

NINETOWNS INTERNET TECHNOLOGY GROUP CO LTD
Form 20-F
July 15, 2008

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

FORM 20-F

(Mark One)

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

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2007

OR

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

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report

For the transition period from _____ to _____

Commission file number _____

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)

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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	Name of each exchange on which registered
35,791,834 ordinary shares	Nasdaq Global Market

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

None
(Title of Class)

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

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 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 Other

by the International Accounting Standards Board

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

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Introduction

This annual report on Form 20-F includes our audited consolidated financial statements for the years ended December 31, 2005, 2006 and 2007, and as of December 31, 2006 and 2007. References to “2005,” “2006,” “2007”, “2008” and “2009” where appropriate, references to the years ended or ending December 31, 2005, 2006, 2007, 2008 and 2009, 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,” or the 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.

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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 information and other 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, 2005, 2006 and 2007, and the balance sheet data as of December 31, 2006 and 2007, 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 2003 and 2004, and the balance sheet data as of December 31, 2003, 2004 and 2005, 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 year ended December 31,

	2003	2004	2005	2006	2007	2007(1)
Statement of operations data:						
Total net revenues:						
Enterprise software and related customer maintenance services	RMB113,791	RMB188,720	RMB203,488	RMB116,833	RMB77,327	US\$10,601
Software development services	19,045	12,723	35,700	36,017	25,642	3,515
Computer hardware sales	72	104	678	398	-	-
Business-to-business search services	-	-	-	-	489	67
	132,908	201,547	239,866	153,248	103,458	14,183
Cost of revenues:						
	(1,532)	(1,528)	(495)	-	-	-

Enterprise software and
related customer maintenance
services

Software development services	(4,939)	(2,970)	(18,192)	(16,805)	(17,748)	(2,433)
Computer hardware	(48)	(9)	(482)	(134)	-	-

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sales						
Business-to-business search services	-	-	-	-	(5,109)	(700)
	(6,519)	(4,507)	(19,169)	(16,939)	(22,857)	(3,133)
Gross profit	126,389	197,040	220,697	136,309	80,601	11,050
Operating expenses:						
Selling and marketing	(13,674)	(15,977)	(25,752)	(13,604)	(41,086)	(5,633)
General and administrative	(56,911)	(36,572)	(49,538)	(65,928)	(108,729)	(14,905)
Research and development	(2,691)	(4,819)	(11,249)	(29,825)	(32,003)	(4,387)
Provision for impairment of goodwill	-	-	-	-	(193,570)	(26,536)
Total operating expenses	(73,276)	(57,368)	(86,539)	(109,357)	(375,388)	(51,461)
Government subsidies	211	1,340	447	705	1,015	139
Income (loss) from operations	53,324	141,012	134,605	27,657	(293,772)	(40,272)
Interest income	1,220	3,768	17,625	19,302	13,885	1,903
Gains on disposal of securities	-	-	-	-	43,546	5,970

In thousands,
except per share,
per ADS and
operating data and
percentages

For the years ended December 31,

	2003	2004	2005	2006	2007	2007(1)
Income (loss) before provision for income taxes and minority interest	RMB54,544	RMB144,780	RMB152,230	RMB46,959	RMB(236,341)	US\$(32,399)
Provision for income taxes	(4,116)	(1,823)	(626)	(1,031)	(243)	(33)
Income (loss) before minority interest	50,428	142,957	151,604	45,928	(236,584)	(32,432)
Minority interest	(9,239)	(9,006)	-	-	6,053	830
Net income (loss)	41,189	133,951	151,604	45,928	(230,531)	(31,602)
Net income (loss) per share and ADS(2):						
Basic	1.82	4.96	4.39	1.32	(6.59)	(0.90)
Diluted	1.82	4.74	4.25	1.30	(6.59)	(0.90)
Cash flow data:						
Net cash provided by operating activities	87,244	143,270	146,372	40,832	(2,941)	(403)
Net cash (used in) provided by investing activities	(39,629)	(179,405)	(110,851)	(176,483)	57,193	7,840
Net cash provided by (used in) financing activities	70,250	565,597	2,044	6,328	1,268	174

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	2003	2004	As of December 31,		2007	2007(1)
			2005	2006		
Balance sheet data:						
Cash and cash equivalent	RMB167,531	RMB696,993	RMB731,474	RMB598,648	RMB649,863	US\$89,088
Restricted cash	-	-	-	-	853	117
Trade receivables, net of allowance for doubtful debts, from:						
external customers	31,096	38,190	17,459	18,775	31,096	4,263
related parties	31,885	30,940	29,752	28,330	6,350	871
Term deposits	65,664	150,913	207,000	307,209	26,000	3,564
Total assets	323,975	1,222,182	1,345,773	1,365,289	1,171,180	160,555
Deferred revenue	70,608	97,230	67,886	26,383	32,472	4,452
Total liabilities	94,234	131,130	98,808	60,309	92,793	12,721
Mezzanine equity	46,937	-	-	-	-	-
Total shareholders' equity	165,530	1,090,452	1,246,365	1,304,980	1,072,904	147,082
Number of ordinary shares outstanding	22,780,000	34,391,834	34,991,834	34,991,834	34,991,834	34,991,834

- (1) For the convenience of the reader, the RMB amounts are expressed in U.S. dollars at the rate of RMB7.2946 to US\$1.00, the noon buying rate in effect on December 31, 2007 as quoted by the Federal Reserve Bank of New York.
- (2) On November 9, 2004, our shareholders approved a 4-for-1 share split. All shares and per share data have been restated to give retroactive effect to this share split.

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 RMB7.2946 to US\$1.00, the noon buying rate in effect as of December 31, 2007. 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 Federal Reserve Bank of New York.

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	Period End	Noon Buying Rate		
		Average (1)	Low	High
		(RMB per US\$1.00)		
2002	8.2800	8.2770	8.2800	8.2669
2003	8.2767	8.2771	8.2880	8.2765
2004	8.2765	8.2768	8.2774	8.2764
2005	8.0702	8.1940	8.0702	8.2765
2006	7.8041	7.9723	7.8041	8.0702
2007	7.2946	7.6072	7.2946	7.8127
2008				
January	7.1818	7.2405	7.1818	7.2946
February	7.1115	7.1644	7.1100	7.1973
March	7.0120	7.0722	7.0105	7.1110
April	6.9870	6.9997	6.9840	7.0185
May	6.9400	6.9725	6.9377	7.0000
June	6.8591	6.8993	6.8591	6.9633
July(2)	6.8529	6.8560	6.8529	6.8608

(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 July 4, 2008.

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 PRC Inspections Administration, or by Beijing iTowNet Cyber Technology Ltd., or iTowNet, which is the operator of the PRC Inspections Administration's data exchange platforms and electronic processing systems, 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 sales of enterprise software and related customer maintenance services and

software development services that will be used in connection with PRC Inspections Administration filings. Net revenues from sales of enterprise software and related customer maintenance services for PRC Inspections Administration filings accounted for 84.8%, 76.2% and 74.7% of our total net revenues in 2005, 2006 and 2007, respectively. Net revenues from software development services provided, directly or indirectly, to the PRC Inspections Administration and iTowNet accounted for 11.7%, 10.7% and 0.2% of our total net revenues in 2005, 2006 and 2007, respectively.

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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.

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, its affiliated company iTowNet 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, iTowNet 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 (US\$423,000) 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 will likely have a material adverse effect on our results of operations in the short-term and on our future profitability. For example, we sold, together with our franchisees, approximately 1,500, 2,200 and 1,000 software packages of iDeclare.CIQ during the first quarter of 2006, 2007 and 2008, 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. 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 products.

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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 2007. 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.

We are still in the process of developing our business-to-business, or B2B, strategy. On April 27, 2007, our wholly-owned subsidiary, Ixworth, acquired a 70.0% interest in Ample Spring Holdings Limited, or Ample Spring, a company incorporated in the British Virgin Islands, as part of the acquisition of Ample Spring, we also acquired 70.0% of the equity interests of Beijing Baichuan Tongda Science and Technology Development Company Ltd., or Baichuan, which is one of our variable interest entities. We launched our new B2B vertical search platform, tootoo.com in May 2007, through which our B2B business and services are offered. We launched the second generation of tootoo.com in June 2007, which features advanced vertical search capabilities plus value-added services for global buyers and suppliers. We do not have a significant operating history in respect to such business upon which you can evaluate our business and prospects in such area. Furthermore, as part of our operation 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 operations, and any failure to do so may limit our future growth and materially 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, 2008, 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 17.62% 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 14.72% and 8.58% of our American Depositary Shares, or ADSs, respectively. Together with Technology Pioneer, Mr. Duan will 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.

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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. iTowNet is 51.0% owned by the PRC Inspections Administration and is the ultimate user of a substantial portion of all the software development services we provide 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.

We derived RMB17.3 million of our total net revenues in 2005 from iTowNet, which is our related party and a major customer for our software development services. We did not derive any revenue from iTowNet in 2006 and 2007.

In addition, we derived RMB24.2 million, RMB16.4 million and nil, or 10.1%, 10.7% and nil, of our total net revenues in 2005, 2006 and 2007, respectively, from eGrid Technology Ltd., or eGrid, (formerly known as Beijing Regard Technology Co., Ltd., or Beijing Regard), which is our related party and another major customer for our software development services. We derived RMB47.5 million, RMB21.2 million and RMB2.9 million (US\$0.4 million), or 19.8%, 13.9% and 2.8% of our total net revenues in 2005, 2006 and 2007, 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 and RMB6.4 million (US\$0.9 million), or 0.3% and 6.2% of our total net revenues in 2006 and 2007, 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 iTowNet, eGrid and Ninetowns Enke 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 iTowNet, eGrid and Ninetowns Enke. 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 in 2005 and 2006 was generated from software development services, a decline in demand for those services or a change in our relationship with the primary purchasers of those services results in a significant reduction in our total net revenues and our net revenues from the provision of software development services.

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, to iTowNet. See Item 7 of this annual report, "Major Shareholders and Related Party Transactions — Related party transactions — eGrid Technology Ltd.". Net revenues from the provision of software development services, either directly to iTowNet or indirectly to iTowNet through eGrid, accounted for approximately 11.7%, 8.4% and nil of our total net revenues, and 78.7%, 35.9% and nil of our net revenues from the provision of software development services, in 2005, 2006 and 2007, respectively. We intend to continue to offer these services to iTowNet and eGrid, but if we are unable to obtain new software development contracts from iTowNet or from eGrid, we may cease to provide software development services. For 2007, we experienced a significant reduction in our total net revenues and our net revenues from the provision of

software development services.

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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, 2008, 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 RMB3.3 million, RMB10.0 million and RMB17.6 million (US\$2.4 million), which represented 1.4%, 6.5% and 17.0% of our total net revenues for 2005, 2006 and 2007, respectively.

§ Our net revenues from sales of our enterprise software and related customer maintenance services from Ninetowns Xin He were RMB9.2 million and RMB23.8 million (US\$3.3 million), which represented 6.0% and 23.0% of our total net revenues for 2006 and 2007, respectively.

§ Our net revenues from sales of our enterprise software and related customer maintenance services from Ninetowns Wang Li were RMB0.5 million and RMB6.4 million (US\$0.9 million), which represented 0.3% and 6.2% of our total net revenues for 2006 and 2007, respectively.

§ Our net revenues from sales of our enterprise software and related customer maintenance services from Ninetowns Enke were RMB47.5 million, RMB21.2 million and RMB2.9 million (US\$0.4 million) or 19.8%, 13.9% and 2.8% of our total net revenues in 2005, 2006 and 2007, respectively.

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

eGrid and iTowNet have been our two largest customers for software development services. Our net revenues from the provision of software development and other services to eGrid were RMB24.2 million, RMB16.4 million and RMB0.2 million (US\$31,311) or 10.0%, 10.7% and 0.2% of our total net revenues in 2005, 2006 and 2007, respectively. Our net revenues from the provision of software development services to iTowNet were RMB4.1million, or 1.7%, of our total net revenues in 2005. We did not recognize any net revenues from software development services to iTowNet in 2006 and 2007. 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.

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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, 2007, our total trade receivables amounted to approximately RMB37.4 million (US\$5.1 million), of which our trade receivables from related parties amounted to RMB6.4 million (US\$0.9 million). Our total trade receivables as of December 31, 2007 represented approximately 5.0% of our total current assets. As of December 31, 2007, we had an allowance for doubtful debts of approximately RMB23.3 million (US\$3.2 million). 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 decline.

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 45.4% 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. However, we believe that not all of our users and potential users were accustomed to being charged for this type of service. In 2007, we offered customer maintenance service contracts to approximately 37,700 users, so that approximately 30% of the total number of users due for a maintenance contract renewal in 2007 paid for the renewal. In 2007, we recognized approximately RMB26.4 million (US\$3.6 million) from provision of customer maintenance services.

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.

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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 79.3%, 70.4% and 73.9% of our total net revenues in 2005, 2006 and 2007, 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, or

§ Any other adverse development specific to iDeclare.CIQ.

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. For example, we sold, together with our franchisees, approximately 1,000 software packages of iDeclare.CIQ during the first quarter of 2008, which is significantly lower than the approximately 2,200 software packages of iDeclare.CIQ sold by our company and our former distributors and franchisees during the first quarter of 2007. In the event such decline continues, we expect to experience a significant decline in our total net revenues.

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.

There are other companies such as Alibaba.com Limited, or Alibaba, and Global Sources Limited, or Global Sources, that provide B2B services that are similar to ours in China. Although we believe that our “vertical search plus value-added service” model is unique in the China market and differentiates our B2B business from the business of these other companies, there can be no assurance that our current and future competitors will not provide services that are substantially similar to our B2B services.

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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 under our B2B segment, 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. We plan to utilize these investments in combination with our existing software expertise to further increase our service profile. 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.

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."

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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. In addition, we are developing a new B2B business and at times our ability to find and train new employees who have the requisite B2B 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 our new B2B business.

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 adopted the 2003 Plan in November 2003, and the Amended and Restated 2004 Plan and the 2006 Share Incentive Plan in October 2005, or collectively, the Plans. As of December 31, 2007, we had granted options under the Plans with the right to purchase a total of 3,464,000 ordinary shares, of which 587,921 unexercised options had been returned to the pool of our ungranted options 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 require 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, has 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.

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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 expansion into new businesses such as our B2B business 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.

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.

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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.

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. Although we have registered our trademarks in China, 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 the United States and China.

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.”

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

Awarded the certificate of “New and High Technology Enterprise”, our subsidiaries and variable interests entities incorporated in PRC, such as Beijing Ninetowns Ports Software and Technology Co., Ltd., or Ninetowns Ports, Beijing Ninetowns Network and Software Co., Ltd., or Ninetowns Network, Guangdong Ninetowns Technology Co., Ltd., or Guangdong Ninetowns Technology, Beijing Ronghe Tongshang Network Technology Limited, or Ronghe Tongshang, Beijing New Take Electronic Commerce Limited, or Beijing New Take, Beijing Ninetowns Times Electronic Commerce Limited, or Ninetowns Times, Beijing Ninetowns Digital Technology Limited, or Ninetowns Digital, and Shanghai New Take Digital Technology Co., Ltd., or Shanghai New Take, are subject to preferential tax treatments. In addition, we also receive from the PRC government a 14.0% value added tax, or VAT, refund on sales of certain registered software. 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 variable interest entity 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 January 1, 2008, the 2008 PRC Enterprise Income Tax Law became effective, which imposes a uniform EIT rate of 25.0% for all enterprises (including foreign-invested enterprises) and revoked the current tax exemption, reduction and preferential treatments applicable to foreign-invested enterprises. However, the preferential EIT rate of 15.0% for “high and new technology enterprises” strongly supported by the State and current preferential tax treatments for foreign-invested high and new technology enterprises are expected to be grandfathered for a period of five years following the effective date of the new law. Our subsidiaries and variable interest entity must continue to meet a number of criteria in order to continue to qualify for the preferential tax treatments currently available to them. Moreover, the government could determine at any time to eliminate or reduce the scale of such preferential tax policies.

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 variable interest entity may not continue to qualify as “high and new technology enterprises” that are supported by the State. Before the subsidiaries and variable interest entity are re-recognized as “high and new technology enterprises”, we will be subject to a 25.0% EIT for all of our subsidiaries in China, except for Ninetowns Port, Ninetowns Network and Guangdong Ninetowns Technology, which are still in their preferential tax treatment period.

Additionally, under the 2008 PRC Enterprise Income Tax 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 2008 PRC Enterprise Income Tax 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 PRC Enterprise Income Tax 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.

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It is likely that we would be considered a passive foreign investment company for 2007, 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 2007. 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.

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.

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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.

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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 polices and regulations, tax regulations or policies and regulations affecting the software industry. In recent years, the PRC government

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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.

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 variable interest entities 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.

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 eight leases for properties that we use as employee housing or as our offices for technical support centers in Guangdong Province, of which six lessors cannot provide copies of the required title certificates. 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 or avian influenza 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 A (H5N1) infection among poultry were reported by several countries in Asia, including China in 2005. In March 2007, a new fatal case of avian influenza was reported in Anhui Province in China. If there is a recurrence of an outbreak of SARS or avian influenza, it may adversely affect our total net revenues, growth and profits. For instance, a recurrence of SARS, avian influenza 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.

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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 variable interest entities 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.

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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 variable interest entities' 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.

Circular 78 has not yet been made publicly available or formally promulgated by SAFE, but it is our understanding that SAFE has begun enforcing its provisions. Nonetheless, we cannot predict whether it will continue to enforce this circular or adopt additional or different requirements with respect to equity compensation plans. 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.

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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 depositary 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.

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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. Recently, 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.

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.

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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 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.

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. 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 50.41% of our total consolidated net assets as of December 31, 2007.

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.

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Pursuant to the new Chinese Enterprise Income Tax Law, which became effective 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 tax 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 shareholder than would shareholders of a corporation incorporated in a jurisdiction of the United States.

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 shareholder than they would as public shareholders of a U.S. company.

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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 variable interest entities 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.

We are required to implement additional controls and procedures in finance and accounting systems in the future to satisfy new 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.

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Our management has determined that our internal control over financial reporting as at December 31, 2007 was not effective. During the audit of 2007 financial statements, our independent registered public accounting firm identified material weaknesses in internal control over financial reporting due to (i) inadequate accounting and finance personnel to be commensurate with the Company's financial accounting and reporting requirements; and (ii) inadequate communication between the audit committee and the internal audit department which affected the effectiveness of the Company's monitoring activities and anti-fraud program. 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 will be a penny stock which imposes significant restrictions on broker-dealers recommending our securities for purchase.

The SEC's regulations define "penny stock" to include ordinary shares that have a market price of less than \$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-dealers 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.

Item 4. Information on the Company.

A. History and development of the Company

Our predecessor, 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.

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Through a series of restructuring transactions in 2000, Ixworth Enterprises Limited, or Ixworth, a company incorporated in the British Virgin Islands, acquired 90.0% of the equity interest of Ninetowns Technology. Such 90.0% equity interest acquired by Ixworth was held by New Take Limited, or New Take, and Shielder Limited, or Shielder, both Hong Kong companies, through their respective subsidiaries, Beijing New Take and Ninetowns Times.

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.

In September 2003, we issued 21,999,996 ordinary shares to Jitter Bug Holdings Limited, or Jitter Bug, the parent company of Ixworth. Jitter Bug simultaneously transferred 100.0% of the equity interest in Ixworth to us.

On June 30, 2004, we signed definitive agreements to acquire the remaining 10.0% equity interest in Shanghai New Take for a consideration of RMB50,000 from Import & Export.

From August to October 2004, we completed a series of reorganization transactions to acquire from our shareholder Value Chain International Limited, or Value Chain, the remaining 10.0% equity interest in Beijing New Take, Ninetowns Digital, Ninetowns Times, Ninetowns Ports and Shanghai New Take, as well as a 70.0% equity interest in Tsingdao Fujin Commerce and Finance Software Limited, or Tsingdao Fujin, in exchange for 2,002,312 ordinary shares and US\$5,876,540 in cash.

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.

Ixworth formed Beprecise Investments Limited, or Beprecise, a British Virgin Islands company, as a wholly-owned subsidiary in 2006.

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

On October 19, 2006, our wholly-owned subsidiary, Beprecise, acquired a 16.25% interest in Global Market Group Limited, or Global Market. However, our equity interest in Global Market decreased to 9.9% in March 2008 due to dilution caused by Global Market’s financing activities.

On November 8, 2006, Tsingdao Fujin terminated its registration with the Qingdao Industry and Commercial Administrative Bureau, Shinan Branch.

On April 27, 2007, our wholly-owned subsidiary, Ixworth, acquired a 70.0% interest in Ample Spring, a company incorporated in the British Virgin Islands, as part of the acquisition of Ample Spring, we also acquired 70.0% of the equity interests of Baichuan, which is one of our variable interest entities. On December 14, 2007, we acquired, through our variable interest entity, Ronghe Tongshang, a 19.8% interest in Hangzhou Tophere Info-Tech, Inc., or Hangzhou Tophere, a company incorporated in the PRC for a consideration of RMB4.5 million.

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On May 29, 2007, we established Guangzhou Yuejiu Inspection Services Limited, or Guangzhou Yuejiu, a PRC company with a registered capital of RMB5 million. Guangdong Inspection & Quarantine Technology Center and Guangdong Ninetowns Technology contributed RMB2,550,000 and RMB2,450,000 in exchange for a 51.0% and 49.0% equity interest in Guangzhou Yuejiu, respectively.

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 Ninetowns Ports.

We conduct our business in China through seven PRC subsidiaries, namely (i) Beijing New Take, (ii) Ninetowns Digital, (iii) Ninetowns Times, (iv) Ninetowns Ports, (v) Shanghai New Take, (vi) Guangdong Ninetowns Technology and (vii) Ninetowns Network; two variable interest entities, namely (i) Ronghe Tongshang and (ii) Beijing Baichuan Tongda Science and Technology Development Company Ltd., or Baichuan, which we effectively control, through a series of contractual agreements entered into in 2006 and 2007, respectively. For more information, see Item 7 of this annual report “Major Shareholders and Related Party Transactions – Related party transactions—Control over Ronghe Tongshang” and “Major Shareholders and Related Party Transactions – Related party transactions—Control over Baichuan.” 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 2005, 2006 and 2007, which totaled approximately RMB31.4 million, RMB75.9 million and RMB191.6 million (US\$26.3 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 2005, 2006 and 2007, we paid deposits for the acquisition of property and equipment in the amounts of RMB23.4 million, RMB0.4 million and RMB34.8 million, respectively. We anticipate that we will incur capital expenditures in 2008 of approximately RMB10.0 million (US\$1.4 million) to purchase equipment and software products to support our new software development projects and development of our B2B business and services and approximately RMB20 million (US\$2.7 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:

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- (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.

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 iTowNet 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 644,000 foreign-invested companies registered to do business in China as of May 31, 2008, 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 May 31, 2008, only approximately 157,000 engaged in electronic import/export declaration processing. We believe approximately 140,000, or approximately 89.2%, 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.

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The PRC Inspections Administration agreed to pay a one-time fee of RMB3.3 million (US\$423,000) 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 1,000 software packages of iDeclare.CIQ during the first quarter of 2008, which is significantly lower than the approximately 2,200 software packages of iDeclare.CIQ sold by our company and our former distributors and franchisees during the first quarter of 2007.

In 2007, we derived 74.7% of our total net revenues from sales of enterprise software and related customer maintenance services and 24.8% from software development services. Specifically, we recognized net revenues from sales of our enterprise software and related customer maintenance services of RMB203.5 million, RMB116.8 million and RMB77.3 million (US\$10.6 million) in 2005, 2006 and 2007, respectively. We believe there were approximately 122,000, 130,000 and 138,000 licensees of our enterprise software registered on their data exchange platforms as of December 31, 2005, 2006 and 2007, respectively.

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 (US\$26.5 million) in the fiscal year 2007.

Our B2B business and services are 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, expanding our users' access to approximately 15 million products offered by over 8 million global suppliers. In December 2007, we made an investment in a leading Chinese B2B food and beverage trade facilitator.

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. We also intend to continue to expand our B2B business and services by leveraging our B2G experience and expertise to become a leading B2B search and service provider. 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 our B2B business, we cannot predict the growth in our revenues, if there are any at all.

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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 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

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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.

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 May 31, 2008, our enterprise software is being used by approximately 89.2% of all filers making electronic PRC Inspections Administration declarations.

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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. Mr. Wang and Ms. Dong also beneficially own a 49.0% equity interest in iTowNet, which 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 system. 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.

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

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Currently, through our own distribution network and our franchisees, we maintain four technical support centers, and also cooperate with our franchisees to jointly maintain 33 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.

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. Our new B2B strategy leverages our market intelligence for B2G services and trade processing by integrating B2B vertical search capabilities into our service profile with pioneering vertical search technology. 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 33 technical support centers operated and maintained by our four franchisees located in most of the major import/export cities in China.

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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 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.

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.

On April 27, 2007, Ixworth, our wholly owned subsidiary, acquired a 70.0% interest in Ample Spring. Under this transaction, we paid a consideration of RMB105 million (US\$14.4 million) in 2007. Ample Spring is a related party of Baichuan, a leading Chinese B2B vertical search engine operator. Our company launched our new B2B vertical search platform, tootoo.com in May 2007. By leveraging our B2G expertise with these recent acquisitions and integrating Baichuan's pioneering vertical search technology and supplier ranking system with the in-depth quality validation process offered by our existing software solutions, tootoo.com is positioned to become a leading B2B search and service provider. Our new and improved tootoo.com site features advanced vertical search capabilities for global buyers and suppliers. The second generation of tootoo.com, launched in June 2007, provides users with information on approximately 15 million products offered by over 8 million global suppliers. We plan to continue to seek opportunities to cooperate with other B2B platforms and technology to further increase our service profile. On December 14, 2007, we acquired, through our variable interest entity, Ronghe Tongshang, a 19.8% interest in Hangzhou Tophere, a leading Chinese B2B food and beverage trade facilitator, for a consideration of RMB4.5 million.

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Products and services

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

The products and services we offered in 2007 included the following:

Enterprise software

We have five enterprise software products currently available commercially or in trial version: (i) iDeclare.CIQ, (ii) iProcess.CIQ, (iii) User Message Agent, or UMA, and (iv) 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 2005, 2006 and 2007, we generated RMB186.5 million, RMB107.9 million and RMB76.5 million (US\$10.5 million), respectively, of net revenues from sales of the iDeclare.CIQ basic package and related customer maintenance services (including the per declaration fees as described below), which represented a substantial portion of our net revenues from sales of enterprise software in each of those periods.

A limited number of our iDeclare.CIQ users, substantially all of whom are located in Guangdong Province, China, do not pay a one-time license fee or annual customer maintenance service fees. Instead, such users pay a fee of RMB20 per declaration filing made using iDeclare.CIQ. Net revenues from sales of enterprise software included RMB23.6 million, RMB21.9 million and RMB21.7 million (US\$3.0 million) of such per-use fees, or 9.8%, 18.7% and 28.1% of our net revenues for sales of enterprise software in 2005, 2006 and 2007, 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.

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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."

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:

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<p>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</p>	<p>iDeclare.CIQ electronic input minimizes m submission of electronic decl no physical queue-up for sub built-in error detection functi</p>
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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 and 2007, we generated RMB5.5 million and RMB0.07 million (US\$0.01 million), 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 (US\$26.5 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.

UMA series

Commercially launched in October 2003, the UMA series of enterprise software facilitates effective and secure data transfers:

- within iTowNet's data exchange platforms;
- among PRC Inspections Administration's internal processing systems; and

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- between PRC government agencies.

We entered into a product sales and service contract with iTowNet in October 2003. Pursuant to such contract, we sold certain UMA software to iTowNet for a one-time license fee of RMB50,000. We also charge RMB15,000 per licensee for each year of customer maintenance services.

In 2006 and 2007, we recognized RMB3.5 million and RMB228,402 (US\$31,311), respectively, in net revenues from sales of the UMA series of enterprise software and related customer maintenance services. We do not plan to continue to offer our UMA series for sale due to the significant decline in net revenues from sales of our UMA series software. We do not expect to have any sales of the UMA series of enterprise software and related services in 2008.

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 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. As of March 31, 2008, we had approximately 800 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.

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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." On January 27, 2005, we entered into a software development contract with the PRC Inspections Administration pursuant to which we contracted to develop an internal Decision & Support System for the PRC Inspections Administration for RMB5.6 million.

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 (US\$423,000) and RMB1.6 million (US\$205,000), 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 (US\$1.1 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.

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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:

iDeclare.CGA Series

Similar to the PRC Inspections Administration, PRC Customs has a standardized set of forms used by international trade enterprises and we plan to work with 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 the second quarter of 2004; we cannot predict if or when such efforts will be completed.

Production and hardware design

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 have production arrangements with several outside contractors under which they provide all necessary outsourced production services related to our enterprise software. We produce enterprise software packages on an as-necessary basis and keep only a small inventory in our headquarters in Beijing. Currently we also distribute some of our enterprise software packages through the Internet. We have designed the configuration of some data-gathering hardware, for example cameras, for use with the iMonitor.CGA product series although customers may also use their own hardware. The hardware we design is produced by third party vendors.

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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, PRC Customs and other PRC government agencies;
 - 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. 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.

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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, 2007, we had a sales and marketing force consisting of approximately 440 people, serving mainly the southern regions of China. 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.

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 2005, 2006 and 2007, net revenues from sales of enterprise software we recognized from our former authorized distributors amounted to approximately RMB71.4 million, RMB17.0 million and nil, respectively.

Sales by our franchisee

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, 2007, we have four franchisees, Ninetowns Enke, Ninetowns Zhi Fang, Ninetowns Xin He and Ninetowns Wang Li.

§ Our franchise agreement with Ninetowns Enke was entered into in February 2004. Pursuant to the franchise agreement, Ninetowns Enke agreed to a minimum sales commitment of RMB50.0 million for the two years ended February 14, 2006 and a sales discount of RMB1,000 per each iDeclare.CIQ basic package purchased from our company. In addition, Ninetowns Enke also agreed to act as our sales agent to sell after sales maintenance services for our enterprise software to our customers. On April 22, 2004, we agreed with Ninetowns Enke to amend the franchise agreement to revise certain pricing terms. This agreement has a two-year term and contains minimum sales commitments. On May 12, 2006, we entered into a new franchise agreement with Ninetowns Enke for our iDeclare.CIQ basic package. This agreement has a two-year term and does not contain any minimum sales

commitment.

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§ Our franchise agreements with Ninetowns Zhi Fang were entered into in May 2005 for two of our software products, iQs under the iProcess.CIQ series and our iDeclare.CIQ basic package. Each of these franchise agreements has a two-year term and does not contain any minimum sales commitment.

§ In January 2006, we engaged Ninetowns Xin He, as a franchisee. The franchise agreement with Ninetowns Xin He has a two-year term and does not contain any minimum sales commitment.

§ In October 2006, we entered into a franchise agreement with Ninetowns Wang Li for our iDeclare.CIQ basic package. This agreement has a two-year term and does not contain minimum sales commitments.

§ In December 2006, we renewed and revised our franchise agreements with Ninetowns Enke, Ninetowns Xin He, Ninetowns Zhi Fang and Ninetowns Wang Li for our new software version under the iDeclare.CIQ series, Ninetowns Network Quality Supervision Software v1.0 software, each for two-year terms and without minimum sales commitments. Our franchisees provide customer maintenance services to our enterprise software users. We intend to focus on establishing new franchisee arrangements in the future.

For 2005, 2006 and 2007, net revenues from the sale of enterprise software generated by our franchisee amounted to approximately RMB50.8 million, RMB40.9 million and RMB50.7 million (US\$7.0 million), respectively.

Customers

In 2007, 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 2005, 2006 and 2007, our five largest enterprise software customers, which consisted primarily of our former distributors and franchisees, accounted for approximately 60.1%, 49.1% and 65.9%, 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 2005 and 2006. In 2007, we did not generate any revenue from provision of software development services to iTowNet and eGrid.

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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.

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

We also provide customer maintenance services to purchasers of our iMonitor.CGA product series. Such customer maintenance services generally include routine inspections of the system, system and software updates, on-site technical support and maintenance services, consultation services through a toll free phone-line, company website or direct hotline and training of our customer's staff. We also provide various customer maintenance services to our software development services clients.

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, 2005, 2006 and 2007, we had 454, 128 and 192 customer service and technical support employees, 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.

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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 one of our major customers in our software development business, to provide software development services to iTowNet.

There are other companies such as Alibaba and Global Sources that provide B2B services that are similar to ours in China. Although we believe that our “vertical search plus value-added service” model is unique in the China market and differentiates our B2B business from the business of these other companies, there can be no assurance that our current and future competitors will not provide services that are substantially similar to our B2B services.

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.

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, 2007, we had registered 46 software copyrights and three 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 the United States and 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.

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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.

New B2B Business

On October 19, 2006, our indirect wholly-owned subsidiary, 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. 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. Our company launched our new B2B vertical search platform, tootoo.com in May 2007, through which our B2B business and services are offered. We launched the second generation of tootoo.com in June 2007, expanding our users' access to approximately 15 million products offered by over 8 million global suppliers. 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.

We launched the second generation of tootoo.com in June 2007, which features advanced vertical search capabilities plus value-added services for global buyers and suppliers. The second generation of tootoo.com provides users with information on approximately 15 million products offered by over 8 million global suppliers and provides leading industry-specific news and information for our users. As part of our value-added services, we offer virtual showrooms for suppliers to display their products. We also provide total quality sourcing services, or TQS services, through which we provide supplier quality rankings and scores based upon a variety of factors including company profile, business, technology, delivery, quality and manufacture. We believe that our TQS services are unique in the B2B search engine market and that our focus on such quality-driven vertical search services gives us a competitive advantage over our competitors. We focused on continued development of our B2B business by enhancing our user experiences and site functionality through various efforts, such as optimizing registration and inquiry procedures, providing an online instant message helpdesk system called "Trade Baby", and improving the functionality of our B2B search system. As a result of our efforts in developing our B2B segment with a focus on quality-driven services, we had approximately 108,000 registered users as of the end of 2007 and approximately 258,000 registered users as of the end of May 2008.

In 2007, we registered two patents for our search technology in the PRC. In 2008 and 2009, we plan to continue our efforts to provide quality-driven services and improve and upgrade the interaction and functionality of our B2B search services, to enhance and improve our users' experience through development of real-time online customer services and to optimize the user registration and feedback experience.

In 2009, we plan to focus on sales and marketing of our B2B segment. We currently have an internal network that monitors and analyzes end-Internet traffic of tootoo.com and we plan to use this information to enhance our future sales and marketing strategy.

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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, 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 variable interest entities in China comply with all existing PRC laws, 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.

Regulation of the software industry

Software copyright

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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, 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.

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.

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The parties to a software copyright assignment contract or exclusive licensing contract may apply to the Copyright Protection Center of the PRC, or 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 October 27, 2000, the MII issued the Measures Concerning Software Products Administration, to regulate and administer software products and promote the development of the software industry in China. Pursuant to the Measures Concerning Software Products Administration, all software products operated or sold in China must be duly registered with the relevant authorities.

To produce software products in China, the software production units should meet certain requirements, such as the possession of (i) enterprise legal person status and a scope of operations which includes the computer software business; (ii) a fixed production site; (iii) conditions and technologies for producing software products; and (iv) quality control measures and capabilities for the production of software products. Software developers or producers are allowed to sell their registered software products independently or through agents, or by way of licensing. 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 term as well as the technical services to be provided by the distribution agent. The MII 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;
- (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 for two years starting from the first profit-making year of operations and a 50.0%-relief from the PRC enterprise income tax 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 enterprise income tax 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;

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- (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. 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

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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).

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, restricted portion amounted to approximately RMB540.1 million (US\$74.0 million), or 50.3% of our total consolidated net assets as of December 31, 2007.

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;

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- 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.

Customs General Administration of the PRC

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, 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.

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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.

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 Implementation Rules of the Place of Origin for Export Goods of the PRC issued on April 1, 1992, which became effective on May 1, 1992, 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 October 23, 1992, the State Import and Export Commodities Inspection Bureau, with the approval of the State Council, promulgated the Implementing Provisions for Law of the People's Republic of China on Import and Export Commodity Inspection, which 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.

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C. Organizational structure

We conduct substantially all of our business through seven PRC subsidiaries and two variable interest entities in China. The following diagram illustrates our subsidiaries, their country of incorporation and the proportion of our ownership of each as of May 31, 2008.

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For details of the above subsidiaries and variable interest entities, see “— History and development of the company.”

D. Property and equipment

Our principal executive offices occupy a total of approximately 7,992 square meters on the 19th-23rd and 25th floor 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, 2008, we have one premise which we own and we have also leased 10 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	921.69	52
Guangzhou	120.85	27
Beijing	651.65	52
Shanghai	139.00	2
Total	1,733.19	133

During 2005, we transferred a number of technical support centers to our franchisees in an effort to reduce the number of technical support centers that we operate on our own. We currently support our existing users jointly with our four franchisees through four technical support centers operated and maintained by us and 33 technical support centers operated and maintained by our four franchisees located in most of the major import/export cities in China.

Ninetowns Ports purchased six commercial units in Building No.1, Capital A Partners in Beijing, with an aggregate space of approximately 7,992 square meters and we use such premises as offices. In addition, Guangdong Ninetowns Technology purchased ten commercial units in the Ling Chuang Building in Guangzhou with an aggregate space of approximately 3,797 square meters and we use such commercial units as offices.

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.

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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.

In 2008, we believe that the PRC Inspections Administration decreased its efforts to promote its free software and we believe that there is uncertainty surrounding the PRC Inspections Administration's future promotional plans for its free software. As a result, our financial outlook from maintenance servicing of the PRC Inspections Administration's free software product has been negatively impacted. In re-assessing our goodwill for 2007, we decided to record a one-time non-cash goodwill impairment charge of RMB193.6 million (US\$26.5 million) for our B2G reporting segment.

We are currently in the process of developing our B2B strategy. We have pursued selective strategic acquisitions. On October 19, 2006, we acquired a 16.25% interest in Global Market, a leading Chinese B2B trade facilitator headquartered in Guangzhou. Subsequently, our equity interest in Global Market decreased to 9.9% in March 2008 due to dilution caused by Global Market's financing activities. On April 27, 2007, we acquired a 70.0% interest in Ample Spring, a related party of Baichuan, which is a leading Chinese B2B vertical search engine operator. We launched our new B2B vertical search platform, tootoo.com in May 2007, through which our B2B business and services are offered. We launched the second generation of tootoo.com in June 2007, which features advanced vertical search capabilities plus value-added services for global buyers and suppliers. In December 2007, we acquired a 19.8% interest in Hangzhou Tophere, a leading Chinese B2B food and beverage trade facilitator headquartered in Hangzhou. By leveraging our B2G expertise with these recent acquisitions and integrating Baichuan's pioneering vertical search technology and supplier ranking system with the in-depth quality validation process offered by our existing software solutions, we believe that tootoo.com is positioned to become a leading B2B search and service provider.

We generated total net revenues of RMB239.9 million, RMB153.2 million and RMB103.5 million (US\$14.2 million) in 2005, 2006 and 2007, respectively. The decrease in our total net revenues was due to the continued effects of the PRC Inspections Administration's free distribution of products that are similar to our iDeclare.CIQ product series in 2006. Our net income in 2005 was RMB151.6 million decreasing to RMB45.9 million in 2006. Our net loss in 2007 was RMB230.5 million (US\$ 31.6 million) representing a significant decrease from 2006. The net loss in 2007 was mainly attributable to (i) the one-time non-cash goodwill impairment charge; (ii) the provision for doubtful accounts; and (iii) the increased costs of pursuing our B2B strategy. We believe there were approximately 122,000, 130,000 and 138,000 licensees of our enterprise software registered to effect electronic import/export processing with the PRC Inspections Administration as of December 31, 2005, 2006 and 2007, respectively.

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

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

Our predecessor, Ninetowns Technology, was formed in 1995 to focus on the research and development of software related to the declaration process, in addition to selling computer hardware and accessories. During the first several years of our operations, our net revenues from computer hardware sales constituted almost all of our total net revenues and provided the necessary funding for our development of software related to the declaration process. As we developed, 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) sales of computer hardware and accessories. Since 2001, we have shifted our business focus from sales of computer hardware and accessories to sales of enterprise software and related customer maintenance services and provision of software development services. Sales of computer hardware and accessories accounted for an insignificant percentage of our total net revenues in 2006. We did not generate any revenue from sales of computer hardware and accessories in 2007 and we expect sales of computer hardware and accessories to be a negligible part of our business in the future as we are gradually exiting from this line of business. We intend to continue deploying our resources on sales of enterprise software and related customer maintenance services and provision of software development services that enable enterprises and trade-related PRC government agencies to streamline the import/export process in China. In addition, we also intend to continue to expand our B2B business and services by leveraging our B2G experience and expertise to become a leading B2B search and service provider.

Growth of the import/export industry in China

Our financial results have been, and we expect them to continue to be, affected by the growth of the import/export industry in China. According to Global Insight, the total value of import/export transactions in China reached approximately US\$2.2 trillion in 2007, up from approximately US\$1.4 trillion in 2005 and approximately US\$1.7 trillion in 2006. As a result of China's accession into the WTO in 2001, tariffs imposed by China on all imported goods are expected to be reduced and PRC-imposed import quotas and permit requirements are expected to be gradually eliminated. We believe the combination of a rapidly growing PRC economy and China's accession to the WTO will accelerate the growth of the import/export industry in China, and as a result create additional demand for our products and services.

Change in number of potential users

The number of users of our enterprise software has increased significantly since we first launched our iDeclare.CIQ software products in August 2000. The 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. We expect an increase in the number of PRC international trade enterprises as the PRC economy continues to expand. We believe this in turn 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.

However, 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. Such benefits include the one year customer maintenance service as well as automatic Internet updates and enhancements to our software. In August 2005, the PRC Inspections Administration asked us to develop a software product that has certain basic functionalities similar to those of our iDeclare.CIQ and iProcess.CIQ product series. The PRC Inspections Administration paid a one-time fee of RMB3.3 million (US\$423,000) to purchase the ownership of the software product that we developed. In February 2006, the PRC Inspections Administration commenced to distribute such software products free-of-charge

to end-users. We believe that the distribution of the 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, will have 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 1,000 software packages of iDeclare.CIQ during the first quarter of 2008, which is significantly lower than the approximately 2,200 software packages of iDeclare.CIQ sold by our company and our franchisees during the first quarter of 2007. However, while the growth rate of our user base has decreased significantly, we believe that users continued to purchase our iDeclare.CIQ software packages because of the benefits offered to our paid customers that are not offered to users of the free software. Such benefits include the one year customer maintenance service as well as automatic Internet updates and upgrades. 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. However, 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.

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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 644,000 foreign-invested companies registered to do business in China as of May 31, 2008. 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.

Description of revenues, cost items and trade receivables

We primarily operate in two segments of business: (i) B2G services and (ii) B2B search services. Our B2G business segment includes sales of enterprise software and related customer maintenance services, software development services and sales of computer hardware and accessories. Currently, our total net revenues are primarily derived from our sales of enterprise software and related customer maintenance services. As we are gradually exiting the computer hardware and accessories industry, we did not generate any revenue from sales of computer hardware and accessories in 2007. Our B2B business segment includes tootoo.com, our new B2B vertical search platform which was launched in May 2007. We launched the second generation of tootoo.com in June 2007. We believe that our new B2B business will become an important line of business for our company in the future.

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, (ii) fees from software development services, (iii) sales of computer hardware and accessories and from our B2B segment which includes (i) fees from B2B search services.

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We derived RMB89.1 million and RMB37.6 million, or 37.1% and 24.6% of our total net revenues in 2005 and 2006, respectively, from our related parties iTowNet and eGrid, which are two of our major customers for software development services, and Ninetowns Enke, which is one of our franchisees. In 2007, we derived RMB9.5 million (US\$1.3 million), or 9.2% of our total revenues, from our related parties, TTowNet and eGrid, which are two of our major customers for software development services, and Ninetowns Enke and Ninetowns Wang Li, which are our franchisees.

Our total net revenues are net of business tax and VAT, but include VAT refunds as discussed below. 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 refund of the 14.0% VAT for certain self-developed software products. We recognize the VAT refunds at the same time we recognize net revenues from sales of enterprise software. VAT refunds are included in our net revenues from sales of enterprise software. In 2007, we recognized RMB4.3 million (US\$0.6 million) in VAT refunds. 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. We charge users of iProcess.CIQ product series on the same terms as those for iDeclare.CIQ product series. 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.

As of December 31, 2005, the distribution agreements with our former distributors, Panyu Chengchang and Tomorrow Technology, expired and we chose not to renew them due to our efforts to develop our franchisee network. 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 former distributors and franchisees is based on our negotiated sales arrangement with the former distributor or 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 fee-per-declaration filing basis to a limited number of users, substantially all of whom are located in Guangdong Province, China. 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.

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Notwithstanding that we intend to 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 2007, we collected customer maintenance service fees from approximately 37,700 users, representing approximately 30% of our users due to renew their maintenance service. 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 refund is eliminated or reduced by the PRC tax authorities. We expect net revenues from per declaration filing 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 and the data exchange platforms operated by iTowNet and our services for eGrid. 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 expect net revenues from software development services to increase as we are engaged by additional PRC government agencies, such as PRC Customs, to perform such services, but we cannot predict how much such revenues will grow in the future, or if they will grow at all.

Computer hardware sales. Net revenues from this business currently represents an insignificant portion of our total net revenues and we expect this business to continue to represent an insignificant portion of our total net revenue in the future as we are gradually exiting this line of business.

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 believe that our new B2B business will become an important line of business for our company in the future.

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 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, we incurred immaterial cost of revenues for enterprise software and related customers maintenance services and we have not presented separately this amount within our cost of revenues.

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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 increase as a percentage of our net revenues from software development services as a result of the requirement for more advanced technologies in new projects. As such, we expect our overall cost of revenues from software development services to increase as we perform more software development services.

Computer hardware sales. Our cost of revenues from computer hardware sales is minimal because we have a very low volume of sales in this line of business as we are gradually exiting this line of business.

B2B search services. We are in the process of developing our B2B search platform and have only introduced our B2B service products in trial versions. Currently, our cost of revenues from B2B search services 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 increase as we continue to pursue our B2B strategy.

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. We expect our B2B search services gross profit margin to increase as we earn more net revenues from our B2B search services in the future.

Operating expenses

Our operating expenses consist of (i) selling expenses, (ii) general and administrative expenses, (iii) research and development expenses, and (iv) provision (reversal) for 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. As we continued to pursue our B2B strategy, we increased the number of our B2B sales and marketing staff and also engaged in more promotional activities. This led to a significant increase in our selling expenses in 2007. We expect to expand our marketing and advertising campaigns to compete with the free software distributed by the PRC Inspections Administration and we intend to increase incentive payments to salespersons to promote our enterprise platform products and search platform products. As a result of the above, we generally expect an increase in our selling expenses for 2008.

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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 2007, we incurred higher general and administrative expenses than in earlier years as a result of increases in (i) professional fees incurred related to our status as a public company and our acquisition and investment activities, (ii) depreciation and amortization charges on fixed assets and intangible assets, (iii) increase in the number of employees due to our expansion into and development of our B2B business.

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.

Provision for doubtful accounts. 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 (US\$2.7 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. This resulted in a significant increase in our provision loss for doubtful accounts for 2007.

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 enterprise income tax. Our PRC operating subsidiaries and variable interest entities 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 exempt from EIT from January 1, 2003 to December 31, 2004 and 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 exempt from EIT from August 1, 2003 to December 31, 2005 and is subject to a 7.5% EIT for the period from January 1, 2006 to December 31, 2008. Guangdong Ninetowns Technology is entitled to an exemption from EIT from January 1, 2006 to December 31, 2007, and is currently subject to a 25.0% EIT. Ninetowns Network is entitled to an exemption from EIT from January 1, 2006 to December 31, 2008.

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Ninetowns Digital, Beijing New Take, Ninetowns Times, Ninetowns Ports and Ninetowns Network were qualified as “new and high 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 new and high 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, Guangdong Ninetowns Technology, Beijing New Take, Ninetowns Times and Ninetowns Digital have been temporarily subject to a 25.0% EIT.

Baichuan, Beijing Ronghe Tongshang Network Technology Limited, or Ronghe Tongshang, and Ninetowns 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 variable interest entities 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 17.0% VAT on sales of computer hardware and accessories and our enterprise software products. Pursuant to PRC tax regulations, Ninetowns Network and Ninetowns Ports are entitled to a 14.0% VAT refund on sales of certain registered self-developed software products. Our net revenues from sales of such enterprise software include VAT refunds in the amount of RMB19.8 million, RMB10.5 million and RMB4.3 million (US\$0.6 million) in 2005, 2006 and 2007, respectively.

Upon expiration of these preferential EIT rates and VAT refunds, 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 four primary sources: (i) sale of enterprise software and related services; (ii) software development services; (iii) sale of computer hardware and (iv) 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.

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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.

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.

Sales of computer equipment and accessories are recorded when the goods are delivered, title is passed to the customers and we have no further obligations to provide services relating to the operation of such equipment.

We provide 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

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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 typically write-off billed receivables that are over 360 days outstanding. 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, 2007, 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 2005, 2006 and 2007. 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 Company's assessment, there was no impairment of goodwill for the years ended December 31, 2005 and 2006.

In 2007, based on the impairment assessment performed by management, we incurred a total goodwill impairment charge of RMB193.6 million (US\$26.5 million). This impairment charge is related to our enterprise software and related customer maintenance services and software development services. We believe that our financial outlook from maintenance services of the free software offered by the Chinese government has been negatively impacted due to several factors. First, we believe that the Chinese government's declining promotion of its free software has resulted in a corresponding decline in the need for our maintenance services. Additionally, we believe that there is uncertainty surrounding the Chinese government's future promotional plans for its free software. As a result, we decided to revise downward the financial performance projection and assumptions of our enterprise software and related customer maintenance service segment, resulting in a goodwill impairment loss of approximately RMB187.8 million (US\$25.7 million) recognized for this segment. We have experienced a slowdown in the demand for our software development services by the Chinese government and therefore, we have also revised downward the financial performance projection and assumptions of this segment of our business, resulting in an impairment loss of approximately RMB5.8 million (US\$800,000) recognized for this segment.

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Impairment of Intangible Assets

These assets are included in impairment evaluations when events and circumstances exist that indicate the carrying amount of these assets may not be recoverable. We evaluate our intangible 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.

Estimating future cash flows requires that management make judgments as to future cash flows. We believe that most of our software may have a lifespan in the market place of five years and we have a limited operating history. At present, we have no reason to believe that the carrying value of our intangible assets is impaired but we need to constantly review how the market for software is developing.

Useful Life of Intangible Assets

Intangible assets include customer relationships, buyer database, completed technology and purchased software for internal use and are amortized on a straight-line basis over the expected useful life of five 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 of FIN48 liability of RMB0.8 million included in income tax expense in the income statement for the year ended December 31, 2007.

A. Operating results

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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.

	2005	Year ended December 31, 2006	2007
Total net revenues:			
Enterprise software and related customer maintenance services	84.80%	76.2%	74.7%
Software development services	14.9%	23.5%	24.8%
Computer hardware sales	0.3%	0.3%	–
B2B search services	–	–	0.5%
Cost of revenues:			
Enterprise software and related customer maintenance services	0.2%	–	–
Software development services	7.6%	11.0%	-17.2%
Computer hardware sales	0.2%	0.1%	-
B2B search services	–	–	-4.9%
Gross profit	92%	88.9%	77.9%
Operating expenses:			
Selling and marketing	10.7%	8.9%	-39.7%
General and administrative	20.3%	44.0%	-83.4%
Research and development	4.7%	19.5%	-30.9%
Allowance for doubtful debts	0.3%	-1.0%	-21.6%
Provision for impairment of goodwill	–	–	-187.1%
Income from operations	55.9%	17.6%	-284.0%
Interest income	7.4%	12.6%	13.4%
Gains on disposal of securities	–	–	42.1%
Government subsidies	0.2%	0.5%	1.0%
Income before provision for income taxes and minority interest	63.5%	30.6%	-228.4%
Provision for Income taxes	0.3%	0.7%	-0.2%
Income before minority interest	63.20%	30.0%	-228.7%
Minority interest	–	–	5.9%
Net income	63.20%	30.0%	-222.8%

2007 compared to 2006

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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 (US\$10.6 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 (US\$3.0 million) were from per declaration 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.

Software development services. Net revenues from our software development services decreased by 28.8% from RMB36.0 million in 2006 to RMB25.6 million (US\$3.5 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 (US\$0.07 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 (US\$2.4 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.

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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 (US\$0.7 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 (US\$51.5 million) in 2007 from RMB109.4 million in 2006, primarily as a result of our efforts to develop our new B2B business, increase in staff and increased research and development expenses.

Selling expenses

Selling expenses increased significantly to RMB41.1 million (US\$ 5.6 million) in 2007 from RMB13.6 million in 2006, primarily due to increased sales and marketing staff and promotional activities to develop our new B2B business.

General and administrative expenses

General and administrative expenses increased by 28.0% to RMB86.3 million (US\$11.8 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 new B2B business.

Research and development expenses

Research and development expenses increased by 7.4% to RMB32.0 million (US\$4.4 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 new B2B business.

Provision for doubtful accounts

Provision for doubtful accounts increased significantly to RMB22.4 million (US\$3.1 million) in 2007 from RMB1.5 million in 2006. We made a provision based on the uncertainty of collection 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.

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Provision for impairment of goodwill

We recognized a goodwill impairment loss of RMB193.6 million (US\$26.5 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 would negatively impact our financial outlook from maintenance servicing of the free software.

Government subsidies

We received government subsidies of RMB1.0 million (US\$139,000) 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 (US\$1.9 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 (US\$6.0 million) in 2007 from nil in 2006 because we invested in marketable securities in 2007 and disposed them after a short period of time.

Income taxes

Income taxes decreased by 76.4% to RMB0.2 million (US\$33,000) 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 (US\$31.6 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.

2006 compared to 2005

Total net revenues

We generated total net revenues of RMB153.2 million in 2006, a decrease of 36.1% over our total net revenues of RMB239.9 million in 2005. 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 42.6% to RMB116.8 million in 2006 from RMB203.5 million in 2005, primarily as a result 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 caused our sales of our iDeclare product series to decline significantly. In 2006, we signed customer maintenance service contracts with approximately 29,000 users whose customer maintenance service contracts were due for renewal in

2006. We recognized net revenues of RMB43.4 million from provision of customer maintenance services in 2006. Of our net revenues from sales of enterprise software and related customer maintenance services, RMB23.6 million and RMB21.9 million were from per declaration filing fees in 2005 and 2006, respectively, representing a year-on-year decrease of 7.2%. As of December 31, 2006, we believe there were approximately 130,000 licensees of our enterprise software registered to effect electronic import/export processing over the data exchange platforms of iTowNet, an increase of 6.6% from approximately 122,000 of such licensees as of December 31, 2005.

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Software development services. Net revenues from our software development services increased by 0.9% from RMB35.7 million in 2005 to RMB36.0 million in 2006. In 2006, we did not enter into as many software development contracts as compared to 2005, but we completed some project milestones and recognized revenue for software development contracts signed in 2005.

Computer hardware sales. Net revenues from computer hardware sales comprised less than 0.3% of our total net revenues as we are gradually exiting this line of business.

Cost of revenues

Enterprise software and related customer maintenance services. Cost of revenues from sales of enterprise software decreased by 100% to nil in 2006 as compared to RMB495,000 in 2005. 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.

Software development services. Cost of revenues from software development services decreased to RMB16.8 million in 2006 from RMB18.2 million in 2005, primarily as a result of fewer number of software development service contracts signed in 2006. As of December 31, 2006, the company did not have capitalized costs related to such projects, which represents a decrease of 100% over the prior year's balance of RMB153,000 as of December 31, 2005.

Computer hardware sales. Cost of revenues from computer hardware sales was insignificant in 2006.

Gross profit margin

Enterprise software and related customer maintenance services. Gross profit margin for sales of enterprise software in 2006 was 100% compared to 99.8% in 2005 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 in 2006 remained relatively stable at 53.3% compared to 49.0% in 2005.

Computer hardware sales. Gross profit margin for computer hardware sales increased to 66.3% in 2006 from 28.9% in 2005, primarily due to decreased sales of lower-margin products such as desktop computers.

Operating expenses

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Operating expenses increased by 26.4% to RMB109.4 million in 2006 from RMB86.5 million in 2005, primarily as a result of our efforts to expand our business through new business models, additional staff, increase in stock-based compensation costs and increased research and development.

Selling expenses

Selling expenses decreased by 47.2% to RMB13.6 million in 2006 from RMB25.7 million in 2005, primarily due to our change in business model from direct sales to franchise sales.

General and administrative expenses

General and administrative expenses increased by 33.1% to RMB65.9 million in 2006 from RMB49.5 million in 2005, 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) stock-based compensation costs and (iv) general personnel expenses, office expenses, communication expenses, traveling expenses and insurance expenses, in each case associated with the increase in the scale of our operations.

Research and development expenses

Research and development expenses increased significantly by 165.1% to RMB29.8 million in 2006 from RMB11.2 million in 2005, primarily due to an increase in (i) stock-based compensation costs and (ii) staff costs related to the research and development of our new products primarily related to our new B2B business.

Government subsidies

We received government subsidies of RMB705,000 in 2006, which represented an increase of 57.8% from RMB 477,000 in 2005, 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 increased to RMB19.3 million in 2006 from RMB17.6 million in 2005, primarily due to an increase in the amount of our term deposits.

Income taxes

Income taxes increased by 64.7% to RMB1.0 million in 2006 from RMB626,000 in 2005, as Ninetowns Ports, who is one of our major operating subsidiaries and was exempt from EIT from August 1, 2003 to December 31, 2005, became subject to a 7.5% EIT starting from January 1, 2006.

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Net income

Net income decreased significantly by 69.7% to RMB45.9 million in 2006 from RMB151.6 million in 2005 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 1.8%, 1.5% and 4.8% in 2005, 2006 and 2007, 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.

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, 2007. The following table sets forth the summary of our cash flows for the periods indicated:

	For the year ended December 31,		
2004	2005	2006	2007

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	(in millions)			
	RMB	RMB	RMB	RMB
Net cash provided by/(used in) operating activities	143.3	146.4	40.8	(2.9)
Net cash (used in)/provided by investing activities	(179.4)	(110.9)	(176.5)	57.2
Net cash provided by financing activities	565.6	2.0	6.3	1.3
Effect of exchange rate changes	-	(3.0)	(3.5)	(4.3)
Net increase / (decrease) in cash and cash equivalents	529.5	34.5	(132.8)	51.2
Cash and cash equivalents, beginning of year/period	167.5	697.0	731.5	598.6
Cash and cash equivalents, end of year	697.0	731.5	598.6	649.9

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 from operating activities of RMB2.9 million (US\$0.4 million) in 2007. This was primarily attributable to the development of our new 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 in 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. We generated cash from operating activities of RMB146.4 million in 2005. 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 provided by investing activities was RMB57.2 million (US\$7.8 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 our new 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 our new B2B business and our investment in Global Market, our purchase of intangible assets and increase of term deposits. Cash used in investing activities was RMB110.9 million in 2005. This was primarily attributable to a deposit payment for the acquisition of an additional floor of the building under construction in Beijing, our purchases of property and equipment and an increase in our term deposits.

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Cash flow from financing activities

Financing activities generated cash of RMB1.3 million (US\$0.2 million), in 2007. This was comprised primarily of employees' exercise of their stock options. Financing activities provided cash of RMB6.3 million in 2006. This was comprised primarily of employee's exercise of their vested stock options. Financing activities provided cash of RMB2.0 million in 2005. This was comprised primarily of receipt of proceeds on exercise of stock options by our employees offset by our repayment of outstanding advances from shareholders.

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, 2007, we had RMB649.9 million (US\$89.1 million) in cash and cash equivalents. In addition, as of December 31, 2007, we had invested RMB26.0 million (US\$3.6 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 and cash provided by operating activities 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, 2007, 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

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.

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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, 2007, we had 494 employees dedicated to research and development, 30 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 and in our research and development center in Fengtai.

Our expenses for research and development activities totaled RMB11.2 million in 2005, RMB29.8 million in 2006 and RMB32.0 million (US\$4.4 million) in 2007.

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 494 employees dedicated to research and development, 199 employees concentrate their efforts to research and development of our B2B 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, 2007 to December 31, 2007 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

In September 2006, we entered into a subscription agreement with Global Market to subscribe 1,940,000 Series A preferred shares, which represents 16.25% of the fully diluted equity interests in Global Market on an as-converted basis, for a cash consideration of US\$5.0 million. The subscription agreement contains certain put and call options. The call option gives us a right to acquire a variable number of Global Market’s ordinary shares at a nominal price of US\$1.00 in the event Global Market’s earnings fall below a predetermined level or to receive cash if additional earnings requirements are not met. The put option also gives Global Market a right to repurchase up to 285,000 issued ordinary shares from us at a nominal price of US\$1.00 if Global Market’s earnings are above a predetermined level.

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In March 2008, Global Market issued and allotted 7,653,846 Series B Preferred Shares to its Series B Preferred Shares investors, after which the Company's equity interest in Global Market was diluted to 9.90%. The Company and Global Market both waived the call option and put option set out in the Series A Preferred Shares Subscription Agreement and described above.

We do not have other 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. 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, 2007:

	(in thousands)
Less than one year	RMB1,158
1-3 years	496
3-5 years	-
More than 5 years	-
Total	RMB 1,654

As of December 31, 2007, we had unrecognized tax benefits pursuant to FIN48 amounting to RMB0.8 million (US\$109,670). 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. Recently issued accounting pronouncements

In September 2006, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 157, "Fair Value Measurements", which defines fair value, establishes a framework for measuring fair value in US GAAP, and expands disclosures about fair value measurement. SFAS No. 157 does not require any new fair value measurements, but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information. In February 2008, the FASB issued FASB Staff Position ("FSP") 157-2, "Effective Date of FASB Statement No. 157", which delays the effective date of SFAS No. 157 for all nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at the fair value in the financial statements on a recurring basis (at least annually). SFAS No. 157 is effective for fiscal years beginning after July 1, 2008; FSP 157-2 delays the effective date for certain items to July 1, 2009. We are currently assessing the potential impact that adoption of this statement may have on our financial statements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities, Including an amendment of FASB Statement No. 115". SFAS No. 159 provides companies with an option to report selected financial assets and liabilities at fair value. SFAS No. 159 requires companies to provide additional information that will help investors and other users of financial statements to more easily understand the effect of our choice to use fair value on our earnings. It also requires entities to display the fair value of those assets and liabilities for which we have chosen to use fair value on the face of the balance sheet. SFAS No. 159 is effective as of the beginning of an entity's first fiscal year beginning after November 15, 2007. We believe there will be no material impact on our financial statements upon adoption of this standard.

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In December 2007, the Financial Accounting Standards Board 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. We have not yet begun the process of assessing the potential impact that the adoption of SFAS No. 141R may have on our consolidated financial position or results of operations.

In December 2007, the Financial Accounting Standards Board 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. We have not yet begun the process of assessing the potential impact that the adoption of SFAS No. 160 may have on our consolidated financial position or results of operations.

In March 19, 2008, the FASB issued SFAS No. 161, “Disclosures about Derivative Instruments and Hedging Activities” 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 No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. We have not yet begun the process of assessing the potential impact that the adoption of SFAS No. 161 may have on our 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:

Name	Age	Position
Shuang Wang	45	Director and Chief Executive Officer
Kin Fai Ng	63	Director, Senior Vice President and Company Secretary
Dachun Zhang	63	Director
Fushan Chen	69	Director
Xiaomin Sun	53	Director
Mark Ming Hsun Lee	36	Director
Martin Cheung	39	Director
Xiaoguang Ren	44	President
Tommy Siu Lun Fork	46	Chief Financial Officer
Min Dong	44	Senior Vice President, Legal Affairs, Administration and Human Resources

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Name	Age	Position
Bolin Wu	42	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 the 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 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.

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.

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Xiaomin Sun has served as a director since July 2004. Mr. Sun served as the president of Sanjiu Enterprise Group, or Sanjiu, a pharmaceutical manufacturer from May 2004 to November 2007. Mr. Sun served from time to time as an arbitrator in the China International Economic and Trade Arbitration Commission. From August 2000 to May 2004, Mr. Sun served as vice president of China General Technology (Group) Holdings Ltd., an import and export enterprise based in China. From 1986 to 1998, Mr. Sun served as the General Manager of the Legal Department of China National Technical Import & Export Corporation, a foreign trade corporation based in China. Mr. Sun holds a bachelor's degree and a master's degree from the Department of Law of the University of Beijing.

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 has 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 27, 2008. Mr. Cheung currently works as the Corporate Development Director of Norstar Automobile Industrial Holding Limited, and has served in such position since June 2008. 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 the Executive Vice President at Japan Asia Securities. From 1994 to 2002, Mr. Cheung was the 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.

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. 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.

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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.

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 March 16, 2007, Eric Chen Yu Ho resigned as our Chief Strategy Officer and effective May 9, 2008, John Yan Wang resigned as our Senior Vice President of Business Development.

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 of directors and executive officers

As of December 31, 2007, 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 2007, the aggregate amount of compensation paid by us to all of our directors and executive officers was approximately RMB6.7 million (US\$0.9 million).

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 RMB4.1 million, RMB7.5 million and RMB8.2 million (US\$1.1 million) for 2005, 2006 and 2007, 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.

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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.

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The following table summarizes, as of May 31, 2008, the outstanding options granted under our 2003 Plan to our directors and executive officers.

	Ordinary Shares Underlying Options Granted	Exercise Price (HK\$/Share)	Date of Grant	Date of Expiration
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.

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.

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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, 2008, the outstanding options granted under our Amended and Restated 2004 Plan to our directors and executive officers.

	Ordinary Shares Underlying Options Granted	Exercise Price (US\$/Share)	Date of Grant	Date of Expiration
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
Xiaomin Sun	17,679	8.6	February 23, 2005	February 22, 2015
	4,500	3.03	February 5, 2008	February 4, 2018
Mark Ming Hsun Lee	17,679	8.6	February 23,	February 22,

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	Ordinary Shares Underlying Options Granted	Exercise Price (US\$/Share)	Date of Grant	Date of Expiration
			2005	2015
	4,500	3.03	February 5, 2008	February 4, 2018
John Yan Wang*	13,259	8.6	February 23, 2005	February 22, 2015

* Mr. John Wang resigned as our senior vice president effective as of May 9, 2008. Under our Amended and Restated 2004 Plan, Mr. John Wang had 30 days from the effective date of his resignation to exercise his vested options.

The following table summarizes, as of May 31, 2008, the outstanding restricted shares granted under our Amended and Restated 2004 Plan to our directors and executive officers.

	Restricted Shares Granted	Date of Grant	End of Vesting Period
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.

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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 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 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.

C. Board practices

Our board of directors consists of seven members, including five 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 and a nominating committee.

Audit committee. Our audit committee currently consists of Dachun Zhang, Xiaomin Sun, 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 will be responsible for, among other things:

- the integrity of our financial statements;

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- 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;
- 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, Xiaomin Sun 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 will be 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

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- 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, Xiaomin Sun 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 will be 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.

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, 2007, we had 1,031 full-time employees. Of our employees, 12 were in management, 24 were in finance, 61 were in administration and human resources, 494 were in research and development and 440 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 RMB2.6 million, RMB4.6 million and RMB5.0 million (US\$0.7 million) for 2005, 2006 and 2007, 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 1.5% 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 RMB1.5 million, RMB2.9 million and RMB3.2 million (US\$0.4 million) for 2005, 2006 and 2007, respectively.

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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.

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, 2008, 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(1)	Percent(2)
Directors and executive officers(3)		
Shuang Wang(4)	6,353,553	17.62%
Min Dong(5)	6,353,553	17.62%
Xiaoguang Ren(6)	639,016	1.78%
Kin Fai Ng(7)	661,975	1.85%
Bolin Wu(8)	507,135	1.41%
Tommy Siu Lun Fork(9)	566,183	1.57%
Xiaomin Sun (10)	13,259	*%
Mark Ming Hsun Lee (11)	13,259	*%
John Yan Wang (12)	13,259	*%
Dachun Zhang (13)	6,027	*%
Fushan Chen (14)	6,027	*%
All directors and executive officers as a group (11 persons)		
	8,779,693	23.89%
5% and above shareholders		
Yong Ping Duan (15)	5,267,689	14.72%
Technology Pioneer Corp. (16)	3,070,028	8.58%
Value Chain International Limited(17)	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. All the share numbers have been adjusted to give effect to a 4-for-1 split of our ordinary shares effected on November 9, 2004.

(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, 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.

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- (4) Includes (i) 4,006,215 ordinary shares held by Mr. Wang, (ii) 2,002,312 ordinary shares held by Mr. Wang through his ownership of Value Chain, (iii) 190,583 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) 70,592 ordinary shares held by Ms. Dong, and (v) 83,851 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) 70,592 ordinary shares held by Ms. Dong, (ii) 83,851 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) 4,006,215 ordinary shares held by Mr. Wang and (v) 190,583 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.
- (6) Includes 440,000 ordinary shares held by Mr. Ren and 199,016 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 27,564 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 330,000 ordinary shares held by Mr. Wu and 177,135 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 330,000 ordinary shares held by Mr. Fork and 236,183 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 13,259 ordinary shares underlying share options held by Mr. Sun which are currently exercisable or exercisable within 60 days of the date of this annual report.
- (11) Represents 13,259 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.
- (12) Represents 13,259 ordinary shares underlying share options held by Mr. John Wang which are currently exercisable or exercisable within 60 days of the date of this annual report. Mr. John Wang resigned as our senior vice president effective as of May 9, 2008. Under our Amended and Restated 2004 Plan, Mr. John Wang had 30 days from the effective date of his resignation to exercise his vested options.
- (13) Represents 6,027 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.
- (14) Represents 6,027 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.
- (15) Includes 3,267,689 ordinary shares held directly by Mr. Duan and 2,000,000 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.

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(16) 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.

(17) 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.

B. Related party transactions

Overview

Ninetowns Technology, our predecessor, commenced business in 1995 as a vendor of the computer hardware and accessories with a view to using the proceeds from the sale of such products to fund research and development of enterprise software. We also used the sale of the computer hardware and accessories to develop relationships with PRC government agencies, such as the PRC Inspections Administration, that were actively pursuing the digitization of government processes. By late 2000, our research and development efforts resulted in the commercial launch of our first enterprise software, the iDeclare.CIQ basic package.

From 2000 to 2002, we underwent a transitional period in which we completed a number of transactions with certain parties related to our company. This resulted in a corporate reorganization in line with our then current business strategy, which was to be a scalable enterprise platform products provider enabling international trade enterprises and trade-related PRC government agencies to streamline the import/export process in China. These transactions included a number of sales and purchases of equity interests in Import & Export, which holds a 49.0% interest in iTowNet, the company that currently operates the data exchange platforms of the PRC Inspections Administration. Also during this time, each of our company and our affiliated company sold one shell company to our former employees. Our former employees used these shell companies to (i) form our franchisee and (ii) establish one of our major customers and competitors for software development services.

All of these transactions were accounted for as acquisitions or dispositions and resulted in minimal gain or loss to our company. By the end of 2002, we completed our transitional period and emerged as a company that was engaged primarily in the development and sale of enterprise software and related software development services.

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You should note in particular 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 is the ultimate user of substantially all the software development services we provide 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 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. 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 provide, 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.

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Under our software development contracts with iTowNet and eGrid, we typically agree to provide, among other services, design, installation, implementation and maintenance of software systems for iTowNet. We also typically provide one-year of free customer maintenance services commencing from the completion date of the project. Users of iDeclare.CIQ submit electronic declarations to the PRC Inspections Administration over the data exchange platforms of iTowNet. iTowNet receives a fee of RMB5 for each submission made over its platforms, including submissions made using our enterprise software.

In 2007, we did not recognize revenues from the provision of software development services to iTowNet.

eGrid Technology Ltd. (formerly Beijing Regard Technology Co., Ltd.)

Upon commencement of operations in 2003, eGrid was owned by our former employees: 73.75% by Shen Sun, 18.75% by Hongmei Tian, who also owns 18.75% of Ninetowns Enke, 5.0% by Lin Wen and 2.5% by Limin Guo. Since 2003, we have entered into several software development contracts with eGrid in connection with software development services for iTowNet. Under these contracts, eGrid designed and implemented software required by iTowNet and then sub-contracted with us for the coding of the software under these contracts. In 2005, through a series of reorganization steps, eGrid was re-named and became 100% beneficially owned by Zhonghai Xu, who is also one of our former employees and also one of the owners of Ninetowns Xin He.

On March 31, 2005, we entered into a software development contract with eGrid, pursuant to which we contracted to develop an “export electronic monitoring project (Phase I).” On June 28, 2005, we also entered into two software development contracts with eGrid pursuant to which we contracted to develop a “waste import electronic monitoring system” and an “electronic business integrated service platform”. eGrid agreed to pay us RMB3.0 million and RMB7.0 million, respectively, for the services provided under those contracts. On August 29, 2005, we entered into a software development contract with eGrid pursuant to which we contracted to develop an “export electronic monitoring project (Phase 2)”.

We did not recognize any revenue from sales of our software development services to eGrid in 2007.

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.

In September 2003, we entered into a franchise agreement with Jinwangge for the distribution of iDeclare.CIQ in the southern region of China. This agreement was for a two-year term, contained minimum sales commitments and was renewable upon mutual agreement of the parties within 120 days of expiration. We have sold and continue to sell our enterprise software to Jinwangge at a discount pursuant to a negotiated formula. On February 10, 2004, Jinwangge was re-named “Shenzhen Ninetowns Enke Software Technology Co., Ltd.” and was then 81.25% owned by Jing Shao and 18.75% owned by Hongmei Tian. We entered into a franchise agreement with Ninetowns Enke on February 14, 2004 on terms substantially identical to the terms in the franchise agreement with Jinwangge. Pursuant to the franchise agreement, Ninetowns Enke agreed to a minimum sales commitment of RMB50.0 million for the two years ending

February 14, 2006 and a sales discount of RMB1,000 per each iDeclare.CIQ package purchased from our company. In addition, Ninetowns Enke also agreed to act as our sales agent for our enterprise software after sales maintenance services and a sales discount of RMB750 per each maintenance contract sold to customer. On April 22, 2004, we agreed with Ninetowns Enke to amend the franchise agreement to revise certain pricing terms.

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In September 2005, Hongmei Tian transferred her interest in Ninetowns Enke to Su Tianjian, also one of our former employees, and Ninetowns Enke is currently 81.25% owned by Jing Shao and 18.75% owned by Su Tianjian. On May 12, 2006, we entered into a new franchise agreement with Ninetowns Enke for iDeclare.CIQ. This agreement has a two-year term and does not contain any minimum sales commitment.

We recognized net revenues of approximately RMB2.9 million (US\$0.4 million) from sales of our software products to Ninetowns Enke in 2007.

Guangzhou Ninetowns Wang Li Software Co., Ltd.

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

In October 2006, we entered into a franchise agreement with Ninetowns Wang Li for the distribution of our iDeclare.CIQ basic package. The agreement was for a two-year term and did not contain any minimum sales commitment. In December 2006, we revised our franchise agreement with Ninetowns Wang Li for our new software version under the iDeclare.CIQ series. The revised franchise agreement has a two-year term and does not contain any minimum sales commitment.

We recognized net revenues of approximately RMB6.4 million (US\$0.9 million) from sales of our software products and related customer maintenance services to Ninetowns Wang Li in 2007.

Control over Ronghe Tongshang

In March 2006, Mr. Wang, Mr. Ren and Ms. Dong established Ronghe Tongshang. We entered into a series of contractual agreements with Ronghe Tongshang and its current shareholders. Pursuant to these contractual arrangements, we provide exclusive technical consulting and management services to Ronghe Tongshang, which has assigned all of the equity owners' rights and obligations to us, resulting in the equity owners' lacking the ability to make decisions that have a significant effect on Ronghe Tongshang's operations or on our ability to extract profits from the operation of Ronghe Tongshang and assume Ronghe Tongshang's residual benefits. Because we are the sole variable interest holder of Ronghe Tongshang, we are also the primary beneficiary of Ronghe Tongshang. Consistent with the provision of Financial Accounting Standards Board ("FASB") Interpretation No. 46 (Revised), "Consolidation of Variable Interest Entities - an Interpretation of ARB No. 51" ("FIN 46R"), we have consolidated Ronghe Tongshang from its inception.

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Tootoo.com is owned by Ronghe Tongshang. We launched our new B2B vertical search platform, tootoo.com in May 2007. We plan to leverage our B2G expertise with our recent acquisitions and contractual relationships to position tootoo.com as a leading B2B search and service provider. We launched the second generation of tootoo.com in June 2007.

Control over Baichuan

In April 2007, in connection with our acquisition through our wholly-owned subsidiary, Ixworth, of a 70.0% interest in Ample Spring, we entered into a series of contractual agreements with Baichuan, Mr. Wang and Mr. Ren, previously shareholders of Baichuan, which provide us with effective control over Baichuan. Under these contractual arrangements, we bear the risk of, and enjoy the rewards from the ownership of Baichuan. Through these contractual agreements, we are the primary beneficiary of Baichuan. Accordingly, under the requirements of FIN46(R), Baichuan has become our variable interest entity and we have consolidated the financial statements of Baichuan.

Related party trade receivables

In connection with the transactions described above, we had net trade receivables from related parties amounting to approximately RMB6.4 million (US\$0.9 million) as of December 31, 2007. These receivables consisted primarily of proceeds from sales of enterprise software and fees from software development 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.

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.

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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 depository 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.

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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 2006 and 2007, (2) the four quarters in 2006 and 2007 and (3) each of the months since December 2007.

	Sales Price	
	High	Low
Annual highs and lows		
2006	\$6.98	\$4.29
2007	\$7.20	\$2.64
Quarterly highs and lows		
First Quarter 2006	\$6.98	\$4.86
Second Quarter 2006	\$5.42	\$4.80
Third Quarter 2006	\$5.95	\$4.42
Fourth Quarter 2006	\$5.35	\$4.29
First Quarter 2007	\$5.26	\$3.78
Second Quarter 2007	\$4.56	\$3.70
Third Quarter 2007	\$4.70	\$2.64
Fourth Quarter 2007	\$7.20	\$3.17
Monthly highs and lows		
December 2007	\$4.17	\$3.17
January 2008	\$3.30	\$2.80
February 2008	\$3.11	\$2.62
March 2008	\$2.72	\$2.05
April 2008	\$2.40	\$2.09
May 2008	\$2.73	\$2.11
June 2008	\$2.65	\$2.00
July 2008 (for the period to and including July 4, 2008)	\$2.09	\$1.80

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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.

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.

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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.

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.

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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.

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:

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- 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.

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.

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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 2007. 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.

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.

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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 may once again qualify as a PFIC for the 2007 taxable year.

Because it is likely that we will be classified as a PFIC for 2007, 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.

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

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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 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.

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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.

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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.

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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 that contains reports, proxy and information statements, and other information regarding registrants that make electronic filings with the SEC using its EDGAR system. As a foreign private issuer, we are exempt from the rules under the Exchange Act prescribing the furnishing and content of quarterly reports and proxy statements, and officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act.

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

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.

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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, 2008, we have used approximately RMB293 million (US\$40.2 million) of the net proceeds from our initial public offering for capital expenditure, comprising approximately RMB55 million (US\$7.6 million) for the expansion of existing facilities, approximately RMB48 million (US\$6.6 million) for the purchase of real estate for new research and development centers and approximately RMB190 million (US\$26.0 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.

Evaluation of 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, 2007. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that such disclosure controls and procedures are not effective as of December 31, 2007 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 due to the material weaknesses in internal control over financial reporting as described below. Our Chief Executive Officer and Chief Financial Officer also concluded that our disclosure controls and procedures are also not effective as of December 31, 2007 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 required disclosure due to the material weaknesses in internal control over financial reporting as described below.

Management's Report on Internal Control over Financial Reporting

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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.

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, 2007 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 not effective as of December 31, 2007 based on the criteria established in Internal Control – Integrated Framework issued by COSO. The assessment excluded the internal controls over financial reporting relating to Ample Spring and Baichuan because the entities were both acquired on April 27, 2007, as described in note 3 to the Consolidated Financial Statements, and their combined financial statements constitute (2.0) percent and 1.8 percent of net and total assets, respectively, 0.2 percent of revenues, and 6.2 percent of net loss of the consolidated financial statement amounts as of and for the year ended December 31, 2007.

Our management identified the following control deficiencies which constituted material weaknesses:

- 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.

These deficiencies have a pervasive impact on the financial statements.

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Remediation to Address Material Weaknesses

We have implemented, or plan to implement, the measures described below under the supervision and guidance of our management to remediate the above control deficiencies and to strengthen our internal controls over financial reporting. Key elements of the remediation effort include, but are not limited to, the following initiatives, which have been implemented, or are in the process of implementation, as of the date of filing of this Annual Report:

We plan to establish a communication system between the audit committee and the internal audit department, including regular communication or irregular communication, and to enhance the level of communication and interaction among our management, audit committee, independent auditors and other external advisors.

- We plan to allocate and transfer further resources to the internal audit department for the purpose of enhancing the internal audit function; and
- Mr. Martin Ngai Lam Cheung was appointed as an additional independent director and the chairperson of the audit committee effective on June 27, 2008. Mr. Cheung is an expert in finance and strengthens our accounting and financial reporting resources. Mr. Cheung's supervision allows us to fully monitor financial accounting standards and 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.

We plan to recruit additional qualified financial personnel to assure sufficient resources to support our financial reporting function.

This annual report includes a report of the Company's independent registered public accounting firm regarding internal control over financial reporting which is consistent with management's assessment.

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 internal control over financial reporting of Ninetowns Internet Technology Group Company Limited, its subsidiaries, and its variable interest entities (collectively, the "Company") as of December 31, 2007, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. As described in the Management's Report on Internal Control over Financial Reporting, management excluded from its assessment the internal control over financial reporting at Ample Spring Holdings Limited and Beijing Baichuan Tongda Science and Technology Development Co., Ltd., which were both acquired on April 27, 2007, and whose combined financial statements constitute (2.0) percent and 1.8 percent of net and total assets, respectively, 0.2 percent of revenues, and 6.2 percent of net loss of the consolidated financial statement amounts as of and for the year ended December 31, 2007. Accordingly, our audit did not include the internal control over financial reporting at Ample Spring Holdings Limited and Beijing Baichuan Tongda Science and Technology Development Co., Ltd. The Company's management is responsible 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 the Company's internal control over financial reporting based on our audit.

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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 effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel 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 the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weaknesses have been identified and included in management's assessment:

- 1) Inadequate accounting and finance personnel to be commensurate with the Company's financial accounting and reporting requirements.
- 2) Inadequate communication between the audit committee and the internal audit department which resulted in the ineffectiveness of the Company's monitoring activities and anti-fraud program.

These material weaknesses were considered in determining the nature, timing, and extent of audit tests applied in our audit of the consolidated financial statements and financial statement schedule as of and for the year ended December 31, 2007 of the Company and this report does not affect our report on such financial statements and financial statement schedule.

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In our opinion, because of the effect of the material weaknesses identified above on the achievement of the objectives of the control criteria, the Company has not maintained effective internal control over financial reporting as of December 31, 2007, based on the criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the year ended December 31, 2007 of the Company and our report dated July 10, 2008 expressed an unqualified opinion on those financial statements and included explanatory paragraphs regarding the financial statements' translation of Renminbi amounts into United States dollar amounts and the adoption of 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", effective on January 1, 2007 and the change of the method of accounting for stock-based compensation to conform to Statement of Financial Accounting Standard No. 123 (revised 2004), "Share-Based Payment".

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

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the fiscal year ended December 31, 2007 that have materially affected, or are 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.

The following table sets forth the aggregate fees in connection with certain professional services rendered by Deloitte Touche Tohmatsu, an independent registered public accounting firm, for the periods indicated. We did not pay any tax related or other fees to our principal accountants during the periods indicated.

	For the year ended December 31		
	2006	2007	2007
Audit	RMB3,789,000	RMB6,565,000	US\$900,000

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fees(1)			
Audit related fees	526,000	530,000	25,000
Total	RMB4,315,000	RMB7,095,000	US\$925,000

(1) Audit fees are the aggregate fees billed for each of the fiscal years for professional services rendered by our principal accountants for their audit and review of our annual financial statements and interim financial statements in connection with the statutory requirement and our initial public offering in 2004.

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 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.

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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.

Exhibit Number	Description
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)

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Exhibit Number	Description
	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)
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)

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Exhibit Number	Description
†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.
†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,

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Exhibit Number	Description
	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.
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)

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Exhibit Number	Description
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) filed with Securities and Exchange Commission on November 3, 2004)
4.54*	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)
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

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Exhibit Number	Description
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)
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

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Exhibit Number	Description
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.
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 Deloitte Touche Tohmatsu CPA Ltd.
15.2	Consent of Global Insight
15.3	Consent of Conyers Dill & Pearman
15.4	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.

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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 15th day of July, 2008.

NINETOWNS INTERNET TECHNOLOGY
GROUP COMPANY LIMITED

By: /s/ Shuang Wang
Name: Shuang Wang
Title: Chief Executive Officer

NINETOWNS INTERNET TECHNOLOGY GROUP COMPANY LIMITED

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<u>Consolidated statements of operations for the years ended December 31, 2005, 2006 and 2007</u>	F – 6
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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 sheets of Ninetowns Internet Technology Group Company Limited, its subsidiaries and variable interest entities (collectively, the "Company") as of December 31, 2006 and 2007, and the related consolidated statements of operations, shareholders' equity and comprehensive income, and cash flows for each of the three 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, 2006 and 2007, and the results of its operations and its cash flows for each of the three 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, (1) 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"; (2) effective on January 1, 2006, the Company changed its method of accounting for stock-based compensation to conform to Statement of Financial Accounting Standard No. 123 (revised 2004), "Share-Based Payment".

Our audits also comprehended the translation of Renminbi amounts into United States dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 2. Such United States dollar amounts are presented solely for the convenience of the readers.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2007, based on the criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated July 10, 2008 expressed an adverse opinion on the Company's internal control over financial reporting because of two material weaknesses.

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

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NINETOWNS INTERNET TECHNOLOGY GROUP COMPANY LIMITED

CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share data)

	Years Ended December 31,		
	2006 RMB	2007 RMB	2007 US\$
ASSETS			
Current assets:			
Cash and cash equivalent	598,648	649,863	89,088
Restricted cash	-	853	117
Short-term investments:			
Available-for-sale securities	-	10,962	1,503
Term deposits	307,209	26,000	3,564
Trade receivables from customers			
Billed, less allowance for doubtful accounts of RMB1,088 in 2006 and RMB2,412 in 2007, respectively	17,943	30,222	4,143
Unbilled, less allowance for doubtful accounts of RMB Nil and RMB Nil for 2006 and 2007, respectively	832	874	120
Trade receivables from related parties			
Billed, less allowance for doubtful accounts RMB Nil and RMB20,887 in 2006 and 2007, respectively	28,330	6,350	871
Inventories	6,820	7,011	961
Prepaid expenses and other current assets	27,653	17,059	2,339
Deferred tax assets	1,698	1,300	178
Total current assets	989,133	750,494	102,884
Property and equipment, net			
Deposits for acquisition of property and equipment	73,411	34,804	4,771
Investment in an affiliate	-	2,450	336
Investments under cost method	38,929	40,786	5,591
Acquired intangible assets, net	22,697	73,851	10,124
Other non-current asset	856	937	128
Goodwill	193,570	78,081	10,705
TOTAL ASSETS	1,365,289	1,171,180	160,555

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	Years Ended December 31,		
	2006 RMB	2007 RMB	2007 US\$
LIABILITIES MINORITY INTERESTS AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Accounts payable and accrued expenses	14,312	19,260	2,640
Amount due to an affiliate	-	1,450	199
Advance from customers	10,321	14,461	1,982
Deferred revenue	26,383	32,472	4,452
Income taxes payable	6,334	6,520	894
Other taxes payable	2,332	1,588	218
Unrecognized tax benefits	-	832	114
Total current liabilities	59,682	76,583	10,499
Non-current liabilities			
Deferred tax liabilities	627	16,210	2,222
Total liabilities	60,309	92,793	12,721
Minority interests	-	5,483	752
Commitments (Note 17)			
Shareholders' equity:			
Ordinary shares, par value RMB 0.027(HK\$ 0.025) per share: 8,000,000,000 shares authorized; 34,991,834 shares issued and outstanding in 2006 and 2007	926	926	127
Additional paid-in capital	871,642	873,568	119,755
Treasury shares, at cost, 47,862 shares and nil share in 2006 and 2007, respectively	(1,268)	-	-
Retained earnings	394,056	145,345	19,925
Statutory reserve	47,287	64,831	8,888
Accumulated other comprehensive loss	(7,663)	(11,766)	(1,613)
Total shareholders' equity	1,304,980	1,072,904	147,082
TOTAL LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY	1,365,289	1,171,180	160,555

See notes to consolidated financial statements.

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

	Years Ended December 31,			
	2005 RMB	2006 RMB	2007 RMB	2007 US\$
Net revenues:				
Enterprise software and related customer maintenance services				
external customers	142,534	92,127	67,822	9,298
related parties (Note 15)	60,954	24,706	9,505	1,303
Software development services				
external customers	7,600	23,084	25,642	3,515
related parties (Note 15)	28,100	12,933	-	-
Computer hardware sales	678	398	-	-
Business-to-business search services	-	-	489	67
Total net revenues	239,866	153,248	103,458	14,183
Cost of revenues:				
Enterprise software and related customer maintenance services	(495)	-	-	-
Software development services (including share-based compensation expense of nil in 2005, RMB1,039 in 2006 and RMB126 in 2007)	(18,192)	(16,805)	(17,748)	(2,433)
Computer hardware sales	(482)	(134)	-	-
Business-to-business search services	-	-	(5,109)	(700)
Total cost of revenues	(19,169)	(16,939)	(22,857)	(3,133)
Gross profit	220,697	136,309	80,601	11,050
Operating expenses:				
Selling and marketing (including share-based compensation expense of nil in 2005, RMB3,371 in 2006, and RMB628 in 2007)	(25,752)	(13,604)	(41,086)	(5,633)
General and administrative (including share-based compensation expense of nil in 2005, RMB4,074 in 2006, and RMB1,145 in 2007)	(48,778)	(67,449)	(86,334)	(11,835)
Research and development (including share-based compensation expense of nil in 2005, RMB1,843 in 2006, and RMB27 in 2007)	(11,249)	(29,825)	(32,003)	(4,387)
(Allowance) recovery for doubtful accounts	(760)	1,521	(22,395)	(3,070)
Provision for impairment of goodwill	-	-	(193,570)	(26,536)
Total operating expenses	(86,539)	(109,357)	(375,388)	(51,461)
Government subsidies	447	705	1,015	139
Income (loss) from operations	134,605	27,657	(293,772)	(40,272)
Interest income	17,625	19,302	13,885	1,903
Gain from sales of short-term investments	-	-	43,546	5,970
Income (loss) before provision for income taxes and minority interest	152,230	46,959	(236,341)	(32,399)
Provision for income taxes	(626)	(1,031)	(243)	(33)

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Net income (loss) before minority interest	151,604	45,928	(236,584)	(32,432)
Minority interests in loss of subsidiary	-	-	6,053	830
Net income (loss)	151,604	45,928	(230,531)	(31,602)
Net income (loss) per share:				
Basic	4.39	1.32	(6.59)	(0.90)

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Diluted	4.25	1.30	(6.59)	(0.90)
Weighted average shares used in computation:				
Basic	34,539,976	34,773,005	34,966,830	34,966,830
Diluted	35,706,894	35,368,882	34,966,830	34,966,830

See notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
AND COMPREHENSIVE INCOME (LOSS)
(In thousands, except share and per share data)

	Ordinary Shares	Ordinary Shares	Additional	Treasury	Shares	Retained	Statutory	Accumulated	
	Shares	Amount	Paid-in	Shares	Amount	Earnings	Reserve	Other	
		RMB	Capital		RMB	RMB	RMB	Compre-hensive	
			RMB					(Loss)	
								Income	
								RMB	
Balance as of January 1, 2005	34,391,834	911	845,730	-	-	200,531	43,280	-	1,090
Ordinary shares converted to ADR shares for future exercises of share options	600,000	15	15,585	(600,000)	(15,600)	-	-	-	
Issuance of ADR shares for the exercises of employee share options	-	-	-	284,774	7,404	-	-	-	7
Provision for statutory reserve	-	-	-	-	-	(4,007)	4,007	-	
Net income	-	-	-	-	-	151,604	-	-	151
Foreign currency translation adjustments	-	-	-	-	-	-	-	(3,095)	(3)
Balance as of December 31, 2005	34,991,834	926	861,315	(315,226)	(8,196)	348,128	47,287	(3,095)	1,246
Issuance of ADR shares for the exercises of employee share options	-	-	-	267,364	6,928	-	-	-	6
	-	-	10,327	-	-	-	-	-	10

Employee share options compensation										
Net income	-	-	-	-	-	45,928	-	-	-	45,928
Foreign currency translation adjustments	-	-	-	-	-	-	-	-	(4,568)	(4,568)
Balance as of December 31, 2006	34,991,834	926	871,642	(47,862)	(1,268)	394,056	47,287	(7,663)	1,304,000	1,304,000
Cumulative effect of unrecognized tax benefit on adoption of FIN 48	-	-	-	-	-	(636)	-	-	-	-
Issuance of ADR shares for the exercises of employee share options	-	-	-	47,862	1,268	-	-	-	-	1,304,000
Provision for statutory reserve	-	-	-	-	-	(17,544)	17,544	-	-	1,304,000
Net loss	-	-	-	-	-	(230,531)	-	-	-	(230,531)
Foreign currency translation adjustments	-	-	-	-	-	-	-	-	(6,977)	(6,977)
Employee share options compensation	-	-	1,926	-	-	-	-	-	-	1,926
Unrealized gain on available for sale securities	-	-	-	-	-	-	-	-	2,874	2,874
Balance as of December 31, 2007	34,991,834	926	873,568	-	-	145,345	64,831	(11,766)	1,072,000	1,072,000
		US\$127	US\$119,755	US\$-	US\$-	US\$19,925	US\$8,888	(US\$1,613)	US\$147,000	US\$147,000

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NINETOWNS INTERNET TECHNOLOGY GROUP COMPANY LIMITED

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands, except share and per share data)

	Years Ended December 31,			
	2005 RMB	2006 RMB	2007 RMB	2007 US\$
Cash flows from operating activities:				
Net income	151,604	45,928	(230,531)	(31,602)
Adjustments to reconcile net income to net cash				
Provided by operating activities:				
Loss on disposal of property and equipment	263	511	1,544	212
Depreciation of property and equipment	2,877	6,194	9,867	1,353
Amortization of acquired intangible assets	2,416	2,943	14,466	1,983
Gain from sale of trading securities	-	-	(43,204)	(5,923)
Gain from sale of available for sale securities	-	-	(342)	(47)
Allowance (recovery) for doubtful debts	760	(1,521)	22,395	3,070
Bad debt recoveries	-	-	(2,683)	(368)
Provisions for goodwill impairment	-	-	193,570	26,536
Proceeds from sales of trading securities	-	-	94,834	13,001
Purchase of trading securities	-	-	(51,630)	(7,078)
Minority interest in loss of subsidiary	-	-	(6,053)	(830)
Employee share-based compensation	-	10,327	1,926	264
Changes in operating assets and liabilities:				
Inventories	401	903	(191)	(26)
Trade receivables from customers	(2,843)	2,854	(15,322)	(2,099)
Trade receivables from related parties	1,188	27,311	-	-
Prepaid expenses and other assets	16,668	(12,313)	11,986	1,643
Accounts payable and accrued expenses	(7,022)	164	(17,518)	2,402
Advance from customers	10,639	(318)	4,140	567
Deferred revenue	(29,344)	(41,503)	6,089	835
Deferred taxes, net	-	(1,071)	(1,125)	154
Income taxes payable	(77)	947	315	43
Other taxes payables	(1,158)	(524)	(744)	(102)
Net cash provided by/(used in) operating activities	146,372	40,832	(2,941)	(403)
Cash flows from investing activities:				
Increase in restricted cash	-	-	(853)	(117)
Decrease (Increase) of term deposits	(56,087)	(100,209)	281,209	38,550
Cash paid for investments under cost method	-	(38,929)	(4,500)	(617)
			(2,450)	(336)

Cash paid for establishment of an
affiliate

Purchases of available-for-sale securities			(10,076)	(1,381)
Proceeds from available for sale securities	-	-	2,330	319
Purchase of property and equipment	(31,376)	(19,774)	(71,782)	(9,840)
Purchase of intangible assets for internal use	-	(17,200)	-	-
Payment for acquisition of property and equipment	(23,388)	(371)	(34,804)	(4,771)
Acquisition of a business, net of cash acquired of RMB 3,119	-	-	(101,881)	(13,967)
				-
Net cash (used in) provided by investing activities	(110,851)	(176,483)	57,193	7,840
Cash flows from financing activities:				
Exercise of share options	7,404	6,928	1,268	174
Return of capital to minority shareholder upon dissolution of a subsidiary	-	(600)	-	-
Decrease in amounts due to shareholders	(5,360)	-	-	-
Net cash provided by financing activities	2,044	6,328	1,268	174
Effect of exchange rate changes	(3,084)	(3,503)	(4,305)	(590)
Net increase (decrease) in cash and cash equivalents	34,481	(132,826)	51,125	7,021
Cash and cash equivalents at the beginning of the year	696,993	731,474	598,648	82,067
				-

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Cash and cash equivalents at the end of the year	731,474	598,648	649,863	89,088
Supplemental non-cash investing activities:				
Amount payable for purchase of property and equipment	3,258	477		
Supplemental cash flow information:				
Cash paid during the year for income taxes	703	1,156	909	125

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NINETOWNS INTERNET TECHNOLOGY GROUP COMPANY LIMITED
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2005, 2006 AND 2007
 (In thousands, except share and share-related data)

1. ORGANIZATION AND PRINCIPAL ACTIVITIES

Ninetowns Internet Technology Group Company Limited ("Ninetowns") was incorporated as an exempted limited liability company in the Cayman Islands 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 Ninetown's business is conducted in the People's Republic of China (the "PRC") through its subsidiaries and variable interest entities ("VIE"). Ninetowns, its subsidiaries, and its "VIEs" (collectively, the "Company") are principally engaged in the sale of enterprise software and provision of the related after-sales maintenance services, software development services and in April 2007, the Company acquired a 70% equity interest in a Business to Business ("B2B") search engine operator (see note 3) and started to be engaged in the provision of B2B search services.

As of December 31, 2007, a summary of the subsidiaries and VIEs of Ninetowns was as follows:

Name of entity	Place of Incorporation/ Establishment	Effective ownership interest	Principal activities
Subsidiaries:			
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	PRC	100%	Provision of software development services

Limited ("Beijing
Ninetowns Times")

Beijing Ninetowns Digital Technology Limited ("Beijing Ninetowns Digital Technology")	PRC	100%	Sale of enterprise software and provision of the related after-sales services, sale of computer hardware and accessories, 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, sale of computer hardware and accessories, 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
Guangdong Ninetowns Technology Co., Ltd. ("Guangdong Ninetowns")	PRC	100%	Sale of enterprise software and provision of the related after-sales services, sale of computer hardware and accessories, and provision of software development services

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NINETOWNS INTERNET TECHNOLOGY GROUP COMPANY LIMITED
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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 (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
Shanghai New Take Digital Technology Limited ("Shanghai New Take")	PRC	100%	Sale of enterprise software and provision of the related after-sales services, sale of computer hardware and accessories, and provision of software development services
Variable interest entities:			
Beijing Ronghe Tongshang Network Technology Limited ("Ronghe Tongshang")	PRC	100%	Provision of online solution 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

PRC regulations prohibit direct foreign ownership of business entities providing internet content, or ICP, services in the PRC such as the business of providing online solution 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:

1 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.

1 The equity owners irrevocably granted the Company the right to make all operating and business decisions for Ronghe Tongshang on behalf of the equity owners;

1 All registered capital owned by the three equity owners were pledged to the Company as a collateral against the service fee payable to the Company;

1 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 a collateral for such guarantee. Through December 31, 2007, Ronghe Tongshang has not yet entered into any business contracts that would require guarantees from the Ninetowns;

1 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.

Because the above arrangement, which assigned all of the equity owners' rights and obligations to the Company resulting in the equity owners lacking the ability to make decisions that have a significant effect on Ronghe Tongshang's operations and the Company's ability to extract the profits from the operation of Ronghe Tongshang, and assume the 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 provision 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 Ronghe Tongshang from its inception.

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NINETOWNS INTERNET TECHNOLOGY GROUP COMPANY LIMITED
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1. ORGANIZATION AND PRINCIPAL ACTIVITIES - continued

Baichuan Tongda is a PRC company which 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 part of the acquisition transaction of Ample Spring and Baichuan Tongda (described in Note 3), 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 reward from the ownership of Baichuan Tongda. A summary of the major terms of the arrangements is as follows:

- lThe 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;
- lAll registered capital owned by the 70% registered shareholders is pledged to the Company as a collateral against the service fee payable to the Company;
- lThe 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 allowable;
- lThe 70% registered shareholders may not dispose of or enter into any other agreements involving the shares owned by them without prior agreement by the Company;
- lThe Company is engaged by Baichuan Tongda as the exclusive service provider for business and technical support services and is entitled to a fee for the serviced provided;
- lThe Company has made an entrustment loan to Baichuan Tongda in the amount of RMB30,000 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 has become 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.

The following financial information of the above two VIEs was included in the accompanying consolidated financial statements.

	December 31,	
	2006	2007
	RMB	RMB
Total assets	396	27,752
Total liabilities	(1,000)	(51,325)

	Years Ended December 31, 2007		
	2005	2006	2007
	RMB	RMB	RMB
Total revenue	-	-	274
Total net loss	-	(1,604)	(14,315)

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NINETOWNS INTERNET TECHNOLOGY GROUP COMPANY LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005, 2006 AND 2007
(In thousands, except share and share-related data)

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 RMB7.2946 to US\$1, the approximate rate of exchange at December 31, 2007. 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 allowance for doubtful accounts, estimated cost 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 the business 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 maturity of greater than three months but less than one year.

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 2007 but there were no outstanding balances at December 31, 2007. Short-term investments classified as available for sale are stated at fair values. Unrealized gains or losses for available for sale securities from the changes in fair value are recorded into equity account as other comprehensive income (loss). Realized gains or losses for disposal of available for sale securities are directly recorded in the consolidated statement of operations.

The Company reviews investment in available-for-sale securities at the end of each balance sheet date for other-than-temporary declines in fair value below the cost basis based on the specific identification method. If the Company determines 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, 2005, 2006 and 2007.

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NINETOWNS INTERNET TECHNOLOGY GROUP COMPANY LIMITED
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2005, 2006 AND 2007
 (In thousands, except share and share-related data)

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES - continued

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 specific identification method. No inventory provisions were made in 2005, 2006 and 2007.

Accounts receivable and allowance for doubtful accounts - Accounts receivable mainly represents amounts earned and are collectible from customers. Accounts receivable are stated at the amount the Company expects to collect. The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make the required payments and uses the specific identification method to record such allowances. Management of the Company considers the following factors when determining the collectability of accounts receivable: a customer's credit-worthiness, past collection history, and changes in a customer's payment terms. Allowance for doubtful accounts is made based on aging of accounts receivable and on any specifically identified accounts receivable that may become uncollectible.

Changes in the allowance for doubtful accounts were as follows:

	2006 RMB	2007 RMB
Balance at January 1,	4,851	1,088
Provision for allowance for doubtful debts	2,487	25,078
Recovery	(4,008)	(2,683)
Write offs	(2,242)	(184)
Balance at December 31,	1,088	23,299

Property and equipment - Property and equipment are recorded at cost less accumulated depreciation and amortization. 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
Leasehold improvements	shorter of lease term or 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 and purchased software for internal use, are carried at cost, less accumulated amortization.

Amortization is calculated on a straight-line basis over the expected useful life of the assets of five years. Amortization expenses for the years ended December 31, 2005, 2006 and 2007 were RMB2,416 and RMB2,943 and RMB14,466 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

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NINETOWNS INTERNET TECHNOLOGY GROUP COMPANY LIMITED
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 FOR THE YEARS ENDED DECEMBER 31, 2005, 2006 AND 2007
 (In thousands, except share and share-related data)

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES - continued

recognize an impairment loss. There were no impairment losses in the years ended December 31, 2005, 2006 and 2007.

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. 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.

Management performed the annual goodwill impairment test as of December 31, 2005, 2006 and 2007 and no impairment losses were recorded in 2005 and 2006. In 2007, based on the impairment assessment performed by management, the Company incurred a total goodwill impairment charge of RMB193,570. This impairment charge is related to the Company's segments of enterprise software and related customer maintenance service and software development services. The Company's financial outlook from maintenance services of the free software offered by the Chinese government has been negatively impacted due to several factors. First, the Chinese government's declining promotion of its free software has resulted in a corresponding decline in the need for the Company's maintenance services. Additionally, the Company believes there is 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 projection and assumptions of its enterprise software and related customer maintenance service segment, resulting in a goodwill impairment loss of RMB187,770 recognized for this segment. For the software development service segment, the Company has experienced a slowdown in the demand for such services by the government and therefore has also revised downward the financial performance projection and assumptions of this segment, resulting in an impairment loss of RMB5,800 recognized for this segment.

The changes in the carrying amount of goodwill by reporting unit for the years ended December 31, 2006 and 2007 were as follows:

	Enterprise software and related customer maintenance service RMB	Software development services RMB	B2B RMB	Total RMB
Balance as of January 1, 2006 and December 31, 2006	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

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NINETOWNS INTERNET TECHNOLOGY GROUP COMPANY LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES - continued

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 distribution of investee’s earnings. The Company reviews the 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. The fair value of the investment would then become the new cost basis of the investment. No impairment charges were recorded for the years ended December 31, 2005, 2006 and 2007.

Investment in an affiliate - Investment 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 its affiliate in 2007 and the affiliate had not commenced its operations at December 31, 2007.

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-forwards 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.

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 total amount of unrecognized tax benefits as of the date of adopting FIN 48 was RMB636 and a total FIN48 liability including late payment interest of RMB832 included in income tax expense in the income statement by the end of 2007. The Company's tax years from 2003 to 2007 are subject to examination by the tax authorities.

Revenue recognition –The Company's revenue is mainly 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.

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NINETOWNS INTERNET TECHNOLOGY GROUP COMPANY LIMITED
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2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES - continued

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 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.

The Company reports revenue net of business taxes. Business taxes included in revenue during 2005, 2006, and 2007 totaled RMB10,375, RMB4,919 and RMB4,402 respectively. Software revenue includes the benefit of the rebate of value added taxes on the sales of software and software-related services received from the Chinese tax authorities as part of the PRC government's policy of encouraging of software development in the PRC. Pursuant to certain PRC rules relating to value-added taxes, Beijing Ninetowns Times, Beijing Ninetowns Digital Technology, Beijing Ninetowns Ports and Beijing Ninetowns Network are entitled to a refund of value-added taxes 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. Revenues from the sale of software products include the refund of such value-added tax which totaled RMB19,766, RMB10,500 and RMB4,347 for the years ended December 31, 2005, 2006 and 2007, respectively.

Cost of revenue - Cost of revenue includes production costs for products sold, and direct costs associated with the delivery of software development and maintenance 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. Costs 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 RMB1,979, RMB2,281 and RMB6,277 during the years ended December 31, 2005, 2006 and 2007, 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

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2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES - continued

well as those companies that contribute significantly to local taxes. The Company reports government subsidies when it becomes due and receivable and the Company does not have any obligations to repay the amounts received.

Foreign currency translation - The functional currency of the Company's subsidiaries and VIEs established in the PRC is the RMB. The functional currency of Ninetowns and its subsidiaries established in countries other than PRC is the US\$. Transactions dominated 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 the 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 investment in available-for-sale securities and is reported as a component of consolidated statements of shareholders' equity.

Foreign currency risk - The 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 central government policies and to international economic and political developments affecting supply and demand in the China Foreign Exchange Trading System market. Cash and cash equivalents and term deposits of the Company included aggregate amounts of RMB830,155 at December 31, 2006 and RMB637,270 at December 31, 2007 which were denominated in RMB.

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 of financial instruments - The carrying amounts of cash and cash equivalents, term deposits, trade receivables, and accounts payable approximate their fair value due to the short-term nature of these instruments.

Share-based compensation - The Company grants stock options to its employees and directors. Prior to January 1, 2006, the Company accounted for employee share-based compensation in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB Opinion 25"), and its related interpretations which required the Company to record a compensation charge for the excess of the fair value for the stock at the grant date over the amount an employee must pay to acquire the

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2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES - continued

stock. The compensation expense is recognized over the applicable service period, which is usually the vesting period.

In December 2004, the Financial Accounting Standards Board ("FASB") issued Statements of Financial Accounting Standard ("SFAS") No. 123R, which is a revision of SFAS No. 123, "Accounting for Stock-Based Compensation" and supersedes APB Opinion No. 25. Effective January 1, 2006, the Company adopted SFAS No.123R and recognized 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.

For share-based compensation awards that were granted prior to January 1, 2006 that are not yet vested and continue to be reported under APB Opinion 25, the following is the Company's pro forma net income that would have been reported if such awards were accounted for under SFAS 123(R):

	Year ended December 31, 2005 RMB
Net income, as reported	151,604
Add: Share-based compensation, as reported	-
Less: Share-based compensation determined using the fair value method	(14,616)
Pro forma net income	136,988
Weighted average shares used in computation	
Basic	34,539,976
Diluted	35,706,894
Net income per share:	
Basic, as reported	4.39
Basic - pro forma	3.97
Diluted, as reported	4.25
Diluted - pro forma	3.84