fee based on actual usage of the software. Accordingly, we recognize the related revenue when the customer uses the software. The cost to install the software has historically been insignificant.

Revenues from software development services requiring significant production, modification, or customization of the software are recognized over the installation and customization period based on the percentage of completion method as prescribed by Statement of Position No. 81-1, Accounting for Performance of Construction-Type and Certain Product-Type Contracts. Percentage-of-completion is measured principally by the percentage of actual hours incurred to date for each contract to the estimated total hours to be incurred for each contract at completion.

Certain revenue from software development services also includes hardware procurement by customer's request. Since we do not have vendor-specific objective evidence to allow for separating various components of such software development service contracts, we recognize such revenues when all components under the contracts are delivered and the project is completed upon the receipt of a written acceptance from the customer.

**Table of Contents**

We provided online B2B search services by selling keywords to improve the customers' rankings in search results on our marketplaces. Service fees are paid in advance in respect of such services for a specific contracted service period. All service fees are initially deferred when received and revenue is recognized ratably over the term of the respective service contracts as the services are rendered.

***Trade receivables***

We perform ongoing credit evaluations of our customers and adjust credit limits based on payment history and the customer's current credit-worthiness, as determined by our review of their current credit information. We extended three months of credit to our franchisees pursuant to our franchise agreements. However, it took on average five to six months for our franchisees, who are also our major customers, to settle their debts to us. Therefore, in some fiscal periods, our trade receivables increased, and may increase in the future, to an amount which is approximately equal to our total net revenues for such period. We continuously monitor collections and payments from our customers and maintain allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make the required payments and use the specific identification method to record such allowances. We write off such trade receivables and specific allowances in one year if circumstances are not improved. While such credit losses have historically been within our expectations and the provisions established, we cannot guarantee that we will continue to experience the same credit loss rates that we have had in the past. As of December 31, 2008, all of our billed receivables were from our customers and franchisees. Since our billed receivables are concentrated in a relatively small number of customers, a significant change in the liquidity or financial position of any one of these customers could have a material adverse impact on the collectibility of our billed receivables and our future operating results.

***Goodwill***

Goodwill represents the excess of the purchase price over the fair value of the identifiable assets and liabilities acquired. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired. We completed a two-step goodwill impairment test for 2006, 2007 and 2008. The first step compares the fair values of each reporting unit to its carrying amount, including goodwill. If the fair value of each reporting unit exceeds its carrying amount, goodwill is not impaired and the second step will not be required. If the carrying amount of a reporting unit exceeds its fair value, the second step compares the implied fair value of goodwill to the carrying value of a reporting unit's goodwill. The implied fair value of goodwill is determined in a manner similar to accounting for a business combination with the allocation of the assessed fair value determined in the first step to the assets and liabilities of the reporting unit. The excess of the fair value of the reporting unit over the amounts assigned to the assets and liabilities is the implied fair value of goodwill. An impairment loss is recognized for any excess in the carrying value of goodwill over the implied fair value of goodwill. Based on the management's assessment, there was no impairment of goodwill for the year ended December 31, 2006.

In 2007, based on the impairment assessment performed by management, we recognized a total goodwill impairment charge of RMB193.6 million related to our enterprise software and related customer maintenance services and software development services.

In 2008, based on the impairment assessment performed by management, we recognized goodwill impairment of RMB78.1 million (US\$11.4 million) related to our B2B business.

**Table of Contents**

**Impairment of Long-lived Assets**

We evaluate our long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable. When these events occur, we measure impairment by comparing the carrying amount of the assets to future undiscounted net cash flows expected to result from the use of the assets and their eventual disposition. If the sum of the expected undiscounted cash flow is less than the carrying amount of the assets, we would adjust the carrying value of the asset based on the fair value and recognize an impairment loss. Fair value is estimated using expected discounted future cash flows. Impairment losses recognized in the year ended December 31, 2008 totaled RMB48.1 million (US\$7.0 million) related to our B2B business.

**Useful Life of Intangible Assets**

Intangible assets include customer relationships, buyer database, completed technology, and purchased software for internal use and land use rights. Intangible assets are amortized on a straight-line basis over the expected useful life of five years, except land use rights which have an expected useful life of fifty years.

**Income Taxes**

As part of the process of preparing our consolidated financial statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves us estimating our actual current tax exposure together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within our consolidated balance sheet. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income and, to the extent we believe that recovery is not likely, we must establish a valuation allowance. To the extent we establish a valuation allowance or increase this allowance in a certain period, we must include an expense within the tax provision in the statement of operations.

Significant management judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities and any valuation allowance recorded against our net deferred tax assets. The valuation allowance is based on our estimates of taxable income by jurisdiction in which we operate and the period over which our deferred tax assets will be recoverable. In the event that actual results differ from these estimates or we adjust these estimates in future periods, we may need to establish an additional valuation allowance, which could materially impact our financial position and results of operations.

As a result of the implementation of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* an interpretation of FASB Statement No. 109 ( *FIN 48* ), we recognized an increase in the liability for unrecognized tax benefits of RMB0.6 million, which was accounted for as a reduction to our January 1, 2007 balance of accumulated deficits.

We have adopted the accounting policy that interest recognized in accordance with paragraph 15 of *FIN 48* and penalties recognized in accordance with paragraph 16 of *FIN 48* are classified as part of our income taxes. As a result, a total *FIN48* liability of RMB0.8 million and RMB0.3 million (US\$43,000) was included in income tax expense in the income statement for the years ended December 31, 2007 and 2008, respectively.

**Table of Contents****A. Operating results**

The following table sets forth the results of our operations expressed as a percentage of our total net revenues for the periods indicated. Our historical operating results are not necessarily indicative of the results for any future period.

	<b>Years Ended December 31,</b>		
	<b>2006</b>	<b>2007</b>	<b>2008</b>
Total net revenues:			
Enterprise software and related customer maintenance services	76.2%	74.7%	79.4%
Software development services	23.5%	24.8%	18.2%
Computer hardware sales	0.3%		
B2B search services		0.5%	2.3%
Other			0.1%
Cost of revenues:			
Enterprise software and related customer maintenance services			
Software development services	-11.0%	-17.2%	-11.6%
Computer hardware sales	-0.1%		
B2B search services		-4.9%	-18.4%
Other			-0.1%
Gross profit	88.9%	77.9%	69.9%
Operating expenses:			
Selling and marketing	-8.9%	-39.7%	-28.3%
General and administrative	-44.0%	-83.4%	-89.4%
Research and development	-19.5%	-30.9%	-25.9%
Allowance for doubtful accounts	1.0%	-21.6%	-2.7%
Impairment of property and equipment			-4.1%
Impairment of intangible assets			-40.9%
Impairment of goodwill		-187.1%	-73.0%
Income (loss) from operations	17.6%	-284.0%	-194.3%
Interest income	12.6%	13.4%	6.6%
Gains from sales of short-term investments		42.1%	9.2%
Gains from disposal of investments under cost method			2.0%
Government subsidies	0.5%	1.0%	
Other income			0.3%
Income (loss) before income tax and minority interests	30.6%	-228.4%	-176.1%
Income (expense) tax benefit	-0.7%	-0.2%	12.5%
Income (loss) before minority interests	30.0%	-228.7%	-163.6%
Minority interests		5.9%	5.1%
Net income (loss)	30.0%	-222.8%	-158.5%

**Table of Contents****2008 compared to 2007*****Total net revenues***

We generated total net revenues of RMB107.0 million (US\$15.7 million) in 2008, an increase of 3.4% over our total net revenues of RMB103.5 million in 2007. This revenue increase was principally due to increased sales from the iQM product series and the popularity of Pay-Per Transaction pricing terms that helped us to retain existing client and continues to attract potential new users, but off-set by the significant decline in iDeclare.CIQ software package sales in 2008.

*Enterprise software and related customer maintenance services.* Net revenues from sales of our enterprise software and related customer maintenance services increased by 9.9% to RMB85.0 million (US\$12.5 million) in 2008 from RMB77.3 million in 2007, primarily due to increased sales from the iQM product series and the popularity of Pay-Per Transaction pricing terms, but off-set by the significant decline in iDeclare.CIQ software package sales in 2008. In 2008, we signed customer maintenance service contracts with approximately 40,500 users whose customer maintenance service contracts were due for renewal in 2008. We recognized net revenues of RMB39.9 million (US\$5.8 million) from sales of our enterprise software in 2008. We recognized net revenues of RMB45.1 million (US\$6.6 million) from provision of customer maintenance services in 2008. Of our net revenues from sales of enterprise software and related customer maintenance services, RMB0.5 million and RMB5.5 million (US\$0.8 million) were from sales of the iQM product series and related software maintenance services in 2007 and 2008, respectively, representing a year-on-year increase of 1,000.0%. In addition, RMB21.9 million, RMB21.7 million and RMB27.0 million (US\$4.0 million) were from the Pay-Per Transaction filing fees in 2006, 2007 and 2008, respectively, representing a year-on-year increase of 24.4%. However, we sold, together with our franchisees, approximately 2,900 software packages of iDeclare.CIQ in 2008, which is significantly lower than the approximately 8,400 software packages of iDeclare.CIQ sold by our company and our franchisees in 2007, representing a year-on-year decrease of 65.5%.

*Software development services.* Net revenues from our software development services decreased by 24.1% from RMB25.6 million in 2007 to RMB19.5 million (US\$2.9 million) in 2008. In 2008, we did not recognize any net revenues from the provision of software development services to iTowNet and eGrid, previously two of our largest customers for software development services. iTowNet has developed its own platform for providing software development services and now provides software development services directly to its customers, such as the PRC Inspections Administration, that are similar to the software development services that we provide to our customers. As a result of the significant decline in demand by iTowNet and eGrid for our services, and an increase in competition for software development service contracts from other service providers, we did not enter into as many software development contracts in 2008, as compared to 2007.

*B2B search services.* Net revenues from our B2B search services was RMB0.5 million and RMB2.5 million (US\$0.4 million) in 2007 and 2008, respectively. This business segment did not exist in 2006 and we are in the process of winding down this business.

***Cost of revenues***

*Enterprise software and related customer maintenance services.* The cost of revenues consists mainly of direct costs associated with the delivery of customer maintenance services, including salaries, employee benefits and overhead costs associated with employees providing related services. Since iDeclare is now generally distributed through the Internet, we incurred minimal outsourcing costs to outside contractors and costs associated with packaging and shipping of software. Additionally, the franchisees have been providing a majority of our software maintenance services to customers for us since 2006. Cost of revenues from enterprise software and related customer maintenance services were insignificant in 2006, 2007 and 2008.

*Software development services.* Cost of revenues from software development services decreased to RMB12.4 million (US\$1.8 million) in 2008 from RMB17.7 million in 2007. As of December 31, 2006, 2007 and 2008, we did not have any capitalized costs related to such projects.

*B2B search services.* Cost of revenues from our B2B search was RMB5.1 million and RMB19.7 million (US\$2.9 million) in 2007 and 2008, respectively. The substantial increase from 2007 to 2008 was primarily due to the increase of the expenses associated with the operation of our data centers, including depreciation and labor expenses.

This business segment did not exist in 2006 and we are in the process of winding down this business.



**Table of Contents**

***Gross profit margin***

*Enterprise software and related customer maintenance services.* Gross profit margin for sales of enterprise software and related customer maintenance services was close to 100% in 2006, 2007 and 2008, mainly because iDeclare has been generally distributed through the Internet since 2006 and we incurred minimal outsourcing costs to outside contractors and costs associated with packaging and shipping of software. Additionally, the franchisees have been providing a majority of our software maintenance services to customers for us since 2006 and we incurred minimal direct costs associated with the delivery of customer maintenance services.

*Software development services.* Gross profit margin for software development services increased to 36.2% in 2008 compared to 30.8% in 2007, for the reasons stated above.

*B2B search services.* Since we only introduced our B2B service products in trial versions, we incurred a gross loss for B2B search services in 2007 and 2008. This business segment did not exist in 2006. We are in the process of winding down this business.

***Operating expenses***

Operating expenses decreased significantly to RMB282.7 million (US\$41.4 million) in 2008 from RMB375.4 million in 2007, primarily due to a smaller impairment loss and a lower provision for doubtful accounts recognized in 2008.

***Selling expenses***

Selling expenses decreased significantly to RMB30.3 million (US\$4.4 million) in 2008 from RMB41.1 million in 2007, primarily due to the reduced advertising and marketing activities associated with the B2B business and a reduction in the number of sales and marketing employees in our B2B business.

***General and administrative expenses***

General and administrative expenses increased by 11.0% to RMB95.6 million (US\$14.0 million) in 2008 from RMB86.3 million in 2007, primarily due to increases in (i) compensation costs incurred from staff reduction, (ii) depreciation and amortization charges on fixed assets and intangible assets, and (iii) share-based compensation charges.

***Research and development expenses***

Research and development expenses decreased by 13.0% to RMB27.7 million (US\$4.1 million) in 2008 from RMB32.0 million in 2007, primarily due to a reduction in the number of research and development employees and rental and utility expenses, which was a result of our relocation to our newly acquired building.

***Provision for doubtful accounts***

Provision for doubtful accounts decreased significantly to RMB2.9 million (US\$0.4 million) in 2008 from RMB22.4 million in 2007. In 2007, we made a provision based on the uncertainty of collection of amounts due under certain software development contracts we entered into with the PRC Inspections Administration, which relate to the free software. We believe that the PRC Inspections Administration has since decreased its efforts to promote its free software.

***Impairment of long-lived assets***

In March 2009, we announced our decision to wind down our B2B business. In conjunction with the winding down of our B2B business, we revised the estimate of future cash flows used in evaluating the fair value of long-lived assets using the discounted cash flow method. As a result, the fair value of our long-lived assets was significantly reduced and we recognized an impairment loss of RMB48.1 million (US\$7.0 million) in 2008 against our long-lived assets related to our B2B business. We did not recognize any impairment for our long-lived assets in 2007.

**Table of Contents***Impairment of goodwill*

The subsequent winding down of our B2B business in March 2009 also affected the estimate of future cash flows in our annual goodwill impairment test. As a result, the fair value of goodwill was reduced significantly and we recognized a goodwill impairment of RMB78.1 million (US\$11.4 million) for our B2B reporting unit in 2008, representing a significantly lower impairment compared to the goodwill impairment of RMB193.6 million for our B2G reporting unit in 2007.

*Government subsidies*

We did not receive any government subsidy in 2008 compared to the RMB1.0 million subsidy that we received in 2007.

*Interest income*

Interest income decreased to RMB7.0 million (US\$1.0 million) in 2008 from RMB13.9 million in 2007, primarily due to a decrease in the amount of our term deposits.

*Gain from disposal of short-term investments*

Gain from disposal of short-term investments decreased significantly to RMB9.9 million (US\$1.4 million) in 2008 from RMB43.5 million in 2007 because we reduced our short-term investing activities due to the increased volatility in the PRC securities market.

*Gain from disposal of investment under cost method*

In 2008, we entered into a share repurchase agreement with Global Market, under which Global Market repurchased 309,468 Series A preferred shares from us for a cash consideration of RMB7.7 million (US\$1.1 million). We recognized a gain of RMB 2.2 million (US\$0.3 million) upon the disposal of such Series A preferred shares.

*Income taxes*

Income tax benefit in 2008 was RMB13.4 million (US\$2.0 million), compared to income tax expense of RMB0.2 million in 2007. In 2008, we wrote off certain deferred tax liabilities in connection with the impairment of long-lived assets.

*Net loss*

We incurred a net loss of RMB169.6 million (US\$24.9 million) in 2008 compared to a net loss of RMB230.5 million in 2007, as a result of the cumulative effect of the factors described above.

**2007 compared to 2006***Total net revenues*

We generated total net revenues of RMB103.5 million (US\$14.2 million) in 2007, a decrease of 32.5% over our total net revenues of RMB153.2 million in 2006. This revenue decrease was principally the result of the PRC Inspections Administration's free distribution of products that are similar to our iDeclare product series.

*Enterprise software and related customer maintenance services.* Net revenues from sales of our enterprise software and related customer maintenance services decreased by 33.8% to RMB77.3 million in 2007 from RMB116.8 million in 2006, primarily due to the continued effects of the PRC Inspections Administration's free distribution of products that are similar to our iDeclare product series. The availability of a free software product that has similar functions as iDeclare has caused our sales of our iDeclare product series to decline significantly. In 2007, Ninetowns Enke, which is one of our franchisees, experienced a significant decline in its sales of our iDeclare products, which resulted in our lower net revenues from sales of iDeclare products. In 2007, we signed customer maintenance service contracts with approximately 37,700 users whose customer maintenance service contracts were due for renewal in 2007. We recognized net revenues of RMB26.4 million (US\$3.6 million) from provision of customer maintenance services in 2007. Of our net revenues from sales of enterprise software and related customer maintenance services, RMB21.9 million and RMB21.7 million were from per transaction filing fees in 2006 and 2007, respectively, representing a year-on-year decrease of 0.9%. As of December 31, 2007, we believe there were approximately 138,000 licensees of our enterprise software registered to effect electronic import/export processing over the data exchange platforms of iTowNet, an increase of 6.2% from approximately 130,000 of such licensees as of December 31, 2006.



**Table of Contents**

*Software development services.* Net revenues from our software development services decreased by 28.8% from RMB36.0 million in 2006 to RMB25.6 million in 2007. In 2007, we did not recognize any net revenues from the provision of software development services to iTowNet and eGrid, previously two of our largest customers for software development services. As a result of the significant decline in the need of iTowNet and eGrid for our services, and an increase in competition for software development service contracts from other service providers, we did not enter into as many software development contracts as compared to 2006.

*Computer hardware sales.* As we are gradually exiting from the computer hardware business, we did not generate any revenue from this line of business in 2007.

*B2B search services.* Net revenues from our B2B search services was RMB0.5 million in 2007. This business segment did not exist in 2006.

***Cost of revenues***

*Enterprise software and related customer maintenance services.* Since iDeclare is now generally distributed through the Internet, we incurred minimal outsourcing costs to outside contractors and costs associated with packaging and shipping of software. The cost of revenues consists mainly of direct costs associated with the delivery of customer maintenance services, including salaries, employee benefits and overhead costs associated with employees providing related services.

*Software development services.* Cost of revenues from software development services increased slightly to RMB17.7 million in 2007 from RMB16.8 million in 2006. As of December 31, 2006 and 2007, we did not have any capitalized costs related to such projects.

*Computer hardware sales.* Cost of revenues from computer hardware sales was insignificant in 2006 and nil in 2007.

*B2B search services.* Cost of revenues from our B2B search was RMB5.1 million in 2007. This business segment did not exist in 2006.

***Gross profit margin***

*Enterprise software and related customer maintenance services.* Gross profit margin for sales of enterprise software and related customer maintenance services was 100% in both 2007 and 2006, primarily because iDeclare is now generally distributed through the Internet and we incurred minimal outsourcing costs to outside contractors and costs associated with packaging and shipping of software.

*Software development services.* Gross profit margin for software development services decreased to 30.8% in 2007 compared to 53.3% in 2006, for the reasons stated above.

*Computer hardware sales.* Gross profit margin for computer hardware sales decreased to nil in 2007 from 66.3% in 2006, primarily because we are gradually exiting from the computer hardware business.

*B2B search services.* Since we only introduced our B2B service products in trial versions, we incurred a gross loss for B2B search services in 2007. This business segment did not exist in 2006.

***Operating expenses***

Operating expenses increased significantly to RMB375.4 million in 2007 from RMB109.4 million in 2006, primarily as a result of our efforts to develop our B2B business, increase in staff and increased research and development expenses.

**Table of Contents**

*Selling expenses*

Selling expenses increased significantly to RMB41.1 million in 2007 from RMB13.6 million in 2006, primarily due to increased sales and marketing staff and promotional activities to develop our B2B business.

*General and administrative expenses*

General and administrative expenses increased by 28.0% to RMB86.3 million in 2007 from RMB67.4 million in 2006, primarily due to increases in (i) professional fees incurred in relation to our acquisition and investment activities and compliance requirements applicable to us as a public company in the United States, (ii) depreciation and amortization charges on fixed assets and intangible assets, (iii) general personnel expenses, office expenses, communication expenses, traveling expenses and insurance expenses, in each case associated with the development of our B2B business.

*Research and development expenses*

Research and development expenses increased by 7.4% to RMB32.0 million in 2007 from RMB29.8 million in 2006, primarily due to an increase in staff costs related to the research and development of our new products primarily related to our B2B business.

*Provision for doubtful accounts*

Provision for doubtful accounts increased significantly to RMB22.4 million in 2007 from RMB1.5 million in 2006. We made a provision based on the uncertainty of collection of amounts due under certain software development contracts we entered into with the PRC Inspections Administration which relate to the free software that we believe that the PRC Inspections Administration has since decreased its efforts to promote.

*Provision for impairment of goodwill*

We recognized goodwill impairment loss of RMB193.6 million for our B2G reporting unit in 2007, which represented a 100% increase from nil in 2006, because of the uncertainty surrounding the PRC Inspections Administration's future promotional plans for its free software which we believe would negatively impact our financial outlook from maintenance servicing of the free software.

*Government subsidies*

We received government subsidies of RMB1.0 million in 2007, which represented an increase of 44.0% from RMB 705,000 in 2006, primarily attributable to the receipt of government subsidies for research and development of an electronic platform from the Committee of Zhongguancun Science Park.

*Interest income*

Interest income decreased to RMB13.9 million in 2007 from RMB19.3 million in 2006, primarily due to a decrease in the amount of our term deposits.

*Gain on disposal of securities*

Gains on disposal of securities increased significantly to RMB43.5 million in 2007 from nil in 2006 because we invested in marketable securities in 2007 and disposed them after a short period of time.

**Table of Contents**

***Income taxes***

Income taxes decreased by 76.4% to RMB0.2 million in 2007 from RMB 1.0 million in 2006, as a result of the adoption of FASB Interpretation No.48, Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No.109.

***Net loss***

We incurred a net loss of RMB230.5 million in 2007 compared to net income of RMB45.9 million in 2006, as a result of the cumulative effect of the factors described above.

***Inflation***

Inflation and deflation in China did not have a material impact on our results of operations in the past three years. According to the National Bureau of Statistics of China, China's overall national inflation rate, as represented by the change in the Consumer Price Index in China, was 1.5%, 4.8% and 5.9% in 2006, 2007 and 2008, respectively.

***Foreign currency risk***

Substantially all of our revenues and expenses are denominated in Renminbi, but a certain amount of our cash is kept in U.S. dollars and Hong Kong dollars in reputable financial institutions in Hong Kong and the United States. Although we believe that in general, our exposure to foreign exchange risks should be limited, our cash flows and revenues will be affected by the foreign exchange rate between U.S. dollars and Renminbi. For example, 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. In addition, our cash flows and revenues may also be affected by the foreign exchange rate between Renminbi and Hong Kong dollars or U.S. dollars and Hong Kong dollars, as we have certain operating expenses related to our representative office in Hong Kong that are denominated in Hong Kong dollars.

We have experienced minimal foreign exchange gains and losses to date. We do not engage in any hedging activities, and we may in the future experience economic loss as a result of any foreign currency exchange rate fluctuations.

***Financial Reporting***

We do not expect to release quarterly earnings information on a quarterly basis in the future. The Securities and Exchange Commission's rules and regulations do not require us, as a foreign private issuer, to report quarterly earnings information on a quarterly basis. Additionally, the Nasdaq Marketplace Rules also do not require companies with securities listed on its exchange to report quarterly earnings information on a quarterly basis. The Nasdaq Marketplace Rules require us, as a foreign private issuer, to file an interim balance sheet and income statement as of and for the end of our second quarter no later than six months following the end of our second quarter. We expect to comply with such requirement.

**Table of Contents****B. Liquidity and capital resources**

Our primary sources of liquidity have been net cash provided by operating activities. We had no outstanding debt as of December 31, 2008. The following table sets forth the summary of our cash flows for the periods indicated:

	For the years ended December 31,			
	2005 RMB	2006 RMB	2007 RMB	2008 RMB
	(in millions)			
Net cash provided by/(used in) operating activities	146.4	40.8	(2.9)	(24.0)
Net cash (used in)/provided by investing activities	(110.9)	(176.5)	57.2	(47.2)
Net cash provided by financing activities	2.0	6.3	1.3	
Effect of exchange rate changes	(3.0)	(3.5)	(4.3)	(2.0)
Net increase / (decrease) in cash and cash equivalents	34.5	(132.8)	51.2	(73.2)
Cash and cash equivalents, beginning of year	697.0	731.5	598.6	649.9
Cash and cash equivalents, end of year	731.5	598.6	649.9	576.6

Substantially all of our operations are in China. The ability of our PRC operating subsidiaries to convert Renminbi into U.S. dollars and transfer such U.S. dollars to us is subject to PRC foreign exchange regulations, including the restriction that foreign invested enterprises may only buy, sell and/or remit foreign currencies at banks in the PRC authorized to conduct foreign exchange business after providing valid commercial documents.

**Cash flow from operating activities**

We used cash in operating activities of RMB24.0 million (US\$3.5 million) in 2008. This was primarily attributable to our increased costs in pursuing our B2B strategy in 2008. We used cash in operating activities of RMB2.9 million in 2007. This was primarily attributable to the development of our B2B business taking into account of our cash receipts from sales of enterprise software and related customer maintenance services and software development services. We provided cash from operating activities of RMB40.8 million in 2006. This was primarily attributable to our cash receipts from sales of enterprise software and related customer maintenance services and software development services.

**Cash flow from investing activities**

Cash used in investing activities was RMB47.2 million (US\$6.9 million) in 2008. This was primarily attributable to purchase of property and equipment and purchase of land use rights from Yizhuang Substation of the PRC Country Resources Bureau for RMB30.2 million (US\$4.4 million). The land use rights have a contractual useful life of fifty years.

Cash provided by investing activities was RMB57.2 million in 2007. This was primarily attributable to the re-classification of certain term deposits into cash and cash equivalents, but taking into account cash used in our acquisition of Baichuan, purchase of property and equipment for developing our B2B business and investment in marketable securities.

Cash used in investing activities was RMB176.5 million in 2006. This was primarily attributable to purchase of property and equipment for starting up our B2B business and our investment in Global Market, our purchase of intangible assets and increase of term deposits.

**Table of Contents**

***Cash flow from financing activities***

We did not generate cash from financing activities in 2008. Financing activities generated cash of RMB6.3 million and RMB1.3 million in 2006 and 2007, respectively. This was comprised primarily of employees' exercise of their stock options.

***Capital resources***

Our primary source of liquidity is cash flow from operating activities. Our cash and cash equivalents primarily consist of cash on hand and bank deposits. As of December 31, 2008, we had RMB576.6 million (US\$84.5 million) in cash and cash equivalents. In addition, as of December 31, 2008, we had invested RMB28.0 million (US\$4.1 million) in term deposits, which are payable at varying maturities from six months to one year.

We believe that our available cash and cash equivalents will be sufficient to meet our capital needs for at least the next 12 months. Except for our net cash provided by operating activities, we currently have no plans to seek additional sources of liquidity in the near future. However, we cannot assure you that our business or operations will not change in a manner that would consume our available capital resources more rapidly than anticipated, especially as we continue to evaluate other investment and acquisition opportunities. As of December 31, 2008, we had no lines of credit or other credit facilities.

***Capital expenditures***

For details of our capital expenditures, see Item 4 of this annual report, "Information on the Company - History and development of the company."

***C. Research and development, patents and licenses, etc.***

Our research and development department works continuously to develop new software products as well as new software functions with additional import/export related applications to complement our existing enterprise software, thereby enhancing value for our users. Our research and development department is divided into the following three sub-departments:

*Business development department* - our business development department is responsible for business strategies and research to identify users' needs in order to formulate new product designs.

*Systems development department* - our systems development department is responsible for product development in accordance with the designs proposed by the business development department, as well as software testing and quality control.

*Project management department* - our project management department is responsible for the allocation of staff and resources, employee training, product analysis and the registration of new software products with the relevant PRC government authorities.



**Table of Contents**

In the past, we have developed products and services both independently and through cooperation with a variety of database providers, enterprise resource planners, decision support statistical consultants, software integration providers and others. Although we intend to continue to work closely with outside third parties in product development efforts, we expect the core technology and know-how for future enhancements to our existing and new products will be developed internally and may be supplemented by technology licensed from third parties. See Item 3 of this annual report, Key Information Risk factors Risks related to our business We may not be able to adequately protect our intellectual property rights and others may claim that we have infringed on their intellectual property rights, which could cause us to be less competitive, may expose us to litigation and may negatively impact our business, results of operations and financial condition. We have not granted any ownership interest in any of our products to any party that has worked with us in our product development efforts. In the past, we shared ownership in a foreign trade business system software with Jingjiang A-Bin Software Workshop, or A-Bin, and a declaration software system that is not a part of our iDeclare.CIQ product series, with eGrid. We are not selling either software and, to our knowledge, neither A-Bin nor eGrid is currently selling such software.

As of December 31, 2008, we had 302 employees dedicated to research and development, 48 of whom have master's degrees and one of whom has a Ph.D. degree. Most of our research and development efforts are located in our principal executive offices in Beijing.

Our expenses for research and development activities totaled RMB29.8 million in 2006, RMB32.0 million in 2007 and RMB27.7 million (US\$4.1 million) in 2008.

We believe that timely development of new and enhanced products and services is necessary for us to remain competitive in the marketplace. Accordingly, we intend to continue recruiting and hiring research and development personnel and to make other investments in research and development. In 2007, we established a research and development center in the southern region of China. And, we are in the process of establishing an additional research and development center in the eastern region of China.

Of our 302 employees dedicated to research and development, 48 employees concentrate their efforts to research and development of our B2B business and 254 employees on development of our new B2C business.

***D. Trend information***

Other than as disclosed elsewhere in this annual report, we are not aware of any trends, uncertainties, demands, commitments or events for the period from January 1, 2008 to December 31, 2008 that are reasonably likely to have a material effect on our net revenues, income, profitability, liquidity or capital resources, or that caused the disclosed financial information to be not necessarily indicative of future operating results or financial conditions.

***E. Off-balance sheet arrangements***

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

***F. Tabular disclosure of contractual obligations***

We have entered into leasing arrangements relating to our office premises and technical support centers. Our contractual obligations regarding these lease arrangements generally consist of rental payments and other charges that are due and payable on a monthly basis during the term of the relevant lease. In general, our lessors have the right to terminate the lease agreements and repossess the leased premises if we fail to make the prescribed payments for two consecutive months, or the expiration of a reasonable period after service of notice for non-payment of rent by the lessors. The following sets forth our commitments under these leases as of December 31, 2008:

	<b>(in thousands)</b>	
Less than one year	RMB	1,560
1-3 years		100
3-5 years		
More than 5 years		
Total	RMB	1,660



**Table of Contents**

As of December 31, 2008, we had unrecognized tax benefits pursuant to FIN48 amounting to RMB0.3 million (US\$43,288). Since there is a high degree of uncertainty regarding the timing of future cash outflows, we are unable to make reasonable estimates regarding the timing of settlement with the respective tax authority.

**G. Safe harbor**

In December 2007, the FASB issued FASB Statement No. 141 (Revised 2007), Business Combinations ( SFAS 141R ). SFAS 141R provides additional guidance on improving the relevance, representational faithfulness, and comparability of the financial information that a reporting entity provides in its financial reports about a business combination and its effects. This Statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Management is in the process of assessing the potential impact the adoption of SFAS 141R may have on the Company's consolidated financial position and results of operations.

In December 2007, the FASB issued FASB Statement No. 160, Non-controlling Interests in Consolidated Financial Statements – an amendment of ARB No. 51 ( SFAS 160 ). SFAS 160 amends ARB No. 51 to establish accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. This Statement is effective for fiscal years and interim periods within those fiscal years, beginning on or after December 15, 2008. Management is in the process of assessing the potential impact the adoption of SFAS 160 may have on the consolidated financial position and results of operations.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities ( SFAS 161 ) to improve the relevance, comparability, and transparency of financial information provided to investors by requiring disclosure of the fair values of derivative instruments and their gains and losses in a tabular format, cross-referencing within footnotes to enable financial statement users to locate important information, and the disclosure of derivative features that are credit risk-related. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. Management believes there will be no material impact on the consolidated financial position or results of operations upon adoption of this standard.

In April 2008, the FASB issued FSP FAS 142-3, Determination of the Useful Life of Intangible Assets. This FSP amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS 142, Goodwill and Other Intangible Assets. This FSP is effective for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Early adoption is prohibited. The guidance for determining the useful life of a recognized intangible asset in this FSP shall be applied prospectively to intangible assets acquired after the effective date. Management has not yet begun the process of assessing the potential impact the adoption of FSP FAS 142-3 may have on the consolidated financial position or results of operations.

In June 2008, the FASB issued Emerging Issues Task Force No. 07-5 Determining Whether an Instrument (or Embedded Feature) is Indexed to an Entity's Own Stock ( EITF 07-5 ). SFAS 133, Accounting for Derivative Instruments and Hedging Activities, ( SFAS 133 ) specifies that a contract (that would otherwise meet the definition of a derivative under SFAS 133) issued or held by the reporting entity that is both indexed to its own stock and classified in stockholders' equity in its statement of financial position should not be considered a derivative financial instrument for purposes of applying SFAS 133. EITF 07-5 provides guidance for determining whether an equity-linked financial instrument (or an embedded feature) is indexed to an entity's own stock, using a two-step approach. First, the instrument's contingent exercise provisions, if any, must be evaluated, followed by an evaluation of the instrument's settlement provisions. The guidance in EITF 07-5 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Management believes there will be no material impact on the consolidated financial position or results of operations.

**Table of Contents**

In December 2008, the FASB issued FSP FAS 132(R)-1: Employers' Disclosures about Postretirement Benefit Plan Assets. This FSP amends SFAS 132 (revised 2003), Employers' Disclosures about Pensions and Other Postretirement Benefits, to provide guidance on an employer's disclosures about plan assets of a defined benefit pension or other postretirement plan. The disclosures about plan assets required by this FSP shall be provided for fiscal years ending after December 15, 2009. Upon initial application, the provisions of this FSP are not required for earlier periods that are presented for comparative purposes. Earlier application of the provisions of this FSP is permitted. Management has not yet begun the process of assessing the potential impact the adoption of FAS 132(R)-1 may have on the consolidated financial position or results of operations.

**Item 6. Directors, Senior Management and Employees.****A. Directors and senior management**

The following table sets forth the name, age and position of our directors and executive officers as of the date of this annual report:

<b>Name</b>	<b>Age</b>	<b>Position</b>
Shuang Wang	46	Director and Chief Executive Officer
Kin Fai Ng	64	Director, Senior Vice President and Company Secretary
Dachun Zhang	64	Director
Fushan Chen	70	Director
Mark Ming Hsun Lee	37	Director
Martin Cheung	40	Director
Xiaoguang Ren	45	President
Tommy Siu Lun Fork	47	Chief Financial Officer
Min Dong	45	Senior Vice President, Legal Affairs, Administration and Human Resources
Bolin Wu	43	General Manager, Research and Development and Chief Technology Officer

**Shuang Wang** founded our predecessor, Ninetowns Technology, in 1995 and is now a director and our Chief Executive Officer. From 1992 to 1994, Mr. Wang was the founder and Chief Executive Officer of Ninetowns Technology Co., Ltd., a company engaged in sales of computer hardware in China. From 1989 to 1992, Mr. Wang was the executive deputy general manager of Shenzhen Zhongnong Enterprise Corporation, a company engaged in the import and export of agricultural products. In March 2002, Mr. Wang was awarded the Traverse Cup Prize by Software World Magazine and Microelectronic Industry Development and Research jointly with a number of industry magazines in China for Mr. Wang's outstanding performance in and significant contributions to the information technology industry. In March 2003, Mr. Wang was also recognized as one of the 2002 top ten leaders of the PRC software industry in China by Software World Magazine jointly with China Central TV for his significant contributions to the software industry. Mr. Wang is also the Chairman of the Board of Beijing New Take, Ninetowns Digital and Beijing Ninetowns Times; the vice-chairman and a non-executive director of iTowNet; and a director of Jitter Bug, Ixworth, New Take, Shielder, Ninetowns Ports and Global Market. Mr. Wang holds a bachelor's degree in science from Beijing Institute of Technology, a master's degree in optics engineering from Beijing Institute of Technology and an engineering qualification certificate from the Ministry of Agriculture of the PRC.

**Table of Contents**

**Kin Fai Ng** has served as a director since October 2003, a senior vice president of our company since 2000 and our company secretary since June 2006. He has also been a director of New Take, Jitter Bug, Ixworth and Beijing New Take since 2000. From 1996 to 1999, Mr. Ng was an executive officer at Baolong Real Estate Development Co., Ltd., a company engaged in property development in China.

**Dachun Zhang** has served as a director since October 2003. From 2002 to 2003, Mr. Zhang served as an executive director of Yew Sang Hong Holdings Limited, an electrical engineering contractor. Mr. Zhang was the vice president of COSCO Group Limited, a shipping company, the executive deputy chairman and president of COSCO (Hong Kong) Group Limited, chairman of COSCO (Hong Kong) Shipping Company Limited from 1996 to 1999. Mr. Zhang served as an executive director and the president of China Merchants Group Limited, a conglomerate based in China that is engaged in the transportation and harbor operation businesses, from 1998 to 1999 and the chairman of the board of directors of China Merchants Holdings International Company Limited from 1998 to 2000. From 1999 to 2001, Mr. Zhang served as the chairman of the board of directors of China Chengxin Securities Rating Co., Ltd., a company engaged in the credit rating business in China. Mr. Zhang holds a bachelor's degree in language and literature from Poznan University in Poland, a master's degree in shipping from the University of Wales in the United Kingdom and the qualification certificate of a senior economist in shipping management conferred by the Ministry of Communications of the PRC.

**Fushan Chen** has served as a director since October 2003. Mr. Chen, who is presently retired, served as the general manager and the director of the Hong Kong Branch of the China Classification Society, a shipping industry trade organization, from 1995 to 2001. Mr. Chen also served as the deputy director of the Ship Inspection Bureau of the PRC and the vice-chairman of the China Classification Society and the China Classification Association, respectively, from 1989 to 1995. Mr. Chen holds a bachelor's degree in ship casting from Nanjing Shipping Institute.

**Mark Ming Hsun Lee** has served as a director since October 2004. Since June 2006, Mr. Lee was the founder, the chief executive officer, president and a director of DeviceVM Inc., a company engaged in the software business. Mr. Lee was the founder, chief executive officer, president and a director of OSA Technologies, Inc., a company engaged in the software business, and served in such positions from April 2000 to April 2004. From April 2004 to June 2006, Mr. Lee served as the senior vice president of Avocent Corp., a provider of computer keyboard, video and mouse switching and network connectivity solutions, since it acquired OSA Technologies, Inc. in April 2004. From the summer of 1991 to April 2000, Mr. Lee served in various positions, including enterprise platform marketing manager, senior information technology architect and engineer, design engineer for Intel Corporation. Mr. Lee holds a bachelor's degree in electrical engineering and a master's degree in electrical engineering and computer science from Massachusetts Institute of Technology. Mr. Lee also holds a master's degree in business administration from Arizona State University.

**Martin Cheung** has served as a director since June 2008. Mr. Cheung currently works as the Corporate Development Director of Profound Heavy Industrial Holding Limited. He also currently serves as an independent non-executive director of Benefun International Holding Limited and Hong Long Holdings Limited, both of which are companies with securities listed on the Hong Kong Stock Exchange. Mr. Cheung is a member of the American Institute of Certified Public Accountants and is a Certified Public Accountant of Australia. From 2005 to 2008, Mr. Cheung was the Corporate Finance Director at Grant Thornton Corporate Finance Limited. From 2002 to 2005, Mr. Cheung was an Executive Vice President at Japan Asia Securities. From 1994 to 2002, Mr. Cheung was a Vice President of Daiwa Securities. From 1991 to 1994, Mr. Cheung was a senior auditor at Deloitte Touche Tohmatsu. Mr. Cheung obtained a bachelor's degree in Social Sciences from the University of Hong Kong in 1991, a master's degree in Accounting from Curtin University of Technology, in Perth, Australia in 1997 and a master's of Science degree in Finance (Investment Management) from the Hong Kong University of Science and Technology in 2001.

**Table of Contents**

**Xiaoguang Ren** has served as our President since January 2004. From 1995 to December 2003, Mr. Ren served in various positions with our company, including vice president and senior vice president for sales and marketing. Mr. Ren has also been a director of Ixworth and Jitter Bug since February 2000. From 1988 to 1995, Mr. Ren served as the general manager of Beijing University Fangyuen Life Science Co., Ltd. and Tsingtao Minyi High Technology Co., Ltd, both companies engaged in the software development business. Mr. Ren is also a director of iTowNet, New Take, Beijing New Take, Ninetowns Times and Ninetowns Ports, a director and general manager of Ninetowns Digital and the sole supervisor of Shanghai New Take. Mr. Ren holds a bachelor's degree in mathematics from Heilongjiang University and a master's degree in computer science from the Computing Technologies Research Institute of the Chinese Academy of Sciences.

**Tommy Siu Lun Fork** has served as our Chief Financial Officer since September 2002. He also currently serves as the Company Secretary of China Renji Medical Group Ltd., a company with securities listed on the Hong Kong Stock Exchange. Prior to joining our company, Mr. Fork was the Qualified Accountant and Company Secretary of Zheda Lande Scitech Limited, a provider of telecommunications services, from 2001 to 2002. From 1997 to 2001, Mr. Fork was a senior manager of assurance and advisory services of Deloitte Touche Tohmatsu. Mr. Fork holds a bachelor's degree in Science from The University of Hong Kong and is a Certified Public Accountant in Hong Kong.

**Min Dong** formed our predecessor, Ninetowns Technology, in 1995 and is now our Senior Vice President of Legal Affairs, Administration and Human Resources. Prior to co-founding Ninetowns Technology in 1995, Ms. Dong served as a lecturer at Central Finance and Economic University in China. Ms. Dong has been a director of Jitter Bug and Ixworth since February 2000. Ms. Dong is also a director of New Take, Shielder, Beijing New Take, Ninetowns Digital, Ninetowns Ports and Tsingdao Fujin, and a director and the general manager of Ninetowns Times. Ms. Dong is the spouse of Mr. Wang. Ms. Dong holds a bachelor's degree and a master's degree in law from China Politics and Law University. Ms. Dong expects to receive an executive master of business administration degree from Peking University in July 2009.

**Bolin Wu** has served as our General Manager, Research and Development and Chief Technology Officer since 1997. Prior to joining our company in 1997, Mr. Wu was in charge of the software engineering department of Tsingtao Minyi High Technology Co., Ltd., a company engaged in the software development business, from 1995 to 1997 and served as an assistant professor at Shandong Textile Polytechnic Institute and the Automation Faculty of Qingdao University from 1992 to 1995. Mr. Wu currently serves as the sole member of the supervisory board of iTowNet. Mr. Wu holds a bachelor's degree in application electronics from Hangzhou University of Commerce and a master's degree in automation and computer science from Shanghai Jiaotong University.

Effective September 12, 2008, Xiaomin Sun resigned as our director.

The business address of each of our directors and executive officers is our principal executive office at 22/F, Building No. 1, Capital A Partners, No. 20 Gongti East Road, Chaoyang District Beijing 100020, The People's Republic of China.

***B. Compensation***

As of December 31, 2008, we do not have any outstanding loans or credit to any of our directors or executive officers, and we have not provided guarantees for borrowings by any of these persons. For 2008, the aggregate amount of compensation paid by us to all of our directors and executive officers was approximately RMB6.0 million (US\$0.9 million).

**Table of Contents**

Our full-time employees in China also participate in a government-mandated multi-employer defined contribution plan pursuant to which pension benefits, medical care, unemployment insurance and other welfare benefits are provided to those employees. The total provision for such employee benefits, corresponding to the full amount of our obligation in connection therewith, was RMB7.5 million, RMB8.2 million and RMB8.2 million (US\$1.2 million) for 2006, 2007 and 2008, respectively.

**2003 Plan**

Our board of directors adopted the 2003 Plan in November 2003. We have granted share options relating to 2,574,400 ordinary shares under the 2003 Plan, which is the maximum number of share options allowed to be outstanding under the 2003 Plan. A general description of the terms of the 2003 Plan is set forth below.

*Plan administration.* Our board of directors currently administers the 2003 Plan.

*Eligibility.* Under the 2003 Plan, share options may be issued to employees and directors of our company or our subsidiaries.

*Acceleration of vesting upon general offers or winding up.* The 2003 Plan provides for acceleration of vesting upon the occurrence of a general offer or winding up transaction.

In the event a general offer is made to all of our shareholders, including a takeover offer, repurchase offer or any similar arrangement, the grantee's share options will become fully vested and exercisable for 14 days after the date on which such offer becomes or is declared unconditional.

In the event an application is made to a court in connection with a proposed compromise or arrangement between us and our creditors or between us and our shareholders, the grantee's share options will become fully vested and exercisable for 21 days after the date of such application.

In the event a notice is given by us to our shareholders to convene a general meeting to approve the voluntary winding-up of our company when we are solvent, the grantee's share options will become fully vested and exercisable at any time not later than two business days prior to the proposed general meeting.

*Share options.* Share options under the 2003 Plan are evidenced by an option certificate which contains, among other things, provisions concerning the exercise price and vesting schedule of the share options. The exercise price of all of the options granted under our 2003 Plan is HK\$25 per ordinary share, which we believe was the fair market value of our ordinary shares on the grant date of such options. One-fourth of the share options granted under the 2003 Plan become exercisable on each of May 18, 2004, November 18, 2004, November 18, 2005 and November 18, 2006.

Generally, share options under the 2003 Plan are terminated if the grantee's employment is terminated by us, or terminated within 12 months from the date of the grantee's retirement, disability, change in our corporate structure, expiry of employment contract or termination of employment at the discretion of the board.

*Termination of 2003 Plan.* Under the 2003 Plan, our board of directors may at any time terminate the 2003 Plan, except that the provisions of the 2003 Plan will remain in respect of share options granted prior to such termination. On August 13, 2004, Mr. Wang and Ms. Dong entered into a deed of undertaking with AIG Asian Opportunity Fund, L.P., or AOF, and American International Assurance Company (Bermuda) Limited, or AIA, agreeing to (i) procure Value Chain to distribute all of the cash consideration received from the reorganization transaction to Mr. Wang and Ms. Dong, (ii) exercise all of their vested share options under our 2003 Plan for 122,752 ordinary shares and apply the cash from the reorganization transaction to the exercise of such options, (iii) exercise the remaining share options under our 2003 Plan for 368,260 ordinary shares as soon as such options become vested and exercisable and (iv) refrain from transferring, assigning or creating any encumbrance over their share options under our 2003 Plan.

**Table of Contents**

The following table summarizes, as of May 31, 2009, the outstanding options granted under our 2003 Plan to our directors and executive officers.

	<b>Ordinary Shares Underlying Options Granted</b>	<b>Exercise Price (HK\$/Share)</b>	<b>Date of Grant</b>	<b>Date of Expiration</b>
Xiaoguang Ren	184,552	25	November 18, 2003	November 17, 2013
Bolin Wu	150,617	25	November 18, 2003	November 17, 2013
Tommy Siu Lun Fork	222,924	25	November 18, 2003	November 17, 2013
Shuang Wang	174,914	25	November 18, 2003	November 17, 2013
Min Dong	70,592	25	November 18, 2003	November 17, 2013
Kin Fai Ng	27,564	25	November 18, 2003	November 17, 2013

**Amended and Restated 2004 Plan**

Our board of directors adopted the Amended and Restated 2004 Plan on October 21, 2005 and our shareholders approved the Amended and Restated 2004 Plan on December 2, 2005. The Amended and Restated 2004 Plan contains certain amendments to the 2004 Plan, including an increase in the aggregate number of ordinary shares that may be issued under the Amended and Restated 2004 Plan from 1.8 million ordinary shares to 4.3 million ordinary shares, an addition of an ever-green provision and the ability to grant share appreciation rights, restricted share awards and performance awards.

The Amended and Restated 2004 Plan provides for the grant of incentive share options, within the meaning of Section 422 of the Internal Revenue Code, to our employees and employees of our affiliates and subsidiaries.

Our board of directors or a committee appointed by our board of directors administers our Amended and Restated 2004 Plan. The administrator has the power to determine the terms of the share options, including the exercise price, the number of shares subject to each such award and the circumstances for vesting.

The administrator determines the exercise price of options granted under our Amended and Restated 2004 Plan, but with respect to incentive share options, the exercise price must at least be equal to 100.0% of the fair market value of our ordinary shares on the date of grant. The term of an incentive share option may not exceed ten years from the grant date, except that with respect to any participant who owns 10.0% or more of the voting power of all classes of our outstanding stock, the term must not exceed five years from the grant date and the exercise price must equal at least 110.0% of the fair market value on the grant date. The administrator has the authority, in its sole discretion, to waive any restrictions or limitations under the Amended and Restated 2004 Plan.



**Table of Contents**

After termination of an employee, director or consultant, he or she may exercise his or her option for the period of time stated in the option agreement. Generally, (i) if termination is due to death or disability, the option will remain exercisable for one year following such termination; (ii) if termination is due to retirement, the option will remain exercisable for six months following such termination; and (iii) if termination is for cause, the option will be forfeited immediately. In all other cases, the option will generally remain exercisable for 30 days following such termination. However, an option generally may not be exercised after the expiration of its term.

Our Amended and Restated 2004 Plan generally does not allow for the transfer of options and only the recipient of an option may exercise an award during his or her lifetime.

Our Amended and Restated 2004 Plan generally provides that in the event of a change of control involving our Company, the administrator may arrange for the successor corporation to assume or substitute an equivalent award for each outstanding option. The administrator may in the alternative pay cash or other consideration in exchange for cancellation of the outstanding options.

Our Amended and Restated 2004 Plan will automatically terminate in 2015, unless we terminate it sooner. In addition, our board of directors has the authority to amend, alter, suspend, discontinue or terminate the Amended and Restated 2004 Plan provided such action does not impair the rights of any participant.

The following table summarizes, as of May 31, 2009, the outstanding options granted under our Amended and Restated 2004 Plan to our directors and executive officers.

	<b>Ordinary Shares Underlying Options Granted</b>	<b>Exercise Price (US\$/Share)</b>	<b>Date of Grant</b>	<b>Date of Expiration</b>
Xiaoguang Ren	19,286	8.6	February 23, 2005	February 22, 2015
	22,368	3.03	February 5, 2008	February 4, 2018
Bolin Wu	35,357	8.6	February 23, 2005	February 22, 2015
	39,930	3.03	February 5, 2008	February 4, 2018
Tommy Siu Lun Fork	17,679	8.6	February 23, 2005	February 22, 2015
Shuang Wang	20,893	8.6	February 23, 2005	February 22, 2015
Min Dong	17,679	8.6	February 23, 2005	February 22, 2015
Dachun Zhang	8,036	8.6	February 23, 2005	February 22, 2015
	3,000	3.03	February 5, 2008	February 4, 2018
Fushan Chen	8,036	8.6	February 23, 2005	February 22, 2015
	3,000	3.03	February 5, 2008	February 4, 2018
Mark Ming Hsun Lee	17,679	8.6	February 23, 2005	February 22, 2015
	4,500	3.03	February 5, 2008	February 4, 2018
Kin Fai Ng	12,000	3.03	February 5, 2008	February 4, 2018

**Table of Contents**

The following table summarizes, as of May 31, 2009, the outstanding restricted shares granted under our Amended and Restated 2004 Plan to our directors and executive officers.

	<b>Restricted Shares Granted</b>	<b>Date of Grant</b>	<b>End of Vesting Period</b>
Xiaoguang Ren	66,716	February 5, 2008	February 5, 2012
Bolin Wu	41,982	February 5, 2008	February 5, 2012
Tommy Siu Lun Fork	20,000	February 5, 2008	February 5, 2012
Shuang Wang	30,000	February 5, 2008	February 5, 2012
Min Dong	20,000	February 5, 2008	February 5, 2012

**2006 Share Incentive Plan**

Our board of directors adopted the 2006 Share Incentive Plan, or 2006 Plan, on October 21, 2005 and our shareholders approved the 2006 Plan on December 2, 2005. The 2006 Plan includes the ability to grant stock options, share appreciation rights, restricted and unrestricted shares and performance awards, or collectively, the Awards.

The 2006 Plan provides for the grant of incentive share options, within the meaning of Section 422 of the Internal Revenue Code, to our employees and employees of our affiliates and subsidiaries.

Our board of directors or a committee appointed by our board of directors administers our 2006 Plan. The administrator has the power to determine the terms of the share options, including the exercise price, the number of shares subject to each such award and the circumstances for vesting.

The administrator determines the exercise price of options granted under our 2006 Plan, but with respect to incentive share options, the exercise price must be at least equal to 100.0% of the fair market value of our ordinary shares on the date of grant. The term of an incentive share option may not exceed ten year from the grant date, except that no participant may receive Awards during the life of the 2006 Plan that relate to more than 30.0% of the maximum number of shares that may be issued pursuant to Awards.

After termination of an employee, director or consultant, he or she may exercise his option for the period of time stated in the option agreement. Generally, (i) if termination is due to death or disability, the option will remain exercisable for one year following such termination; (ii) if termination is due to retirement, the option will remain exercisable for six months following such termination; and (iii) if termination is for cause, the option will be forfeited immediately. In all other cases, the option will generally remain exercisable for 30 days following such termination. However, an option generally may not be exercised after the expiration of its term.

Our 2006 Plan generally does not allow for the transfer of options and only the recipient of an option may exercise an award during his or her lifetime.

Our 2006 Plan generally provides that in the event of a change in control involving our company, the administrator may arrange for the successor corporation to assume or substitute and equivalent award for each outstanding option. The administrator may in the alternative pay cash or other consideration in exchange for cancellation of the outstanding options.

Our 2006 Plan will automatically terminate in 2015, unless we terminate it sooner. In addition, our board of directors has the authority to amend, alter, suspend, discontinue or terminate the 2006 Plan, provided such action does not impair the rights of any participant.

We have not yet granted any Awards under our 2006 Plan.

**Table of Contents**

***C. Board practices***

Our board of directors consists of six members, including four independent directors. Our amended and restated memorandum and articles of association, as currently in effect, provide for a board of directors comprised of not less than two directors. Each of our directors holds office until a successor has been duly elected and appointed.

We have not entered into any service agreement that provides for benefits upon termination of service with any of our directors or executive officers.

***Duties of directors***

Our board of directors has the ultimate responsibility for the administration of our affairs. Under Cayman Islands law, our directors have a duty of loyalty and must act honestly, in good faith and with a view to our best interests. Our directors also have a duty to exercise the care, diligence and skills that a reasonably prudent person would exercise in comparable circumstances. In fulfilling their duties to us, our directors must ensure compliance with our amended and restated memorandum and articles of association. A shareholder may in certain circumstances have the right to seek damages if a duty owed by our directors is breached.

**Board committees**

Our board of directors has established an audit committee, a compensation committee, a nominating committee and an investment committee.

*Audit committee.* Our audit committee currently consists of Dachun Zhang, Mark Lee and Martin Cheung. Our board of directors has determined that all of our audit committee members are independent directors within the meaning of Nasdaq Marketplace Rule 4200(a)(15) and meet the criteria for independence set forth in Rule 10A-3(b)(1) of the U.S. Securities Exchange Act of 1934, as amended, or the Exchange Act, and that Mr. Cheung has the necessary financial sophistication under Nasdaq Marketplace Rule 4350(d)(2)(A). Our audit committee is responsible for, among other things:

- the integrity of our financial statements;
- the qualifications, independence and performance of our independent registered public accounting firm;
- the performance, budget and staffing of our internal audit functions;
- the review and approval of all related party transactions;
- our compliance with legal and regulatory requirements;
- the development and implementation of corporate governance principles, policies, codes of conduct and ethics relating to the operation of our board of directors and its committees as well as our company as a whole;
- appointing, setting the compensation for, retaining, overseeing and terminating our independent registered public accounting firm;

**Table of Contents**

reviewing and approving the scope and staffing of the independent registered public accounting firm's annual audit plan;  
establishing policies for the hiring of current and former employees of the independent registered public accounting firm;  
evaluating the performance of the officers responsible for internal audit functions and making recommendations regarding the responsibilities, retention and termination of such officers;  
reviewing and approving the critical accounting policies and practices and related-party transactions and off-balance sheet transactions of our company;  
reviewing our internal controls and disclosure controls and procedures in conjunction with our chief executive officer and chief financial officer;  
appointing a compliance officer with respect to our corporate governance guidelines and codes of conduct and ethics;  
meeting annually with management to discuss compliance with our corporate governance guidelines;  
coordinating the training of directors; and  
reporting regularly to the board of directors.

*Compensation committee.* Our current compensation committee consists of Dachun Zhang, Fushan Chen and Mark Lee. Our board of directors has determined that all of our compensation committee members are independent directors within the meaning of Nasdaq Marketplace Rule 4200(a)(15). Our compensation committee is responsible for, among other things:

review and approval of the compensation of our executive officers;  
recommendations with respect to our incentive compensation plans and equity-based plans;  
approval of awards or material amendment of any employee benefit plan or share option plan;  
oversight of regulatory compliance with respect to compensation matters; and  
review and approval of any severance or similar termination payments in excess of US\$100,000.

*Nominating committee.* Our current nominating committee consists of Dachun Zhang, Fushan Chen and Mark Lee. Our board of directors has determined that all of our nominating committee members are independent directors within the meaning of Nasdaq Marketplace Rule 4200(a)(15). Our nominating committee is responsible for, among other things:

nomination of director candidates to serve on our board of directors and recommendation of appointees to the committees of the board of directors;  
recommendations to our board of directors regarding the termination of the directorship of directors;  
annual evaluation of our board of directors and each of its committees and members;  
recommendations to our board of directors concerning the appropriate size and needs of our board of directors;  
and  
annual review of the compensation of members of the board of directors.

**Table of Contents**

*Investment committee.* Our current investment committee is responsible for managing our securities trading account which was established in December 2008. Our investment committee consists of Shuang Wang, Xiaoguang Ren, Kin Fai Ng and Tommy Siu Lun Fork. Our investment committee is responsible for, among other things:

- directing and managing investments in the listed securities of public companies in the United States, Europe and Asia; and
- reporting performance and results of investments to the board of directors.

**Corporate governance**

Our board of directors has adopted a code of ethics for our chief executive officer and senior financial officers and a code of business conduct and ethics, which is applicable to all of our directors, officers and employees. Our code of ethics and code of business conduct and ethics are publicly available on our website. In addition, our board of directors has adopted a set of corporate governance guidelines. The guidelines reflect certain guiding principles with respect to the structure, procedures and committees of our board of directors. The guidelines are not intended to change or interpret any law, or our amended and restated memorandum and articles of association.

***D. Employees***

As of December 31, 2008, we had 419 full-time employees. Of our employees, 10 were in management, 25 were in finance, 33 were in administration and human resources, 302 were in research and development and 49 were in sales and marketing.

Our employees located in China other than Hong Kong are covered by the retirement schemes defined by PRC local practice and regulations, which are essentially defined contribution schemes. Certain of our employees who are located in Hong Kong have joined the Mandatory Provident Fund Scheme which is also a defined contribution scheme. The amounts we paid to these defined contribution schemes were RMB4.6 million, RMB5.0 million and RMB4.9 million (US\$0.7 million) for 2006, 2007 and 2008, respectively. In addition, we are required by law to contribute approximately 10.0% in Beijing, 12.0% in Shanghai and 8.0% in Guangzhou of the average salaries of all employees for mandatory medical benefits and approximately 1% in Beijing and 2.0% in both Shanghai and Guangzhou of the salaries of some employees for unemployment benefits. The PRC government is directly responsible for the payments of the benefits to these employees. The amounts contributed amounted to RMB2.9 million, RMB3.2 million and RMB3.3 million (US\$0.5 million) for 2006, 2007 and 2008, respectively.

Our future success will depend, in part, on our ability to continue to attract, retain and motivate highly qualified technical and management personnel, for whom competition is intense. Our employees are not covered by any collective bargaining agreement and we have never experienced a work stoppage. We believe we enjoy good relations with our employees.

**Table of Contents****E. Share ownership**

The following table sets forth information known to us with respect to the beneficial ownership of our ordinary shares as of May 31, 2009, taking into account the number of ordinary shares underlying our outstanding options, by each person who is known to us to be the beneficial owner of more than 5.0% of our ordinary shares; each of our directors; each of our named executive officers; and all of our executive officers and directors as a group.

Name	Ordinary Shares Beneficially Owned	
	Number <sup>(1)</sup>	Percent <sup>(2)</sup>
<b>Directors and executive officers<sup>(3)</sup></b>		
Shuang Wang <sup>(4)</sup>	6,375,697	17.67%
Min Dong <sup>(5)</sup>	6,375,697	17.67%
Xiaoguang Ren <sup>(6)</sup>	666,109	1.85%
Kin Fai Ng <sup>(7)</sup>	664,975	1.86%
Bolin Wu <sup>(8)</sup>	536,453	1.49%
Tommy Siu Lun Fork <sup>(9)</sup>	575,603	1.60%
Mark Ming Hsun Lee <sup>(10)</sup>	18,804	*%
Dachun Zhang <sup>(11)</sup>	8,786	*%
Fushan Chen <sup>(12)</sup>	8,786	*%
All directors and executive officers as a group (9 persons)	8,855,213	24.07%
<b>5% and above shareholders</b>		
Yong Ping Duan <sup>(13)</sup>	7,072,327	19.76%
Technology Pioneer Corp. <sup>(14)</sup>	3,070,028	8.58%
Value Chain International Limited <sup>(15)</sup>	2,002,312	5.59%

\* Less than 1%

(1) Beneficial ownership is determined in accordance with the rules of the SEC, and includes those securities for which voting or investment power with respect to the securities is held.

(2) The number of ordinary shares outstanding used in

calculating the percentage for each listed person includes the ordinary shares underlying options held by such persons and exercisable within 60 days of the date of this annual report.

Percentage of beneficial ownership is based on 35,791,834 ordinary shares outstanding as of May 31, 2009. In 2008, 800,000 of the Company's ordinary shares were converted into American Depositary Shares to facilitate our employees cashless exercise of vested stock options. Stock options for 6,186 ordinary shares were exercised in 2008.

- (3) The address of our current directors and executive officers is c/o Ninetowns Internet Technology Group Company

Limited, 22/F,  
Building No. 1,  
Capital A  
Partners, No. 20  
Gongti East  
Road, Chaoyang  
District Beijing  
100020, PRC.

- (4) Includes
- (i) 4,013,715 ordinary shares held by Mr. Wang,
  - (ii) 2,002,312 ordinary shares held by Mr. Wang through his ownership of Value Chain,
  - (iii) 195,807 ordinary shares underlying share options held by Mr. Wang which are currently exercisable or exercisable within 60 days of the date of this annual report,
  - (iv) 75,592 ordinary shares held by Ms. Dong, and
  - (v) 88,271 ordinary shares underlying share options held by Ms. Dong which are currently exercisable or exercisable within 60 days of the date of this annual report.



- (5) Includes
- (i) 75,592 ordinary shares held by Ms. Dong,
  - (ii) 88,271 ordinary shares underlying share options held by Ms. Dong which are currently exercisable or exercisable within 60 days of the date of this annual report,
  - (iii) 2,002,312 ordinary shares held by Ms. Dong through her ownership of Value Chain,
  - (iv) 4,013,715 ordinary shares held by Mr. Wang and
  - (v) 195,807 ordinary shares underlying share options held by Mr. Wang which are currently exercisable or exercisable within 60 days of the date of this annual report.

**Table of Contents**

(6) Includes  
456,679  
ordinary shares  
held by Mr. Ren  
and 209,430  
ordinary shares  
underlying share  
options held by  
Mr. Ren which  
are currently  
exercisable or  
exercisable  
within 60 days  
of the date of  
this annual  
report.

(7) Includes  
634,411  
ordinary shares  
beneficially held  
by Mr. Ng  
through his  
ownership of  
Oriental Plan  
Developments  
Limited, or  
Oriental Plan,  
and 30,564  
ordinary shares  
underlying share  
options held by  
Mr. Ng which  
are currently  
exercisable or  
exercisable  
within 60 days  
of the date of  
this annual  
report.

(8) Includes  
340,496  
ordinary shares  
held by Mr. Wu  
and 195,957  
ordinary shares  
underlying share

options held by Mr. Wu which are currently exercisable or exercisable within 60 days of the date of this annual report.

- (9) Includes 335,000 ordinary shares held by Mr. Fork and 240,603 ordinary shares underlying share options held by Mr. Fork which are currently exercisable or exercisable within 60 days of the date of this annual report.

- (10) Represents 18,804 ordinary shares underlying share options held by Mr. Lee which are currently exercisable or exercisable within 60 days of the date of this annual report.

- (11) Represents 8,786 ordinary shares underlying share options held by Mr. Zhang which are currently exercisable or

exercisable  
within 60 days  
of the date of  
this annual  
report.

- (12) Represents  
8,786 ordinary  
shares  
underlying share  
options held by  
Mr. Chen which  
are currently  
exercisable or  
exercisable  
within 60 days  
of the date of  
this annual  
report.

- (13) Includes  
5,072,308  
ordinary shares  
held directly by  
Mr. Duan and  
2,000,019  
ordinary shares  
beneficially held  
by Mr. Duan  
through his  
position as the  
president of  
Enlight  
Foundation, or  
Enlight, a  
non-profit  
family  
foundation  
under the laws  
of California.  
Enlight is a  
California  
corporation that  
is owned by  
Mr. Duan. The  
address of  
Enlight is c/o  
SY. Lee &  
Chen, 362 W.  
Garvey Ave.,  
Monterey Park,

CA 91754.

(14) Technology Pioneer is a British Virgin Islands company that is 100.0% owned by Mr. Lei Ding. The address of Technology Pioneer Corp. is No. 16 Ke Yun Road, Zhong Shan Avenue, Guangzhou, The People's Republic of China, 510655.

(15) Value Chain is a British Virgin Islands company that is 50.0% owned by Mr. Wang, who is our Chief Executive Officer and one of our directors, and 50.0% owned by Ms. Dong, who is one of our executive officers and the spouse of Mr. Wang. The address of Value Chain is P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands.

No shareholder has different voting rights from other shareholders. We are not aware of any arrangement that may, at a subsequent date, result in a change of control of our company.

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

***A. Major shareholders***

For the details of our major shareholders, please refer to Item 6. Directors, Senior Management and Employees Share Ownership.

In April 2006, Mr. Kin Fai Ng transferred 3,831,301 ordinary shares of our company to Mr. Wang.

**Table of Contents*****B. Related party transactions*****Overview**

You should note that, as described more fully below some of our officers, directors and related parties are members of the boards of directors or shareholders of companies with which we have important business relationships.

You should be aware of the relationships and transactions described herein, and that there can be no assurance as to the effect of such relationships and transactions on our company and its business. Our amended and restated articles of association require that all future transactions between our company and our related parties be approved by our audit committee.

**Transactions with Mr. Wang and Ms. Dong**

Mr. Wang is a director of Import & Export, which is 100.0% beneficially owned by Mr. Wang and Ms. Dong. Import & Export in turn owns a 49.0% equity interest in iTowNet, which is 51.0% owned by the PRC Inspections Administration. iTowNet operates the data exchange platforms that interface between international trade enterprises using our enterprise software and the PRC Inspections Administration's internal electronic processing system. iTowNet receives a fee of RMB5 for each submission made over its platforms.

Pursuant to a right of first refusal agreement dated as of November 2, 2004, among Import & Export, Mr. Wang, Ms. Dong and our company, Import & Export has agreed to sell its 49.0% interest in iTowNet to our company if, at any time while we are required to submit reports to the SEC, Import & Export is allowed to sell such interest to us under relevant PRC law and policy. Our right of first refusal is subject to the statutory right of first refusal of the PRC Inspections Administration to purchase such interest. If we exercise our right of first refusal, we have agreed to purchase the 49.0% interest in iTowNet at a purchase price of US\$25.0 million, plus a compounded interest rate of 5.0% per year for each year that Import & Export held the 49.0% interest since August 23, 2001, but deducting any dividend or distribution that Import & Export had previously received or receives in the future from iTowNet. Our audit committee approved the right of first refusal agreement and will need to approve the exercise of the purchase right granted under the Right of First Refusal Agreement. Based on current PRC laws and practice, and the stated policy of the PRC Inspections Administration, we do not believe the exercise of the purchase right is probable.

**Beijing iTowNet Cyber Technology Ltd.**

iTowNet was established on August 23, 2001 and is currently the operator of the PRC Inspections Administration's data exchange platforms. iTowNet, a limited liability company organized under the laws of the PRC, is currently 51.0% owned by the PRC Inspections Administration and 49.0% owned by Import & Export. Import & Export is currently 72.18% owned by Yadi Yangguang and 27.82% owned by Mr. Wang. Yadi Yangguang is 100.0% beneficially owned by Mr. Wang and Ms. Dong. Mr. Wang is a non-executive director and the vice-chairman of the board of directors of iTowNet. As the supervisor of iTowNet, Mr. Wu is responsible for overseeing the financial operations of iTowNet, the actions of its board of directors and senior management and their compliance with relevant laws and iTowNet's charter documents.

We have historically provided, directly and indirectly, software development services to iTowNet to maintain, improve and upgrade the data exchange platforms that we assisted them in building. We charge iTowNet, or their service providers such as eGrid, fees for such services at negotiated rates, which are based on our estimated costs plus certain mark-ups.

iTowNet has developed its own platform for providing software development services and now provides software development services directly to its customers, such as the PRC Inspections Administration, that are similar to the software development services that we provide to our customers. As a result, iTowNet became one of our competitors in our software development services business.

**Table of Contents**

In 2007 and 2008, we did not enter into any software development contracts with iTowNet and we did not derive any revenue from the provision of software development services to iTowNet.

Mr. Wang and Ms. Dong, through Import and Export, have not and do not currently receive any income, fee or economic benefit from iTowNet.

**Shenzhen Ninetowns Enke Software Technology Co., Ltd.  
(formerly Shenzhen Jinwangge Software Co., Ltd.)**

In late 2003, we decided to implement a franchise program to expand our sales distribution network and Jing Shao and Hongmei Tian, one of our former employees, expressed an interest in establishing such a franchisee relationship with us. In order to do so, they needed to establish a technology company in China, which is burdensome, requires substantial paperwork and often involves a long waiting period. Yadi Yangguang, together with the other shareholders of Jinwangge, agreed to sell 100.0% of the equity interest in Jinwangge to Jing Shao and Hongmei Tian in July 2003 for an aggregate consideration of RMB8.0 million. The transfer of such interests was completed in February 2004. As of September 2005, Ninetowns Enke has been 81.25% owned by Jing Shao and 18.75% owned by Su Tianjian, one of our former employees. On August 1, 2008, we entered into a new franchise agreement with Ninetowns Enke for iDeclare.CIQ. This agreement has an 18 month term and does not contain any minimum sales commitment. In addition, Ninetowns Enke agreed to act as our sales agent for our enterprise software after sales maintenance services and a sales discount of 50%.

We recognized net revenues of approximately RMB2.5 million (US\$0.4 million) from sales of our related customer maintenance services to Ninetowns Enke in 2008.

**Guangzhou Ninetowns Wang Li Software Co., Ltd.**

Zhou Peiji, a 22.1% shareholder of Baichuan, which is one of our VIEs, owns 90% of the equity interests of Ninetowns Wang Li.

In December 2006, we revised our franchise agreement with Ninetowns Wang Li for our new software version under the iDeclare.CIQ series. On August 1, 2008, we entered into a new franchise agreement with Ninetowns Wang Li for iDeclare.CIQ. This agreement has an 18 month term and does not contain any minimum sales commitment. In addition, Ninetowns Wang Li agreed to act as our sales agent for our enterprise software after sales maintenance services and a sales discount of 50% of total maintenance revenue.

We recognized net revenues of approximately RMB12.0 million (US\$1.8 million) from sales of our software products and related customer maintenance services to Ninetowns Wang Li in 2008.

**Related party trade receivables**

In connection with the transactions described above, we had net trade receivables from related parties amounting to approximately RMB6.0 million (US\$0.9 million) as of December 31, 2008. These receivables consisted primarily of proceeds from sales of enterprise software and related customer maintenance services.

**Board memberships**

Mr. Wang and Mr. Ren are two of the five directors of iTowNet. iTowNet is 51.0% owned by the PRC Inspections Administration and 49.0% owned by Import & Export. Import & Export is in turn 100.0% beneficially owned by Mr. Wang and Ms. Dong. Mr. Wu is the sole supervisor of iTowNet.

**Stock option grants**

Please refer to Item 6, Directors, Senior Management and Employees Compensation of directors and executive officers.

***C. Interests of experts and counsel***

Not applicable.



**Table of Contents**

**Item 8. Financial Information.**

***A. Consolidated statements and other financial information***

Please see our consolidated financial statements which are filed as part of this annual report.

**Legal proceedings**

We are not currently involved in any material litigation and we are not aware of any pending or threatened litigation or similar proceedings which could reasonably be expected, if such litigation or proceeding is decided adversely to us, to have a material adverse effect on our financial condition or results of operations.

**Dividend policy**

Since our inception, we have not declared or paid a dividend on our ordinary shares. We do not anticipate paying any cash dividend in the foreseeable future. We currently intend to retain future earnings, if any, to finance our operations and the expansion of our business. Payments of dividends by our subsidiaries in China to us are subject to restrictions including the restriction that foreign-invested enterprises may only buy, sell and/or remit foreign currencies at banks authorized to conduct foreign exchange business after providing valid commercial documents. We do not expect any of these restrictions to have a material and adverse effect on our ability to receive payments of dividends from our subsidiaries in China. There are no such similar foreign exchange restrictions in the Hong Kong, the Cayman Islands or the British Virgin Islands.

We rely on dividends and fees paid to us by our subsidiaries in China to fund our operations. In accordance with current PRC laws and regulations, our PRC subsidiaries that were formed as domestic limited liability companies are required to set aside 10.0% of their after-tax profits for a PRC law-mandated reserve fund and 5-10% of their after-tax profits for a PRC law-mandated welfare fund each year. The actual amount set aside for the welfare fund is determined in accordance with PRC accounting standards and regulations. Each of these subsidiaries can stop contributing to its statutory reserve fund when the aggregate reserved amount in the fund is equal to 50.0% or more of the respective subsidiary's registered capital, which is the amount of capital set forth in its organizational documents. In contrast, our PRC subsidiaries that were formed as foreign-invested enterprises are required to set aside a portion of their after-tax profits each year, as determined in accordance with PRC accounting standards and regulations, to their reserve funds, bonus and welfare funds for workers and staff members. Under PRC law, we are also required to set aside at least 10.0% of our after-tax net income each year into our reserve fund until the accumulated legal reserve amounts to 50.0% of registered capital. Each of our subsidiaries are further required to maintain a bonus and welfare fund at percentages determined at their sole discretion. The reserve funds and the bonus and welfare funds described above are not distributable as dividends.

Our board of directors has complete discretion as to whether we will distribute dividends in the future. Even if our board of directors determines to distribute dividends, the form, frequency and amount of our dividends will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors as the board of directors may deem relevant. Any dividend we declare will be paid to the holders of ADSs, subject to the terms of the deposit agreement, to the same extent as holders of our ordinary shares, less the fees and expenses payable under the deposit agreement. Any dividend we declare will be distributed by the depositary to the holders of our ADSs. Cash dividends on our ordinary shares, including those represented by the ADSs, if any, will be paid in U.S. dollars.

***B. Significant changes***

We have not experienced any significant changes since the date of our audited consolidated financial statements included in this annual report.

**Table of Contents****Item 9. The Offering and Listing.****A. Offering and listing details**

On December 3, 2004, we listed our ADSs, each representing one of our ordinary shares, on the Nasdaq Global Market under the symbol NINE.

The following table provides the high and low trading prices for our ADSs on the Nasdaq Global Market for (1) the years of 2004 (from December 3, 2004), 2005, 2006, 2007 and 2008, (2) the four quarters in 2007 and 2008 and (3) each of the months since December 2008.

	<b>Sales Price</b>	
	<b>High</b>	<b>Low</b>
<b>Annual highs and lows</b>		
<b>2004 (from December 3, 2004)</b>	US\$ 14.22	US\$ 9.30
<b>2005</b>	US\$ 11.48	US\$ 4.21
<b>2006</b>	US\$ 6.98	US\$ 4.29
<b>2007</b>	US\$ 7.20	US\$ 2.64
<b>2008</b>	US\$ 3.30	US\$ 0.82
<b>Quarterly highs and lows</b>		
First Quarter 2007	US\$ 5.26	US\$ 3.78
Second Quarter 2007	US\$ 4.56	US\$ 3.70
Third Quarter 2007	US\$ 4.70	US\$ 2.64
Fourth Quarter 2007	US\$ 7.20	US\$ 3.17
First Quarter 2008	US\$ 3.30	US\$ 2.05
Second Quarter 2008	US\$ 2.73	US\$ 2.00
Third Quarter 2008	US\$ 2.46	US\$ 1.37
Fourth Quarter 2008	US\$ 1.81	US\$ 0.82
<b>Monthly highs and lows</b>		
December 2008	US\$ 1.28	US\$ 0.82
January 2009	US\$ 1.25	US\$ 0.86
February 2009	US\$ 1.25	US\$ 1.02
March 2009	US\$ 1.19	US\$ 0.96
April 2009	US\$ 1.24	US\$ 0.95
May 2009	US\$ 1.72	US\$ 1.05
June 2009 (for the period to and including June 12, 2009)	US\$ 1.80	US\$ 1.31

**Table of Contents**

***B. Plan of distribution***

Not applicable.

***C. Markets***

Our ADSs, each representing one of our ordinary shares, have been listed on the Nasdaq Global Market since December 3, 2004 under the symbol NINE.

***D. Selling shareholders***

Not applicable.

***E. Dilution***

Not applicable.

***F. Expenses of the issue***

Not applicable.

**Table of Contents**

**Item 10. Additional Information.**

***A. Share capital***

Not applicable.

***B. Memorandum and articles of association***

We incorporate by reference into this annual report the description of our amended and restated memorandum of association contained in our registration statement on Form F-1(Registration No. 333-120184) under Description of share capital. Our shareholders adopted our amended and restated memorandum and articles of association on September 15, 2006.

***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 or elsewhere in this annual report.

***D. Exchange controls***

The principal regulations governing foreign exchange in China are the Foreign Exchange Control Rules (1996), as amended. On June 20, 1996, the People's Bank of China promulgated the FX Administration Rules, which became effective on July 1, 1996.

Under the FX Administration Rules, Renminbi is generally freely convertible for trade and service-related foreign exchange transactions, but not for foreign direct investment, foreign loans or issuance of securities outside China unless the prior approval of the SAFE is obtained.

Pursuant to the FX Administration Rules, foreign investment enterprises in China generally may purchase foreign exchange without the approval or review of SAFE for trade and service-related foreign exchange transactions by providing commercial documents evidencing these transactions. They may also retain foreign exchange, subject to a cap approved by SAFE, under current account items. However, the relevant PRC government authorities may limit or eliminate the ability of foreign investment enterprises to purchase and retain foreign currencies in the future. Foreign investment enterprises are permitted to distribute their profits or dividends in foreign currencies out of their foreign exchange accounts or exchange Renminbi for foreign currencies through banks authorized to conduct foreign exchange business.

***E. Taxation***

**Cayman Islands taxation**

The following is a discussion of the material Cayman Islands tax consequences relating to an investment in our ADSs. The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciation and there is no taxation in the nature of inheritance tax or estate duty or withholding tax applicable to us or to any holder of ADSs, or ordinary shares.

**Table of Contents**

There are no other taxes likely to be material to us levied by the Government of the Cayman Islands except for stamp duties which may be applicable on instruments executed in, or after execution brought within the jurisdiction of the Cayman Islands. No Cayman Islands stamp duty will be payable by you in respect of transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands. The Cayman Islands are not party to any double taxation treaties. There are no exchange control regulations or currency restrictions in the Cayman Islands.

We have, pursuant to Section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, obtained an undertaking from the Governor-in-Council that:

no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation applies to us or our operations; and  
the aforesaid tax or any tax in the nature of estate duty or inheritance tax are not payable on our ordinary shares, debentures or other obligations.

The undertaking that we have obtained is for a period of 20 years from February 26, 2002.

**United States federal income taxation**

Subject to the discussion in passive foreign investment company status, discussed below, the following is a summary of the material United States federal income tax consequences of the purchase, ownership, and disposition of our ordinary shares or our ADSs. This description does not provide a complete analysis of all potential tax consequences. The information provided below is based on the Internal Revenue Code of 1986, as amended, or the Code, Treasury Regulations, proposed Treasury Regulations, Internal Revenue Service, or the IRS, published rulings and court decisions, all as of the date hereof. These authorities may change, possibly on a retroactive basis, or the IRS might interpret the existing authorities differently. In either case, the tax consequences of purchasing, owning or disposing of our ordinary shares or our ADSs could differ from those described below.

This description is general in nature and does not discuss all aspects of U.S. federal income taxation that may be relevant to a particular investor in light of the investor's particular circumstances, or to certain types of investors subject to special treatment under U.S. federal income tax laws, such as:

banks or financial institutions,  
life insurance companies,  
tax-exempt organizations,  
dealers in securities or foreign currencies,  
traders in securities that elect to apply a mark-to-market method of accounting,  
persons holding our ordinary shares or our ADSs as part of a position in a straddle or as part of a hedging, conversion or integrated transaction for U.S. federal income tax purposes,  
persons subject to the alternative minimum tax provisions of the Code,  
persons that have a functional currency other than the U.S. dollar, and  
persons owning or treated as owning 10.0% or more of any class of our stock.

**Table of Contents**

This description generally applies to purchasers of our ordinary shares or our ADSs as capital assets. This description does not consider the effect of any foreign, state, local or other tax laws that may be applicable to particular investors. Investors considering the purchase of ADSs should consult their own tax advisors regarding the application of the U.S. federal income tax laws to their particular situations and the consequences of U.S. federal estate or gift tax laws, foreign, state, or local laws, and tax treaties.

***U.S. holders***

As used herein, the term **U.S. Holder** means a beneficial owner of our ordinary shares or our ADSs that is:

- a citizen or resident of the United States or someone treated as a U.S. citizen or resident for U.S. federal income tax purposes;
- a corporation or other entity taxable as a corporation for U.S. federal income tax purposes organized in or under the laws of the United States or any political subdivision thereof;
- an estate the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust, if such trust validly elects to be treated as a U.S. person for U.S. federal income tax purposes, or if (a) a court within the United States can exercise primary supervision over its administration and (b) one or more U.S. persons have the authority to control all of the substantial decisions of such trust.

If a partnership, including for this purpose any entity treated as a partnership for U.S. tax purposes, is a beneficial owner of our ordinary shares or our ADSs, the U.S. tax treatment of a partner in the partnership will generally depend on the status of the partner and the activities of the partnership. A holder of our ordinary shares or our ADSs that is a partnership and partners in such partnership should consult their individual tax advisors about the U.S. federal income tax consequences of holding and disposing of our ordinary shares or our ADSs.

For U.S. federal income tax purposes, U.S. Holders of our ADSs will be treated as owners of the underlying shares represented by such ADSs.

If you are not a U.S. Holder, this subsection does not apply to you and you should refer to **Non-U.S. Holders** below.

***Taxation of dividends and other distributions on our ordinary shares or our ADSs***

Subject to the discussion in passive foreign investment company status, discussed below, all distributions to a U.S. Holder with respect to our ordinary shares or our ADSs, other than certain pro rata distributions of our ordinary shares, will be includible in a U.S. Holder's gross income as ordinary dividend income when actually or constructively received, but only to the extent that the distribution is paid out of our current or accumulated earnings and profits. For this purpose, earnings and profits will be computed under U.S. federal income tax principles. To the extent that the amount of the distribution exceeds our current and accumulated earnings and profits, it will be treated first as a tax-free return of your tax basis in the ordinary shares or ADSs, and to the extent the amount of the distribution exceeds the U.S. Holder's tax basis, the excess will be taxed as capital gain.

**Table of Contents**

Dividends paid in Renminbi will be included in your income as a U.S. dollar amount based on the exchange rate in effect on the date that the U.S. Holder receives the dividend, regardless of whether the payment is in fact converted into U.S. dollars. If the U.S. Holder does not receive U.S. dollars on the date the dividend is distributed, the U.S. Holder will be required to include either gain or loss in income when the U.S. Holder later exchanges the Renminbi for U.S. dollars. The gain or loss will be equal to the difference between the U.S. dollar value of the amount that the U.S. Holder includes in income when the dividend is received and the amount that the U.S. Holder receives on the exchange of the Renminbi for U.S. dollars. The gain or loss generally will be ordinary income or loss from United States sources. If we distribute as a dividend non-cash property, the U.S. Holder will generally include in income an amount equal to the U.S. dollar equivalent of the fair market value of the property on the date that it is distributed. Dividends will constitute foreign source income for foreign tax credit limitation purposes. The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. For this purpose, dividends distributed by us with respect to our ordinary shares or our ADSs will generally be passive income. The dividends will not be eligible for the dividends-received deduction allowed to corporations. Certain dividends received by non-corporate holders before January 1, 2009 may be subject to reduced rates of taxation if our ordinary shares or our ADSs are readily tradable on an established securities market in the U.S. such as The Nasdaq Stock Market and certain holding period and other requirements are met. Dividends paid by us will not qualify for reduced rates if we are a passive foreign investment company in the year in which the dividends are paid or in the preceding taxable year. You should consult your tax advisors regarding the application of these rules to your particular circumstances.

***Taxation of disposition of ordinary shares or ADSs***

Subject to the passive foreign investment company rules discussed below, a U.S. Holder will recognize taxable gain or loss on any sale or exchange of our ordinary shares or our ADSs equal to the difference between the amount realized for our ordinary shares or our ADSs and the U.S. Holder's tax basis in our ordinary shares or our ADSs. The gain or loss will be capital gain or loss and will be long term if the U.S. Holder has held our ordinary shares or our ADSs for more than one year. The maximum tax rate on long term capital gain is 15.0% for taxpayers other than corporations, which maximum tax rate will increase under current law to 20.0% for dispositions occurring during taxable years beginning on or after January 1, 2009. The deductibility of capital losses is subject to limitations. Any gain or loss that you recognize will generally be treated as United States source income or loss.

***Passive foreign investment company***

It is likely that we will be classified as a PFIC for 2008. Special U.S. federal income tax rules apply to U.S. holders of shares of a foreign corporation that is classified as a PFIC for U.S. federal income tax purposes. The determination of our PFIC status principally depends upon the composition of our assets, including goodwill, and the amount and nature of our income from time to time. The amount of goodwill will depend in part on the market value of our ADSs or ordinary shares, which may be especially volatile in a technology related enterprise. We have limited control over these variables and accordingly there can be no assurance that we will not be considered a PFIC for any taxable year. To the extent we do have control over these variables, we may take steps to reduce the material and adverse effect PFIC classification may have on our business, financial condition and results of operations.

A company is considered a PFIC for any taxable year if either:

- at least 75.0% of its gross income is passive income, or
- at least 50.0% of the value of its assets, based on an average of the quarterly values of the assets during a taxable year, is attributable to assets that produce or are held for the production of passive income.

**Table of Contents**

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 25.0%, by value, of the stock of such corporation.

We note that if we are considered a PFIC for any taxable year, we will continue to be treated as a PFIC in future years, even if we no longer meet the definitional test of a PFIC. As a result of our substantial cash position and the decline in the value of our stock, we believe that we may have become a PFIC during the 2006 taxable year, under a literal application of the asset test that looks solely to market value. As a result, we believe that we would continue to be treated as a PFIC in all taxable years thereafter, including the 2008 taxable year.

Because it is likely that we will be classified as a PFIC for 2008, a U.S. Holder of our ordinary shares or our ADSs will likely be subject to special tax rules with respect to:

- any excess distribution that the U.S. Holder receives on our ordinary shares or our ADSs and
- any gain the U.S. Holder realizes from a sale or other disposition, including a pledge, of our ordinary shares or our ADSs, unless the U.S. Holder makes a mark-to-market election as discussed below.

Distributions the U.S. Holder receives in a taxable year that are greater than 125.0% of the average annual distributions the U.S. Holder received during the shorter of the three preceding taxable years or the U.S. Holder's holding period for our ordinary shares or our ADSs will be treated as an excess distribution. Under these special tax rules:

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

The tax liability for amounts allocated to years prior to the year of disposition or excess distribution cannot be offset by any net operating losses, and gains (but not losses) realized on the sale of our ordinary shares or our ADSs cannot be treated as capital, even if the U.S. Holder holds our ordinary shares or our ADSs as capital assets.

A U.S. shareholder of a PFIC may avoid taxation under the excess distribution rules discussed above by making a qualified electing fund election to include the U.S. Holder's share of our income on a current basis. However, a U.S. Holder may make a qualified electing fund election only if the PFIC agrees to furnish the shareholder annually with certain tax information, and we do not presently intend to prepare or provide such information.



**Table of Contents**

Alternatively, a U.S. Holder of marketable stock in a PFIC may make a mark-to-market election for stock of a PFIC to elect out of the excess distribution rules discussed above. If a U.S. Holder makes a mark-to-market election for our ordinary shares or our ADSs, the U.S. Holder will include in income each year an amount equal to the excess, if any, of the fair market value of our ordinary shares or our ADSs as of the close of the taxable year over the U.S. Holder's adjusted basis in such ordinary shares or ADSs. A U.S. Holder is allowed a deduction for the excess, if any, of the adjusted basis of our ordinary shares or our ADSs over their fair market value as of the close of the taxable year only to the extent of any net mark-to-market gains on our ordinary shares or our ADSs included in the U.S. Holder's income for prior taxable years. Amounts included in a U.S. Holder's income under a mark-to-market election, as well as gain on the actual sale or other disposition of our ordinary shares or our ADSs, are treated as ordinary income. Ordinary loss treatment also applies to the deductible portion of any mark-to-market loss on our ordinary shares or our ADSs, as well as to any loss realized on the actual sale or disposition of our ordinary shares or our ADSs, to the extent that the amount of such loss does not exceed the net mark-to-market gains previously included for such ordinary shares or ADSs. A U.S. Holder's basis in the ordinary shares or ADSs will be adjusted to reflect any such income or loss amounts. The tax rules that apply to distributions by corporations which are not PFICs would apply to distributions by us.

The mark-to-market election is available only for stock which is regularly traded on a national securities exchange that is registered with the Securities and Exchange Commission or on The Nasdaq Stock Market, or an exchange or market that the U.S. Secretary of the Treasury determines has rules sufficient to ensure that the market price represents a legitimate and sound fair market value. Under the U.S. Treasury regulations, our ADSs or ordinary shares would generally be considered regularly traded if the shares are traded at least 15 days during each calendar quarter of the relevant calendar year in more than de minimis quantities. You should consult your own tax advisors as to whether a mark to market election is available or advisable for your particular circumstances.

A U.S. Holder who holds our ordinary shares or our ADSs in any year in which we are a PFIC would be required to file IRS Form 8621 regarding distributions received on our ordinary shares or our ADSs and any gain realized on the disposition of our ordinary shares or ADSs.

Our determination of whether we are a PFIC is not binding on the Internal Revenue Service. If we are a PFIC in any year in which a U.S. Holder holds our ordinary shares or our ADSs, the U.S. Holder generally will be subject to increased U.S. tax liabilities and reporting requirements on receipt of certain dividends or on a disposition of our ordinary shares or our ADSs in that year and all subsequent years. U.S. Holders should consult their own tax advisors regarding our status as a PFIC, the consequences of an investment in a PFIC, and the consequences of making a shareholder election with respect to PFIC status.

***Non-U.S. holders***

A Non-U.S. Holder generally will not be subject to U.S. federal income tax on dividends paid by us with respect to our ordinary shares or our ADSs unless the income is effectively connected with the Non-U.S. Holder's conduct of a trade or business in the United States.

A Non-U.S. Holder generally will not be subject to U.S. federal income tax on any gain attributable to a sale or other disposition of our ordinary shares or our ADSs unless such gain is effectively connected with the Non-U.S. Holder's conduct of a trade or business in the United States or the Non-U.S. Holder is a natural person who is present in the United States for 183 days or more and certain other conditions exist.

Dividends and gains that are effectively connected with a Non-U.S. Holder's conduct of a trade or business in the United States generally will be subject to tax in the same manner as they would be if the Non-U.S. Holder were a U.S. Holder, except that the passive foreign investment company rules will not apply. Effectively connected dividends and gains received by a corporate Non-U.S. Holder may also be subject to an additional branch profits tax at a 30.0% rate or a lower tax treaty rate.

**Table of Contents**

***Information reporting and backup withholding***

In general, information reporting requirements will apply to dividends in respect of our ordinary shares or our ADSs or the proceeds received on the sale, exchange or redemption of our ordinary shares or our ADSs paid within the United States (and in certain cases, outside the United States) to U.S. Holders other than certain exempt recipients, such as corporations, and backup withholding tax may apply to such amounts if the U.S. Holder fails to provide an accurate taxpayer identification number or to report interest and dividends required to be shown on its U.S. federal income tax returns. The amount of any backup withholding from a payment to a U.S. Holder will be allowed as a credit against the U.S. Holder's U.S. federal income tax liability provided that the appropriate returns are filed.

A Non-U.S. Holder generally may eliminate the requirement for information reporting and backup withholding by providing certification of its foreign status to the payor, under penalties of perjury, on IRS Form W-8BEN.

***Enforceability of civil liabilities***

We are incorporated in the Cayman Islands because of the following advantages found there relating to:

- 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 these securities laws provide 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 substantially all of our assets are located in China. We also conduct part of our operations in Hong Kong. We have appointed CT Corporation System, 111 Eighth Avenue, New York, NY 10011, as our agent upon whom process may be served in any action brought against us under the securities laws of the United States. 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.

**Table of Contents**

Conyers Dill & Pearman, our counsel as to Cayman Islands law and Commerce & Finance Law Offices, our counsel as to PRC law have advised us, respectively, that there is uncertainty as to whether the courts of the Cayman Islands or 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 each respective jurisdiction against us or our directors or officers predicated upon the securities laws of the United States or any state in the United States.

Conyers Dill & Pearman has further advised us that the courts of the Cayman Islands would recognize as a valid judgment, a final and conclusive judgment in personam obtained in the federal or state courts in the United States under which a sum of money is payable (other than a sum of money payable in respect of multiple damages, taxes or other charges of a like nature or in respect of a fine or other penalty) and would give a judgment based thereon provided that (i) such courts had proper jurisdiction over the parties subject to such judgment, (ii) such courts did not contravene the rules of natural justice of the Cayman Islands, (iii) such judgment was not obtained by fraud, (iv) the enforcement of the judgment would not be contrary to the public policy of the Cayman Islands, (v) no new admissible evidence relevant to the action is submitted prior to the rendering of the judgment by the courts of the Cayman Islands, and (vi) there is due compliance with the correct procedures under the laws of the Cayman Islands.

Commerce & Finance Law Offices has advised us further that the recognition and enforcement of foreign judgments are provided for under PRC Civil Procedures Law. PRC courts may recognize and enforce foreign judgments in accordance with the requirements of PRC Civil Procedures Law based either on treaties between China and the country where the judgment is made or on reciprocity between jurisdictions.

***F. Dividends and paying agents***

Not applicable.

***G. Statement by experts***

Not applicable.

***H. Documents on display***

We have previously filed with the Securities and Exchange Commission our registration statement on Form F-1, as amended and prospectus under the Securities Act of 1933, with respect to our ordinary shares.

We are subject to the periodic reporting and other informational requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Under the Exchange Act, we are required to file reports and other information with the Securities and Exchange Commission. Specifically, we are required to file annually a Form 20-F no later than six months after the close of each fiscal year, which close occurs on December 31. 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 Securities and Exchange Commission at Public Reference Room, MS0102, 100 F Street NE, Washington, DC. 20549-2521. and at the regional office of the Securities and Exchange Commission located at 175 W. Jackson Boulevard, Suite 900, Chicago, Illinois 60604. The public may obtain information regarding the Washington, D.C. Public Reference Room by calling the Commission at 1-800-SEC-0330. The SEC also maintains a Web site 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.

**Table of Contents**

Our financial statements have been prepared in accordance with U.S. GAAP.

We will furnish our shareholders with annual reports, which will include a review of operations and annual audited consolidated financial statements prepared in conformity with U.S. GAAP.

***I. Subsidiary information***

For a listing of our subsidiaries, see Item 4 of this annual report, Information on the Company Organizational structure.

**Item 11. Quantitative and Qualitative Disclosures About Market Risk.**

***Interest rate risk***

Our exposure to interest rate risk for changes in interest rates relates primarily to the interest income generated by excess cash deposited in banks. We have not used any derivative financial instruments to hedge interest rate risk. We have not been exposed nor do we anticipate being exposed to material risks due to changes in interest rates. Our future interest income may fluctuate in line with changes in interest rates. However, the risk associated with fluctuating interest rates is principally confined to our cash deposits and, therefore, we believe our exposure to interest rate risk is minimal.

**Item 12. Description of Securities Other than Equity Securities.**

Not applicable.

**Table of Contents**

***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.**

**Use of proceeds**

The following Use of Proceeds information relates to our registration statement on Form F-1 (Registration No. 333 120184), or the Registration Statement, for our initial public offering and sale of 6,400,000 and 3,200,000 American Depositary Shares by our company and the selling shareholders, for an aggregate offering price of US\$70.4 million and US\$35.2 million, respectively. The Registration Statement was declared effective by the Securities and Exchange Commission on December 1, 2004.

As of May 31, 2009, we have used approximately RMB336 million (US\$49.2 million) of the net proceeds from our initial public offering for capital expenditure, comprising approximately RMB65.0 million (US\$9.5 million) for the expansion of existing facilities, approximately RMB78.0 million (US\$11.5 million) for the purchase of real estate for new research and development centers and approximately RMB193.0 million (US\$28.3 million) for strategic investment. None of the net proceeds from our initial public offering included payments to directors or officers of our company, persons owning 10.0% or more of our equity securities or our affiliates.

**Item 15. Controls and Procedures.**

**Disclosure controls and procedures**

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we have performed an evaluation of the effectiveness of our disclosure controls and procedures (as that term is defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of December 31, 2008. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that such disclosure controls and procedures are effective as of December 31, 2008 at the reasonable assurance level to ensure that information required to be disclosed in our periodic reports filed under the Exchange Act is recorded, processed, summarized and reported, within the time period specified by the Securities and Exchange Commission's rules and regulations. Our Chief Executive Officer and Chief Financial Officer also concluded that our disclosure controls and procedures are also effective as of December 31, 2008 to ensure that information required to be discussed in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding any required disclosure.

**Management's Annual Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with U.S. GAAP.

## **Table of Contents**

Internal control over financial reporting includes policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit the preparation of the consolidated financial statements in accordance with U.S. GAAP, and that receipts and expenditures of the company are being made only in accordance with appropriate authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, a system of internal control over financial reporting can provide only reasonable assurance with respect to consolidated financial statement preparation and presentation, and may not prevent or detect mis-statements. 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.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2008 based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, or COSO. As a result of these assessments, our management has concluded that our internal control over financial reporting was effective as of December 31, 2008 based on the criteria established in Internal Control - Integrated Framework issued by COSO.

During 2008, we have implemented certain measures described below to address and remediate our previously identified material weaknesses.

We streamlined the financial reporting procedures, and redesigned detailed checklists, including a conversion checklists, consolidation checklists and disclosure procedure checklists, to facilitate the financial reporting process.

Mr. Martin Ngai Lam Cheung was appointed as an additional independent director and the chairperson of our audit committee effective as of June 27, 2008, which strengthened our accounting and financial reporting resources. He has assisted us with monitoring financial accounting standards to maintain control to appropriately interpret, implement and review the application of existing and new financial accounting standards, reporting requirements and the completeness and accuracy of accounting information.

The audit committee established a working plan to centralize the audit committee's functions and guided the routine work of our internal audit department. Our audit committee and our internal audit department communicated regularly and frequently.

We engaged an outside consulting firm to enhance the internal audit function, which has enabled us to focus more of our resources on implementing our internal audit work.

GHP Horwath, P.C. an independent registered public accounting firm, has audited the consolidated financial statements included in this annual report on Form 20-F and, as part of the audit, has issued a report, included herein on pages F-1 and F-2, on the effectiveness of our internal control over financial reporting.

### **Changes in Internal Control over Financial Reporting**

As disclosed in our annual report on Form 20-F for the year ended December 31, 2007, our management identified several areas of our internal control relating to financial reporting matters that required improvement. The areas identified were:

Inadequate accounting and finance personnel to be commensurate with our financial accounting and reporting requirements.

Inadequate communication between the Audit Committee and the Internal Audit Department which resulted in the ineffectiveness of our monitoring activities and anti-fraud program.

**Table of Contents**

During the year ended December 31, 2008, as described in greater detail above, we enhanced our internal control policies and procedures based on the Internal Control – Integrated Framework issued by COSO. Most of these changes were related to the improvement of our financial reporting and internal control procedures and we have continued to improve and upgrade our internal control over financial reporting based on our needs and changes in the business environment.

As required by Rule 13a-15(d), under the Exchange Act, our management, including our Chief Executive Officer and Chief Financial Officer, has conducted an evaluation of our internal control over financial reporting to determine whether any changes occurred during the period covered since the last report have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Based on this evaluation, except as described above, it has been determined that there has been no change during the period covered by this annual report that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Item 16A. Audit Committee Financial Expert.**

See Item 6 of this annual report, Directors, Senior Management and Employees – Board practices.

**Item 16B. Code of Ethics.**

Our board of directors has adopted a code of ethics for our Chief Executive Officer and senior financial officers and a code of business conduct and ethics, which is applicable to all of our directors, officers and employees. Our code of ethics and code of business conduct and ethics are publicly available on our website at <http://www.ninetowns.com/english>, and such codes are filed as exhibits to this annual report.

**Item 16C. Principal Accountant Fees and Services.**

On November 4, 2008, Deloitte Touche Tohmatsu CPA, Ltd. resigned as our independent registered public accounting firm. On the same date, GHP Horwath, P.C. was appointed by our board of directors as our independent registered public accounting firm for the fiscal year ending December 31, 2008.

The following table sets forth the aggregate fees in connection with certain professional services rendered by Deloitte Touche Tohmatsu CPA, Ltd. and GHP Horwath, P.C., both are independent registered public accounting firms, for the periods indicated. We did not pay any tax related or other fees to our principal accountants during the periods indicated.

	<b>For the year ended December 31</b>		
	<b>2007</b>	<b>2008</b>	<b>2008</b>
Audit fees(1)	RMB6,565,000	RMB3,957,050	US\$ 580,000
Audit related fees(2)	RMB 530,000		
Total	RMB7,095,000	RMB3,957,050	US\$ 580,000

- (1) Audit fees consist of fees billed for the annual audit of our consolidated financial statements. Audit fees also include fees for services that are normally provided by the independent registered public accounting firm in connection

with statutory  
regulatory  
filings or  
engagements.

- (2) Audit related  
fees consists of  
fees billed for  
assurance and  
related services  
that are  
reasonably  
related to the  
performance of  
the audit or  
review of our  
financial  
statements.



**Table of Contents**

**Audit Committee Pre-Approval Policy and Procedures**

Our audit committee will pre-approve all audit and non-audit services provided by our independent registered public accounting firm. These services may include audit services, audit-related services, tax services and other services, as described above. On an annual basis, our audit committee will review and approve the audit services to be rendered by our independent registered public accounting firm prior to the engagement of the service. Audit services not covered by the annual engagement letter, audit-related services and tax services that are estimated to result in an amount of more than US\$10,000 require the express approval of our audit committee prior to engagement. Our audit committee may delegate pre-approval authority to one or more members of our audit committee. The decisions of any audit committee member to whom authority is delegated to pre-approve a service shall be presented to the full audit committee at its next scheduled meeting. Our Chief Financial Officer, Tommy Siu Lun Fork is required to report to our audit committee on a quarterly basis regarding the extent of services actually provided and the fees for the services performed.

**Item 16D. Exemptions from the Listing Standards for Audit Committee.**

None.

**Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers.**

Not applicable.

**Item 16F. Change in Registrant's Certifying Accountant.**

According to the Instructions to Item 16F of Form 20-F, this Item is not applicable to us until our Annual Report on Form 20-F for the year ending December 31, 2009.

**Item 16G. Corporate Governance.**

We are incorporated in the Cayman Islands and our corporate governance practices are governed by applicable Cayman Islands law. In addition, because our ADSs are listed on the Nasdaq Global Market, we are subject to Nasdaq corporate governance requirements. Nasdaq Marketplace Rule 4350(a)(1) permits foreign private issuers like us to follow home country practice with respect to certain corporate governance matters. We are committed to a high standard of corporate governance. As such, we endeavor to comply with most of the Nasdaq corporate governance practices and believe that we are currently in compliance with the NASDAQ corporate governance practices.

**Table of Contents**

NINETOWNS INTERNET TECHNOLOGY GROUP COMPANY LIMITED  
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

<u>Reports of independent registered public accounting firms</u>	F - 2
<u>Consolidated balance sheets as of December 31, 2007 and 2008</u>	F - 4
<u>Consolidated statements of operations for the years ended December 31, 2006, 2007 and 2008</u>	F - 6
<u>Consolidated statements of shareholders' equity and comprehensive income (loss) for the years ended December 31, 2006, 2007 and 2008</u>	F - 8
<u>Consolidated statements of cash flows for the years ended December 31, 2006, 2007 and 2008</u>	F - 9
<u>Notes to consolidated financial statements</u>	F - 11
<u>Schedule I - Condensed financial information of the parent company</u>	F - 41

**Table of Contents**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Board of Directors and Shareholders

Ninetowns Internet Technology Group Company Limited

We have audited the accompanying consolidated balance sheet of Ninetowns Internet Technology Group Company Limited and subsidiaries (the Company) as of December 31, 2008, and the related consolidated statements of operations, shareholders' equity and comprehensive income, and cash flows and financial statement schedule for the year then ended. We also have audited the Company's internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)*. The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the Company's internal control over financial reporting 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 and whether effective internal control over financial reporting was maintained in all material respects. Our audit of the financial statements included 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. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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 or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2008, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. In our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects the information set forth therein. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)*.

/s/ GHP HORWATH, P.C.

Denver, Colorado

June 22, 2009



**Table of Contents**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To: The Board of Directors and Shareholders of  
Ninetowns Internet Technology Group Company Limited

We have audited the accompanying consolidated balance sheet of Ninetowns Internet Technology Group Company Limited, its subsidiaries and variable interest entities (collectively, the Company ) as of December 31, 2007, and the related consolidated statements of operations, shareholders' equity and comprehensive income, and cash flows for each of the two years in the period ended December 31, 2007, and related financial statement schedule included in Schedule I. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2007, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2007, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects, the information set forth therein.

As described in Note 2 to the consolidated financial statements, effective on January 1, 2007, the Company adopted the recognition and measurement methods under Financial Accounting Standards Board Interpretation No. 48,

Accounting for Uncertainty in Income Taxes – An Interpretation of FASB Statement No. 109 .

Deloitte Touche Tohmatsu CPA Ltd.  
Beijing, the People's Republic of China  
July 10, 2008

**Table of Contents**

NINETOWNS INTERNET TECHNOLOGY GROUP COMPANY LIMITED  
 CONSOLIDATED BALANCE SHEETS  
 (In thousands, except share and per share data)

	Years Ended December 31,		
	<b>2007</b>	<b>2008</b>	<b>2008</b>
	<b>RMB</b>	<b>RMB</b>	<b>US\$</b>
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and cash equivalents	649,863	576,642	84,521
Restricted cash	853	670	98
Short-term investments:			
Available-for-sale securities	10,962	10,024	1,469
Term deposits	26,000	28,000	4,104
Trade receivables from customers:			
Billed, less allowance for doubtful accounts of RMB2,412 in 2007 and RMB5,028 in 2008, respectively	30,222	27,166	3,982
Unbilled	874	772	113
Trade receivables from related parties:			
Billed, less allowance for doubtful accounts RMB20,887 and RMB265 in 2007 and 2008, respectively	6,350	6,005	880
Inventories	7,011	1,367	200
Prepaid expenses and other current assets	17,059	6,987	1,024
Deferred tax assets	1,300	132	19
<b>Total current assets</b>	<b>750,494</b>	<b>657,765</b>	<b>96,410</b>
Property and equipment, net	189,777	213,181	31,247
Deposits for acquisition of property and equipment	34,804		
Investment in an affiliate	2,450		
Investments under cost method	40,786	40,293	5,906
Acquired intangible assets, net	73,851	41,269	6,049
Other non-current assets	937	817	120
Goodwill	78,081		
<b>TOTAL ASSETS</b>	<b>1,171,180</b>	<b>953,325</b>	<b>139,732</b>

(continued)

**Table of Contents**

NINETOWNS INTERNET TECHNOLOGY GROUP COMPANY LIMITED  
 CONSOLIDATED BALANCE SHEETS (continued)  
 (In thousands, except share and per share data)

	Years Ended December 31,		
	<b>2007</b>	<b>2008</b>	<b>2008</b>
	<b>RMB</b>	<b>RMB</b>	<b>US\$</b>
<b>LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS EQUITY</b>			
<b>Current liabilities:</b>			
Accounts payable and accrued expenses	19,260	13,516	1,981
Amount due to an affiliate	1,450		
Advance from customers	14,461	8,310	1,218
Deferred revenue	32,472	21,392	3,136
Income taxes payable	6,520	6,190	907
Other taxes payable	1,588	1,635	240
Unrecognized tax benefits	832	295	43
<b>Total current liabilities</b>	<b>76,583</b>	<b>51,338</b>	<b>7,525</b>
<b>Non-current liabilities:</b>			
Deferred tax liabilities	16,210	1,807	265
<b>Total liabilities</b>	<b>92,793</b>	<b>53,145</b>	<b>7,790</b>
Minority interests	5,483		
<b>Commitments</b>			
<b>Shareholders equity:</b>			
Ordinary shares, par value RMB0.027(HK\$0.025) per share: 8,000,000,000 shares authorized; 34,991,834 shares issued and outstanding in 2007 and 34,998,020 shares issued and outstanding in 2008, respectively	926	926	136
Additional paid-in capital	873,568	880,581	129,070
Retained earnings (accumulated deficit)	145,345	(25,172)	(3,690)
Statutory reserve	64,831	65,736	9,635
Accumulated other comprehensive loss	(11,766)	(21,891)	(3,209)
<b>Total shareholders equity</b>	<b>1,072,904</b>	<b>900,180</b>	<b>131,942</b>
<b>TOTAL LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS EQUITY</b>	<b>1,171,180</b>	<b>953,325</b>	<b>139,732</b>

See notes to consolidated financial statements.





**Table of Contents**

NINETOWNS INTERNET TECHNOLOGY GROUP COMPANY LIMITED  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(In thousands, except share and per share data)

	Years Ended December 31,			
	2006	2007	2008	2008
	RMB	RMB	RMB	US\$
Net revenues:				
Enterprise software and related customer maintenance services:				
external customers	92,127	67,822	70,514	10,336
related parties (Note 14)	24,706	9,505	14,451	2,118
Software development services:				
external customers	23,084	25,642	19,458	2,852
related parties (Note 14)	12,933			
Computer hardware sales	398			
Business-to-business search services		489	2,496	366
Other			94	14
<b>Total net revenues</b>	<b>153,248</b>	<b>103,458</b>	<b>107,013</b>	<b>15,686</b>
Cost of revenues:				
Enterprise software and related customer maintenance services				
Software development services (including share-based compensation expense of RMB1,039 in 2006, RMB126 in 2007 and RMB287 in 2008)	(16,805)	(17,748)	(12,423)	(1,821)
Computer hardware sales	(134)			
Business-to-business search services		(5,109)	(19,707)	(2,889)
Other			(76)	(11)
<b>Total cost of revenues</b>	<b>(16,939)</b>	<b>(22,857)</b>	<b>(32,206)</b>	<b>(4,721)</b>
<b>Gross profit</b>	<b>136,309</b>	<b>80,601</b>	<b>74,807</b>	<b>10,965</b>
Operating expenses:				
Selling and marketing (including share-based compensation expense of RMB3,371 in 2006, RMB628 in 2007 and RMB1,633 in 2008)	(13,604)	(41,086)	(30,338)	(4,447)
General and administrative (including share-based compensation expense of RMB4,074 in 2006, RMB1,145 in 2007 and RMB3,789 in 2008)	(67,449)	(86,334)	(95,636)	(14,018)
Research and development (including share-based compensation expense of RMB1,843 in 2006, RMB27 in 2007 and RMB1,162 in 2008)	(29,825)	(32,003)	(27,699)	(4,060)
Recovery of (allowance for) doubtful accounts, net	1,521	(22,395)	(2,881)	(422)
Impairment of property and equipment			(4,339)	(636)

Impairment of acquired intangible assets			(43,747)	(6,412)
Impairment of goodwill		(193,570)	(78,081)	(11,445)
Total operating expenses	(109,357)	(375,388)	(282,721)	(41,440)

(continued)

F - 6

---

**Table of Contents**

NINETOWNS INTERNET TECHNOLOGY GROUP COMPANY LIMITED  
 CONSOLIDATED STATEMENTS OF OPERATIONS (continued)  
 (In thousands, except share and per share data)

	Years Ended December 31,			2008 US\$
	2006 RMB	2007 RMB	2008 RMB	
Government subsidies	705	1,015		
Income (loss) from operations	27,657	(293,772)	(207,914)	(30,475)
Interest income	19,302	13,885	7,026	1,030
Gain from sales of short-term investments		43,546	9,866	1,446
Gain from disposal of investment under cost method			2,187	321
Other income			358	52
Income (loss) before income tax and minority interests	46,959	(236,341)	(188,477)	(27,626)
Income tax (expense) benefit	(1,031)	(243)	13,382	1,961
Income (loss) before minority interests	45,928	(236,584)	(175,095)	(25,665)
Minority interests in loss of variable interest entities		6,053	5,483	804
Net income (loss)	45,928	(230,531)	(169,612)	(24,861)
Net income (loss) per share:				
Basic	1.32	(6.59)	(4.85)	(0.71)
Diluted	1.30	(6.59)	(4.85)	(0.71)
Weighted average shares used in computation:				
Basic	34,773,005	34,966,830	34,997,505	34,997,505
Diluted	35,368,882	34,966,830	34,997,505	34,997,505

See notes to consolidated financial statements.

Table of Contents

NINETOWNS INTERNET TECHNOLOGY GROUP COMPANY LIMITED  
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY  
AND COMPREHENSIVE INCOME (LOSS)  
(In thousands, except share and per share data)

	Ordinary shares		Additional Paid-in Capital RMB	Treasury Shares		Retained Earnings (Accumulated Deficit) RMB	Statutory Reserve RMB	Accumulated Other Comprehensive (Loss) Income RMB	Total RMB	Comprehensive Income RMB
	Shares	Amount RMB		Shares	Amount RMB					
<b>as of December 31, 2006</b>	<b>34,991,834</b>	<b>926</b>	<b>861,315</b>	<b>(315,226)</b>	<b>(8,196)</b>	<b>348,128</b>	<b>47,287</b>	<b>(3,095)</b>	<b>1,246,365</b>	
Conversion of ADRs for the purpose of issuing ordinary shares				267,364	6,928				6,928	
Issuance of shares			10,327						10,327	
Change in currency translation adjustments						45,928			45,928	
								(4,568)	(4,568)	
<b>as of December 31,</b>	<b>34,991,834</b>	<b>926</b>	<b>871,642</b>	<b>(47,862)</b>	<b>(1,268)</b>	<b>394,056</b>	<b>47,287</b>	<b>(7,663)</b>	<b>1,304,980</b>	
Conversion of ADRs for the purpose of issuing ordinary shares				47,862	1,268				1,268	
Change in currency translation adjustments						(17,544)	17,544		(230,531)	(230,531)
								(6,977)	(6,977)	
			1,926						1,926	

ee share								
sation								
ed gain								
e-for-sale							2,874	2,874
s								(2,874)
<b>as of</b>								
<b>er 31,</b>								
	<b>34,991,834</b>	<b>926</b>	<b>873,568</b>		<b>145,345</b>	<b>64,831</b>	<b>(11,766)</b>	<b>1,072,904</b>
of ADR								
or the								
s of								
e share	6,186		142					142
n for								
r reserve					(905)	905		
					(169,612)			(169,612)
currency								
on								
ents							(7,000)	(7,000)
ee share								
sation			6,871					6,871
ed loss								
e-for-sale								
s							(3,125)	(3,125)
								(3,125)
<b>as of</b>								
<b>er 31,</b>								
	<b>34,998,020</b>	<b>926</b>	<b>880,581</b>		<b>(25,172)</b>	<b>65,736</b>	<b>(21,891)</b>	<b>900,180</b>
	US\$ 136	US\$ 129,070			US\$ (3,690)	US\$ 9,635	US\$ (3,209)	US\$ 131,942

**Table of Contents**

NINETOWNS INTERNET TECHNOLOGY GROUP COMPANY LIMITED  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(In thousands, except share and per share data)

	Years Ended December 31,			
	2006	2007	2008	2008
	RMB	RMB	RMB	US\$
Cash flows from operating activities:				
Net income (loss)	45,928	(230,531)	(169,612)	(24,861)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:				
Loss on disposal of property and equipment	511	1,544	2,406	352
Depreciation of property and equipment	6,194	9,867	17,922	2,627
Amortization of other non-current assets			103	15
Amortization of acquired intangible assets	2,943	14,466	18,991	2,784
Gain from sale of trading securities		(43,204)	(9,866)	(1,446)
Gain from sale of available-for-sale securities		(342)		
Gain from disposal of investment under cost method			(2,187)	(321)
Allowance (recovery) for doubtful accounts	(1,521)	22,395	2,881	422
Goodwill impairment		193,570	78,081	11,445
Property and equipment impairment			4,339	636
Intangible assets impairment			43,747	6,412
Proceeds from sales of trading securities		94,834	27,516	4,033
Purchase of trading securities		(51,630)	(17,650)	(2,587)
Minority interests in loss of variable interest entities		(6,053)	(5,483)	(804)
Employee share-based compensation	10,327	1,926	6,871	1,007
Changes in operating assets and liabilities:				
Trade receivables from customers	2,854	(15,312)	277	41
Trade receivables from related parties	27,311	2,577	346	51
Inventories	903	(191)	5,644	827
Prepaid expenses and other current assets	(12,313)	11,986	9,739	1,427
Accounts payable and accrued expenses	164	(17,518)	(6,794)	(996)
Advance from customers	(318)	4,140	(6,150)	(901)
Deferred revenue	(41,503)	6,089	(11,080)	(1,624)
Income taxes payable	947	315	(868)	(127)
Other taxes payable	(524)	(744)	47	7
Deferred taxes, net	(1,071)	(1,125)	(13,235)	(1,940)
Net cash provided by (used in) operating activities	40,832	(2,941)	(24,015)	(3,521)
Cash flows from investing activities:				
(Increase)/ decrease in restricted cash		(853)	183	27
Decrease/ (increase) of term deposits	(100,209)	281,209	(2,000)	(293)
Cash paid for investments under cost method	(38,929)	(4,500)	(7,085)	(1,038)
Cash paid for establishment of an affiliate		(2,450)		
Purchases of available-for-sale securities		(10,076)	(5,061)	(742)
Proceeds from sale of available-for-sale securities		2,330		

Edgar Filing: NINETOWNS INTERNET TECHNOLOGY GROUP CO LTD - Form 20-F

Purchase of property and equipment	(19,774)	(71,782)	(13,397)	(1,964)
Purchase of intangible assets	(17,200)		(30,156)	(4,420)
Deposits paid for acquisition of property and equipment	(371)	(34,804)		
Acquisition of a business, net of cash acquired of RMB 3,119		(101,881)		
Proceeds from disposal of investments under cost method			7,714	1,131
Proceeds from liquidation of an affiliate			2,450	359
Return of deposit for acquisition of property and equipment			120	18
Net cash (used in) provided by investing activities	(176,483)	57,193	(47,232)	(6,922)

(continued)

F - 9

---

**Table of Contents**

NINETOWNS INTERNET TECHNOLOGY GROUP COMPANY LIMITED  
 CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)  
 (In thousands, except share and per share data)

	Years Ended December 31,			
	2006	2007	2008	2008
	RMB	RMB	RMB	US\$
Cash flows from financing activities:				
Exercise of share options	6,928	1,268		
Return of capital to minority shareholder upon dissolution of a subsidiary	(600)			
Net cash provided by financing activities	6,328	1,268		
Effect of exchange rate changes on cash	(3,503)	(4,305)	(1,974)	(289)
Net (decrease) increase in cash and cash equivalents	(132,826)	51,215	(73,221)	(10,732)
Cash and cash equivalents at the beginning of the year	731,474	598,648	649,863	95,253
Cash and cash equivalents at the end of the year	598,648	649,863	576,642	84,521
Supplemental disclosure of non-cash investing activities:				
Account payable for purchase of property and equipment		3,258		
Supplemental cash flow information:				
Cash paid during the year for income taxes	1,156	909	780	114



**Table of Contents**

NINETOWNS INTERNET TECHNOLOGY GROUP COMPANY LIMITED  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 FOR THE YEARS ENDED DECEMBER 31, 2006, 2007 AND 2008

(In thousands, except share and share-related data)

**1. ORGANIZATION AND PRINCIPAL ACTIVITIES**

Ninetowns Internet Technology Group Company Limited ( Ninetowns ) was incorporated in the Cayman Islands as an exempted limited liability company on February 8, 2002 under the Companies Law of the Cayman Islands. At the time of its incorporation, all of the outstanding ordinary shares of Ninetowns were held by Jitter Bug Holdings Limited ( Jitter Bug ). Substantially all of Ninetowns' business is conducted in the People's Republic of China (the PRC ) through its subsidiaries and variable interest entities ( VIEs ). Ninetowns, its subsidiaries, and its VIEs (collectively, the Company ) are principally engaged in (i) the sale of enterprise software and provision of the related after-sales maintenance services, (ii) software development services and (iii) in April 2007, the Company acquired a 70% equity interest in a Business-to-Business ( B2B ) search engine operator and started to be engaged in the provision of B2B search services.

As of December 31, 2008, a summary of the subsidiaries and VIEs of Ninetowns was as follows:

Name of entity	Place of incorporation/ establishment	Effective ownership interest	Principal activities
<b>Subsidiaries:</b> Ixworth Enterprises Limited ( Ixworth )	British Virgin Islands ( BVI )	100%	Investment holding
Asia Pacific Logistics Limited ( Asia Pacific )	BVI	100%	Investment holding
Better Chance International Limited ( Better Chance )	BVI	100%	Investment holding
Beprecise Investments Limited ( Beprecise )	BVI	100%	Investment holding
Ample Spring Holdings Limited ( Ample Spring )	BVI	70%	Investment holding
New Take Limited	Hong Kong	100%	Investment holding
Shielder Limited	Hong Kong	100%	Investment holding
Beijing New Take Electronic Commerce Limited ( Beijing New Take )	PRC	100%	Inactive
Beijing Ninetowns Times Electronic Commerce Limited ( Beijing Ninetowns	PRC	100%	Inactive

Times )

Beijing Ninetowns Digital Technology Limited ( Beijing Ninetowns Digital Technology )	PRC	100%	Sale of enterprise software and provision of the related after-sales services, and provision of software development services
Beijing Ninetowns Ports Software and Technology Co., Ltd ( Beijing Ninetowns Ports )	PRC	100%	Sale of enterprise software and provision of the related after-sales services, and provision of software development services
Beijing Ninetowns Network and Software Co., Limited ( Beijing Ninetowns Network )	PRC	100%	Sale of enterprise software and provision of the related after-sales services, and provision of technique consulting services

F - 11

---

**Table of Contents**

NINETOWNS INTERNET TECHNOLOGY GROUP COMPANY LIMITED  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 FOR THE YEARS ENDED DECEMBER 31, 2006, 2007 AND 2008

(In thousands, except share and share-related data)

## 1. ORGANIZATION AND PRINCIPAL ACTIVITIES continued

Name of entity	Place of incorporation/ establishment	Effective ownership interest	Principal activities
Guangdong Ninetowns Technology Co., Ltd. ( Guangdong Ninetowns )	PRC	100%	Sale of enterprise software and provision of the related after-sales services, and provision of software development services
Shanghai New Take Digital Technology Limited ( Shanghai New Take )	PRC	100%	Sale of enterprise software and provision of the related after-sales services, and provision of software development services
Beijing Ninetowns Software Co., Ltd. ( Beijing Software ) (i)	PRC	100%	Inactive
Dongguan Ninetowns Software Co., Ltd. ( Dongguan Software ) (ii)	PRC	100%	Provision of enterprise software services
<b>Variable interest entities:</b>			
Beijing Ronghe Tongshang Network Technology Limited ( Ronghe Tongshang )	PRC	100%	Provision of online solutions for international trade
Beijing Baichuan Tongda Science and Technology Development Co., Ltd. ( Baichuan Tongda )	PRC	70%	Provision of Internet content services in the areas of B2B
(i) Beijing Software, a wholly-owned subsidiary of the Company, was incorporated with a term of fifteen years			

commencing on  
April 2, 2008,  
renewable at the  
end of the  
operating  
period.

- (ii) Dongguan  
Software, a  
wholly-owned  
subsidiary of the  
Company, was  
incorporated on  
May 23, 2008.

PRC regulations prohibit direct foreign ownership of business entities that provide internet content, or ICP, services in the PRC, such as the business of providing online solutions for international trade. In December 2006, Ronghe Tongshang was established in the PRC by three designated equity owners who are PRC citizens and legally own Ronghe Tongshang. Pursuant to a series of contractual arrangements with Ronghe Tongshang, the Company provides exclusive technical consulting and management services to Ronghe Tongshang. A summary of the major terms of the agreements are as follows:

The Company has the sole discretion to determine the amount of the fees it will receive and it intends to transfer substantially all of the economic benefits of Ronghe Tongshang to the Company;

The Company provides guarantees on the execution of all business contracts entered by Ronghe Tongshang in its business operation. Ronghe Tongshang pledges its assets to the Company as collateral for such guarantee. Through December 31, 2008, Ronghe Tongshang has not yet entered into any business contracts that would require guarantees from the Company;

The Company may dispose of the collateralized registered capital at its sole discretion without limitation or restriction. The Company has the right and sole discretion to purchase all or part of the registered capital from equity owners when such purchase becomes legally allowable;

The equity owners may not dispose of or enter into any other agreements involving the common shares without prior agreement by the Company.

**Table of Contents**

NINETOWNS INTERNET TECHNOLOGY GROUP COMPANY LIMITED  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 FOR THE YEARS ENDED DECEMBER 31, 2006, 2007 AND 2008  
 (In thousands, except share and share-related data)

1. ORGANIZATION AND PRINCIPAL ACTIVITIES continued

In 2008, the Company entered into a series of agreements with Beijing Guochuangwanwei Information Technology Limited Company ( Guochuang ), under which the Company, through Guochuang, increased the registered capital of Ronghe Tongshang through an entrusted loan of RMB60,000 to Guochuang. The three original shareholders of Ronghe Tongshang, also entered into agreements with Guochuang whereby Guochuang became the sole shareholder of Ronghe Tongshang. Guochuang s interest in Ronghe Tongshang has been pledged to the Company as collateral for the entrusted loan. Guochuang acts as the nominee shareholder and has contractually agreed not to make any decision regarding Ronghe Tongshang s operations and business without the Company s consent. In addition, the Company is obliged to absorb the expected losses and is entitled to receive the expected residual returns of Ronghe Tongshang. The above arrangements assigned all of the equity owners rights and obligations to the Company, resulting in (i) the equity owners lacking the ability to make decisions that have a significant effect on Ronghe Tongshang s operations, and (ii) the Company s ability to extract the profits from the operations of Ronghe Tongshang, and to assume Ronghe Tongshang s residual benefits. Because the Company is the sole variable interest holder of Ronghe Tongshang, it is the primary beneficiary of Ronghe Tongshang. Consistent with the provisions of Financial Accounting Standards Board ( FASB ) Interpretation No. 46 (Revised), Consolidation of Variable Interest Entities an Interpretation of ARB No. 51 ( FIN 46R ), the Company consolidates results and financial positions of Ronghe Tongshang from inception. Baichuan Tongda is a PRC company that was established on February 24, 2004 for providing internet content services in the areas of B2B services. The founders of Baichuan Tongda were two PRC citizens ( original shareholders ). In April 2007, as a part of the acquisition transaction of Ample Spring and Baichuan Tongda, two designated PRC citizens ( 70% registered shareholders ) acquired 70% of the registered capital from the original shareholders. Pursuant to a series of contractual arrangements with Baichuan Tongda and the 70% registered shareholders, the Company bears the risk of, and enjoys the rewards from the ownership of Baichuan Tongda. A summary of the major terms of the arrangements is as follows:

- The 70% registered shareholders irrevocably granted the Company the right to make all operating and business decisions for Baichuan Tongda on behalf of the 70% registered shareholders;
- All registered capital owned by the 70% registered shareholders is pledged to the Company as collateral against service fees payable to the Company;
- The Company may dispose of the collateralized registered capital at its sole discretion without limitation or restriction. The Company has the right and sole discretion to purchase all or part of the registered capital from the 70% registered shareholders when such purchase becomes legally permitted;
- The 70% registered shareholders may not dispose of or enter into any other agreement involving the shares owned by them without prior agreement by the Company;
- The Company is engaged by Baichuan Tongda as the exclusive service provider for business and technical support services and is entitled to receive a fee for the services provided;
- The Company has made an entrusted loan to Baichuan Tongda in the amount of RMB40,000 to finance the operations of Baichuan Tongda.

Through the above arrangements, the Company is the primary beneficiary of Baichuan Tongda. Accordingly, under the requirement of FIN46(R), Baichuan Tongda is a variable interest entity of the Company and the financial statements of Baichuan Tongda have been consolidated by the Company since the designated 70% registered shareholders acquired the 70% equity interests from the original shareholders.

**Table of Contents**

NINETOWNS INTERNET TECHNOLOGY GROUP COMPANY LIMITED  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 FOR THE YEARS ENDED DECEMBER 31, 2006, 2007 AND 2008

(In thousands, except share and share-related data)

1. ORGANIZATION AND PRINCIPAL ACTIVITIES continued

The following financial information of the above two VIEs was included in the accompanying consolidated financial statements.

	Years Ended December 31,		
	2006 RMB	2007 RMB	2008 RMB
Total assets	396	27,752	74,423
Total liabilities (consisting primarily of other current liabilities)	(1,000)	(51,325)	(51,461)
Total net revenues		274	1,100
Total net income/(loss)	(1,604)	(14,315)	(12,465)

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

**Basis of presentation** The consolidated financial statements of the Company have been prepared in accordance with the accounting principles generally accepted in the United States of America ( US GAAP ). All amounts in the accompanying consolidated financial statements and the related notes are expressed in Renminbi ( RMB ). The amounts expressed in United States dollars ( US\$ ) are presented solely for the convenience of the readers and are translated at a rate of RMB6.8225 to US\$1, the approximate rate of exchange at December 31, 2008. Such translations should not be construed to be the amounts that would have been reported under US GAAP.

**Basis of consolidation** The consolidated financial statements include the financial statements of Ninetowns and its subsidiaries and VIEs. All significant intercompany transactions and balances are eliminated on consolidation.

**Use of estimates** The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates. The Company bases its estimates on historical experience and various other factors believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Significant accounting estimates reflected in the Company s consolidated financial statements include the allowance for doubtful accounts, estimated costs to complete in a percentage of completion arrangement, estimated useful lives and impairment of acquired intangible assets and goodwill, valuation allowance for deferred tax assets and purchase price allocation relating to businesses acquired.

**Cash and cash equivalents** Cash and cash equivalents consist of cash on hand, demand deposits and highly liquid investments, which are unrestricted as to withdrawal and use, and have remaining maturities of three months or less when purchased.

**Restricted cash** The Company s restricted cash is related to deposits required by certain customers for the software development services provided by the Company.

**Term deposits** Term deposits consist of deposits placed with financial institutions with remaining maturities of greater than three months but less than one year.

**Table of Contents**

NINETOWNS INTERNET TECHNOLOGY GROUP COMPANY LIMITED  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 FOR THE YEARS ENDED DECEMBER 31, 2006, 2007 AND 2008

(In thousands, except share and share-related data)

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES continued

**Short-term investments** Short-term investments are comprised of marketable equity securities, which are classified as trading and available-for-sale. Marketable securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities and are reported at fair value, with realized gains and losses recognized in earnings. The Company purchased and sold trading securities during 2008 but there were no outstanding balances at December 31, 2008. Short-term investments classified as available for sale are stated at fair values.

Unrealized gains or losses on available-for-sale securities from the changes in fair value are recorded in equity as other comprehensive income (loss). Realized gains or losses, based upon the specific identification method, on the disposal of available-for-sale securities are directly recorded in the consolidated statement of operations.

The Company reviews investments in available-for-sale securities as of each balance sheet date for other-than-temporary declines in fair value below the cost basis. If the Company determines that a decline in fair value below the cost basis is other-than-temporary, accumulated unrealized loss is accounted for as realized loss and included in earnings. No other-than-temporary impairment losses were recorded during the years ended December 31, 2006, 2007 and 2008.

**Inventories** Inventories are stated at the lower of cost or market price. Cost is determined by the weighted average method. Provision for diminution in value on inventories is made using the specific identification method. No inventory provisions were made in 2006, 2007 and 2008.

**Trade receivables and allowance for doubtful accounts** Trade receivables mainly represents amounts earned and collectible from customers. The Company provides an allowance for doubtful accounts based on its aging analysis of trade receivables, customers' credit-worthiness, past collection history, and changes in a customer's payment terms. The Company also provides specific allowance if there is strong evidence that indicates the trade receivables are uncollectible, and writes off such trade receivables and specific allowance in one year if circumstances are not improved. Trade receivables stated in the balance sheet are net of such allowance.

Changes in the allowance for doubtful accounts were as follows:

	2006	2007	2008
	RMB	RMB	RMB
Balance at January 1,	4,851	1,088	23,299
Provision for allowance for doubtful debts	2,487	25,078	3,702
Recovery	(4,008)	(2,683)	(821)
Write offs	(2,242)	(184)	(20,887)
Balance at December 31,	1,088	23,299	5,293

**Table of Contents**

NINETOWNS INTERNET TECHNOLOGY GROUP COMPANY LIMITED  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 FOR THE YEARS ENDED DECEMBER 31, 2006, 2007 AND 2008

(In thousands, except share and share-related data)

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES continued

**Property and equipment** Property and equipment are recorded at cost less accumulated depreciation, amortization and provision for impairment loss. Depreciation and amortization are provided on a straight-line basis over the estimated useful lives of the assets. Estimated useful lives of property and equipment are as follows:

Buildings	20 years shorter of lease term or 5 years
Leasehold improvements	5 years
Furniture, fixtures and office equipment	5 years
Computer equipment	5 years
Motor vehicles	5 years

**Acquired intangible assets** Acquired intangible assets, which consist primarily of customer relationships, buyer database, completed technology, purchased software for internal use and land use right, are carried at cost, less accumulated amortization and provision for impairment loss.

Amortization is calculated on a straight-line basis over the expected useful life of the assets of five years, except for the land use right which is amortized over fifty years. Amortization expenses for the years ended December 31, 2006, 2007 and 2008 were RMB2,943 and RMB14,466 and RMB18,991, respectively.

**Impairment of long-lived assets** The Company evaluates its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When these events occur, the Company measures impairment by comparing the carrying amount of the assets to future undiscounted net cash flows expected to result from the use of the assets and their eventual disposition. If the sum of the expected undiscounted cash flow is less than the carrying amount of the assets, the Company would adjust the carrying value of the asset based on the fair value and recognize an impairment loss. Fair value is estimated using expected discounted future cash flows. Impairment losses recognized in the years ended December 31, 2006, 2007 and 2008 were RMB nil, RMB nil and RMB48,086, respectively.

**Goodwill** Goodwill represents the excess of the purchase price over the fair value of the identifiable assets and liabilities acquired. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired. The Company completes a two-step goodwill impairment test. The first step compares the fair values of each reporting unit to its carrying amount, including goodwill. Fair value is principally estimated using expected discounted future cash flows. If the fair value of each reporting unit exceeds its carrying amount, goodwill is not impaired and the second step will not be required. If the carrying amount of a reporting unit exceeds its fair value, the second step compares the implied fair value of goodwill to the carrying value of a reporting unit's goodwill. The implied fair value of goodwill is determined in a manner similar to accounting for a business combination with the allocation of the assessed fair value determined in the first step to the assets and liabilities of the reporting unit. The excess of the fair value of the reporting unit over the amounts assigned to the assets and liabilities is the implied fair value of goodwill. An impairment loss is recognized for any excess in the carrying value of goodwill over the implied fair value of goodwill.



**Table of Contents**

NINETOWNS INTERNET TECHNOLOGY GROUP COMPANY LIMITED  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 FOR THE YEARS ENDED DECEMBER 31, 2006, 2007 AND 2008

(In thousands, except share and share-related data)

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES continued

Management performed the annual goodwill impairment test as of December 31, 2006, 2007 and 2008 and no impairment loss was recorded in 2006. In 2007 and 2008, based on the impairment assessment performed by management, the Company recorded a goodwill impairment charge of RMB193,570 and RMB78,081, respectively. The impairment charge in 2007 related to the Company's enterprise software and related customer maintenance service, and software development services segments. The Company's financial outlook from maintenance services for the free software offered by the Chinese government was negatively impacted due to several factors. First, the Chinese government's declining promotion of its free software resulted in a corresponding decline in the need for the Company's maintenance services. Additionally, the Company believes there was uncertainty surrounding the Chinese government's future promotional plans for its free software. As a result, the Company decided to revise downward the financial performance projections and assumptions of its enterprise software and related customer maintenance service segment, resulting in a goodwill impairment loss of RMB187,770 for this segment in 2007. For the software development services segment, the Company experienced a slowdown in the demand for such services by the government and therefore also revised downward the financial performance projections and assumptions, resulting in an impairment loss of RMB5,800 for this segment in 2007. The impairment charge in 2008 is related to the Company's B2B services segment. Given the continuing deterioration of the global economic environment and international trade conditions, the Company thoroughly reviewed its overall B2B strategy and announced the decision to wind down the B2B services in March 2009. In conjunction with the winding down of the B2B business, the Company revised the estimate of future cash flows in the Company's annual goodwill impairment test, which resulted in a significant reduction of fair value of goodwill. Therefore the Company recognized a goodwill impairment loss of RMB78,081. The changes in the carrying amount of goodwill by reporting unit for the years ended December 31, 2007 and 2008 were as follows:

	Enterprise software and related customer maintenance service RMB	Software development services RMB	B2B RMB	Total RMB
Balance as of January 1, 2007	187,770	5,800		193,570
Goodwill acquired during the year			78,081	78,081
Goodwill impairment during the year	(187,770)	(5,800)		(193,570)
Balance as of December 31, 2007			78,081	78,081
Goodwill impairment during the year			(78,081)	(78,081)
Balance as of December 31, 2008				

**Investments under cost method** For investment in an investee over which the Company does not have significant influence, the Company carries the investment at cost adjusted for other-than-temporary declines in fair value, and recognizes income when receiving dividends from distributions of the investee's earnings. The Company reviews its investments under cost method for impairment whenever events or changes in circumstances indicate that the carrying value may no longer be recoverable. An impairment loss is recognized in earnings equal to the difference between the investment cost and its fair value at the balance sheet date of the reporting period for which the assessment is made. No impairment charge was recorded for the years ended December 31, 2006, 2007 and 2008.

**Investment in an affiliate** Investments in an affiliate over which the Company exercises significant influence, but not control, are accounted for using the equity method. The Company's share of earnings (losses) of the affiliate is included in the consolidated statements of operations. The Company established an affiliate in 2007 and liquidated the same affiliate in 2008.

**Income taxes** Deferred income taxes are provided using the asset and liability method. Under this method, deferred income taxes are recognized for tax credits and net operating losses available for carry-forward and significant temporary differences. Deferred tax assets and liabilities are classified as current or non-current based upon the classification of the related asset or liability in the financial statements or the expected timing of their reversal if they do not relate to a specific asset or liability. 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 assets will not be realized. Current income taxes are provided for in accordance with the laws and regulations applicable to the Company as enacted by the relevant tax authorities.

**Table of Contents**

NINETOWNS INTERNET TECHNOLOGY GROUP COMPANY LIMITED  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2006, 2007 AND 2008

(In thousands, except share and share-related data)

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES continued

On January 1, 2007, the Company adopted FASB Interpretation No.48 ( FIN 48 ), Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No.109. Under FIN 48, the impact of an uncertain income tax position on the income tax return must be recognized at the largest amount that is more likely-than-not to be sustained upon audit by the relevant tax authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. Additionally, FIN 48 provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company recognizes interest and penalties related to uncertain tax benefits as a component of income tax expense. The Company's tax years from 2003 to 2008 are subject to examination by the tax authorities.

**Revenue recognition** The Company's revenue is derived from four primary sources: (i) sale of enterprise software and related customer maintenance services; (ii) software development services; (iii) sale of computer hardware and (iv) B2B search services.

Revenue from the sale of enterprise software and related customer maintenance service is recognized when there is evidence of an arrangement, the delivery or service has occurred, the fee is fixed or determinable, and collectability is probable. As the Company does not have vendor-specific objective evidence to establish the fair values of the undelivered elements, the Company recognizes revenue from sales of enterprise software and maintenance service on a straight-line basis over the service period which is typically 12 months.

For certain customers, the Company installs the software at the customer's place of business and charges the customer a fixed fee based on actual usage of the software. Accordingly, the Company recognizes the related revenue when the customer uses the software. The cost to install the software has historically been insignificant.

Revenues from software development services requiring significant production, modification, or customization of the software are recognized over the installation and customization period based on the percentage of completion method as prescribed by Statement of Position No. 81-1, Accounting for Performance-of-Construction-Type and Certain Product-Type Contracts . Percentage-of-completion is measured principally by the percentage of actual hours incurred to date for each contract to the estimated total hours to be incurred for each contact at completion.

Certain revenue from software development services also includes hardware procurement under customer's request. Since the Company does not have vendor-specific objective evidence to allow for separating various components of such software development service contracts, the Company recognizes such revenues when all components under the contracts are delivered and the project is completed upon the receipt of a written acceptance from the customer.

Sales of computer equipment and accessories are recorded when the goods are delivered, title is passed to the customers and the Company has no further obligations to provide services relating to the operation of such equipment. The Company provides online business-to-business search services by selling keywords to improve the customers rankings in search results on the Company's marketplaces. Service fees are paid in advance in respect of such services for a specific contracted service period. All service fees are initially deferred when received and revenue is recognized ratably over the term of the respective service contracts as the services are rendered.

**Table of Contents**

NINETOWNS INTERNET TECHNOLOGY GROUP COMPANY LIMITED  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2006, 2007 AND 2008

(In thousands, except share and share-related data)

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES continued

With the exception of rebates of value added tax on sales of software and related maintenance services ( VAT rebate ) received from the Chinese tax authorities as part of the PRC government s policy of encouraging software development in the PRC, the Company reports revenue net of business tax. VAT rebate was RMB10,500, RMB4,347 and RMB2,910 during 2006, 2007 and 2008, respectively. Pursuant to certain PRC rules relating to value-added tax, Beijing Ninetowns Times, Beijing Ninetowns Digital Technology, Beijing Ninetowns Ports and Beijing Ninetowns Network are entitled to a rebate of value-added tax paid, at a rate of 14% of the sales value for self-developed software products, excluding revenues from maintenance services and upgrade rights that are sold separately.

**Cost of revenue** Cost of revenue includes procurement costs for products sold, and direct costs associated with the delivery of software development and maintenance services and B2B search services, including salaries, employee benefits and overhead costs associated with employees providing the related services.

**Research and Development** Research and development expenses include payroll, employee benefits and other costs associated with product development. Technological feasibility for the Company s software products is reached shortly before the products are released for production. Cost incurred after technological feasibility has historically been immaterial. Accordingly, the Company expenses all research and development costs when incurred.

**Advertising costs** Advertising costs are expensed in the period incurred. The Company incurred advertising costs totaling RMB2,281, RMB6,277 and RMB8,298 during the years ended December 31, 2006, 2007 and 2008, respectively.

**Government subsidies** Government subsidies represent amounts granted by local governments to reward companies that have made contributions in the development of the electronic and software industries as well as companies that contribute significantly to local taxes. The Company reports government subsidies when it becomes due and receivable and the Company does not believe that it has any obligation to repay the amounts received.

**Foreign currency translation** The functional currency of the Company s subsidiaries and VIEs established in the PRC is RMB. The functional currency of Ninetowns and its subsidiaries established in countries other than the PRC is the US dollar. Transactions denominated in other currencies are recorded in the applicable functional currencies at the rates of exchange prevailing when the transactions occur. Monetary assets and liabilities denominated in other currencies are translated into the applicable functional currencies at rates of exchange in effect at the balance sheet dates. Non-monetary assets and liabilities are remeasured into the applicable functional currencies at historical exchange rates. Exchange gains and losses are recorded in the consolidated statements of operations.

The Company has chosen RMB as its reporting currency. Assets and liabilities are translated at the exchange rates at the balance sheet date, equity accounts are translated at historical exchange rates and revenues, expenses, gains and losses are translated using the average rate for the year. Translation adjustments are reported as cumulative translation adjustments and are shown as a separate component of other comprehensive loss in the statement of shareholders equity.

**Comprehensive income** Comprehensive income includes net income/(loss), foreign currency translation adjustments and unrealized gain or loss on investments in available-for-sale securities and is reported as a component of consolidated shareholders equity.

**Foreign currency risk** RMB is not a freely convertible currency. The State Administration for Foreign Exchange, under the authority of the People s Bank of China, controls the conversion of the RMB into foreign currencies. The value of the RMB is subject to changes in PRC government policies and to international economic and political developments affecting supply and demand in the China Foreign Exchange Trading System market. RMB balances in cash and cash equivalents and term deposits of the Company included RMB637,270 at December 31, 2007 and RMB494,615 at December 31, 2008.



**Table of Contents**

NINETOWNS INTERNET TECHNOLOGY GROUP COMPANY LIMITED  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2006, 2007 AND 2008

(In thousands, except share and share-related data)

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES continued

**Concentration of credit risk** Financial instruments that potentially expose the Company to significant concentrations of credit risk consist primarily of cash and cash equivalents, trade receivables, and term deposits. The Company places its cash and cash equivalents with financial institutions with high-credit ratings and quality. The Company conducts credit evaluations of customers and generally does not require collateral or other security from its customers. The Company establishes an allowance for doubtful accounts primarily based upon the age of the receivables and factors surrounding the credit risk of specific customers.

**Fair value measurement** Effective January 1, 2008, the Company adopted Statement of Financial Accounting Standard ( SFAS ) No. 157, Fair Value Measurements for its financial assets and liabilities. In February 2008, the FASB staff issued FASB Staff Position ( FSP ) No. 157-2 Effective Date of FASB Statement No. 157 ( FSP FAS 157-2 ). FSP FAS 157-2 delayed the effective date of SFAS 157 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The provisions of FSP FAS 157-2 are effective for the Company's fiscal year beginning January 1, 2009, and are not expected to have a significant impact on the Company. The carrying amounts of cash and cash equivalents, available-for-sale securities, term deposits, trade receivables, and accounts payable approximate their fair value due to the short-term nature of these instruments.

SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS 157 also establishes the fair value hierarchy which prioritizes the inputs to valuation techniques used to measure fair value into three broad levels.

*Level 1 Inputs*

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

*Level 2 Inputs*

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

*Level 3 Inputs*

Level 3 inputs are unobservable inputs that shall be used to measure fair value to the extent that observable inputs are not available for the asset or liability.

The initial adoption on SFAS 157 had no material impact on the Company's consolidated financial position or results of operations.

**Share-based compensation** Effective January 1, 2006, the Company adopted SFAS 123R, Accounting for Stock-Based Compensation and recognizes compensation cost on a straight-line basis over the requisite service period which is the vesting period. The Company elected the modified prospective method. Under this method, share-based compensation expense recognized includes: (a) compensation expense for all share-based compensation awards granted prior to, but not yet vested as of January 1, 2006 based on the fair value as of the grant date, and (b) compensation expense for all share-based compensation awards granted on or subsequent to January 1, 2006, based on grant-date fair value.

**Table of Contents**

NINETOWNS INTERNET TECHNOLOGY GROUP COMPANY LIMITED  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2006, 2007 AND 2008

(In thousands, except share and share-related data)

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES continued

***Net income (loss) per share*** Basic net income per share is computed by dividing net income attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year. Diluted net income per ordinary share reflects the potential dilution that could occur if securities or other contracts to issue ordinary shares were exercised into ordinary shares. Ordinary share equivalents are excluded from the computation of the diluted net income per share in periods when their effect would be anti-dilutive.

***Recently Issued Accounting Pronouncements*** In December 2007, the FASB issued FASB Statement No. 141 (Revised 2007), Business Combinations ( SFAS 141R ). SFAS 141R provides additional guidance on improving the relevance, representational faithfulness, and comparability of the financial information that a reporting entity provides in its financial reports about a business combination and its effects. This Statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Management is in the process of assessing the potential impact the adoption of SFAS 141R may have on the Company's consolidated financial position and results of operations.

In December 2007, the FASB issued FASB Statement No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51 ( SFAS 160 ). SFAS 160 amends ARB No. 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. This Statement is effective for fiscal years and interim periods within those fiscal years, beginning on or after December 15, 2008. Management is in the process of assessing the potential impact the adoption of SFAS 160 may have on the consolidated financial position and results of operations.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities ( SFAS 161 ) to improve the relevance, comparability, and transparency of financial information provided to investors by requiring disclosure of the fair values of derivative instruments and their gains and losses in a tabular format, cross-referencing within footnotes to enable financial statement users to locate important information, and the disclosure of derivative features that are credit risk-related. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. Management believes there will be no material impact on the consolidated financial position or results of operations upon adoption of this standard.

In April 2008, the FASB issued FSP FAS 142-3, Determination of the Useful Life of Intangible Assets. This FSP amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS 142, Goodwill and Other Intangible Assets. This FSP is effective for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Early adoption is prohibited. The guidance for determining the useful life of a recognized intangible asset in this FSP shall be applied prospectively to intangible assets acquired after the effective date. Management has not yet begun the process of assessing the potential impact the adoption of FSP FAS 142-3 may have on the consolidated financial position or results of operations.

In June 2008, the FASB issued Emerging Issues Task Force No. 07-5 Determining Whether an Instrument (or Embedded Feature) is Indexed to an Entity's Own Stock ( EITF 07-5 ). SFAS 133, Accounting for Derivative Instruments and Hedging Activities, ( SFAS 133 ) specifies that a contract (that would otherwise meet the definition of a derivative under SFAS 133) issued or held by the reporting entity that is both indexed to its own stock and classified in stockholders' equity in its statement of financial position should not be considered a derivative financial instrument for purposes of applying SFAS 133. EITF 07-5 provides guidance for determining whether an equity-linked financial instrument (or an embedded feature) is indexed to an entity's own stock, using a two-step approach. First, the instrument's contingent exercise provisions, if any, must be evaluated, followed by an evaluation of the instrument's settlement provisions.





**Table of Contents**

NINETOWNS INTERNET TECHNOLOGY GROUP COMPANY LIMITED  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 FOR THE YEARS ENDED DECEMBER 31, 2006, 2007 AND 2008

(In thousands, except share and share-related data)

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES continued

The guidance in EITF 07-5 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Management believes there will be no material impact on the consolidated financial position or results of operations.

In December 2008, the FASB issued FSP FAS 132(R)-1: Employers' Disclosures about Postretirement Benefit Plan Assets. This FSP amends SFAS 132 (revised 2003), Employers' Disclosures about Pensions and Other Postretirement Benefits, to provide guidance on an employer's disclosures about plan assets of a defined benefit pension or other postretirement plan. The disclosures about plan assets required by this FSP shall be provided for fiscal years ending after December 15, 2009. Upon initial application, the provisions of this FSP are not required for earlier periods that are presented for comparative purposes. Earlier application of the provisions of this FSP is permitted. Management has not yet begun the process of assessing the potential impact the adoption of FAS 132(R)-1 may have on the consolidated financial position or results of operations.

3. SHORT-TERM INVESTMENTS

Short-term investments are classified as available-for-sale securities. Available-for-sale securities consisted principally of balanced funds issued by major financial institutions.

The following table provides additional information concerning the Company's available-for-sale securities:

	December 31, 2007 (RMB)			December 31, 2008 (RMB)				
	Cost	Gross unrealized gains	Gross unrealized losses	Fair value	Cost	Gross unrealized gains	Gross unrealized losses	Fair value
Balanced funds	8,088	2,874		10,962	13,149		(3,125)	10,024
Total	8,088	2,874		10,962	13,149		(3,125)	10,024

The Company recorded realized gains of RMB43,546 (proceeds from the sale of trading securities of RMB94,834 with an aggregate cost of RMB51,630 and proceeds from the sale of available-for-sale securities of RMB2,330 with an aggregated historical cost of RMB1,988) and RMB9,866 (proceeds from the sale of trading securities of RMB27,516 with an aggregate cost of RMB17,650) for the years ended December 31, 2007 and 2008, respectively.

**Table of Contents**

NINETOWNS INTERNET TECHNOLOGY GROUP COMPANY LIMITED  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 FOR THE YEARS ENDED DECEMBER 31, 2006, 2007 AND 2008

(In thousands, except share and share-related data)

**3. SHORT-TERM INVESTMENTS** continued

The summary of available-for-sale securities measured and recorded at fair value on a recurring basis as of December 31, 2008 is as follows:

Description	December 31, 2008 (RMB)	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1) (RMB)	Significant Other Observable Inputs (Level 2) (RMB)	Significant Unobservable Inputs (Level 3) (RMB)
Balanced funds	10,024	10,024		
Total	10,024	10,024		

**4. INVENTORIES**

Inventories consisted of the following:

	December 31,	
	2007 RMB	2008 RMB
Computer accessories	6,952	1,302
Third party software products	58	
Other supplies	1	65
	7,011	1,367

Inventories were purchased for software development service projects after the requirements for such projects were determined. No provision for obsolete or impaired inventories was considered necessary because inventories were purchased only for on-going software development service projects where the specific inventory requirements have been agreed to in contracts with the customers, and certain customers are required to pay a significant deposit for such projects prior to their inception.

**5. PREPAID EXPENSES AND OTHER CURRENT ASSETS**

Prepaid expenses and other current assets consisted of the following:

	December 31,	
	2007 RMB	2008 RMB
Advances to employees	4,847	2,277
Prepaid expenses	3,864	3,482

Deposits for exhibitions, office rental, utilities	6,928	325
Interest receivable for term deposits	446	571
Value added tax recoverable	451	75
Other receivables	523	257
	17,059	6,987

**Table of Contents**

NINETOWNS INTERNET TECHNOLOGY GROUP COMPANY LIMITED  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 FOR THE YEARS ENDED DECEMBER 31, 2006, 2007 AND 2008  
 (In thousands, except share and share-related data)

**6. PROPERTY AND EQUIPMENT, NET**

Property and equipment, net consisted of the following:

	December 31,	
	2007 RMB	2008 RMB
Buildings	158,053	193,814
Leasehold improvements	6,484	6,512
Furniture, fixtures and office equipment	4,998	5,096
Computer equipment	34,384	32,336
Motor vehicles	4,238	7,012
Total	208,157	244,770
Less: accumulated depreciation and amortization	(18,380)	(31,589)
Property and equipment, net	189,777	213,181

In March 2009, the Company announced the decision to wind down the B2B services. In conjunction with the winding down of the B2B business, the Company revised the estimate of future cash flows used in evaluating the fair value of long-lived assets using the discounted cash flow method. As a result, the fair value of long-lived assets is significantly reduced and the Company recognized an impairment loss of RMB4,339 in 2008 against computer equipment related to the B2B business.

Depreciation and amortization expenses for the years ended December 31, 2006, 2007 and 2008 were RMB6,194, RMB9,867 and RMB17,922, respectively.

**7. INVESTMENT IN AN AFFILIATE**

In May 2007, the Company, together with the Technology Center of Guangdong Inspection and Quarantine Bureau, established Guangzhou Yuejiu Inspection Technology Service Co. Ltd. ( Yuejiu ) in the PRC for the purpose of providing import and export services in Guangzhou. The Company held a 49% equity interest in Yuejiu and paid RMB2,450 for this equity interest. Yuejiu was liquidated in 2008, and the Company's investment of RMB2,450 was returned in 2008.

**8. INVESTMENTS UNDER COST METHOD**

	December 31,	
	2007 RMB	2008 RMB
Global Market	36,286	28,708
Tophere	4,500	4,500
GCL		7,085
	40,786	40,293

In September 2006, the Company entered into a subscription agreement with Global Market Group Limited ( Global Market ) to acquire 1,940,000 Series A preferred shares, which represented 16.25% of the equity interest in Global

Market on an as-converted basis for cash consideration of RMB38,929 (US\$5,000). The Company's Chief Executive Officer is a director of Global Market. Because the Company cannot exercise significant influence over Global Market, the investment is accounted for under the cost method.

**Table of Contents**

NINETOWNS INTERNET TECHNOLOGY GROUP COMPANY LIMITED  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 FOR THE YEARS ENDED DECEMBER 31, 2006, 2007 AND 2008

(In thousands, except share and share-related data)

**8. INVESTMENTS UNDER COST METHOD** continued

The original subscription agreement contained put and call options. The call option gave the Company the right to acquire a certain number of Global Market's ordinary shares at a nominal price of US\$1 in the event Global Market's earnings fell below a predetermined level, or to receive cash if additional earnings requirements were not met. The put option gave Global Market the right to repurchase up to 285,000 ordinary shares from the Company at a nominal price of US\$1 if Global Market's earnings were above a predetermined level.

In March 2008, Global Market issued and allotted 7,653,846 Series B Preferred Shares to certain investors, after which the Company's equity interest in Global Market was diluted to 9.90%. The Company and Global Market both waived the put and call options set out in the original Series A preferred shares subscription agreement.

In 2008, the Company entered into a share repurchase agreement with Global Market, under which Global Market repurchased 309,468 Series A preferred shares from the Company for a cash consideration of RMB 7,725 (US\$1,112) and the Company's equity interest in Global Market was further diluted to 9.03%. The Company recognized a gain of RMB 2,187 (US\$321) upon the disposal of the Series A preferred shares.

In November 2007, the Company entered into an agreement with Hangzhou Tophere Info-Tech Inc. (Tophere), a Chinese B2B food and beverage trade facilitator headquartered in Hangzhou, to acquire a 19.8% equity interest for a cash consideration of RMB4,500. Because the Company cannot exercise significant influence over Tophere, the investment is accounted for under the cost method.

In June 2008, the Company entered into an investment agreement with Pearl Ever Group Limited (Pearl Ever), under which the Company, through Pearl Ever, invested RMB 7,085 (US\$ 1,000) into GCL Silicon Technology Holdings Inc. (GCL) for a 0.06% interest in GCL's equity. Because the Company cannot exercise significant influence over GCL, the investment is accounted for under the cost method.

**9. ACQUIRED INTANGIBLE ASSETS, NET**

Acquired intangible assets, net consisted of the following:

	December 31,	
	2007	2008
	RMB	RMB
Customer lists and relationships	8,586	6,131
Completed technology	66,372	5,251
Buyer database	2,044	
Purchased software for internal use	17,200	17,200
Land use right		30,156
Total	94,202	58,738
Less: Accumulated amortization	(20,351)	(17,469)
Acquired intangible assets, net	73,851	41,269

In October 2008, the Company acquired a land use right from Yizhuang Substation of the PRC Country Resources Bureau for RMB 30,156. The land use right has a contractual useful life of 50 years.

**Table of Contents**

NINETOWNS INTERNET TECHNOLOGY GROUP COMPANY LIMITED  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 FOR THE YEARS ENDED DECEMBER 31, 2006, 2007 AND 2008

(In thousands, except share and share-related data)

## 9. ACQUIRED INTANGIBLE ASSETS, NET continued

In March 2009, the Company announced the decision to wind down the B2B services. In conjunction with the winding down of the B2B business, the Company revised the estimate of future cash flows used in evaluating the fair value of long-lived assets using the discounted cash flow method. As a result, the fair value of long-lived assets is significantly reduced and the Company recognized an impairment loss of RMB43,747 in 2008 against customer lists and relationships, completed technology and buyer database related to the B2B business.

Amortization expenses for the years ended December 31, 2006, 2007, and 2008 were RMB2,943, RMB14,466, and RMB18,991, respectively.

The following table represents the total estimated amortization of intangible assets for the next five years:

For the Year Ending December 31	Estimated Amortization Expense RMB
2009	5,561
2010	4,043
2011	3,470
2012	603
2013	603
	14,280

## 10. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted the following:

	December 31,	
	2007 RMB	2008 RMB
Salary and wages	4,983	3,274
Professional fees	2,795	1,117
Accounts payable and other payables	5,408	3,008
Office expenses payable	1,498	1,015
Accrued expenses	4,091	5,100
Staff welfare	485	2
	19,260	13,516

## 11. INCOME TAXES

Ninetowns is a tax exempted company incorporated in the Cayman Islands. No provision for Hong Kong Profits Tax has been made as the subsidiaries incorporated in Hong Kong had no assessable profits earned or derived from Hong Kong during the years ended December 31, 2006, 2007 and 2008. The subsidiaries incorporated in the PRC other than Hong Kong are governed by the Income Tax Law of the PRC. Concerning Foreign Investment and Foreign Enterprises and various local income tax laws (the Income Tax Laws ).





**Table of Contents**

NINETOWNS INTERNET TECHNOLOGY GROUP COMPANY LIMITED  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 FOR THE YEARS ENDED DECEMBER 31, 2006, 2007 AND 2008

(In thousands, except share and share-related data)

11. INCOME TAXES continued

On March 16, 2007, the National People's Congress adopted the 2008 PRC Enterprise Income Tax Law (the New Income Tax Law), which went into effective on January 1, 2008. The New Income Tax Law imposes a unified income tax rate of 25% for domestic and foreign enterprises. New and High Technology Enterprise will enjoy a favorable tax rate of 15%. The New Income Tax Law also provides a five-year transitional period for those entities established before March 16, 2007, which enjoy a favorable income tax rate less than 25% under the previous income tax laws, to gradually change their rates to 25%. In addition, the New Income Tax Law provides grandfather treatment for enterprises which were qualified as New Technology Enterprises under the previous income tax laws and were established before March 16, 2007, if they continue to meet the criteria for New and High Technology Enterprises after January 1, 2008. The grandfather provision allows these enterprises to continue to enjoy their unexpired tax holiday provided by the previous income tax laws and rules.

Under the New Income Tax Law, if the PRC subsidiaries and VIEs wish to qualify for a preferential rate for years commencing on or after January 1, 2008, they will need to qualify as a High and New Technology Enterprise Strongly Supported by the State under the new rules. Until the PRC subsidiaries and VIEs receive official approval for this new status, they will be subject to the statutory 25% tax rate. As the New Income Tax Law and its implementation rules only recently went into effect, there are uncertainties on their future interpretation and implementation. Furthermore, under the New Income Tax Law a resident enterprise, which includes an enterprise established outside of the PRC with management located in the PRC, will be subject to the PRC income tax. If the PRC tax authorities subsequently determine that the Company and its subsidiaries registered outside the PRC should be deemed a resident enterprise, the Company and its subsidiaries registered outside the PRC will be subject to the PRC income tax at a rate of 25%. Beijing New Take, Beijing Ninetowns Times and Beijing Ninetowns Digital Technology were awarded the certificate of New and High Technology Enterprise and were at an income tax rate of 15% for each of the two years ended December 31, 2007. In 2008, Beijing New Take, Beijing Ninetowns Times and Beijing Ninetowns Digital Technology were subject to an enterprise income tax rate of 25%.

Shanghai New Take was awarded the certificate of New and High Technology Enterprise and was at an income tax rate of 16.5% for each of the two years ended December 31, 2007. In 2008, Shanghai New Take was subject to an enterprise income tax rate of 25%.

Beijing Ninetowns Ports was awarded the certificate of New and High Technology Enterprise and was at an income tax rate of 7.5% for each of the two years ended December 31, 2007. In 2008, Beijing Ninetowns Ports was subject to an enterprise income tax rate of 25%.

Guangdong Ninetowns was awarded the certificate of New and High Technology Enterprise and was exempted from the enterprise income tax for each of the two years ended December 31, 2007. In 2008, Guangdong Ninetowns was under the grandfather treatment and enjoyed the unexpired tax holiday with a rate of 7.5%.

Beijing Ninetowns Network Software and Beijing Ronghe Tongshang were awarded the certificate of New and High Technology Enterprise and were exempted from the enterprise income tax for each of the two years ended December 31, 2007. In 2008, Beijing Ninetowns Network Software and Beijing Ronghe Tongshang were subject to an enterprise income tax rate of 25%.

Baichuan Tongda was acquired in April 2007 and was subject to an income tax rate of 33% and 25% in 2007 and 2008, respectively.

**Table of Contents**

NINETOWNS INTERNET TECHNOLOGY GROUP COMPANY LIMITED  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 FOR THE YEARS ENDED DECEMBER 31, 2006, 2007 AND 2008

(In thousands, except share and share-related data)

## 11. INCOME TAXES continued

Beijing Software and Dongguan Software were established in 2008 and were subject to an income tax rate of 25% in 2008.

During the years ended December 31, 2006, 2007 and 2008, if the Company's subsidiaries in the PRC had not been awarded tax holidays or had special tax concessions, they would have recorded an additional provision for income taxes totaling RMB11,251, RMB23,501 and RMB nil, respectively. Basic net income or loss per share would have been changed to RMB0.99, RMB(7.26) and RMB(4.85), and diluted net income or loss per share would have been changed to RMB0.97, RMB(7.26) and RMB(4.85), for the years ended December 31, 2006, 2007, and 2008, respectively.

Income tax expense (benefit) consisted of the following:

	Years Ended December 31,		
	2006 RMB	2007 RMB	2008 RMB
Current tax	2,102	1,367	(147)
Deferred tax	(1,071)	(1,124)	(13,235)
	1,031	243	(13,382)

As of December 31, 2007 and 2008, significant temporary differences between the tax basis and financial statement basis of accounting for assets and liabilities that gave rise to deferred taxes were principally related to the following:

	December 31,	
	2007 RMB	2008 RMB
Current deferred tax assets (liabilities)		
Short-term deferred revenue (B2G)	1,300	4,811
Short-term deferred revenue (B2B)	62	101
Less: valuation allowances	(62)	(4,780)
Current deferred tax assets	1,300	132
Non-current deferred tax assets		
Net operating losses carry forwards	7,186	7,801
Less: valuation allowances	(7,186)	(7,801)
Non-current deferred tax assets		
Non-current deferred tax liabilities		
Accelerated depreciation of property and equipment	(1,992)	(1,807)
Amortization of intangible assets	(14,218)	
Non-current deferred tax liabilities	(16,210)	(1,807)

The Company has operating loss carry forwards totaling RMB28,889 and RMB31,203 as of December 31, 2007 and 2008 respectively, all of which were from PRC subsidiaries and will expire on various dates between December 31, 2012 and December 31, 2013.

**Table of Contents**

NINETOWNS INTERNET TECHNOLOGY GROUP COMPANY LIMITED  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 FOR THE YEARS ENDED DECEMBER 31, 2006, 2007 AND 2008

(In thousands, except share and share-related data)

## 11. INCOME TAXES continued

As of December 31, 2007 and 2008, a valuation allowance was provided against deferred tax assets arising from net operating loss carry-forwards, and short-term deferred revenue of certain PRC subsidiaries and VIEs due to the uncertainty of realization. Adjustment will be made to the valuation allowance if events occur in the future that indicate changes in the amount of deferred tax assets that may be realized.

The Company operates through multiple subsidiaries and VIEs and the valuation allowances are considered separately for each subsidiary and VIE. The Company does not file consolidated tax returns, therefore, losses and deferred taxes from one subsidiary or VIE may not be used to offset another subsidiary's or VIE's earnings or deferred taxes.

If the Company were to be a non-resident for PRC tax purposes, dividends paid to it out of profits earned after January 1, 2008 would be subject to a withholding tax. In the case of dividends paid by PRC subsidiaries the withholding tax would be 10% and in the case of a subsidiary 25% or more directly owned by residents in the Hong Kong Special Administrative Region, the withholding tax would be 5%.

Aggregate undistributed earnings of the Company's subsidiaries and its VIEs located in the PRC that are available for distribution to the Company of approximately RMB540,100 and RMB541,000 at December 31, 2007 and 2008 are considered to be indefinitely reinvested under APB opinion No. 23, and accordingly, no provision has been made for the Chinese dividend withholding taxes that would be payable upon the distribution of those amounts to the Company. The Chinese tax authorities have also clarified that distribution made out of pre-January 1, 2008 retained earnings will not be subject to the withholding tax.

Due to the changes in the New Income Tax Law, the Company's deferred tax balances were calculated based on the newly enacted tax rate effective January 1, 2008. The impact on the deferred taxes resulting from the rate change as of January 1, 2008 is an adjustment to the net deferred tax liabilities of RMB578, representing an increase in deferred tax liabilities and a decrease in deferred tax benefit. The Company also recorded higher deferred tax assets for certain of its PRC subsidiaries at the 25% rate but because of full valuation allowance on these PRC subsidiaries, the change in statutory tax rate has resulted in no net effect to the current year's income tax provision for these entities.

Reconciliation between income tax expense (benefit) computed by applying the PRC statutory income tax rate of 25% to income (loss) before income taxes and the actual provision for income taxes is as follows:

	Years Ended December 31,		
	2006	2007	2008
PRC statutory income tax	33.0%	(33.0%)	(25.0%)
Expenses not deductible for tax purposes	2.9%	5.6%	6.1%
Permanent differences	(5.1%)	9.5%	10.9%
Tax exemption and tax relief granted to PRC subsidiaries	(28.6%)	17.9%	1.9%
Effect on deferred taxes due to changes in tax rates under the new law for certain subsidiaries		(0.1%)	(1.1%)
	2.2%	(0.1%)	(7.1%)

**Table of Contents**

NINETOWNS INTERNET TECHNOLOGY GROUP COMPANY LIMITED  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 FOR THE YEARS ENDED DECEMBER 31, 2006, 2007 AND 2008  
 (In thousands, except share and share-related data)

## 11. INCOME TAXES continued

On January 1, 2007 the Company adopted the provisions of FIN 48. The total amount of unrecognized tax benefits as of the date of adoption was RMB636. As a result of the implementation of FIN48, the Company recognized a RMB636 increase in retained earnings for unrecognized tax benefits in 2007. As of December 31, 2007, the Company recorded an additional RMB196 for unrecognized tax benefits. As of December 31, 2008, the Company recorded an additional RMB151 and a reversal of RMB688 for unrecognized tax benefits. Interest and penalties recognized in the statement of operations and current liabilities was not significant in 2007 and 2008. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	RMB
Balance at January 1, 2007	636
Additions based on tax positions related to the current year	196
Balance at December 31, 2007	832
Additions based on tax positions related to the current year	151
Reversal based on tax positions related to the current year	(688)
Balance at December 31, 2008	295

The Company does not anticipate any significant change within 12 months of this reporting date to its uncertain tax positions.

## 12. OTHER TAXES PAYABLE

	December 31,	
	2007	2008
	RMB	RMB
Individual income tax withholding	605	196
Business tax payable	1,628	863
Value added taxes payable (recoverable), net	(645)	(302)
Property tax		878
	1,588	1,635

The Company's subsidiaries in the PRC, other than Hong Kong, are subject to a 17% value added tax on revenues from the sales of hardware to customers and, in addition, are subject to business taxes and value added taxes at the rates of 5% and 3%, on service revenues from software development and sales of software, respectively. Value added taxes payable for hardware sales is reported net of value added taxes paid for inventory purchases. The Company is also required to withhold PRC individual income taxes on employees' payroll for remittance to the tax authorities. In addition, in October 2008, the Company purchased a land use right resulting in a property tax liability thereon.

**Table of Contents**

NINETOWNS INTERNET TECHNOLOGY GROUP COMPANY LIMITED  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 FOR THE YEARS ENDED DECEMBER 31, 2006, 2007 AND 2008

(In thousands, except share and share-related data)

**13. NET INCOME (LOSS) PER SHARE**

The following table sets forth the computation of basic and diluted net income per share for the periods indicated:

	Years Ended December 31,		
	2006 RMB	2007 RMB	2008 RMB
Numerator used in basic net income (loss) per share:			
Net income (loss)	45,928	(230,531)	(169,612)
Shares (denominator):			
Weighted average ordinary shares outstanding	34,773,005	34,966,830	34,997,505
Plus: incremental shares from assumed conversion of stock options	595,877		
Weighted average ordinary shares outstanding used in computing diluted net income (loss) per ordinary share			
	35,368,882	34,966,830	34,997,505
Net income (loss) per ordinary share basic	1.32	(6.59)	(4.85)
Net income (loss) per ordinary share diluted	1.30	(6.59)	(4.85)

The Company had 924,528 and 2,185,830 ordinary share equivalents outstanding, that could potentially dilute basic income (loss) per share in the future, which were excluded in the computation of diluted income (loss) per share in 2007 and 2008, respectively, as their effect would have been anti-dilutive.

**14. RELATED PARTY TRANSACTIONS AND BALANCES***Purchase of office space*

In June 2004, the Company acquired office premises from a company affiliated with a director of Jitter Bug Holdings Limited, which was then a substantial shareholder of the Company. In 2006 and 2007, the Company acquired additional office space from the same seller and paid RMB47,339 and RMB47,487, respectively. As of December 31, 2007, the building was completed and the amount paid was reported in property and equipment in the accompanying consolidated balance sheets.

*Software development services*

During the year ended December 31, 2006, the Company provided software development services to Beijing iTowNet Cyber Technology Ltd. ( Beijing iTowNet ) in which two members of the Company's senior management serve as director and supervisor. The Company did not provide such services to Beijing iTowNet in 2007 and 2008.

**Table of Contents**

NINETOWNS INTERNET TECHNOLOGY GROUP COMPANY LIMITED  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 FOR THE YEARS ENDED DECEMBER 31, 2006, 2007 AND 2008

(In thousands, except share and share-related data)

14. RELATED PARTY TRANSACTIONS AND BALANCES continued

The Company provided software development services to eGrid Technology Ltd. ( eGrid ) which in turn provided the services to Beijing iTowNet. The Company recognized net revenues of RMB7,263 from services provided indirectly to Beijing iTowNet through eGrid during 2006. The Company also provided platform maintenance services to Beijing iTowNet directly as well as indirectly through eGrid during the year ended December 31, 2006, and recognized net revenues of RMB5,670 from such services. The Company did not provide platform maintenance services to Beijing iTowNet in 2007 and 2008.

*Sales of enterprises software and related customer maintenance service:*

The Company has an agreement with Shenzhen Ninetowns Enke Software Technology Co., Ltd. ( Ninetowns Enke ), a company owned by the Company s former employee, for the distribution of the Company s enterprise software in the southern region of the PRC. During the years ended December 31, 2006, 2007 and 2008, the Company recognized net revenues of RMB21,240, RMB2,937 and RMB2,475, respectively, from the sales of enterprise software and related customer maintenance service to Ninetowns Enke.

The Company signed an agreement with Guangzhou Wangli Software Co., Ltd. ( Guangzhou Wangli ), a company owned by a minority shareholder of one of the Company s VIEs, for the distribution of the Company s enterprise software in the PRC. During the years ended December 31, 2007 and 2008, the Company recognized net revenues of RMB6,348 and RMB11,976, respectively, from the sales of enterprise software and related customer maintenance services to Guangzhou Wangli.

The Company sold software products to Beijing iTowNet, directly and indirectly, amounting to RMB3,466 and RMB229 in the years ended December 31, 2006 and 2007, respectively. The Company did not sell software products to Beijing iTowNet in 2008.

*Other:*

In November 2004, the Company entered into an option agreement to acquire a 49% ownership interest in Beijing iTowNet, exercisable at the Company s option. In the event the purchase becomes permissible under the relevant laws of the PRC and the Company exercises its option, the purchase price will be RMB206,915 (US\$25 million) plus an amount calculated at 5% per year compounded annually for the years the selling company held an ownership interest in iTowNet less any dividends or distributions the selling company received during its ownership of Beijing iTowNet.

*Related party balances:*

As of December 31, 2007 and 2008, trade receivables from related parties in respect of sales of enterprises software and related customer maintenance services and software development services were RMB6,350 and RMB6,005, respectively. For allowance for doubtful accounts related to related party receivables, the Company adopted the same accounting policies that were applied to trade receivables due from customers.

As of December 31, 2007, amount due to an affiliate, Guangzhou Yuejiu, was RMB1,450. In 2008, Guangzhou Yuejiu was liquidated and the amount was repaid.

15. SHARE OPTION PLANS

The 2003 Plan

The Company s 2003 Plan (the 2003 Plan ) allows the Company to issue options to employees and directors to acquire 2,574,400 of the Company s ordinary shares. The 2003 Plan will remain in effect for ten years starting from the date of adoption.

**Table of Contents**

NINETOWNS INTERNET TECHNOLOGY GROUP COMPANY LIMITED  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 FOR THE YEARS ENDED DECEMBER 31, 2006, 2007 AND 2008

(In thousands, except share and share-related data)

## 15. SHARE OPTION PLANS continued

As of December 31, 2007 and 2008, options to purchase 1,398,751 and 1,338,753 ordinary shares were outstanding, respectively, under the 2003 Plan. As of December 31, 2007 and 2008, there were 357,001 and 383,955 options, respectively, available under the 2003 Plan for future grants.

The 2004 Plan (as amended)

Under the Amended and Restated 2004 Plan (the 2004 Plan, as amended), the Company may grant options to its employees that are exercisable for up to 4.3 million ordinary shares at prices to be determined by the Company's Board of Directors. The 2004 Plan, as amended also permits the Company to grant share appreciation rights, restricted share awards, and performance awards. The 2004 Plan will automatically terminate in 2015 unless the Company terminates it earlier.

On February 23, 2005, Ninetowns granted options to certain employees to purchase 890,000 ordinary shares at an exercise price of RMB71 (US\$8.6) per ordinary share, which was the closing fair market value of the Company's ordinary shares on the day before the grant date. The options will vest over four years at 25% per year from the grant date. Any options granted but not exercised will expire on February 22, 2015.

On February 5, 2008, Ninetowns granted options to certain employees to purchase 374,769 ordinary shares at an exercise price of RMB22 (US\$3.03) per ordinary share, which was the closing fair market value of the Company's ordinary shares on the day before the grant date. The options will vest over four years at 25% per year from the grant date. Any options granted but not exercised will expire on February 4, 2018.

As of December 31, 2007 and 2008, options to purchase 632,222 and 774,396 ordinary shares were outstanding, respectively.

The fair value of the option awards is estimated on the respective dates of grant using a dividend adjusted Black Scholes pricing model that uses the assumptions noted in the following table.

Options grants	2005 Grant	2008 Grant
Weighted average risk-free rate of interest	5%	3.89%
Weighted average expected option life (years)	6.25 years	6.25 years
Weighted average volatility rate	55%	53%
Weighted average dividend yield	0%	0%

The risk-free rate of interest is based on the market yield of China Sovereign Bond Denominated in USD with maturity nearest to the expected term as of the valuation date. No dividend is expected to be paid in the future. The expected life of the option is derived using the mid-point method, which is calculated as the period between the grant date and the expected exercise date.

On February 5, 2008, Ninetowns granted 401,685 nonvested shares to certain employees. The nonvested shares will vest over four years at 25% per year from the grant date. As of December 31, 2008, 380,559 nonvested shares were outstanding.

As of December 31, 2007 and 2008, 3,640,920 and 3,145,045 share-based instruments were available under the 2004 Plan, as amended, for future grants.



**Table of Contents**

NINETOWNS INTERNET TECHNOLOGY GROUP COMPANY LIMITED  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 FOR THE YEARS ENDED DECEMBER 31, 2006, 2007 AND 2008  
 (In thousands, except share and share-related data)

## 15. SHARE OPTION PLANS continued

The 2006 Plan

In December 2005, the Company's shareholders approved the 2006 stock incentive plan (the "2006 Plan") which allows the Company to offer a variety of share-based awards to employees and employees of the Company's affiliates and subsidiaries including share options, restricted shares, and other similar awards. The exercise price must be at least equal to 100% of the fair market value of the ordinary shares on the grant date. The 2006 Plan will be automatically terminated in 2015. At December 31, 2008, the Company had not granted any options or other types of awards under the 2006 Plan.

A summary of the share options and nonvested shares activities is as follows:

	Years Ended December 31,					
	2006		2007		2008	
	Number of options	Weighted Average Exercise price RMB	Number of options	Weighted average exercise price RMB	Number of options	Weighted average exercise price RMB
Share options						
Outstanding at beginning of year	2,877,097	39	2,500,947	40	2,030,973	40
Granted					374,769	22
Exercised	(267,364)	26	(47,862)	26	(6,186)	26
Cancelled	(108,786)	46	(422,112)	39	(286,407)	50
Outstanding at end of year	2,500,947	40	2,030,973	40	2,113,149	36
Exercisable at end of year	1,920,366	31	1,872,918	37	1,711,666	36

	Shares	Weighted-Average Grant-Date Fair Value RMB
Nonvested Shares		
Nonvested at January 1, 2008		
Granted	401,685	2.95
Vested		
Forfeited	(21,126)	2.95
Nonvested at December 31, 2008	380,559	2.95

The total intrinsic value of options exercised during the years ended December 31, 2006, 2007, and 2008 was RMB3.6 million, RMB0.6 million, and RMB nil, respectively. As of December 31, 2008, the aggregate intrinsic value of both options outstanding and options exercisable was RMB nil.



**Table of Contents**

NINETOWNS INTERNET TECHNOLOGY GROUP COMPANY LIMITED  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 FOR THE YEARS ENDED DECEMBER 31, 2006, 2007 AND 2008

(In thousands, except share and share-related data)

## 15. SHARE OPTION PLANS continued

Number outstanding	Options outstanding		Options exercisable		
	Weighted average remaining contractual life	Fair value per share at grant date	Weighted average exercise price (RMB)	Number exercisable	Weighted average exercise price (RMB)
1,338,753	4.875	RMB0.297(HK\$0.286)	26	1,338,753	26
496,967	6.167	RMB40.42 (US\$4.896)	71	372,913	71
277,429	9.099	RMB11.63 (US\$1.619)	22		
2,113,149	5.733		36	1,711,666	36

As of December 31, 2008, the unrecognized share-based compensation cost related to options was approximately RMB2,150 and is expected to be recognized over a weighted-average vesting period of 2.80 years. As of December 31, 2008, the unrecognized share-based compensation cost related to nonvested share-based compensation arrangements was approximately RMB3,802 and is expected to be recognized over a weighted-average vesting period of 3.08 years.

The amounts of share-based compensation attributable to cost of revenues, sales and marketing, general and administrative expenses, and research and development included in those line items in the consolidated statements of operations are as follows:

	Year Ended December 31,		
	2006 RMB	2007 RMB	2008 RMB
Cost of revenues	1,039	126	287
Sales and marketing	3,371	628	1,633
General and administrative	4,074	1,145	3,789
Research and development	1,843	27	1,162
Total share-based compensation expense	10,327	1,926	6,871

In 2008, 800,000 of the Company's ordinary shares were reserved for future share option exercises, of which 6,186 shares were issued during the year.

## 16. COMMITMENTS

The Company has operating lease agreements principally for its office properties in the PRC. The leases have remaining terms ranging from 12 to 24 months and are renewable subject to negotiation. Rental expense was RMB7,552, RMB11,699 and RMB7,955, for the years ended December 31, 2006, 2007 and 2008, respectively.



**Table of Contents**

NINETOWNS INTERNET TECHNOLOGY GROUP COMPANY LIMITED  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 FOR THE YEARS ENDED DECEMBER 31, 2006, 2007 AND 2008  
 (In thousands, except share and share-related data)

## 16. COMMITMENTS continued

Future minimum lease payments under non-cancellable operating lease agreements at December 31, 2008 are as follows:

	RMB
Year ending December 31:	
2009	1,560
2010	100
Total	1,660

The Company has entered into franchise agreements to undertake marketing, distribution and service activities. Under these agreements, the Company is obligated to provide advertising, training and telephone support associated with its software licenses and products. The Company did not have any significant outstanding obligation and commitment at December 31, 2008.

## 17. SEGMENT INFORMATION

Before 2007, the Company had three operating segments: enterprise software segment, software development services segment, and computer hardware sales segment. The enterprise software segment is engaged in the development, distribution and sale of software products, the provision of customer maintenance services to end-users, and the research and development of new enterprise software. The software development services segment is responsible for the development and integration of software in accordance with the customers' specifications and requirements. The computer hardware sales segment is engaged in the sale of computer hardware and accessories. These three segments are all under the Company's business to government ( B2G ) division.

In the second quarter of 2007, the Company completed the acquisition of Ample Spring and Baichuan Tongda, a vertical search engine services provider, and formally launched the Company's B2B search services and services platform, tootoo.com. As a result, the Company added a new operating segment, (i.e., B2B), which provides online business-to-business search services by selling keywords to improve the customers' rankings in search results on the Company's marketplaces.

The Company follows the provisions of SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, which establishes standards for reporting information about operating segments. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance.

The Company's chief operating decision maker is the Chief Executive Officer. Segment information provided to the chief operating decision maker is prepared using the accounting principles and the relevant financial regulations applicable to enterprises with foreign investment as established by the Ministry of Finance in the PRC ( PRC GAAP ). The principal differences between the PRC GAAP and US GAAP as they relate to the Company are primarily (i) revenue recognition from the sale of enterprise software, (ii) the classification of the PRC value added tax refund, and (iii) the recognition of share-based compensation expenses.

The Company's reportable segments offer different products and services. Each reportable segment is assigned a member of senior management who has knowledge about the products and services, specific operational risks, and opportunities associated with the segment.



**Table of Contents**

NINETOWNS INTERNET TECHNOLOGY GROUP COMPANY LIMITED  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 FOR THE YEARS ENDED DECEMBER 31, 2006, 2007 AND 2008

(In thousands, except share and share-related data)

## 17. SEGMENT INFORMATION continued

The following is a summary of financial information relating to each segment expressed under PRC GAAP:

	Year Ended December 31, 2006			Total RMB
	Enterprise software and related customer maintenance service RMB	Software development services RMB	Computer hardware sales RMB	
Net revenues from external customers	73,123	23,084	398	96,605
Net revenues from related parties	11,450	12,933		24,383
Gross profit	84,573	20,251	264	105,088

	Year Ended December 31, 2007				Total RMB
	Enterprise software and related customer maintenance service RMB	Software development services RMB	Computer hardware sales RMB	B2B RMB	
Net revenues from external customers	52,481	25,642		489	78,612
Net revenues from related parties	8,241				8,241
Gross profit (loss)	60,848	7,894		(4,620)	64,122

	Year ended December 31, 2008				Total RMB
	Enterprise software and related customer maintenance service RMB	Software development services RMB	B2B RMB	All other RMB	
Net revenues from external customers	67,315	19,458	2,496	94	89,363

Net revenues from related parties	14,387				14,387
Gross profit (loss)	82,024	7,035	(17,211)	18	71,866

The Company does not allocate operating expenses to individual segments when making decisions about allocating resources to the segments and assessing their performance.



**Table of Contents**

NINETOWNS INTERNET TECHNOLOGY GROUP COMPANY LIMITED  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 FOR THE YEARS ENDED DECEMBER 31, 2006, 2007 AND 2008

(In thousands, except share and share-related data)

## 17. SEGMENT INFORMATION continued

The following is a reconciliation of the amounts presented for reportable segments under PRC GAAP to the consolidated totals reported under US GAAP:

	Years Ended December 31,		
	2006 RMB	2007 RMB	2008 RMB
Net revenues from external customers under PRC GAAP	96,605	78,612	89,363
U.S. GAAP adjustments:			
Differences in the timing of revenue recognition	11,455	11,346	353
PRC value added tax refund	7,549	3,995	2,846
 Total net revenues from external customers under US GAAP	 115,609	 93,953	 92,562
 Net revenues from related parties under PRC GAAP	 24,383	 8,241	 14,387
U.S. GAAP adjustments:			
Differences in the timing of revenue recognition	10,304	912	
PRC value added tax refund	2,952	352	64
 Total net revenues from related parties under US GAAP	 37,639	 9,505	 14,451
 Gross profit under PRC GAAP	 105,088	 64,122	 71,866
U.S. GAAP adjustments:			
Differences in the timing of revenue recognition	21,759	12,258	353
PRC value added tax refund	10,501	4,347	2,910
Share-based compensation expenses	(1,039)	(126)	(322)
 Gross profit under US GAAP	 136,309	 80,601	 74,807
 Operating expenses	 (109,357)	 (375,388)	 (282,721)
Government subsidies	705	1,015	
 Income (loss) from operations	 27,657	 (293,772)	 (207,914)
Interest income	19,302	13,885	7,026
Gains on disposal of available-for-sale securities		43,546	9,866
Gains from disposal of investment under cost method			2,187
Other income			358
 Income (loss) before income tax expense	 46,959	 (236,341)	 (188,477)

The Company does not allocate assets to individual segments when making decisions about allocating resources to the segments and assessing their performance.

**Table of Contents**

NINETOWNS INTERNET TECHNOLOGY GROUP COMPANY LIMITED  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 FOR THE YEARS ENDED DECEMBER 31, 2006, 2007 AND 2008  
 (In thousands, except share and share-related data)

**18. MAJOR CUSTOMERS**

Details of customers accounting for 10% or more of net revenues are as follows:

Customer	Years Ended December 31,		
	2006	2007	2008
A	11%	*	*
B	*	17%	13%
C	*	23%	21%
D	14%	*	*

\* Represents less than 10% of total net revenue.

**19. EMPLOYEE BENEFIT PLANS**

Employees of the Company located in the PRC other than Hong Kong are covered by the retirement plans defined by local practice and regulations, which are essentially defined contribution schemes. The calculation of contributions for the eligible employees is based on 20% of the applicable payroll costs. Certain employees of the Company who are located in Hong Kong have joined the Mandatory Provident Fund ( MPF ) Scheme which is also a defined contribution scheme. The contribution to the MPF Scheme is calculated based on the rules set out in the MPF Ordinance in Hong Kong which is 5% of the relevant income of the employee with a specific ceiling. The expenses recorded by the Company related to these defined contribution schemes were RMB4,587, RMB5,029, and RMB4,884 for the years ended December 31, 2006, 2007, and 2008, respectively.

In addition, the Company is required by law to contribute approximately 10%, 1%, and 1.1% of applicable salaries of certain employees for medical, unemployment benefits, and workers compensation, respectively. The PRC government is directly responsible for the payments of the benefits to these employees. The amounts contributed were RMB2,889, RMB3,219, and RMB3,299 for the years ended December 31, 2006, 2007, and 2008, respectively.

**20. CHINA CONTRIBUTION PLAN AND PROFIT APPROPRIATION**

As stipulated by the relevant laws and regulations in the PRC, the Company's subsidiaries and VIEs in the PRC are required to maintain a non-distributable statutory surplus reserve. Appropriations to the statutory surplus reserve are required to be made at not less than 10% of profit after taxes as reported in these entities' statutory financial statements prepared under PRC GAAP. Once appropriated, these amounts are not available for future distribution to owners or shareholders. Once the general reserve is accumulated to 50% of these entities' registered capital, these entities can choose not to provide additional reserves. The statutory reserve may be applied against prior year losses, if any, and may be used for general business expansion and production and an increase in the registered capital of these entities. Amounts contributed to the statutory reserve were RMB64,831 and RMB65,736 as of December 31, 2007 and 2008, respectively.

The general reserve is used to offset future extraordinary losses. The subsidiaries may, upon a resolution of the shareholders, convert the general reserve into capital. The staff welfare and bonus reserve is used for the collective welfare of the employees of the subsidiaries. The enterprise expansion reserve is used for the expansion of the subsidiaries' operations and can be converted to capital subject to approval by the relevant authorities. These reserves represent appropriations of retained earnings determined according to PRC laws and may not be distributed. According to the decision made by the Board of Directors in January 2007, RMB18,734 was appropriated from retained earnings to the statutory reserves by Ninetown's subsidiaries in the PRC. RMB17,544 and RMB905 were appropriated from net income to statutory reserves by Ninetown's subsidiaries in the PRC for the years ended

December 31, 2007 and 2008 respectively.

**Table of Contents**

NINETOWNS INTERNET TECHNOLOGY GROUP COMPANY LIMITED  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2006, 2007 AND 2008

(In thousands, except share and share-related data)

20. CHINA CONTRIBUTION PLAN AND PROFIT APPROPRIATION continued

Relevant PRC Statutory laws and regulations permit payments of dividends by Ninetown's PRC subsidiaries and VIEs only from their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. In addition, the general reserve requires annual appropriations of 10% of after-tax profit to be set aside prior to the payment of dividends. As a result of these PRC laws and regulations, the Company's PRC subsidiary and VIEs are restricted in their abilities to transfer funds to the Company in the form of dividends, loans or advances. Total restricted net assets of the Company's consolidated PRC subsidiaries and VIEs were RMB540,079 and RMB540,984 in 2007 and 2008.

21. SUBSEQUENT EVENTS

In March 2009, in consideration of the continuing deterioration of the global economic environment and international trade conditions, the Company thoroughly reviewed its overall B2B strategy and announced the decision to wind down the B2B services.

**Table of Contents**

NINETOWNS INTERNET TECHNOLOGY GROUP COMPANY LIMITED  
 SCHEDULE I CONDENSED FINANCIAL INFORMATION OF PARENT COMPANY  
 BALANCE SHEETS

(In thousands, except share and per share data)

	Years Ended December 31,		
	2007 RMB	2008 RMB	2008 US\$
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	33,354	104,704	15,346
Prepaid expenses and other current assets	5,754	818	120
Amounts due from subsidiaries	652,181	525,631	77,044
Total current assets	691,289	631,153	92,510
Investments in subsidiaries	385,162	281,367	41,241
<b>TOTAL ASSETS</b>	<b>1,076,451</b>	<b>912,520</b>	<b>133,751</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>			
Other payables	3,443	4,614	676
Amounts due to subsidiaries	104	7,726	1,133
Total current liabilities	3,547	12,340	1,809
Shareholders' equity:			
Ordinary shares, par value RMB0.027 (HK\$0.025) per share: 8,000,000,000 shares authorized; 34,991,834 shares issued and outstanding in 2007 and 34,998,020 shares issued and outstanding in 2008, respectively			
	926	926	136
Additional paid-in capital	873,568	880,581	129,070
Retained earnings	210,176	40,564	5,945
Accumulated other comprehensive loss	(11,766)	(21,891)	(3,209)
Total shareholders' equity	1,072,904	900,180	131,942
<b>TOTAL LIABILITIES AND SHAREHOLDERS EQUITY</b>	<b>1,076,451</b>	<b>912,520</b>	<b>133,751</b>

**Table of Contents**

NINETOWNS INTERNET TECHNOLOGY GROUP COMPANY LIMITED  
 SCHEDULE I CONDENSED FINANCIAL INFORMATION OF PARENT COMPANY (CONTINUED)  
 STATEMENTS OF OPERATIONS

(In thousands, except share and per share data)

	Years Ended December 31,			
	2006 RMB	2007 RMB	2008 RMB	2008 US\$
Selling and marketing expenses			(2,654)	(389)
General and administrative expenses	(20,509)	(21,682)	(27,030)	(3,962)
Loss from operations	(20,509)	(21,682)	(29,684)	(4,351)
Interest income	5,504	2,334	364	53
Loss before equity in earnings of subsidiaries	(15,005)	(19,348)	(29,320)	(4,298)
Equity in earnings (losses) of subsidiaries	60,933	(211,183)	(140,292)	(20,563)
Net income (loss)	45,928	(230,531)	(169,612)	(24,861)
Net income (loss) per share				
Basic	1.32	(6.59)	(4.85)	(0.71)
Diluted	1.30	(6.59)	(4.85)	(0.71)
Weighted average shares used in computation:				
Basic	34,773,005	34,966,830	34,997,505	34,997,505
Diluted	35,368,882	34,966,830	34,997,505	34,997,505

**Table of Contents**

NINETOWNS INTERNET TECHNOLOGY GROUP COMPANY LIMITED  
SCHEDULE I CONDENSED FINANCIAL INFORMATION OF THE PARENT COMPANY (CONTINUED)  
STATEMENTS OF SHAREHOLDERS' EQUITY AND  
COMPREHENSIVE INCOME (LOSS)  
(In thousands, except share and per share data)

	Ordinary shares		Additional	Treasury	Shares	Retained	Accumulated		Comprehe
	Shares	Amount	paid-in	Shares	Amount	Earnings	other	Total	sive
		RMB	Capital		RMB	(accumulated	(loss)	RMB	(loss)
			RMB			deficit)	Income		Income
						RMB	RMB	RMB	RMB
Balance as of									
January 1, 2006	34,991,834	926	861,315	(315,226)	(8,196)	395,415	(3,095)	1,246,365	
Issuance of ADR									
shares for the									
exercise of									
employee share									
options				267,364	6,928			6,928	
employee share									
options									
compensation			10,327					10,327	
Net income						45,928		45,928	45,928
foreign currency									
translation									
adjustments							(4,568)	(4,568)	(4,568)
									41,360
Balance as of									
December 31,									
2006	34,991,834	926	871,642	(47,862)	(1,268)	441,343	(7,663)	1,304,980	
Cumulative effect									
of unrecognized									
tax benefit on									
adoption of FIN									
8						(636)		(636)	
Issuance of ADR									
shares for the									
exercise of									
employee share									
options				47,862	1,268			1,268	
Net income/(loss)						(230,531)		(230,531)	(230,531)
foreign currency									
translation									
adjustments							(6,977)	(6,977)	(6,977)
employee share			1,926					1,926	
options									



compensation								
Unrealized gain								
on								
available-for-sale								
securities						2,874	2,874	2,874
								(234,634)
Balance as of								
December 31,								
2007	34,991,834	926	873,568		210,176	(11,766)	1,072,904	
Issuance of ADR								
shares for the								
exercise of								
employee share								
options	6,186		142				142	
Net loss					(169,612)		(169,612)	(169,612)
foreign currency								
translation								
adjustments						(7,000)	(7,000)	(7,000)
employee share								
options								
compensation			6,871				6,871	
Unrealized loss								
on								
available-for-sale								
securities						(3,125)	(3,125)	(3,125)
								(179,737)
Balance as of								
December 31,								
2008	34,998,020	926	880,581		40,564	(21,891)	900,180	
		US\$ 136	US\$ 129,070		US\$ 5,945	US\$ (3,209)	US\$ 131,942	

**Table of Contents**

NINETOWNS INTERNET TECHNOLOGY GROUP COMPANY LIMITED  
 SCHEDULE I CONDENSED FINANCIAL INFORMATION OF PARENT COMPANY (CONTINUED)  
 STATEMENTS OF CASH FLOWS

(In thousands, except share and per share data)

	Years Ended December 31,			
	2006 RMB	2007 RMB	2008 RMB	2008 US\$
Cash flows from operating activities:				
Net income	45,928	(230,531)	(169,612)	(24,861)
Adjustments to reconcile net loss to net cash used in operating activities:				
Equity in earnings of subsidiaries	(60,933)	211,183	140,292	20,563
Changes in operating assets and liabilities:				
Prepaid expenses and other current assets	(8,889)	2,673	6,406	939
Other payables	1,305	(1,084)	1,508	221
Amounts due to subsidiaries	(516)	104	7,628	1,118
Net cash used in operating activities	(23,105)	(17,655)	(13,778)	(2,020)
Cash flows from investing activities:				
(Increase) decrease in amounts due from subsidiaries	(45,857)	(19,462)	88,580	12,983
Net cash (used in) provided by investing activities	(45,857)	(19,462)	88,580	12,983
Cash flows from financing activities:				
Exercise of share options	6,928	1,268		
Net cash provided by financing activities	6,928	1,268		
Effect of exchange rate changes on cash	(3,519)	(4,386)	(3,452)	(506)
Net (decrease) increase in cash and cash equivalents	(65,553)	(40,235)	71,350	10,457
Cash and cash equivalents at the beginning of the year	139,142	73,589	33,354	4,889
Cash and cash equivalents at the end of the year	73,589	33,354	104,704	15,346

**Table of Contents**

NINETOWNS INTERNET TECHNOLOGY GROUP COMPANY LIMITED

Notes to Schedule I:

Basis of preparation

The parent-company only condensed financial information of Ninetowns is prepared using the same accounting policies as set out in the Company's consolidated financial statements except that Ninetowns uses the equity method to account for its investments in subsidiaries.

Amounts due from and due to subsidiaries

Amounts due from subsidiaries represents amounts loaned to subsidiaries for their investments in the Company's PRC subsidiaries. Amounts due from subsidiaries are non-interest bearing, unsecured and do not have specified payment terms. Amounts due to subsidiaries are payable within one year.

\* \* \* \* \*

**Table of Contents****PART III****Item 17. Financial Statements.**

We have elected to provide financial statements pursuant to Item 18.

**Item 18. Financial Statements.**

The consolidated financial statements for our company are included at the end of this annual report.

**Item 19. Exhibits.**

<b>Exhibit Number</b>	<b>Description</b>
1.1*	Amended and Restated Memorandum and Articles of Association of Ninetowns Internet Technology Group Company Limited (incorporated by reference to Exhibit 99.2 from our Form 6-K (File No. 000-51025) filed with Securities and Exchange Commission on October 25, 2006)
2.1*	Specimen American Depositary Receipt of Ninetowns Internet Technology Group Company Limited (incorporated by reference to Exhibit 2.1 from our Annual Report on Form 20-F (Registration No. 000-51025) filed with Securities and Exchange Commission on June 29, 2005)
2.2*	Specimen Share Certificate of Ninetowns Internet Technology Group Company Limited (incorporated by reference to Exhibit 4.2 from our Registration Statement on Form F-1 (Registration No. 333-120184) filed with Securities and Exchange Commission on November 3, 2004)
4.1*	Shareholders Agreement dated October 22, 2003 among Jitter Bug Holdings Limited, AIG Asian Opportunity Fund, L.P., American International Assurance Company (Bermuda) Limited, the shareholders of Ninetowns Internet Technology Group Company Limited (listed on Schedule 1 thereto) and Ninetowns Internet Technology Group Company Limited (incorporated by reference to Exhibit 4.4 from our Registration Statement on Form F-1 (Registration No. 333-120184) filed with Securities and Exchange Commission on November 3, 2004)
4.2*	Form of Termination Agreement among Ninetowns Internet Technology Group Company Limited, Jitter Bug Holdings Limited, AIG Asian Opportunity Fund, L.P., American International Assurance Company (Bermuda) Limited and certain other shareholders of Ninetowns Internet Technology Group Company Limited (incorporated by reference to Exhibit 4.5 from our Registration Statement on Form F-1 (Registration No. 333-120184) filed with Securities and Exchange Commission on November 3, 2004)
4.3*	Form of Lock-up agreement by and among Ninetowns Internet Technology Group Company Limited and certain of its directors, executive officers and shareholders (incorporated by reference to Exhibit 4.6 from our Registration Statement on Form F-1 (Registration No. 333-120184) filed with Securities and Exchange Commission on November 3, 2004)
4.4*	Employee Share Option Scheme (incorporated by reference to Exhibit 10.1 from our Registration Statement on Form F-1 (Registration No. 333-120184) filed with Securities and Exchange Commission on November 3, 2004)
4.5*	Amended and Restated 2004 Share Option Plan of Ninetowns Internet Technology Group Company Limited (incorporated by reference to Exhibit 4.5 from our Annual Report on Form 20-F (Registration No. 000-51025) filed with Securities and Exchange Commission on June 29, 2006.
4.6*	2006 Share Incentive Plan of Ninetowns Internet Technology Group Company Limited
4.7*	Service Agreement dated October 8, 2003 between Ninetowns Internet Technology Group Company Limited and Shuang Wang (incorporated by reference to Exhibit 10.3 from our

- Registration Statement on Form F-1 (Registration No. 333-120184) filed with Securities and Exchange Commission on November 3, 2004)
- 4.8\* Service Agreement dated October 8, 2003 between Ninetowns Internet Technology Group Company Limited and Xiaoguang Ren (incorporated by reference to Exhibit 10.4 from our Registration Statement on Form F-1 (Registration No. 333-120184) filed with Securities and Exchange Commission on November 3, 2004)
- 4.09\* Service Agreement dated September 30, 2003 between Ninetowns Internet Technology Group Company Limited and Tommy Siu Lun Fork (incorporated by reference to Exhibit 10.6 from our Registration Statement on Form F-1 (Registration No. 333-120184) filed with Securities and Exchange Commission on November 3, 2004)

**Table of Contents**

<b>Exhibit Number</b>	<b>Description</b>
4.10*	Service Agreement dated October 8, 2003 between Ninetowns Internet Technology Group Company Limited and Kin Fai Ng (incorporated by reference to Exhibit 10.8 from our Registration Statement on Form F-1 (Registration No. 333-120184) filed with Securities and Exchange Commission on November 3, 2004)
4.11*	Service Agreement dated October 8, 2003 between Ninetowns Internet Technology Group Company Limited and Min Dong (incorporated by reference to Exhibit 10.10 from our Registration Statement on Form F-1 (Registration No. 333-120184) filed with Securities and Exchange Commission on November 3, 2004)
4.12*	Service Agreement dated October 8, 2003 between Ninetowns Internet Technology Group Company Limited and Bolin Wu (incorporated by reference to Exhibit 10.11 from our Registration Statement on Form F-1 (Registration No. 333-120184) filed with Securities and Exchange Commission on November 3, 2004)
4.13*	Service Agreement dated November 12, 2004 between Ninetowns Internet Technology Group Company Limited and John Yan Wang (incorporated by reference to Exhibit 10.36 from our Registration Statement on Form F-1 (Registration No. 333-120184) filed with Securities and Exchange Commission on November 30, 2004)
4.14*	Translation of Form of Software Sales Agreement (incorporated by reference to Exhibit 10.12 from our Registration Statement on Form F-1 (Registration No. 333-120184) filed with Securities and Exchange Commission on November 3, 2004)
4.15*	Translation of Franchise Agreement dated February 14, 2004 between Beijing Ninetowns Ports Software and Technology Co., Ltd. and Shenzhen Ninetowns Enke Software Technology Co., Ltd. (incorporated by reference to Exhibit 10.17 from our Registration Statement on Form F-1 (Registration No. 333-120184) filed with Securities and Exchange Commission on November 3, 2004)
4.16*	Translation of Supplemental Agreement dated April 22, 2004, amending Franchise Agreement dated February 14, 2004 (incorporated by reference to Exhibit 10.18 from our Registration Statement on Form F-1 (Registration No. 333-120184) filed with Securities and Exchange Commission on November 3, 2004)
4.17*	Translation of Franchise Agreement relating to iDeclare.CIQ software dated May 10, 2006 between Beijing Ninetowns Ports Software and Technology Co., Ltd. and Beijing Ninetowns Zhi Fang Software and Technology Co., Ltd. (incorporated by reference to Exhibit 4.22 from our Annual Report on Form 20-F (Registration No. 000-51025) filed with Securities and Exchange Commission on June 29, 2006)
4.18*	Translation of Franchise Agreement relating to iProcess.CIQ software dated May 10, 2006 between Beijing Ninetowns Ports Software and Technology Co., Ltd. and Beijing Ninetowns Zhi Fang Software and Technology Co., Ltd. (incorporated by reference to Exhibit 4.23 from our Annual Report on Form 20-F (Registration No. 000-51025) filed with Securities and Exchange Commission on June 29, 2006)
4.19*	Translation of Franchise Agreement relating to Ninetowns Network Quality Supervision Software v1.0 software dated December 26, 2006 between Beijing Ninetowns Network and Software Co., Ltd. and Beijing Ninetowns Zhi Fang Software and Technology Co., Ltd.
4.20*	Translation of Franchise Agreement dated May 12, 2006 between Beijing Ninetowns Ports Software and Technology Co., Ltd. and Shenzhen Ninetowns Enke Software Technology Co., Ltd. (incorporated by reference to Exhibit 4.24 from our Annual Report on Form 20-F (Registration No. 000-51025) filed with Securities and Exchange Commission on June 29,

- 2006)
- 4.21\* Translation of Franchise Agreement relating to Ninetowns Network Quality Supervision Software v1.0 software dated December 26, 2006 between Beijing Ninetowns Network and Software Co., Ltd. and Shenzhen Ninetowns Enke Software Technology Co., Ltd.
- 4.22\* Translation of Franchise Agreement dated May 12, 2006 between Beijing Ninetowns Ports Software and Technology Co., Ltd. and Beijing Ninetowns Xin He Software Technology Co., Ltd. (incorporated by reference to Exhibit 4.25 from our Annual Report on Form 20-F (Registration No. 000-51025) filed with Securities and Exchange Commission on June 29, 2006)
- 4.23\* Translation of Franchise Agreement relating to Ninetowns Network Quality Supervision Software v1.0 software dated December 26, 2006 between Beijing Ninetowns Network and Software Co., Ltd. and Beijing Ninetowns Xin He Software Technology Co., Ltd.
- 4.24\* Translation of Franchise Agreement relating to iDelare v5.0 software dated October 18, 2006 between Beijing Ninetowns Ports Software and Technology Co., Ltd. and Guangzhou Ninetowns Wang Li Software Co., Ltd.

**Table of Contents**

<b>Exhibit Number</b>	<b>Description</b>
4.25*	Translation of Franchise Agreement relating to Ninetowns Network Quality Supervision Software v1.0 software dated December 26, 2006 between Beijing Ninetowns Network and Software Co., Ltd. and Guangzhou Ninetowns Wang Li Software Co., Ltd.
4.26*	Translation of Union Plaza Lease Agreement dated February 27, 2003 between Beijing Fu Yu Da Real Estate Development Co., Ltd. and Beijing Ninetowns Digital Technology Limited (incorporated by reference to Exhibit 10.19 from our Registration Statement on Form F-1 (Registration No. 333-120184) filed with Securities and Exchange Commission on November 3, 2004)
4.27*	Translation of Renewal Agreement dated May 23, 2005 between Beijing Fu Yu Da Real Estate Development Co., Ltd. and Beijing Ninetowns Ports Software and Technology Co., Ltd. (incorporated by reference to Exhibit 4.32 from our Annual Report on Form 20-F (Registration No. 000-51025) filed with Securities and Exchange Commission on June 29, 2006)
4.28*	Translation of Renewal Agreement dated August 30, 2005 between Beijing Fu Yu Da Real Estate Development Co., Ltd. and Beijing Ninetowns Ports Software and Technology Co., Ltd. (incorporated by reference to Exhibit 4.33 from our Annual Report on Form 20-F (Registration No. 000-51025) filed with Securities and Exchange Commission on June 29, 2006)
4.29*	Translation of Renewal Agreement dated March 8, 2006 between Beijing Fu Yu Da Real Estate Development Co., Ltd. and Beijing Ninetowns Ports Software and Technology Co., Ltd. (incorporated by reference to Exhibit 4.28 from our Annual Report on Form 20-F (Registration No. 000-51025) filed with Securities and Exchange Commission on June 29, 2006)
4.30*	Translation of Renewal Agreement dated September 20, 2006 between Beijing Fu Yu Da Real Estate Development Co., Ltd. and Beijing Ninetowns Ports Software and Technology Co., Ltd.
4.31*	Translation of Renewal Agreement dated December 6, 2006 between Beijing Fu Yu Da Real Estate Development Co., Ltd. and Beijing Ninetowns Ports Software and Technology Co., Ltd.
4.32*	Translation of Renewal Agreement dated March 20, 2007 between Beijing Fu Yu Da Real Estate Development Co., Ltd. and Beijing Ninetowns Ports Software and Technology Co., Ltd.
4.33*	Translation of Extension Agreement dated August 9, 2005 between Beijing Fu Yu Da Real Estate Development Co., Ltd. and Beijing Ninetowns Ports Software and Technology Co., Ltd. (incorporated by reference to Exhibit 4.29 from our Annual Report on Form 20-F (Registration No. 000-51025) filed with Securities and Exchange Commission on June 29, 2006)
4.34*	Translation of Renewal Agreement dated March 8, 2006 between Beijing Fu Yu Da Real Estate Development Co., Ltd. and Beijing Ninetowns Ports Software and Technology Co., Ltd. (incorporated by reference to Exhibit 4.30 from our Annual Report on Form 20-F (Registration No. 000-51025) filed with Securities and Exchange Commission on June 29, 2006)
4.35*	Translation of Renewal Agreement dated September 20, 2006 between Beijing Fu Yu Da Real Estate Development Co., Ltd. and Beijing Ninetowns Ports Software and Technology Co., Ltd.
4.36*	



- Translation of Renewal Agreement of Extension 1 dated December 21, 2006 between Beijing Fu Yu Da Real Estate Development Co., Ltd. and Beijing Ninetowns Ports Software and Technology Co., Ltd.
- 4.37\* Translation of Renewal Agreement of Extension 1 dated March 20, 2007 between Beijing Fu Yu Da Real Estate Development Co., Ltd. and Beijing Ninetowns Ports Software and Technology Co., Ltd.
- 4.38\* Translation of Extension Agreement dated December 23, 2005 between Beijing Fu Yu Da Real Estate Development Co., Ltd. and Beijing Ninetowns Digital Technology Limited (incorporated by reference to Exhibit 4.31 from our Annual Report on Form 20-F (Registration No. 000-51025) filed with Securities and Exchange Commission on June 29, 2006)
- 4.39\* Translation of Renewal Agreement of Extension 2 dated June 6, 2006 between Beijing Fu Yu Da Real Estate Development Co., Ltd. and Beijing Ninetowns Ports Software and Technology Co., Ltd.
- 4.40\* Translation of Renewal Agreement of Extension 2 dated December 18, 2006 between Beijing Fu Yu Da Real Estate Development Co., Ltd. and Beijing Ninetowns Ports Software and Technology Co., Ltd.
- 4.41\* Translation of Renewal Agreement of Extension 2 dated March 20, 2007 between Beijing Fu Yu Da Real Estate Development Co., Ltd. and Beijing Ninetowns Ports Software and Technology Co., Ltd.
- 4.42\* Translation of Renewal Agreement of Extension 3 dated November 27, 2006 between Beijing Fu Yu Da Real Estate Development Co., Ltd. and Beijing Ninetowns Ports Software and Technology Co., Ltd.
- 4.43\* Translation of Renewal Agreement of Extension 3 dated March 20, 2007 between Beijing Fu Yu Da Real Estate Development Co., Ltd. and Beijing Ninetowns Ports Software and Technology Co., Ltd.

**Table of Contents**

<b>Exhibit Number</b>	<b>Description</b>
4.44*	Translation of Renewal Agreement of Extension 4 dated December 15, 2006 between Beijing Fu Yu Da Real Estate Development Co., Ltd. and Beijing Ninetowns Ports Software and Technology Co., Ltd.
4.45*	Translation of Renewal Agreement of Extension 4 dated March 20, 2007 between Beijing Fu Yu Da Real Estate Development Co., Ltd. and Beijing Ninetowns Ports Software and Technology Co., Ltd.
4.46*	Translation of Software Development Contract for iTowNet Customer Service System dated April 2, 2002 between Beijing iTowNet Cyber Technology Ltd. and Beijing New Take Electronic Commerce Limited (incorporated by reference to Exhibit 10.21 from our Registration Statement on Form F-1 (Registration No. 333-120184) filed with Securities and Exchange Commission on November 3, 2004)
4.47*	Translation of Software Development Contract for Online Declaration System dated May 28, 2002 between Beijing iTowNet Cyber Technology Ltd. and Beijing New Take Electronic Commerce Limited (incorporated by reference to Exhibit 10.22 from our Registration Statement on Form F-1 (Registration No. 333-120184) filed with Securities and Exchange Commission on November 3, 2004)
4.48*	Translation of Software Development Contract for iTowNet Platform Tendering and Optimization Project dated August 1, 2003 between Beijing Regard Technology Co., Ltd. and Beijing Ninetowns Ports Software and Technology Co., Ltd. (incorporated by reference to Exhibit 10.23 from our Registration Statement on Form F-1 (Registration No. 333-120184) filed with Securities and Exchange Commission on November 3, 2004)
4.49*	Translation of Software Development Contract for Inspection and Quarantine Great Customs Clearance Project dated August 1, 2003 between Beijing Regard Technology Co., Ltd. and Beijing Ninetowns Ports Software and Technology Co., Ltd. (incorporated by reference to Exhibit 10.24 from our Registration Statement on Form F-1 (Registration No. 333-120184) filed with Securities and Exchange Commission on November 3, 2004)
4.50*	Translation of iTowNet Electronic Service Platform Technical Service Contract dated December 25, 2003 between Beijing iTowNet Cyber Technology Ltd. and Beijing Ninetowns Ports Software and Technology Co., Ltd. (incorporated by reference to Exhibit 10.25 from our Registration Statement on Form F-1 (Registration No. 333-120184) filed with Securities and Exchange Commission on November 3, 2004)
4.51*	Translation of UMA Product Sales and Service Contract dated October 8, 2003 between Beijing iTowNet Cyber Technology Ltd. and Beijing Ninetowns Ports Software and Technology Co., Ltd. (incorporated by reference to Exhibit 10.26 from our Registration Statement on Form F-1 (Registration No. 333-120184) filed with Securities and Exchange Commission on November 3, 2004)
4.52*	Deed of Undertaking dated August 13, 2004 by Shuang Wang and Min Dong to AIG Asian Opportunity Fund, L.P. and American International Assurance Company (Bermuda) Limited (incorporated by reference to Exhibit 10.27 from our Registration Statement on Form F-1 (Registration No. 333-120184) filed with Securities and Exchange Commission on November 3, 2004)
4.53*	Sale and Purchase Agreement dated October 3, 2003 among Ninetowns Internet Technology Group Company Limited, Jitter Bug Holdings Limited, UOB Venture (Shenzhen) Limited, Titan I Venture Capital Co., Ltd., Titan II Venture Capital Co., Ltd. and CFM Investments Limited CFM Greater China Fund (incorporated by reference to Exhibit 10.28 from our Registration Statement on Form F-1 (Registration No. 333-120184)

- 4.54\* filed with Securities and Exchange Commission on November 3, 2004)  
Sale and Purchase Agreement dated October 8, 2003 among Ninetowns Internet Technology Group Company Limited, Jitter Bug Holdings Limited, China Equity Associates L.P. and MMFI CAPI Venture Investments Limited (incorporated by reference to Exhibit 10.29 from our Registration Statement on Form F-1 (Registration No. 333-120184) filed with Securities and Exchange Commission on November 3, 2004)
- 4.55\* Subscription Agreement dated October 8, 2003 between Ninetowns Internet Technology Group Company Limited and Ever Praise Holdings Limited (incorporated by reference to Exhibit 10.30 from our Registration Statement on Form F-1 (Registration No. 333-120184) filed with Securities and Exchange Commission on November 3, 2004)

**Table of Contents**

<b>Exhibit Number</b>	<b>Description</b>
4.56*	Share Subscription Agreement dated October 9, 2003 among Ninetowns Internet Technology Group Company Limited, Jitter Bug Holdings Limited, AIG Asian Opportunity Fund, L.P., American International Assurance Company (Bermuda) Limited, Mr. Shuang Wang and Ms. Min Dong (incorporated by reference to Exhibit 10.31 from our Registration Statement on Form F-1 (Registration No. 333-120184) filed with Securities and Exchange Commission on November 3, 2004)
4.57*	Sale and Purchase Agreement dated October 16, 2003 among Ninetowns Internet Technology Group Company Limited, Jitter Bug Holdings Limited and Huitung Investments (BVI) Limited (incorporated by reference to Exhibit 10.32 from our Registration Statement on Form F-1 (Registration No. 333-120184) filed with Securities and Exchange Commission on November 3, 2004)
4.58*	Subscription Agreement dated December 11, 2003 among Ninetowns Internet Technology Group Company Limited, Jitter Bug Holdings Limited, Titan I Venture Capital Co., Ltd, Titan II Venture Capital Co., Ltd. and CFM Investments Limited CFM Greater China Fund (incorporated by reference to Exhibit 10.33 from our Registration Statement on Form F-1 (Registration No. 333-120184) filed with Securities and Exchange Commission on November 3, 2004)
4.59*	Subscription Agreement dated December 11, 2003 among Ninetowns Internet Technology Group Company Limited, Jitter Bug Holdings Limited and Ferndale Associates Limited (incorporated by reference to Exhibit 10.34 from our Registration Statement on Form F-1 (Registration No. 333-120184) filed with Securities and Exchange Commission on November 3, 2004)
4.60*	Form of Right of First Refusal Agreement dated as of November 2, 2004 among Ninetowns Internet Technology Group Company Limited, Ninetowns Import & Export e-Commerce Co., Ltd., Shuang Wang and Min Dong (incorporated by reference to Exhibit 10.35 from our Registration Statement on Form F-1 (Registration No. 333-120184) filed with Securities and Exchange Commission on November 3, 2004)
4.61*	Translation of Software Development Contract for an Integrated Origin Certificate Electronic Management System dated December 15, 2004 between Beijing iTowNet Cyber Technology Ltd. and Beijing Ninetowns Ports Software and Technology Co., Ltd. (incorporated by reference to Exhibit 4.39 from our Annual Report on Form 20-F (Registration No. 000-51025) filed with Securities and Exchange Commission on June 29, 2005)
4.62*	Translation of Software Development Contract for Internal Decision & Support System dated January 27, 2005 between the State Administration for Quality Supervision and Inspection and Quarantine of the PRC and Beijing Ninetowns Ports Software and Technology Co., Ltd. (incorporated by reference to Exhibit 4.40 from our Annual Report on Form 20-F (Registration No. 000-51025) filed with Securities and Exchange Commission on June 29, 2005)
4.63*	Translation of Software Development Contract for Export Electronic Monitoring Project (Phase I) dated March 31, 2005 between Beijing Regard Technology Co., Ltd. and Beijing Ninetowns Ports Software and Technology Co., Ltd. (incorporated by reference to Exhibit 4.41 from our Annual Report on Form 20-F (Registration No. 000-51025) filed with Securities and Exchange Commission on June 29, 2005)
4.64*	Summary of Sale and Purchase Agreement between Beijing Ninetowns Times Electronic Commerce Limited and Dauphin Science Business Park Construction & Development Co.,

- Ltd. of Beijing Zhongguancun Fengtai Science Park (incorporated by reference to Exhibit 4.42 from our Annual Report on Form 20-F (Registration No. 000-51025) filed with Securities and Exchange Commission on June 29, 2005)
- 4.65\* Summary of form of the Sale and Purchase Agreement between Beijing Ninetowns Ports Software and Technology Co., Ltd. and Beijing Heng Fu Plaza Development Co., Ltd. (incorporated by reference to Exhibit 4.43 from our Annual Report on Form 20-F (Registration No. 000-51025) filed with Securities and Exchange Commission on June 29, 2005)
- 4.66\* Translation of Software Development Contract for Export Electronic Monitoring Project (Phase 2) dated August 29, 2005 between eGrid Technology Ltd. and Beijing Ninetowns Ports Software and Technology Co., Ltd. (incorporated by reference to Exhibit 4.54 from our Annual Report on Form 20-F (Registration No. 000-51025) filed with Securities and Exchange Commission on June 29, 2006)
- 4.67\* Translation of Software Development Contract for Waste Import Electronic Monitoring dated June 28, 2005 between Beijing Regard Technology Co., Ltd. and Beijing Ninetowns Ports Software and Technology Co., Ltd. (incorporated by reference to Exhibit 4.55 from our Annual Report on Form 20-F (Registration No. 000-51025) filed with Securities and Exchange Commission on June 29, 2006)

**Table of Contents**

<b>Exhibit Number</b>	<b>Description</b>
4.68*	Translation of Software Development Contract for Electronic Business Integrated Service Platform dated June 28, 2005 between Beijing Regard Technology Co., Ltd. and Beijing Ninetowns Ports Software and Technology Co., Ltd. (incorporated by reference to Exhibit 4.56 from our Annual Report on Form 20-F (Registration No. 000-51025) filed with Securities and Exchange Commission on June 29, 2006)
4.69*	Translation of Software Development Contract for Electronic Monitoring System Software Project (Common version for Enterprise) dated August 1, 2005 between State Administration for Quality Supervision and Inspection and Quarantine of the PRC and Beijing Ninetowns Ports Software and Technology Co., Ltd. (incorporated by reference to Exhibit 4.57 from our Annual Report on Form 20-F (Registration No. 000-51025) filed with Securities and Exchange Commission on June 29, 2006)
4.70*	Share and Purchase Agreement dated September 3, 2006, among Ninetowns Digital World Trade Holdings Limited, Beprecise Investments Limited, Global Market Group Limited, Global Market Group (Asia) Limited, Global Market (Guangzhou) Co., Ltd., Pan Weijia and Pan Weinian (incorporated by reference to Exhibit 99.4 from our Form 6-K (File No.000-51025) filed with Securities and Exchange Commission on September 22, 2006)
4.71*	Investor s Rights Agreement dated October 19, 2006, among Beprecise Investments Limited, Global Market Group Limited, Global Market Group (Asia) Limited, Global Market (Guangzhou) Co., Ltd., Pan Weijia and Pan Weinan
4.72*	Share and Purchase Agreement dated April 9, 2007, among Ixworth Enterprises Limited, Beijing Ninetowns Network and Software Co., Ltd., Fan Hui Yang, Zhi Sheng Limited, Ample Spring Holdings Limited, Beijing Baichuan Tongda Science and Technology Development Co., Ltd., Zhou Peiji and Zhou Lijun
4.73*	Shareholders Agreement dated April 26, 2007, among Ixworth Enterprises Limited, Fan Hui Yang, Zhi Sheng Limited and Ample Spring Holdings Limited
4.74*	Translation of Software Copyright Assignment Agreement dated November 10, 2006 between Department Service Center of Dongguan Entry-Exit Inspection and Quarantine Bureau and Beijing Ninetowns Ports Software and Technology Co., Ltd.
4.75*	Amendment to Share Purchase and Subscription Agreement dated December 22, 2007, among Ixworth Enterprises Limited, Beijing Ninetowns Network and Software Co., Ltd., Fan Hui Yang, Zhi Sheng Limited, Ample Spring Holdings Limited, Beijing Baichuan Tongda Science and Technology Development Co., Ltd., Zhou Peiji and Zhou Lijun.
4.76*	Translation of Pre-sale Contract for Commodity House in Beijing Municipality dated June 25 2007 between Beijing Hengfu Plaza Development Co., Ltd. and Beijing Ninetowns Ports Software and Technology Co., Ltd.
4.77*	Translation of Sale Contract for Commodity House dated September 19, 2007 between Guangzhou Hejing Real Estate Development Co., Ltd. and Guangdong Ninetowns Technology Co., Ltd.
4.78	Translation of Construction Land Use Right Grant Contract dated October 30, 2008 between Beijing Ninetowns Software Co., Ltd. and Beijing Land Resource Bureau, Economic Technological Development Area Branch
4.79	Translation of Supplemental Agreement to Construction Land Use Right Grant Contract dated October 30, 2008 between Beijing Ninetowns Software Co., Ltd. and Beijing Land Resource Bureau, Economic Technological Development Area Branch
4.80	Translation of Franchise Agreement relating to Ninetowns Network Quality Supervision Software v1.0 software dated August 1, 2008 between Beijing Ninetowns Network and

- 4.81 Software Co., Ltd. and Beijing Ninetowns Zhi Fang Software and Technology Co., Ltd.  
Translation of Franchise Agreement relating to Ninetowns Network Quality Supervision Software v1.0 software dated August 1, 2008 between Beijing Ninetowns Network and Software Co., Ltd. and Shenzhen Ninetowns Enke Software Technology Co., Ltd.
- 4.82 Translation of Franchise Agreement relating to Ninetowns Network Quality Supervision Software v1.0 software dated August 1, 2008 between Beijing Ninetowns Network and Software Co., Ltd. and Beijing Ninetowns Xin He Software Technology Co., Ltd.
- 4.83 Translation of Franchise Agreement relating to Ninetowns Network Quality Supervision Software v1.0 software dated August 1, 2008 between Beijing Ninetowns Network and Software Co., Ltd. and Guangzhou Ninetowns Wang Li Software Co., Ltd.
- 4.84 Translation of Franchise Agreement relating to iDeclare V5.0 software dated August 1, 2008 between Beijing Ninetowns Ports Software and Technology Co., Ltd. and Beijing Ninetowns Zhi Fang Software and Technology Co., Ltd.
- 4.85 Translation of Franchise Agreement relating to iDeclare V5.0 software dated August 1, 2008 between Beijing Ninetowns Ports Software and Technology Co., Ltd. and Shenzhen Ninetowns Enke Software Technology Co., Ltd.

**Table of Contents**

<b>Exhibit Number</b>	<b>Description</b>
4.86	Translation of Franchise Agreement relating to iDeclare V5.0 software dated August 1, 2008 between Beijing Ninetowns Ports Software and Technology Co., Ltd. and Beijing Ninetowns Xin He Software Technology Co., Ltd.
4.87	Translation of Franchise Agreement relating to iDeclare V5.0 software dated August 1, 2008 between Beijing Ninetowns Ports Software and Technology Co., Ltd. and Guangzhou Ninetowns Wang Li Software Co., Ltd.
8.1	Subsidiaries of Ninetowns Internet Technology Group Company Limited
11.1*	Code of Business Conduct and Ethics (incorporated by reference to Exhibit 11.1 from our Annual Report on Form 20-F (Registration No. 000-51025) filed with Securities and Exchange Commission on June 29, 2005)
11.2*	Code of Ethics for Chief Executive Officer and Senior Financial Officers (incorporated by reference to Exhibit 11.2 from our Annual Report on Form 20-F (Registration No. 000-51025) filed with Securities and Exchange Commission on June 29, 2005)
12.1	Certification of Chief Executive Officer pursuant to SEC Rule 13a-14(a)
12.2	Certification of Chief Financial Officer pursuant to SEC Rule 13a-14(a)
13.1	Certification of Chief Executive Officer pursuant to SEC Rule 13a-14(b)
13.2	Certification of Chief Financial Officer pursuant to SEC Rule 13a-14(b)
15.1	Consent of GHP Horwath, P.C.
15.2	Consent of Conyers Dill & Pearman
15.3	Consent of Commerce & Finance Law Offices

\* Previously filed with the relevant Registration Statement on Form F-1, with the relevant Annual Report on Form 20-F or with the relevant Periodic Report on Form 6-K.

Certain portions of this Exhibit have been omitted based upon a request for confidential treatment. The omitted portions have been separately submitted to the



Securities and  
Exchange  
Commission.

**Table of Contents**

**Signatures**

The registrant hereby certifies that it meets all of the requirements for filing its annual report on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf on this 24th day of June, 2009.

**NINETOWNS INTERNET TECHNOLOGY  
GROUP COMPANY LIMITED**

By: /s/ Shuang Wang  
Name: Shuang Wang  
Title: Chief Executive Officer