

NINETOWNS INTERNET TECHNOLOGY GROUP CO LTD

Form 20-F

June 30, 2010

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**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, 2009**

**OR**

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

**OR**

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

**Date of event requiring this shell company report \_\_\_\_\_**

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission file number 000-51025**

**Ninetowns Internet Technology Group Company Limited**

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

**Cayman Islands**

**(Jurisdiction of incorporation or organization)**

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

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

**Chaoyang District Beijing 100020,**

**The People's Republic of China**

**(Address of principal executive offices)**

**Contact Person: Tommy Siu Lun Fork**

**Chief Financial Officer**

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

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

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

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

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

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

**Title of each class**

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

U.S. GAAP

International Financial Reporting Standards as issued  
by the International Accounting Standards Board

Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.  Item 17  Item 18

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

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

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

Yes  No

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**Introduction**

This annual report on Form 20-F includes our audited consolidated financial statements for the years ended December 31, 2007, 2008 and 2009, and as of December 31, 2008 and 2009. References to 2007, 2008, 2009, 2010 and 2011 are, where appropriate, references to the years ended or ending December 31, 2007, 2008, 2009, 2010 and 2011, respectively.

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

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

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

**Forward-looking statements**

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

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

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

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

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

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

Not applicable.

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

Not applicable.

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

The following table shows selected consolidated financial information and other data for our business. You should read the following information in conjunction with Item 5 of this annual report, Operating and Financial Review and Prospects. The statement of operations data and cash flow data for the years ended December 31, 2007, 2008 and 2009, and the balance sheet data as of December 31, 2008 and 2009, 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 2005 and 2006, and the balance sheet data as of December 31, 2005, 2006 and 2007, are derived from our audited consolidated financial statements which have not been included in this annual report.

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

|  | <b>2005</b> | <b>2006</b> | <b>2007</b> | <b>2008</b> | <b>2009</b> | <b>2009<sup>(1)</sup></b> |
|--|-------------|-------------|-------------|-------------|-------------|---------------------------|
|  | <b>RMB</b>  | <b>RMB</b>  | <b>RMB</b>  | <b>RMB</b>  | <b>RMB</b>  | <b>US\$</b>               |

**Statement of operations data:**

Total net revenues:

|                                                               |         |         |         |         |        |        |
|---------------------------------------------------------------|---------|---------|---------|---------|--------|--------|
| Enterprise software and related customer maintenance services | 203,488 | 116,833 | 77,327  | 84,965  | 58,387 | 8,554  |
| Software development services                                 | 35,700  | 36,017  | 25,642  | 19,458  | 17,363 | 2,544  |
| Computer hardware sales                                       | 678     | 398     |         |         |        |        |
| Food sales and services                                       |         |         |         | 94      | 18,004 | 2,637  |
|                                                               | 239,866 | 153,248 | 102,969 | 104,517 | 93,754 | 13,735 |

Cost of revenues:

|                                                               |          |          |          |          |          |         |
|---------------------------------------------------------------|----------|----------|----------|----------|----------|---------|
| Enterprise software and related customer maintenance services | (495)    |          |          |          |          |         |
| Software development services                                 | (18,192) | (16,805) | (17,748) | (12,423) | (11,552) | (1,692) |
| Computer hardware sales                                       | (482)    | (134)    |          |          |          |         |
| Food sales and services                                       |          |          |          | (76)     | (17,046) | (2,498) |
|                                                               | (19,169) | (16,939) | (17,748) | (12,499) | (28,598) | (4,190) |

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

|  | <b>2005</b> | <b>2006</b> | <b>2007</b> | <b>2008</b> | <b>2009</b> | <b>2009<sup>(1)</sup></b> |
|--|-------------|-------------|-------------|-------------|-------------|---------------------------|
|  | <b>RMB</b>  | <b>RMB</b>  | <b>RMB</b>  | <b>RMB</b>  | <b>RMB</b>  | <b>US\$</b>               |

|                       |          |          |          |          |          |         |
|-----------------------|----------|----------|----------|----------|----------|---------|
| Gross profit          | 220,697  | 136,309  | 85,221   | 92,018   | 65,156   | 9,545   |
| Operating expenses:   |          |          |          |          |          |         |
| Selling and marketing | (25,752) | (13,604) | (32,379) | (21,942) | (17,369) | (2,546) |

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|                                      |          |          |          |          |          |         |
|--------------------------------------|----------|----------|----------|----------|----------|---------|
| General and administrative           | (49,538) | (65,928) | (73,636) | (75,523) | (62,877) | (9,212) |
| Research and development             | (11,249) | (29,825) | (25,026) | (18,566) | (17,373) | (2,545) |
| Allowance for doubtful accounts, net |          |          | (22,395) | (2,881)  | (26,259) | (3,847) |



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| In thousands, except per share and<br>per ADS data                              | For the years ended December 31, |             |             |             |             |                             |
|---------------------------------------------------------------------------------|----------------------------------|-------------|-------------|-------------|-------------|-----------------------------|
|                                                                                 | 2005<br>RMB                      | 2006<br>RMB | 2007<br>RMB | 2008<br>RMB | 2009<br>RMB | 2009 <sup>(1)</sup><br>US\$ |
| Impairment of goodwill                                                          |                                  |             | (193,570)   |             |             |                             |
| Total operating expenses                                                        | (86,539)                         | (109,357)   | (347,006)   | (118,912)   | (123,878)   | (18,150)                    |
| Government subsidies                                                            | 447                              | 705         | 1,015       |             |             |                             |
| Income (loss) from operations                                                   | 134,605                          | 27,657      | (260,770)   | (26,894)    | (58,722)    | (8,605)                     |
| Interest income                                                                 | 17,625                           | 19,302      | 13,885      | 7,026       | 4,280       | 627                         |
| Gain on sales of short-term<br>investments                                      |                                  |             | 43,546      | 9,866       | 35,474      | 5,196                       |
| Change in fair value of marketable<br>options                                   |                                  |             |             |             | 27,684      | 4,056                       |
| Gain from disposal of investment<br>under cost method                           |                                  |             |             | 2,187       |             |                             |
| Other income                                                                    |                                  |             |             | 358         | 3,974       | 582                         |
| Income (loss) before income tax and<br>non-controlling interests                | 152,230                          | 46,959      | (203,339)   | (7,457)     | 12,690      | 1,856                       |
| Income tax expense                                                              | (626)                            | (1,031)     | (3,130)     | (836)       | (4,100)     | (601)                       |
| Income (loss) from continuing<br>operations before non-controlling<br>interests | 151,604                          | 45,928      | (206,469)   | (8,293)     | 8,590       | 1,255                       |
| Loss from discontinued operations,<br>net of tax                                |                                  |             | (30,115)    | (166,802)   | (7,347)     | (1,076)                     |
| Net income (loss)                                                               | 151,604                          | 45,928      | (236,584)   | (175,095)   | 1,243       | 179                         |
| Attributable to non-controlling<br>interests-discontinued operations            |                                  |             | 6,053       | 5,483       | 89          | 13                          |
| Attributable to the Company                                                     | 151,604                          | 45,928      | (230,531)   | (169,612)   | 1,332       | 192                         |
| Income (loss) from continuing<br>operations per share:                          |                                  |             |             |             |             |                             |
| Basic                                                                           | 4.39                             | 1.32        | (5.90)      | (0.24)      | 0.25        | 0.04                        |
| Diluted                                                                         | 4.25                             | 1.30        | (5.90)      | (0.24)      | 0.25        | 0.04                        |
| Income (loss) from discontinued<br>operations per share:                        |                                  |             |             |             |             |                             |

|         |  |  |        |        |        |        |
|---------|--|--|--------|--------|--------|--------|
| Basic   |  |  | (0.69) | (4.61) | (0.21) | (0.03) |
| Diluted |  |  | (0.69) | (4.61) | (0.21) | (0.03) |

## Income (loss) per share and ADS:

|         |      |      |        |        |      |      |
|---------|------|------|--------|--------|------|------|
| Basic   | 4.39 | 1.32 | (6.59) | (4.85) | 0.04 | 0.01 |
| Diluted | 4.25 | 1.30 | (6.59) | (4.85) | 0.04 | 0.01 |

**Cash flow data:**

|                                                     |           |           |         |          |          |          |
|-----------------------------------------------------|-----------|-----------|---------|----------|----------|----------|
| Net cash provided by (used in) operating activities | 146,372   | 40,832    | (2,941) | (33,881) | (26,478) | (3,879)  |
| Net cash (used in) provided by investing activities | (110,851) | (176,483) | 57,193  | (37,366) | (76,858) | (11,260) |
| Net cash provided by financing activities           | 2,044     | 6,328     | 1,268   |          |          |          |

**In thousands, except share, per share and per ADS data**

|                                                                  | <b>2005</b> | <b>2006</b> | <b>As of December 31,</b> |             | <b>2009</b> | <b>2009<sup>(1)</sup></b> |
|------------------------------------------------------------------|-------------|-------------|---------------------------|-------------|-------------|---------------------------|
|                                                                  | <b>RMB</b>  | <b>RMB</b>  | <b>2007</b>               | <b>2008</b> | <b>RMB</b>  | <b>US\$</b>               |
|                                                                  |             |             | <b>RMB</b>                | <b>RMB</b>  |             |                           |
| <b>Balance sheet data:</b>                                       |             |             |                           |             |             |                           |
| Cash and cash equivalent                                         | 731,474     | 598,648     | 649,863                   | 576,642     | 473,448     | 69,361                    |
| Restricted cash                                                  |             |             | 853                       | 670         | 790         | 116                       |
| Trade receivables, net of allowance for doubtful accounts, from: |             |             |                           |             |             |                           |
| external customers                                               | 17,459      | 18,775      | 31,096                    | 27,938      | 12,452      | 1,824                     |
| related parties                                                  | 29,752      | 28,330      | 6,350                     | 6,005       | 5,669       | 830                       |
| Term deposits                                                    | 207,000     | 307,209     | 26,000                    | 28,000      | 25,000      | 3,663                     |
| Total assets                                                     | 1,345,773   | 1,365,289   | 1,171,180                 | 953,325     | 979,591     | 143,511                   |
| Deferred revenue                                                 | 67,886      | 26,383      | 32,472                    | 21,392      | 10,453      | 1,531                     |
| Total liabilities                                                | 98,808      | 60,309      | 92,793                    | 53,145      | 57,255      | 8,388                     |
| Total equity of the Company                                      | 1,246,365   | 1,304,980   | 1,072,904                 | 900,180     | 922,425     | 135,136                   |
| Number of ordinary shares outstanding <sup>(2)</sup>             | 34,991,834  | 34,991,834  | 34,991,834                | 35,791,834  | 35,791,834  | 35,791,834                |

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- (1) For the convenience of the reader, RMB amounts are expressed in U.S. dollars at the rate of RMB6.8259 to US\$1.00, the noon buying rate in effect on December 31, 2009 as quoted by the Federal Reserve Bank of New York.
  
- (2) In 2008, 800,000 of the Company's ordinary shares were converted into American Depositary Shares to facilitate our employees' cashless exercise of vested stock options and non-vested shares. Stock options for 6,186 ordinary shares were exercised in 2008. 120,536 previously non-vested shares became vested in 2009.
  
- (3) Certain reclassifications of previous reported amounts have been made to conform to the current period presentation. These reclassifications are primarily due to the presentation of discontinued business-to-business operations.

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 translation of Renminbi into U.S. dollars in this annual report is based on the noon buying rate in the City of New York for cable transfers of Renminbi as certified for customs purposes by the Federal Reserve Bank of New York. Unless otherwise noted, all translations from Renminbi to U.S. dollars and from U.S. dollars to Renminbi in this annual report were made at a rate of RMB6.8259 to US\$1.00, the noon buying rate in effect as of December 31, 2009. We make no representation that any Renminbi amounts could have been, or could be, converted into U.S. dollars at any particular rate, the rates stated below, or at all. In addition, such translations should not be construed to be the amounts that would have been reported under U.S. GAAP. The PRC government imposes controls over its foreign currency reserves in part through direct regulation of the conversion of Renminbi into foreign exchange and through restrictions on foreign trade.

The following table sets forth information concerning exchange rates between Renminbi and U.S. dollars for the periods indicated. These rates are provided solely for your convenience and are not necessarily the exchange rates that we used in this annual report or will use in the preparation of our periodic reports or any other information to be provided to you. The source of these rates is the noon buying rate in the City of New York for cable transfers of Renminbi as certified for customs purposes by the Federal Reserve Bank of New York.

|                     | Period<br>End | Noon Buying Rate                             |        |        |
|---------------------|---------------|----------------------------------------------|--------|--------|
|                     |               | Average <sup>(1)</sup><br>(RMB per US\$1.00) | Low    | High   |
| 2004                | 8.2765        | 8.2768                                       | 8.2774 | 8.2764 |
| 2005                | 8.0702        | 8.1936                                       | 8.2765 | 8.0702 |
| 2006                | 7.8041        | 7.9723                                       | 8.0702 | 7.8041 |
| 2007                | 7.2946        | 7.6058                                       | 7.8127 | 7.2946 |
| 2008                | 6.8225        | 6.9477                                       | 7.2946 | 6.7800 |
| 2009                | 6.8259        | 6.8307                                       | 6.8470 | 6.8176 |
| 2010                |               |                                              |        |        |
| January             | 6.8268        | 6.8269                                       | 6.8295 | 6.8258 |
| February            | 6.8258        | 6.8285                                       | 6.8330 | 6.8258 |
| March               | 6.8258        | 6.8262                                       | 6.8254 | 6.827  |
| April               | 6.8247        | 6.8256                                       | 6.8229 | 6.8275 |
| May                 | 6.8305        | 6.8275                                       | 6.8245 | 6.831  |
| June <sup>(2)</sup> | 6.8267        | 6.8298                                       | 6.8267 | 6.8323 |

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

(2) For the period to and including June 18, 2010.



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***B. Capitalization and indebtedness***

Not applicable.

***C. Reasons for the offer and use of proceeds***

Not applicable.

***D. Risk factors***

**Risks related to our business**

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

Sales of our enterprise software and related customer maintenance services and software development services that are either used by the State Administration for Quality Supervision and Inspection and Quarantine of the PRC, or the PRC Inspections Administration, or by regional PRC inspection and quarantine bureaus, have accounted for substantially all of our total net revenues. We expect that, in the near future, we will continue to generate a substantial portion of our total net revenues through (i) sales of enterprise software and related customer maintenance services and (ii) software development services that will be used in connection with the PRC Inspections Administration filings. Net revenues from sales of enterprise software and related customer maintenance services for PRC Inspections Administration filings accounted for 75.1%, 81.3% and 62.3% of our total net revenues in 2007, 2008 and 2009, respectively.

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

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

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

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

In August 2005, the PRC Inspections Administration selected our company as the winning bidder in connection with the PRC Inspections Administration's request for proposals for the development of a software product that has certain basic functionalities similar to those of iDeclare.CIQ and iProcess.CIQ. The PRC Inspections Administration agreed to pay a one-time fee of RMB3.3 million to purchase the ownership of the software product that we developed. In February 2006, the PRC Inspections Administration commenced the distribution of the software products that our company developed, free-of-charge to end-users. As certain basic functionalities of the newly developed software products are similar to those of iDeclare.CIQ and iProcess.CIQ, the provision of such software products free-of-charge by the PRC Inspections Administration has had a material adverse effect on our results of operations and on our future profitability. For example, we sold, together with our franchisees, approximately 2,200, 1,000, 400 and 210 software packages of iDeclare.CIQ during the first quarter of 2007, 2008, 2009 and 2010, respectively.

***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 a significant portion 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 2009. 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. Such expansion includes selective investment and acquisition opportunities in various industries, including real estate, consumer goods, healthcare and retail businesses. We anticipate that a material portion of our net revenue in the future will be derived from businesses that are not directly related to sales of our enterprise software and related customer maintenance services or the provision of software development services.

From 2006 to 2008, we focused on developing our business-to-business, or B2B, business and strategy. We launched our new B2B vertical search platform, tootoo.com in May 2007 through which we offered our B2B business and services. In March 2009, we announced our decision to wind down our B2B business in light of the recent major changes in the global economic environment.

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In 2009, we expanded our research and development initiatives to focus on the development of our business-to-consumer, or B2C, e-commerce platform. In April 2010, we began offering our B2C e-commerce food and household products platform through our web portal, www.tootoo.cn, on a trial basis in the Beijing metropolitan area. In addition, we focused on guaranteeing delivery of fresh produce from our warehouses directly to our customers located in a particular residential community in Beijing.

As our B2C business is currently under development, we may not successfully introduce it as one of our primary businesses. We do not have a significant operating history with respect to our B2C business upon which you can evaluate our business and prospects. Furthermore, as part of our operation and expansion, we need to continue to develop and improve our staff training, financial and management controls and our reporting systems and procedures. We cannot assure you that we will be able to efficiently or effectively manage or grow our new businesses, and any failure to do so may limit our future growth and materially and adversely affect our business, financial condition and results of operations.

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

As of May 31, 2010, 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 18.01% of our ordinary shares. Mr. Wang and Ms. Dong will have substantial influence over the management and policies of our company and the outcome of most corporate actions. In addition, we understand from publicly available information that Mr. Yong Ping Duan, or Mr. Duan, and Technology Pioneer Corp., or Technology Pioneer, beneficially own 19.76% and 8.58% of our American Depositary Shares, or ADSs, respectively. Mr. Duan and Technology Pioneer will also have substantial influence over the outcome of most corporate actions. As a result, Mr. Wang, Ms. Dong, Mr. Duan and Technology Pioneer have the power to take corporate actions which other shareholders may not believe are in their best interests or in the best interests of our company. There can be no assurance that Mr. Wang, Ms. Dong, Mr. Duan and Technology Pioneer will not cause our company to take such corporate actions.

Mr. Wang and Ms. Dong beneficially own 100.0% of Ninetowns Import & Export e-Commerce Co., Ltd., or Import & Export, which in turn owns a 49.0% equity interest in iTowNet, the operator of the PRC Inspections Administration's data exchange platforms and electronic processing system. iTowNet is 51.0% owned by the PRC Inspections Administration and operates the data exchange platforms that interface between international trade enterprises using our enterprise software and the PRC Inspections Administration's internal electronic processing systems. iTowNet receives a fee of RMB5 from the end-users for each submission made over its data exchange platforms. Mr. Wang is a non-executive director and the vice-chairman of the board of directors of iTowNet. Due to their ownership interest in iTowNet and Mr. Wang's position as a director of iTowNet, the interests of Mr. Wang and Ms. Dong may also differ from those of our other shareholders. Mr. Xiaoguang Ren, who is our President, or Mr. Ren, is also a non-executive director of iTowNet. Mr. Bolin Wu, who is our General Manager, Research and Development and Chief Technology Officer, or Mr. Wu, is the sole supervisor of iTowNet. As the supervisor of iTowNet, Mr. Wu is responsible for overseeing the financial operations of iTowNet, the actions of its board of directors and senior management and their compliance with relevant laws and iTowNet's charter documents.

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



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We derived RMB2.9 million, RMB2.5 million and RMB2.3 million (US\$0.3 million), or 2.8%, 2.4% and 2.4% of our total net revenues in 2007, 2008 and 2009, 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 RMB6.4 million, RMB12.0 million and RMB9.3 million (US\$1.4 million), or 6.2%, 11.5% and 9.9% of our total net revenues in 2007, 2008 and 2009, respectively, from Guangzhou Ninetowns Wang Li Software Co., Ltd., or Ninetowns Wang Li, which is our related party and also one of our franchisees.

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

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

We have provided software development services to iTowNet since April 2002. In addition, we provide software development services either directly, or indirectly as a sub-contractor for eGrid Technology Ltd., or eGrid, to iTowNet. Net revenues from the provision of software development services, either directly to iTowNet or indirectly to iTowNet through eGrid, accounted for approximately 8.4% of our total net revenues and 35.9% of our net revenues from the provision of software development services in 2006. However, we did not derive any revenue from iTowNet and eGrid in 2007 and 2008 and only derived RMB0.4 million from iTowNet in 2009. As a result, we expect the demand for our software development services to decline over time.

***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, 2010, 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 RMB17.6 million, RMB18.5 million and RMB16.9 million (US\$2.5 million), which represented 17.1%, 17.7% and 18.1% of our total net revenues for 2007, 2008 and 2009, respectively. Our net revenues from sales of our enterprise software and related customer maintenance services from Ninetowns Xin He were RMB23.8 million, RMB21.3 million and RMB17.4 million (US\$2.6 million), which represented 23.1%, 20.3% and 18.6% of our total net revenues for 2007, 2008 and 2009, respectively.

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Our net revenues from sales of our enterprise software and related customer maintenance services from Ninetowns Wang Li were RMB6.4 million, RMB12.0 million and RMB9.3 million (US\$1.4 million), which represented 6.2%, 11.5% and 9.9% of our total net revenues for 2007, 2008 and 2009, respectively.

Our net revenues from sales of our enterprise software and related customer maintenance services from Ninetowns Enke were RMB2.9 million, RMB2.5 million and RMB2.3 million (US\$0.3 million) or 2.8%, 2.4% and 2.4% of our total net revenues in 2007, 2008 and 2009, respectively.

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

eGrid and iTowNet have historically been our two largest customers for software development services, but revenues from eGrid and iTowNet have been insignificant since 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.

***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, 2009, our total net trade receivables amounted to approximately RMB18.1 million (US\$2.7 million), of which our net trade receivables from related parties amounted to RMB5.7 million (US\$0.8 million). Our total net trade receivables as of December 31, 2009 represented approximately 2.6% of our total current assets. As of December 31, 2009, we had an allowance for doubtful debts of approximately RMB31.4 million (US\$4.6 million). We have written off trade receivables of RMB0.3 million (US\$38,269) identified as uncollectible against corresponding allowances as of December 31, 2009. If any of our franchisees or any of our other customers fails to pay, or delays payment on, all or part of these receivables, we would be required to make additional allowances for doubtful debts and our profitability and financial position could be affected.

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

Our executive officers, directors and shareholders with 5.0% or more shareholding of our company and their affiliates beneficially own approximately 53.5% of our outstanding ordinary shares. Such concentration of ownership might have the effect of delaying or preventing a change in control of our company which could in turn reduce the market price of our ADSs and the voting and other rights of our other shareholders.

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

We offer one year of customer maintenance services with our iDeclare.CIQ basic package, and charge a fee of RMB1,500 per licensee for customer maintenance services each year thereafter. In 2009, we offered customer maintenance service contracts to approximately 18,400 users, so that approximately 13.1% of the total number of users due for a maintenance contract renewal in 2009 paid for the renewal. However, we believe that not all of our users and potential users were accustomed to being charged for this type of service. In 2009, we recognized approximately RMB51.4 million (US\$7.5 million) from the provision of customer maintenance services, including the fees we collected from the Pay-Per-Transaction users.

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

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

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

Sales of iDeclare.CIQ and related customer maintenance services accounted for approximately 75.1%, 81.3% and 62.3% of our total net revenues in 2007, 2008 and 2009, respectively. Any of the following events could materially reduce our total net revenues.

- any decrease in the demand for or price of iDeclare.CIQ or any increase in competition to iDeclare.CIQ, including but not limited to as a result of the PRC Inspections Administration's and iTowNet's endorsement of a comparable product,
- any failure by our company to develop additional enterprise software, any significant shift in our marketing efforts,
- any lasting or prolonged interruption that prevents our enterprise software from delivering data to government entities due to system failures or other factors,
- any other adverse development specific to iDeclare.CIQ, or
- a significant slowdown of China's economy.

In February 2006, the PRC Inspections Administration promoted and distributed a software product that has certain basic functionalities similar to our iDeclare.CIQ, free-of-charge to end-users. As a result of competition from such free software, our sales of iDeclare.CIQ have declined significantly and will likely continue to decline. Additionally, as a result of the slowdown in China's economy caused in part by the recent global crisis in the financial services and credit markets, our sales of iDeclare.CIQ have also been negatively impacted. See Item 3D of this annual report, Risk factors Risks related to our business we may be adversely affected by the slowdown of China's economy caused in part by the recent global crisis in the financial services and credit markets. For example, we sold, together with our franchisees, approximately 210 software packages of iDeclare.CIQ during the first quarter of 2010, which is significantly lower than the approximately 1,000 and 400 software packages of iDeclare.CIQ sold by our company and our franchisees during the first quarter of 2008 and 2009, respectively.

**Table of Contents*****Competition could reduce our profit margins and revenues.***

Companies that have expertise in marketing and providing government-related software products and services may begin to compete with us. There are companies that provide software products and services similar to ours. In addition, there are companies in China that provide such products and services to PRC government agencies other than the PRC Inspections Administration. In particular, there are regional software providers in China implementing systems for provincial branches of government agencies such as the Customs General Administration of the PRC, or PRC Customs. Furthermore, we are aware of one other software provider in China, Fujian Ronji Software Development Co., Ltd., or Ronji, that provides enterprise software for PRC Inspections Administration-related filings. We are also aware of several software developers that provide software development services to our customers, in particular to iTowNet. See Item 4 of this annual report, Information on the Company Business overview Competition. There can be no assurance that other companies will not pursue opportunities relating to the needs of international trade enterprises making government filings in China. Our competitors may have greater marketing, programming, research and development, capital and other resources than we do. These resources could enable our competitors to take aggressive action to gain market share. Additionally, we face competition from the free software distributed by the PRC Inspections Administration and from companies with established reputations and political relationships with PRC government agencies. If we do not compete effectively or if we experience any pricing pressure from our potential competitors, we may experience loss of market share and reduced profit margins and revenues.

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

In 2009, we expanded our research and development initiatives to focus on the development of our B2C e-commerce platform. In April 2010, we began initially offering our B2C e-commerce food and household products platform through our web portal, www.tootoo.cn, on a trial basis in the Beijing metropolitan area.

If we are presented with additional opportunities, we may acquire additional complementary companies, products or technologies, or invest in new businesses. We plan to pursue selective investment and acquisition opportunities in various industries, including real estate, consumer goods, healthcare and retail 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.

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

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

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

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

We have the 2003 Plan, the Amended and Restated 2004 Plan, and the 2006 Share Incentive Plan, or collectively, the Plans. As of December 31, 2009, we granted options under the Plans with the right to purchase a total of 5,208,969 ordinary shares and we granted 460,383 non-vested shares, of which 1,036,966 unexercised options and 41,591 unvested non-vested shares had been returned to the pool of our share-based awards as a result of resignation from employment by a few former employees.

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

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

***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.

***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.

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

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

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

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

We receive from the PRC government a 14.0% rebate for value added tax on sales of software and software-related services, or VAT rebate. For our B2C business, the revenue from our self-grown goods is exempt from VAT. 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 entities, or VIE, fails to satisfy the financial and operational criteria necessary to maintain its eligibility for such preferential tax treatment. Any reduction in our preferential tax treatment could materially reduce our net income.

On March 16, 2007, the National People's Congress adopted the 2008 PRC Enterprise Income Tax Law (the New Income Tax Law), which went into effect on January 1, 2008. The New Income Tax Law imposes a unified income tax rate of 25% for domestic and foreign enterprises. New and High Technology Enterprise will enjoy a favorable tax rate of 15%. The New Income Tax Law also provides a five-year transitional period for those enterprises established before March 16, 2007, which enjoy a favorable income tax rate less than 25% under the previous income tax laws, to gradually change their rates to 25%. In addition, the New Income Tax Law provides grandfather treatment for enterprises which were qualified as New and High Technology Enterprises under the previous income tax laws and were established before March 16, 2007, if they continue to meet the criteria for New and High Technology Enterprises after January 1, 2008.

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The New and High Technology Enterprise status allows qualifying enterprises to be eligible for a preferential 15% tax rate for three years. At the conclusion of the three year period, the qualifying enterprise has the option to renew its New and High Technology Enterprise status for an additional three years if such enterprise's business operations continue to qualify for New and High Technology Enterprise status. At the conclusion of the renewed period, the enterprise would have to go through a new application process to renew its New and High Technology Enterprise status. As of December 2009, we received certifications of New and High Technology Enterprise status for Beijing Ninetowns Ports Software and Technology Co., Ltd., or Ninetowns Ports, and Guangdong Ninetowns Technology Co., Ltd., or Guangdong Ninetowns, which qualify them for the preferential 15% tax rate for tax year 2009.

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

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

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

We are a holding company incorporated in the Cayman Islands, which indirectly holds, through New Take Limited., or New Take and Shielder Limited., or Shielder, which are Hong Kong companies, our equity interest in our PRC subsidiaries. The New EIT Law and its implementation rules, both of which became effective on January 1, 2008, provide that China-sourced income of foreign enterprises, such as dividends paid by a PRC subsidiary to its overseas parent, will normally be subject to PRC withholding tax at a rate of 10.0%, unless there are applicable treaties that reduce such rate. Under a special arrangement between China and Hong Kong, such dividend withholding tax rate is reduced to 5.0% if a Hong Kong resident enterprise owns over 25.0% of the PRC company distributing the dividends. As New Take and Shielder, are Hong Kong companies and own 90.0% of Beijing New Take Electronic Commerce Limited, or Beijing New Take, and Beijing Ninetowns Times Electronic Commerce Limited, or Ninetowns Times, respectively, dividends that Beijing New Take and Ninetowns Times pay New Take and Shielder, respectively, will be subject to a withholding tax at the rate of 5.0%, provided that New Take and Shielder and our company are not considered to be PRC tax resident enterprises. Furthermore, according to the Circular regarding the Implementation of Dividend-related Provisions in the Tax Treaty issued by the State Administration of Taxation on February 22, 2009, if the main purpose of an offshore arrangement is to obtain a preferential tax treatment, the PRC tax authorities have the discretion to adjust the preferential tax rate enjoyed by the relevant offshore entity. As New Take and Shielder are intermediate holding companies and not engaged in any commercial activities in Hong Kong, the tax authorities may regard the main purpose of New Take and Shielder as obtaining a lower withholding tax rate of 5.0%. As a result, the tax authorities could levy a higher withholding tax rate to dividends received by New Take and Shielder from Beijing New Take and Ninetowns Times.



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Furthermore, the implementation rules of the New EIT Law provide that, (i) if the enterprise that distributes dividends is domiciled in the PRC, or (ii) if gains are realized from transferring equity interests of enterprises domiciled in the PRC, then such dividends or capital gains are treated as China-sourced income. It is unclear how domicile will be interpreted. It may be interpreted as the jurisdiction where the enterprise is a tax resident. Therefore, if we and New Take and Shielder are considered as PRC tax resident enterprises for tax purposes, any dividend we pay to our shareholders outside of China or ADS holders as well as gains realized by such shareholders or ADS holders from the transfer of our shares or ADSs will be regarded as China-sourced income and as a result be subject to PRC withholding tax at a rate of up to 10.0%.

The Chinese tax authorities have clarified that distributions made out of pre-January 1, 2008 retained earnings will not be subject to the withholding tax. Current tax expense for the year ended December 31, 2009 includes an estimated withholding tax related to dividends in excess of pre-January 1, 2008 retained earnings paid by our Chinese subsidiaries to our overseas holding companies.

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

***Changes in PRC policies on dividend distribution may materially and adversely affect our business and results of operations and dividends payable by us to our foreign investors.***

Pursuant to the Arrangement between Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and Prevention of Fiscal Evasion with respect to Taxes on Income signed on August 21, 2006, or the Hong Kong Tax Treaty, a company incorporated in Hong Kong, such as our subsidiaries New Take and Shielder, will be subject to withholding income tax at a rate of 5% on dividends it receives from its PRC subsidiaries if it holds a 25% or more interest in that particular PRC subsidiary at the time of the distribution, or 10% if it holds less than a 25% interest in that subsidiary. In addition, the PRC State Administration of Taxation promulgated the Administrative Measures for Non-resident Enterprises to Enjoy Treatments under Tax Treaties (for Trial Implementation) on October 27, 2009, or Circular 601, which provides that tax treaty benefits will be denied to conduit or shell companies without business substance, and a beneficial ownership analysis will be used based on a substance-over-the-form principle to determine whether or not to grant tax treaty benefits. It is unclear at this early stage whether Circular 601 applies to dividends from our PRC subsidiaries paid to us through our Hong Kong subsidiary. It is possible however, that under Circular 601, our subsidiaries New Take and Shielder would not be considered as the beneficial owner of any such dividends, and that such dividends would as a result be subject to income tax withholding at the rate of 10% rather than the favorable 5% rate applicable under the Hong Kong Tax Treaty.

If our currently available tax benefits relating to the withholding income tax on the dividends received from New Take and Shielder become unavailable as a result of the changes in the tax arrangement between the PRC and Hong Kong as mentioned above or for any other reason, our financial condition and results of operations could be adversely affected.

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***It is likely that we would be considered a passive foreign investment company for 2009, 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 2009. 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.

**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.

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

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

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

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

***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 certain VIEs incorporated in China. Our subsidiaries are generally subject to laws and regulations applicable to foreign investment in China and, in particular, laws applicable to wholly foreign-owned enterprises. The PRC legal system is a civil law system based on written statutes. Unlike common law systems, it is a system in which decided legal cases have little precedential value. In the late 1970s, the PRC government began to promulgate a comprehensive system of laws and regulations governing economic matters. However, these laws, regulations and legal requirements are relatively new and are evolving rapidly, and their interpretation and enforcement involve uncertainties. These uncertainties could limit the legal protections available to foreign investors and entities, including you and us, such as the right of foreign-invested enterprises to hold licenses and permits such as customs-related business licenses and permits, software licenses and licenses and approvals necessary to provide services to government enterprises. As the PRC legal system matures, changes in its legislation or interpretation of its legislation may adversely affect our ability to provide our products and services in China.

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

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

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

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

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

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

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

We do not have ownership interest in our VIEs and we conduct substantially all of our B2B and B2C e-commerce operations through contractual arrangements that Ninetowns Suitable Estate entered into with Ronghe Tongshang and Baichuan and their shareholders. Such contractual arrangements are designed to provide us with effective control over our VIEs. We depend on our VIEs to hold and maintain certain licenses necessary for our B2B and B2C e-commerce businesses. Our VIEs also own all of the necessary intellectual properties, facilities, employees and other assets relating to the operation of our B2B and B2C e-commerce business.

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

The shareholders of our VIEs may breach, or cause our VIEs to breach, the contracts for a number of reasons. For example, their interests as shareholders of our VIEs and the interests of our company may conflict and we may fail to resolve such conflicts; the shareholders may believe that breaching the contracts will lead to greater economic benefit for them; or the shareholders may otherwise act in bad faith. If any of the foregoing were to happen, we may have to rely on legal or arbitral proceedings to enforce our contractual rights, including specific performance or injunctive relief, and claiming damages. Such arbitral and legal proceedings may cost us substantial financial and other resources, and result in disruption of our business, and we cannot assure you that the outcome will be in our favor.

In addition, as all of these contractual arrangements are governed by PRC law and provide for the resolution of disputes through arbitration in the PRC, they would be interpreted in accordance with PRC law and any disputes would be resolved in accordance with PRC legal procedures. The legal environment in the PRC is not as developed as in other jurisdictions, such as the United States. As a result, uncertainties in the PRC legal system could further limit our ability to enforce these contractual arrangements. Furthermore, these contracts may not be enforceable in China if PRC government authorities or courts take a view that such contracts contravene PRC laws and regulations or are otherwise not enforceable for public policy reasons. In the event we are unable to enforce these contractual arrangements, we may not be able to exert effective control over our VIEs, and our ability to conduct our business may be materially and adversely affected.

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

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

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

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

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

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

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

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

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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 VIEs in China would be reduced.

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

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

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



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

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

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

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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.

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

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***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 depositary of our ADSs to vote the ordinary shares underlying your ADSs, but only if we ask the depositary 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 depositary 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 depositary to vote your ordinary shares. In addition, the depositary 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 depositary 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 depositary 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 depositary 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 depositary is not required to do so if it decides that it is unlawful or impractical to make a distribution available to any holders of ADSs. We have no obligation to register ADSs, ordinary shares, rights or other securities under U.S. securities laws. We also have no obligation to take any other action to permit the distribution of ADSs, ordinary shares, rights or anything else to holders of ADSs. This means that you may not receive the distributions we make on our ordinary shares or any value for them if it is illegal or impractical for us to make them available to you. These restrictions may reduce the value of your ADSs.

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

Your ADSs represented by the ADRs are transferable on the books of the depositary. However, the depositary 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 depositary may refuse to deliver, transfer or register transfers of ADSs generally when our books or the books of the depositary are closed, or at any time if we or the depositary thinks it advisable to do so because of any requirement of law or of any government or governmental body, or under any provision of the deposit agreement, or for any other reason.

We have not adopted any policy regarding the closing of our books relating to our ADSs, nor is there any provision under Cayman Islands law or New York law, or the deposit agreement, that would prevent the transferability of ADSs. Under the deposit agreement, however, the depositary 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.

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

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

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

Relevant PRC laws and regulations permit payments of dividends by our PRC subsidiaries only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. In addition, the statutory general reserve fund, which requires annual appropriations of 10% of net after-tax income should be set aside prior to payment of any dividends until the cumulative amount of such reserves reaches 50% of its registered capital. As a result of these and other restrictions under PRC laws and regulations, our PRC subsidiaries and affiliates are restricted in their ability to transfer a portion of their net assets to us either in the form of dividends, loans or advances. Restricted portion amounted to approximately 59.7% of our total consolidated net assets as of December 31, 2009.

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

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

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

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

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The rights of shareholders and the responsibilities of management, members of the board of directors and controlling shareholders under Cayman Islands law, such as in the areas of fiduciary duties, are different from those applicable to a company incorporated in a jurisdiction of the United States. For example, the Cayman Islands courts are unlikely:

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

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

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

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

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

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

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

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

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

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

Our management has determined that our internal control over financial reporting as at December 31, 2009 was effective. During the audit of our 2009 financial statements, our independent registered public accounting firm did not identify any material weaknesses. However, it is possible that we or our independent registered public accounting firm may identify other significant deficiencies or material weakness in future periods. Such results could cause our investors to lose confidence in the reliability of our internal controls over financial reporting, which could adversely affect the trading price of our ADSs. Furthermore, we anticipate that we will continue to incur increased costs and devote significant management resources to comply with Section 404 of the Sarbanes-Oxley Act of 2002.

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

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

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***We may be required to vacate our principal office as a result of a third-party lawsuit against the developer of our principal office.***

We signed a Pre-sale Contract for Commodity House in Beijing Municipality with Beijing Hengfu Square Development Company Limited, or Hengfu, to purchase a total 7,992 square meters in Baifu International Tower, or Baifu Tower, which is where our principal office is located. As of June 26, 2010, we have not obtained the ownership certificate of our principal office as a result of a third-party lawsuit against Baifu Tower's developer.

We were recently notified that Hengfu was sued by an un-related third party for Hengfu's alleged failure to pay certain debts owed to such third party. We believe that in January 2010, the Beijing First Intermediate People's Court, or the Court, promulgated a public order to seize Baifu Tower. As a result of such lawsuit and seizure, the Court may require us to vacate our principal office so that the Court can sell Baifu Tower. Even though we believe that the likelihood of the Court's sale of Baifu Tower is remote, we may have to relocate our principal office if the Court does sell Baifu Tower, which may affect our business.

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

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

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

We were incorporated in the Cayman Islands on February 8, 2002 as Ninetowns Digital World Trade Technology Holdings Limited. We changed our name to Ninetowns Digital World Trade One Technology Holdings Limited on June 14, 2002 and then to Ninetowns Digital World Trade Holdings Limited on April 7, 2003.

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

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

On September 27, 2006, we changed our name to Ninetowns Internet Technology Group Company Limited.

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

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

On January 12, 2009, we formed NineKitchens e-Catering Services Holdings Limited, a British Virgin Islands company, which changed its name to Nine Masters (China) E-Catering Services Holdings Company Limited on February 2, 2009, and subsequently changed its name to Ninetowns Land Group Limited, or Ninetowns Land, on February 5, 2010. Ninetowns Land is wholly-owned by Ixworth Enterprises Limited., or Ixworth.

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

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

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

On March 13, 2009, we acquired a 100% equity interest through Shanghai New Take Digital Technology Co., Ltd., or Shanghai New Take, in Shanghai Meihuilong Catering Services Co., Ltd., or Meihuilong, for a consideration of RMB100,000. Shanghai New Take transferred all equity interest in Meihuilong to Ninetowns Software on May 7, 2009 for a consideration of RMB0.5 million. We terminated Shanghai New Take's registration with the relevant governmental authorities and liquidated Shanghai New Take in January 2010.

On May 5, 2009, we established Guangdong Nine Masters E-Catering Management Co., Ltd., or Guangdong Nine Masters, a PRC company with a registered capital of RMB50 million. Guangdong Nine Masters is wholly-owned by Ninetowns Software. We are in the process of terminating its registration with the relevant governmental authorities.

On June 9, 2009, we established Shanghai Tootoo Eco-agriculture Co., Ltd, or Tootoo Eco-agriculture, a PRC company with a registered capital of RMB5 million. Shanghai Tootoo is wholly-owned by Sky Eco-agriculture.

On April 11, 2010, we changed the name of Beijing Ninetowns Network and Software Co., Ltd. to Beijing Ninetowns Suitable Estate Co., Ltd. .

On January 5, 2010, we formed China Genotown Development Holding Limited, or Genotown, a British Virgin Islands company. Genotown is wholly owned by Ninetowns Land.

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

Our capital expenditures for 2007, 2008 and 2009, which totaled approximately RMB191.6 million, RMB55.7 million and RMB 10.8 million (US\$1.6 million), respectively, consisted primarily of purchase of property and equipment, as well as acquisition of interests in subsidiaries and other investments. During 2007 and 2008, we paid deposits for the acquisition of property and equipment in the amounts of RMB34.8 million and nil respectively. We paid deposits of RMB4.8 million (US\$0.7 million) for the acquisition of property and equipment in 2009. We anticipate that we will incur capital expenditures in 2010 of approximately RMB6.8 million (US\$1.0 million) to purchase equipment and software products to support our new software development projects and development of our new business initiatives and services. We expect to use our cash flow from operations and our available cash to fund such capital expenditures to execute our business strategy.



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***B. Business overview***

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

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

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

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

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, approximately 691,000 foreign-invested companies were approved to do business in China as of April 30, 2010, many of which engage in importing goods into and exporting goods from China, as well as millions of PRC-based companies which do not have foreign investment but which do engage in importing and exporting. Of these companies, as of April 30, 2010, only approximately 162,000 engaged in electronic import/export declaration processing. We believe approximately 143,000, or approximately 88.3%, of such users use our enterprise software to complete the declaration process with the PRC Inspections Administration.

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In August 2005, the PRC Inspections Administration selected our company as the winning bidder in connection with the PRC Inspections Administration's request for proposals for the development of a software product that has certain basic functionalities similar to those of iDeclare.CIQ and iProcess.CIQ. The PRC Inspections Administration agreed to pay a one-time fee of RMB3.3 million to purchase the ownership of the software product that we developed. The development of such software product was completed in December 2005 and the PRC Inspections Administration commenced to distribute such software products free-of-charge to end-users in February 2006. The distribution of free software products had a significant adverse effect on our business, our results of operations and profitability. For example, we sold, together with our franchisees, approximately 210 software packages of iDeclare.CIQ during the first quarter of 2010, which is significantly lower than the approximately 1,000 and 400 software packages of iDeclare.CIQ sold by our company and franchisees during the first quarter of 2008 and 2009, 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 a one-time non-cash goodwill impairment charge of RMB193.6 million in the fiscal year 2007.

In 2008 and 2009, we derived 81.3% and 62.3% of our total net revenues from sales of enterprise software and related customer maintenance services and 18.6% and 18.5% from software development services. Specifically, we recognized net revenues from sales of our enterprise software and related customer maintenance services of RMB77.3 million, RMB85.0 million and RMB 58.4 million (US\$8.6 million) in 2007, 2008 and 2009, respectively. We believe there were approximately 138,000, 140,900 and 142,300 licensees of our enterprise software registered on their data exchange platforms as of December 31, 2007, 2008 and 2009, respectively.

In 2009, we expanded our research and development initiatives to focus on development of our B2C e-commerce platform. In April 2010, we began offering our B2C organic food and other household products platform through our web portal, www.tootoo.cn, on a trial basis in the Beijing metropolitan area. In addition, we focused on guaranteeing delivery of fresh produce from our warehouses directly to our customers located in a particular residential community in Beijing. As our B2C business is currently in a trial stage, it is uncertain whether we will successfully establish it as one of our primary businesses.

We will be offering our guaranteed fresh delivery services to a particular residential community in Beijing. We utilize carefully planned delivery routes and various state-of-the-art refrigeration equipment and specially equipped vehicles to achieve "Unbroken Cold Chain Logistics" for our fresh food delivery service. We are able to efficiently control product storage and movement at a low cost through the use of our proprietary product tracking system, warehouse management system and delivery data management system, all of which are supported by advanced information technology.

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In 2010, we aim to continue our efforts in expanding B2C food initiatives by enhancing our competitive advantages and upgrading our products and services. We plan to leverage our existing quality control related expertise and experience to expand our product offerings as future opportunities present themselves. Specifically, we believe our Unbroken Cold Chain Logistics could give us a unique advantage in the e-commerce and service industries due to the superb quality of our products and services. We also plan to pursue selective investment and acquisition opportunities in various industries including real estate, consumer goods, healthcare and retail businesses. 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 services, expanding our client base through increased marketing, maintaining our leadership in technical and industry knowledge and pursuing selective strategic acquisitions and investments. However, given the uncertain impact on our business resulting from the distribution and promotion of free software products by the PRC Inspections Administration to end-users and the uncertainties related to expansion into new businesses, we cannot predict the growth in our revenues, if there are any at all.

**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.

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

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

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

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

***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,

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our enterprise software is highly reliable,  
we believe our enterprise software was the first made available for electronic declaration processing with the PRC Inspections Administration,  
we believe our enterprise software was the first product endorsed by the PRC Inspections Administration for use in such declarations, and  
as of April 30, 2010, our enterprise software is being used by approximately 88.3% of all filers making electronic PRC Inspections Administration declarations.

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

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

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

***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.

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***Strong market reputation***

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

***Extensive distribution and support network***

Currently, through our own sales team and our franchisees, we maintain three technical support centers, and also cooperate with our franchisees to jointly maintain 43 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***

While we regularly review and refine our strategic initiatives for our B2G business, we will continue our effort in expanding our B2C food initiative through the development of our B2C e-commerce platform. As our B2C business is currently in a trial stage, it is uncertain whether we will successfully establish it as one of our primary businesses. We will be offering our guaranteed fresh delivery services to the selected residential community in Beijing. We utilize carefully planned delivery routes and various state-of-the-art refrigeration equipment and specially equipped vehicles to achieve Unbroken Cold Chain Logistics for our fresh food delivery service. We are able to efficiently control product storage and movement at a low cost through the use of our warehouse management system and delivery data management system, all of which are supported by our self-designed internal system. We believe China's rapidly growing e-commerce market will 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.

With respect to the new B2C business, we will focus on the establishment of market reputation and expansion of market penetration by providing high quality products and services.

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***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 three technical support centers operated and maintained by us and 40 technical support centers operated and maintained by our four franchisees located in most of the major import/export cities in China.

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

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

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

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

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

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

In 2009, we expanded our research and development initiatives to focus on development of our B2C e-commerce platform and in 2010, we plan to continue expanding our efforts in our B2C food initiatives by enhancing our competitive advantages and upgrading our products and services.

We also plan to pursue selective investment and acquisition opportunities in various industries including real estate, consumer goods, healthcare and retail businesses.

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**Products and services**

In 2008 and 2009, we derived 81.3% and 62.3% of our total net revenues from sales of enterprise software and related customer maintenance services, 18.6% and 18.5% of our total net revenues from provision of software development services.

The products and services we offered in 2009 included the following:

**Enterprise software**

We sold two enterprise software products: (i) iDeclare.CIQ and (ii) 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 2007, 2008 and 2009, we generated RMB76.5 million, RMB79.5 million and RMB 57.8 million (US\$8.5 million), respectively, of net revenues from sales of the iDeclare.CIQ basic package and related customer maintenance services (including the per transaction fees as described below), which represented a substantial portion of our net revenues from sales of enterprise software in each of those periods.

Prior to 2008, we provided a Pay-Per-Transaction option to our customers in Dongguan. In 2008, we expanded the Pay-Per-Transaction option to various customers in other areas, who did not want to pay the annual maintenance fees. Net revenues from sales of enterprise software included RMB21.7 million, RMB27.0 million and RMB 28.7 million (US\$4.2 million) of such per-use fees, representing 28.1%, 31.8% and 49.1% of our net revenues for sales of enterprise software in 2007, 2008 and 2009, respectively.

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

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

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



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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:

**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

**iDeclare.CIQ electronic filing method**

electronic input minimizes mistakes arising from illegible handwriting

submission of electronic declaration form reduces cost and time

no physical queue-up for submission required

built-in error detection function helps prevent omissions and mistakes

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**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.

Currently, our iQM product series is available only in Guangdong Province, China on a trial basis and the available versions of our products are industry-specific, ranging from toys and food processing, aquatic and livestock breeding and vegetation planting. We recognized RMB5.5 million and RMB0.6 million (US\$81,000) in net revenues from sales of iQM and related software maintenance services in 2008 and 2009, respectively. As of March 31, 2010, we had approximately 1,000 enterprise customers who use our iQM product series. In the short term, we do not expect any significant change in net revenue from sale of iQM and will maintain services to existing customers.

***iProcess CIQ Series***

In 2007, we generated an insignificant amount of revenue from the iProcess CIQ Series and did not generate revenue from such product in 2008 and 2009.

***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.

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.

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***Products under development***

***B2C Business***

In April 2010, we began offering our platform of B2C organic food and other household products through our web portal, www.tootoo.cn, on a trial basis in the Beijing metropolitan area. Our B2C business is currently in a trial stage, which means it is uncertain whether we will successfully establish it as one of our primary businesses.

***Production and hardware design***

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

***Seasonality***

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

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

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

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On August 3, 2004, we were awarded the ISO 9001:2000 Quality Management System Recognition Certificate. ISO 9001:2000 is a worldwide quality management system certification program regarding management system standards administered by the International Organization for Standardization. The certificate is renewable every three years and our current certificate is valid until July 25, 2010. Our enterprise software has also been endorsed by the PRC Inspections Administration for electronic customs declaration.

**Sales and marketing**

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

***Direct sales and marketing***

We re-defined our regional markets and changed our business model from direct sales to a regional franchise model. As of December 31, 2009, we had a sales and marketing force consisting of approximately 40 people, serving mainly the southern regions of China for our enterprise software. Our sales and marketing representatives also perform customer maintenance services.

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 our franchisees***

It is our current strategy to expand our franchisee network to undertake marketing, distribution and service activities using the Ninetowns brand name. As of December 31, 2009, we have four franchisees, Ninetowns Enke, Ninetowns Zhi Fang, Ninetowns Xin He and Ninetowns Wang Li.

Our franchise relationship with Ninetowns Enke began in February 2004. Ninetowns Enke is also our sales agent for sale of after sales maintenance services for our enterprise software to our customers. In June 2009, we entered into a new franchise agreement with Ninetowns Enke for our software product, iQs under the iProcess.CIQ series. In October 2009, we entered into a new franchise agreement with Ninetowns Enke for our software product, iDeclare.CIQ basic package. Each of these franchise agreements expires on December 31, 2010 and does not contain any minimum sales commitment.

Our relationship with Ninetowns Zhi Fang began in 2005. In June 2009, we entered into a new franchise agreement with Ninetowns Zhi Fang for our software product, iQs under the iProcess.CIQ series. In October 2009, we entered into a new franchise agreement with Ninetowns Zhi Fang for our software product, iDeclare.CIQ basic package. Each of these franchise agreements expires on December 31, 2010 and does not contain any minimum sales commitment.

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Our relationship with Ninetowns Xin He began in 2006. In June 2009, we entered into a new franchise agreement with Ninetowns Xin He for our software product, iQs under the iProcess.CIQ series. In October 2009, we entered into a new franchise agreement with Ninetowns Xin He for our software product, iDeclare.CIQ basic package. Each of the franchise agreements with Ninetowns Xin He expires on December 31, 2010 and does not contain any minimum sales commitment.

Our relationship with Ninetowns Wang Li began in 2006. In June 2009, we entered into a new franchise agreement with Ninetowns Wang Li for our software product, iQs under the iProcess.CIQ series. In October 2009, we entered into a new franchise agreement with Ninetowns Wang Li for our software product, iDeclare.CIQ basic package. Each of these franchise agreements with Ninetowns Wang Li expires on December 31, 2010 and does not contain any minimum sales commitment.

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

For 2007, 2008 and 2009, net revenues from the sale of enterprise software and related customer maintenance services generated by our franchisees amounted to approximately RMB50.7 million, RMB54.3 million and RMB 45.9 million (US\$6.7 million), respectively.

**Customers**

In 2009, 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 2007, 2008 and 2009, our four largest enterprise software customers, which consisted of our franchisees, accounted for approximately 65.9%, 63.8% and 78.6%, respectively, of our net revenues from sales of enterprise software and related customer maintenance services.

Our customers for software development services include the PRC Inspections Administration, iTowNet, eGrid and other third party customers. iTowNet and eGrid accounted for substantially all of our net revenues for provision of software development services in 2006. In 2007, 2008 and 2009, we did not generate any revenue from provision of software development services to eGrid. In 2007, 2008 and 2009, we generated nil, nil, and RMB 0.4 million (US\$51,275) from provision of software development services to iTowNet.

**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.

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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.

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, 2007, 2008 and 2009, we had together with our four franchisees, 192, 155 and 133 customer service and technical support personnel, respectively.

**Competition**

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

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

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

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

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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, 2009, we had registered 50 software copyrights and 17 trademarks in China and one registered trademark for our name Ninetowns in the United States. We are in the process of registering certain of our other trademarks in Hong Kong.

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

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

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

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

On October 19, 2006, our indirect wholly-owned subsidiary, Beprecise Investments Limited, or Beprecise, acquired a 16.25% interest in Global Market Group Limited, or Global Market, a leading Chinese B2B trade facilitator headquartered in Guangzhou. However, our equity interest in Global Market decreased to 9.9% in March 2008 due to dilution caused by Global Market's financing activities. In November 2008, Global Market re-purchased approximately 300,000 of its series A shares from us for approximately US\$1.1 million which resulted in a net gain for us of approximately RMB2.2 million and a further decrease of our equity interest in Global Market to 9.03%. In June 2010, we entered into a share purchase agreement with Global Market, under which the Global Market and Shanghai International Growth Investment Limited purchased 24,714,225 Series A preferred shares from us for a cash consideration of RMB26.4 million (US\$3.9 million). Our equity interest in Global Market was further reduced to 3.55%. On April 27, 2007, Ixworth, our wholly owned subsidiary, acquired a 70.0% interest in Ample Spring Holdings Limited, a related party of Baichuan, a leading Chinese B2B vertical search engine operator. We launched our new B2B vertical search platform, tootoo.com in May 2007, through which we offered our B2B business and services. We launched the second generation of tootoo.com in June 2007. On December 14, 2007, we acquired a 19.8% interest in Hangzhou Tophere Info-Tech Inc, a leading Chinese business-to-business food and beverage trade facilitator headquartered in Hangzhou.

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

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

In 2010 and 2011, we will continue our efforts in our B2C food initiatives by enhancing our competitive advantages and upgrading our products and services.

### **Regulation**

#### **Regulation relating to the food safety**

On February 28, 2009, the National People's Congress issued the Food Safety Law of the People's Republic of China, or the Food Safety Law, to assure food safety and safeguard people's health and life, which became effective from June 1, 2009. On July 20, 2009, the State Council promulgated the Regulation on the Implementation of the Food Safety Law, or the Regulation, and the Regulation became effective on the same day. According to the Food Safety Law and the Regulation, the State implements a licensing system for food production and trading, any organization or individual engaged in food production or trading activities shall obtain the food production license or food distribution license.

Under the Food Safety Law, any food producer or trader engaged in food production or trading activities without a license, shall have any and all illegal benefits confiscated by the relevant authorities and be subjected to a fine up to 10 times the total value of the commodity.

#### **Regulation relating to Road Transport**

On April 30, 2004, the State Council promulgated the Regulation on Road Transport, or the Regulation. According to the Regulation, the State implements a licensing system for road transport, any organization or individual engaged in goods road transport shall obtain the road transport operating license.

Under the Regulation, any road transport operator engaged in road transport activities without a license, shall have operation suspended, any and all illegal benefits confiscated, be subjected to a fine and shall face criminal charges if their acts constitute crimes.

#### **Regulation relating to the Internet Information Service**

On September 25, 2000, the State Council promulgated the Regulation on Internet Information Services of the People's Republic of China, or the Regulation, which became effected on the same day. According to the regulation, Internet information service is divided into two categories: profitable Internet information service and non-profitable Internet information service, and the State established a licensing system for profitable Internet information service and a filing system for non-profitable Internet information service. Under the Regulation, any organization or individual engaged in profitable Internet information service shall obtain a license for value-added telecommunication services, or the Service License (ICP license).



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Under the Regulation, those who violate the Regulation by providing profitable Internet information service without obtaining the Service License or by providing service not contained in the Service License shall be ordered to redress their violations and their illegal income be confiscated. A penalty shall be imposed. In a serious case, the website shall be ordered to close.

**Regulation relating to the Animal Epidemic Prevention**

On January 1, 1998, the National People's Congress issued the Law of The People's Republic of China on Animal Epidemic Prevention, or the Law, amended on August 30, 2007, which became effected in January 1, 2008. On January 21, 2010, the Ministry of Agriculture promulgated the measures on examining the requirements for animal epidemic prevention, or the Measures, which became effected on May 1, 2010. In accordance with the Law and the Measures, any organization or individual engaged in raising animals shall obtain a certificate of animal epidemic prevention.

Under the Law, those who violate the Law by raising animals without obtaining the certificate of animal epidemic prevention shall be ordered to redress their violations and be subjected to a fine.

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

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

**Foreign investment policies**

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

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

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

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

**Regulation of the software industry**

**Software copyright**

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

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

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

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**Software copyright registration**

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

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

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

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

**Software products registration**

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

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

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

**Regulation of foreign exchange and dividend distribution**

**Foreign exchange**

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

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

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

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**Dividend distribution**

The principal PRC regulations governing the distribution of dividends by our wholly foreign-owned enterprises are (i) The Wholly Foreign-Owned Enterprise Law (1986), as amended in 2000; and (ii) Implementation Regulations under the Wholly Foreign-Owned Enterprise Law (2001); and (iii) the Company Law (1993), as amended in 2005. Under these regulations, wholly foreign-owned enterprises in China may only pay dividends out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, a wholly foreign-owned enterprise in China is required to set aside at least 10.0% of its after-tax income each year, if any, to fund a reserve fund until the accumulated reserve amounts to 50.0% of its registered capital. It is also required to set aside funds for the employee bonus and welfare fund from its after-tax income each year at percentages determined at its sole discretion. These reserves are not distributable as cash dividends.

**Restricted net assets**

Relevant PRC laws and regulations permit payments of dividends by our PRC subsidiaries only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. In addition, the statutory general reserve fund, which requires annual appropriations of 10% of net after-tax income should be set aside prior to payment of any dividends. As a result of these and other restrictions under PRC laws and regulations, our PRC subsidiaries and affiliates are restricted in their ability to transfer a portion of their net assets to us either in the form of dividends, loans or advances. The restricted portion of their net assets amounted to approximately RMB 550.3 million (US\$80.6 million), or 59.7% of our total consolidated net assets as of December 31, 2009.

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;

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administering health registrations of import and export food products and their production units and external registration for export enterprises; administering the import and export inspection and quarantine marks, import safety licenses, and export quality licenses; and implementing the import and export-related quality authentication and accreditation;

administering the issuance of Origin Certificates for commodities and the general certificates of origin; formulating the development plan of technologies for commodity inspection and quarantine; and developing international cooperation and technology exchanges related to commodity inspection and quarantine and carrying out the implementation work relating to technological barriers to trade, as stipulated.

**Customs General Administration of the PRC**

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

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

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

**Import/ Export license system**

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

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**Administrative provisions on the Origin Certificate**

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

**Commodity quality inspection and quarantine inspection**

**Commodity quality inspection**

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

**Quarantine inspection**

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

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***C. Organizational structure***

We conduct substantially all of our business through ten PRC subsidiaries and two VIEs in China. The following diagram illustrates our subsidiaries, their country of incorporation and the proportion of our ownership of each as of May 31, 2010.

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



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Our principal executive offices occupy a total of approximately 7,992 square meters on the 19th to 23rd and 25<sup>th</sup> floors of Building No. 1, Capital A Partners, No. 20 Gongti East Road, Chaoyang District, Beijing 100020, PRC (the Principal Office ). 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, 2010, we have two premises that we own and we have also leased three 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<br>(in square meters) | Number of<br>employees |
|-------------------------------|-----------------------------|------------------------|
| Guangzhou                     | 120.85                      | 40                     |
| Beijing                       | 328.74                      | 24                     |
| Shanghai                      | 139.00                      | 6                      |
| Total                         | 588.59                      | 70                     |

We also leased a premise with approximately 4,300 square meters in Beijing to serve as our warehouse for our fresh delivery services for our B2C business.

We also leased a land with approximately 70,320 square meters in Beijing to serve as the farm for self-grown goods for our B2C business.

We have not obtained the ownership certificate for the Principal Office due to an ongoing lawsuit filed against the building developer by an un-related third party.

Further, on October 30, 2008, Ninetowns Software and the Beijing Municipal Bureau of Land Resources Economic-Technological Development Area Branch entered into a land grant contract and a supplemental agreement, pursuant to which Ninetowns Software acquired land use rights for 58,526.58 square meters of land located in Lu Dong District, Beijing Economic-Technological Development Area. In May 2010, Ninetowns Software acquired the project's construction land use layout permit and obtained the land use right certificate.

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

**Insurance**

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

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

**Item 4A. Unresolved Staff Comments**

Not applicable.

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We are a leading provider of online solutions for international trade, with our key services in automating import/export e-filings. 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. We believe there were approximately 138,000, 140,900 and 142,300 licensees of our enterprise software registered to effect electronic import/export processing with the PRC Inspections Administration as of December 31, 2007, 2008 and 2009, respectively.

We generated total net revenues of RMB103.0 million, RMB104.5 million and RMB93.8 million (US\$13.7 million) in 2007, 2008 and 2009, respectively. The decrease in our total net revenues in 2009 was primarily due to decreased sales from our iDeclare.CIQ software package sales and services and iQM product series. Our net loss attributable to the Company in 2007 was RMB230.5 million, decreasing to RMB169.6 million in 2008. Our net income attributable to the Company in 2009 was RMB 1.3 million (US\$0.2 million). The net income attributable to the Company in 2009 was mainly due to (i) the increased revenue from our B2C business, and (ii) increased income from our investment activities.

We periodically invest our excess cash in highly liquid equity securities. In addition, from time to time we write call and put options through listed exchange as part of our investment strategy. Our investment committee approves the investment policy covering the investment parameters to be followed with the primary goals being the safety of principal and maintaining the liquidity of funds. As of December 31, 2009, we held equity securities with a total value of approximately RMB51.2 million (US\$7.5 million), which we purchased from China's A-Share stock exchanges. We also made investments in the U.S. capital markets through investments in equity securities and call and put options. As of December 31, 2009, we held equity securities with a total value of approximately RMB120.0 million (US\$17.6 million) that we purchased from the securities markets in the United States. In 2009, we recognized approximately RMB63.2 million (US\$9.3 million) from our investment activities.

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

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

In 2009, we engaged in three main lines of business: (i) sales of enterprise software and related customer maintenance services, (ii) provision of software development services, (iii) B2C e-Grocery services. Furthermore, the provision of software development services has become a less significant line of business over time. We intend to continue deploying our resources on sales of enterprise software and related customer maintenance services and on our B2C e-grocery services. In addition, we also intend to leverage our existing expertise in quality control and e-service solutions to explore and develop other business opportunities.

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

Our financial results have been, and we expect them to continue to be, affected by the import/export industry in China. The growth of China's import/export volume experienced a slowdown in 2008 and 2009, falling from over 20% each year for the prior six consecutive years to 17.8% and -13.9% in 2008 and 2009, respectively. We believe that a number of factors have contributed to this slowdown, including macroeconomic measures and monetary policies adopted by the PRC government and the global financial crisis. However, China's import/export volume for the first quarter of 2010 increased by 44.1% compared to the first quarter of 2009. We believe China's import/export volume will continue to grow and create additional demand for our products and services.

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

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

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

While the growth rate of our user base has decreased continuously, we believe that we have continued to make sales of our iDeclare.CIQ software packages and related customer maintenance services due to certain benefits offered to our paid customers that are not offered to users of the free software. The PRC Inspections Administration's distribution of free software products, while in the long run will likely increase the number of e-filers and hence increase demand for our enterprise software services, has had a significant adverse effect on our total net revenue, our results of operations and profitability in the short-term. For example, we sold, together with our franchisees, approximately 400 software packages of iDeclare.CIQ during the first quarter of 2010, which is similar to the number of software packages of iDeclare.CIQ sold by our company and our franchisees during the first quarter of 2009. Since 2008, we believe that the PRC Inspections Administration decreased its efforts to promote its free software and we believe there is uncertainty surrounding the PRC Inspections Administration's future promotional plans for its free software. Additionally, the slowdown in China's economy caused in part by the recent global crisis in the financial services and credit markets has also negatively impacted our sales of iDeclare.CIQ software packages.

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

We believe our user base has substantial growth potential due to the high number of international trade enterprises that possess import/export rights in China. According to the PRC Ministry of Commerce, approximately 691,000 foreign-invested companies were approved to do business in China as of April 30, 2010. 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.

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

At December 31, 2009, we primarily operate in two business segments: (i) B2G services and (ii) B2C services. Our B2G business segment includes sales of enterprise software and related customer maintenance services and software development services. Currently, our total net revenues are primarily derived from our sales of enterprise software and related customer maintenance services.

***Total net revenues***

Currently, we generate total net revenues primarily from our B2G segment which includes (i) sales of enterprise software and related customer maintenance services and (ii) fees from software development services, and our new B2C business.

Except for VAT rebates from the Chinese tax authorities as part of the PRC government's policy of encouraging software development in the PRC, we report total net revenue net of business taxes. Our sales of enterprise software products and computer hardware and accessories are generally subject to a VAT of 17.0%. Our fees charged for software development services and customer maintenance service for enterprise software products are generally subject to a 5.0% business tax. Pursuant to the laws and regulations of the PRC, four of our subsidiaries in China are entitled to a 14.0% VAT rebate for certain self-developed software products. We recognize the VAT rebates at the same time we recognize net revenues from sales of enterprise software. VAT rebates are included in our net revenues from sales of enterprise software. In 2009, we recognized RMB 0.9 million (US\$0.1 million) in VAT rebates. We cannot predict how much our net revenues from sales of our enterprise software and related customer maintenance services or software development services will increase in the future, or if they will increase at all.

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

We currently sell our enterprise software and provide related customer maintenance services through four franchisees. Our per-unit license fee for enterprise software products charged to our franchisees is based on our negotiated sales arrangement with the franchisee, and is less than the RMB4,500 per-unit license fee we receive from direct sales. We also sell iDeclare.CIQ products on a Pay-Per-Transaction basis to various users. 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 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 uncertain how many of our users will pay for such maintenance services. In 2009, we collected customer maintenance service fees from approximately 18,300 users, representing approximately 13% of our users due to the renewal of their maintenance service agreements. We intend to continue to increase our marketing and collection efforts with respect to these customer maintenance service fees. We expect our profit margin from sales of enterprise software to decrease if the VAT rebate is eliminated or reduced by the PRC tax authorities.

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

**B2C services:** During the first half of 2009, we launched a portal site, [www.tootoo.cn](http://www.tootoo.cn), to serve as an e-grocery platform targeting Chinese consumers primarily in Beijing and Shanghai metropolitan areas. This platform is designed as an online grocery store, with offerings of organic products and other fresh and natural products, as well as delivery services direct from farm to table. We established partnerships with two local Beijing organic farms, Beijing Qingpu Yuan Farm Land and Huaixiang Organic Farm Land, to assist us with upholding and maintaining quality control standards for product sourcing. In addition, in order to attract potential customers to this e-grocery platform as well as to promote the tootoo.cn branding, we organized and participated in various events such as mother and baby health seminars, organic farm field trips, and various food-related events. Throughout the second half of 2009 and in the early part of 2010, we made significant progress on our online grocery retail initiative. In April 2010, the online retail platform [www.tootoo.cn](http://www.tootoo.cn) underwent a complete upgrade, with the addition of new features including a convenient online payment service and a more diverse offering of organic products, fresh vegetables, fruits, and household goods and consumer products. tootoo.cn currently carries over 3,000 products in 16 different categories. Furthermore, we established our first warehouse with approximately 4,300 square meters, functionally divided into an ordinary temperature warehouse, refrigerated / frozen warehouse, processing workshop, office and other functional facilities.

We believe we are the first retailer in Beijing to offer guaranteed home deliveries of fresh produce and groceries. We believe that the market for online shopping in China is large and growing quickly. While the e-Grocery market represents a small and nascent segment of the broader ecommerce industry, we are very optimistic about the future prospects of this market in China and are confident that our unique positioning, diversified offering and high quality services will enable us to create long-term shareholder value.

***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, (iii) our provision of B2C e-Grocery services.

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Enterprise software and related customer maintenance services: We distribute 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 is minimal because of low production costs, packaging costs and shipment costs. Additionally the franchisees have been providing a majority of our software maintenance services to customers for us. We therefore incurred declining direct costs to provide software maintenance services to customers.

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

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

B2C services: Our costs of B2C services consist primarily of procurement costs for products sold, and direct costs associated with food related products and services, including salaries, employee benefits and overhead costs associated with employees providing the related services.

***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 B2C services. We expect our enterprise software and related customer maintenance services gross profit margin to remain stable. We expect our software development services gross profit margin to decrease as we invest in more advanced technologies in new software development projects.

***Operating expenses***

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

Selling expenses: Selling expenses consist primarily of sales, marketing and personnel expenses, customer service expenses, associated rental expenses, marketing and advertising expenses and travel and entertainment expenses for our sales and marketing staff. We expense all selling expenses as they are incurred. We expect to expand our marketing and advertising campaigns to promote our new B2C business, specifically in the food products and services industries.

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 2009, we incurred lower general and administrative expenses than in earlier years as a result of the implementation of our cost reduction program which led to decreases in office expense, entertainment, communication expense and travel expense.

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**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, (ii) an increase in the number of research and development personnel, (iii) an expected increase in our potential new business ventures and (iv) our investment in software licenses for development tools to increase the productivity of our overall research and development efforts. However, research and development expenses decreased in 2009. This decrease was mainly attributable to the reduction in our headcount and depreciation expenses associated with disposed fixed assets. For 2010, we expect to incur additional research and development expenses as we shift our focus to B2C and expand our research and development initiatives to include other service offerings. Specifically, we are exploring the potential expansion of our business by leveraging our experience in B2G quality control and e-service solutions. We have focused our research and development initiatives to include our B2C offerings through our e-commerce platform, tootoo.cn. As our B2C business is under development, we may not successfully introduce it as one of our primary businesses.

**Provision for doubtful accounts:** In 2007, we believe that the PRC Inspections Administration decreased its efforts to promote its free software and we believe there is uncertainty surrounding the PRC Inspections Administration's future promotional plans for its free software. Accordingly, we made a provision of approximately RMB19.9 million for doubtful accounts against our receivables specifically in relation to our building of certain electronic systems for the PRC Inspections Administration that enable the free software to process electric declarations over the Internet. In 2008, we wrote off these trade receivables against the allowance for doubtful accounts. In addition, in 2008 we made a further provision of RMB2.9 million based on aging analysis of trade receivables, customers' credit-worthiness, past collection history, and changes in a customer's payment terms. In 2009, a RMB26.3 million (US\$3.8 million) provision for bad debts were made in light of the significant increase of the risk of collection such receivables. As a result of the cumulative effect of the factors described above, we expect that in the future our total operating expenses will decrease.

***Taxation***

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

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

Ninetowns Ports was subject to a 7.5% EIT in 2007, 25% EIT in 2008 and 15% EIT in 2009. Guangdong Ninetowns Technology was entitled to an exemption in 2007, was subject to 7.5% EIT in 2008 and 15% EIT in 2009. Ninetowns Network was entitled to an exemption from EIT from January 1, 2006 to December 31, 2007 and was subject to a 25% EIT in 2008 and 2009.

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

Baichuan, Ronghe Tongshang, Ninetowns Software, Dongguan Software, Guangdong Nine Masters, Sky Eco-agriculture, SH Meihuilong, and Tootoo Eco-agriculture were subject to a 25.0% EIT in 2009.

PRC business tax: Our PRC operating subsidiaries are also subject to PRC business tax. We primarily pay business tax on our net revenues generated from software development services and customer maintenance services. Our PRC operating subsidiaries and VIEs generally pay a 5.0% business tax on our net revenues derived from software development services and customer maintenance services and this business tax is deducted from our total net revenues.

Value-added tax: Our PRC operating subsidiaries are also generally subject to a VAT of 17.0% on sales of enterprise software products. Pursuant to PRC tax regulations, Ninetowns Network and Ninetowns Ports are entitled to a 14.0% VAT rebate on sales of certain registered self-developed software products. Our net revenues from sales of such enterprise software include VAT rebates in the amount of RMB4.3 million, RMB2.9 million and RMB 0.9 million (US\$0.1 million) in 2007, 2008 and 2009, respectively. After we became a general VAT taxpayer in May 2010, except for self-grown products which are exempted from VAT, other goods are subject to VAT rates of 13% and 17%. Upon expiration of these preferential EIT rates and VAT rebates, we will consider available options, if any, in accordance with applicable law, that would enable us to qualify for further tax incentives.

**Critical accounting policies**

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

***Revenue recognition***

Currently, our revenue is mainly derived from the following sources: (i) sale of enterprise software and related services; (ii) software development services, and (iii) B2C services.

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

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



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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. 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.

In general, B2C revenues are generally recognized upon delivery and revenues from catering services are generally recognized when the catering services are provided.

***Trade receivables***

We perform ongoing credit evaluations of our customers and adjust credit limits based on payment history and the customer's current credit-worthiness, as determined by our review of their current credit information. In some fiscal periods, our trade receivables increased, and may increase in the future, to an amount which is approximately equal to our total net revenues for such period. We continuously monitor collections and payments from our customers and maintain allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make the required payments and use the specific identification method to record such allowances. We write off such trade receivables and specific allowances in one year if circumstances are not improved. While such credit losses have historically been within our expectations and the provisions established, we cannot guarantee that we will continue to experience the same credit loss rates that we have had in the past. As of December 31, 2009, 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 collectability 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 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.

In 2007, based on the impairment assessment performed by management, we recognized a total goodwill impairment charge of RMB193.6 million related to our enterprise software and related customer maintenance services and software development services. We also recorded in 2008 a total goodwill impairment charge of RMB78.1 million relating to our B2B business, and this impairment charge was included in net loss from discontinued operations. No goodwill impairment losses were recorded in the year ended December 31, 2009.

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**Impairment of Long-lived Assets**

We evaluate our long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable. When these events occur, we measure impairment by comparing the carrying amount of the assets to future undiscounted net cash flows expected to result from the use of the assets and their eventual disposition. If the sum of the expected undiscounted cash flow is less than the carrying amount of the assets, we would adjust the carrying value of the asset based on the fair value and recognize an impairment loss. Fair value is estimated using expected discounted future cash flows. We recorded in 2008 a total long-lived assets impairment charge of RMB48.1 million relating to our B2B business, and this impairment charge was included in net loss from discontinued operations. No long-lived assets impairment losses were recorded in the year ended December 31, 2009.

**Useful Life of Intangible Assets**

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

**Share-based Compensation**

The Company recognizes share-based compensation cost on a straight-line basis over the requisite service period, which is generally the vesting period, and measures the cost of employee services received in exchange for share-based compensation at the grant date fair value of the awards.

**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.

Since January 1, 2007, we are also required to evaluate our tax positions to determine whether we have any unrecognized tax benefits resulting from the differences between positions taken on our tax returns and benefits measured and recognized in our financial statements. Significant management adjustment is required in this process. Interests and penalties as a result of income tax filings are classified as part of our income taxes.

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

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

|                                                                                              | <b>Years ended<br/>December 31,</b> |             |             |
|----------------------------------------------------------------------------------------------|-------------------------------------|-------------|-------------|
|                                                                                              | <b>2007</b>                         | <b>2008</b> | <b>2009</b> |
| Total net revenues:                                                                          |                                     |             |             |
| Enterprise software and related customer maintenance services                                | 75.1%                               | 81.3%       | 62.3%       |
| Software development services                                                                | 24.9%                               | 18.6%       | 18.5%       |
| Food sales and services                                                                      |                                     | 0.1%        | 19.2%       |
| Cost of revenues:                                                                            |                                     |             |             |
| Enterprise software and related customer maintenance services                                |                                     |             |             |
| Software development services                                                                | -17.2%                              | -11.9%      | -12.3%      |
| Food sales and services                                                                      |                                     | -0.1%       | -18.2%      |
| Gross profit                                                                                 | 82.8%                               | 88.0%       | 69.5%       |
| Operating expenses:                                                                          |                                     |             |             |
| Selling and marketing                                                                        | -31.4%                              | -21.0%      | -18.5%      |
| General and administrative                                                                   | -71.5%                              | -72.3%      | -67.1%      |
| Research and development                                                                     | -24.3%                              | -17.8%      | -18.5%      |
| Allowance for doubtful accounts                                                              | -21.7%                              | -2.8%       | -28.0%      |
| Impairment of goodwill                                                                       | -188.0%                             |             |             |
| Government subsidies                                                                         | 1.0%                                |             |             |
| Loss from operations                                                                         | -253.3%                             | -25.7%      | -62.6%      |
| Interest income                                                                              | 13.5%                               | 6.7%        | 4.6%        |
| Gain on sales of short-term investments                                                      | 42.3%                               | 9.4%        | 37.8%       |
| Change in fair value of marketable options                                                   |                                     |             | 29.5%       |
| Gains from disposal of investments under cost method                                         |                                     | 2.1%        |             |
| Other income                                                                                 |                                     | 0.3%        | 4.2%        |
| Net (loss) income from continuing operations before income tax and non-controlling interests | -197.3%                             | -7.1%       | 13.5%       |
| Income tax expense                                                                           | -3.0%                               | -0.8%       | -4.4%       |
| Net (loss) income from continuing operations                                                 | -200.5%                             | -7.9%       | 9.1%        |
| Net loss from discontinued operations                                                        | -23.4%                              | -154.3%     | -7.7%       |
| Net (loss) income attributable to the Company                                                | -223.9%                             | -162.2%     | 1.4%        |

**2009 compared to 2008****Total net revenues**

We generated total net revenues of RMB93.8 million (US\$13.7 million) in 2009, an decrease of 10.3% over our total net revenues of RMB104.5 million in 2008. This revenue decrease was principally due to decreased sales from the iDeclare.CIQ series.

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*Enterprise software and related customer maintenance services.* Net revenues from sales of our enterprise software and related customer maintenance services decreased by 31.3% to RMB58.4 million (US\$8.6 million) in 2009 from RMB85.0 million in 2008, primarily due to decreased sales from our iDeclare.CIQ software package and iQM product series. In 2009, we signed customer maintenance service contracts with approximately 18,300 users whose customer maintenance service contracts were due for renewal in 2009. We recognized net revenues of RMB7.0 million (US\$1.0 million) from sales of our enterprise software in 2009. We recognized net revenues of RMB51.4 million (US\$7.5 million) from provision of customer maintenance services in 2009, including fees collected from Pay-Per-Transaction users. Of our net revenues from sales of enterprise software and related customer maintenance services of, RMB5.5 million and RMB 0.6 million (US\$81,733) were from sales of the iQM product series and related software maintenance services in 2008 and 2009, respectively, representing a year-on-year decrease of 89.1%. In addition, RMB27.0 million and RMB 28.7 million (US\$4.2 million) were from the Pay-Per Transaction filing fees in 2008 and 2009, respectively, representing a year-on-year increase of 6.3% from 2008 to 2009. We sold approximately 1,500 software packages of iDeclare.CIQ in 2009, which is significantly lower than the approximately 2,900 software packages of iDeclare.CIQ sold in 2008, representing a year-on-year decrease of 48.3%.

*Software development services.* Net revenues from our software development services decreased by 10.8% from RMB19.5 million in 2008 to RMB17.4 million (US\$2.5 million) in 2009 because the number of hardware support and maintenance contracts entered into by Guangdong Ninetowns and the Administration for Quality Supervision and Inspection and Quarantine of Guangdong in 2009 decreased significantly compared to 2008.

*B2C services.* Net revenues from our B2C services was RMB18.0 million (US\$2.6 million) in 2009 compared to nil in 2008. This is a new business.

**Cost of revenues**

*Enterprise software and related customer maintenance services.* The cost of revenues consists mainly of direct costs associated with the delivery of customer maintenance services, including salaries, employee benefits and overhead costs associated with employees providing related services. Since iDeclare is now generally distributed through the Internet, we incurred minimal outsourcing costs to outside contractors and costs associated with packaging and shipping of software. The franchisees provide a majority of our software maintenance services to our customers for us. Cost of revenues from enterprise software and related customer maintenance services were insignificant in 2008 and 2009.

*Software development services.* Cost of revenues from software development services decreased to RMB11.6 million (US\$1.7 million) in 2009 from RMB12.4 million in 2008. As of December 31, 2009, we did not have any capitalized costs related to such projects.

*B2C services.* Cost of revenues from our B2C services was RMB17.0 million (US\$2.5 million) in 2009 compared to nil in 2008. This is a new business.

**Gross profit margin**

*Enterprise software and related customer maintenance services.* Gross profit margin for sales of enterprise software and related customer maintenance services was close to 100% in 2007, 2008 and 2009 mainly because iDeclare has been generally distributed through the Internet since 2006 and we incurred minimal outsourcing costs to outside contractors and costs associated with packaging and shipping of software. Additionally, the franchisees have been providing most of the software maintenance services to customers and we incurred minimal direct costs associated with the delivery of customer maintenance services.

*Software development services.* Gross profit margin for software development services decreased to 33.5% in 2009 compared to 36.2% in 2008, for the reasons stated above.

*B2C services.* Gross profit margin was 5.3% for our B2C services in 2009.

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***Operating expenses***

Operating expenses increased to RMB123.9 million (US\$18.2 million) in 2009 from RMB118.9 million in 2008, primarily due to the increase in provision for doubtful accounts.

***Selling expenses***

Selling expenses decreased to RMB17.4 million (US\$2.5 million) in 2009 from RMB21.9 million in 2008, primarily due to the reduction in our headcount, entertainment and travel expenses as a result of our cost reduction program implemented in 2009.

***General and administrative expenses***

General and administrative expenses decreased by 16.7% to RMB62.9 million (US\$9.2 million) in 2009 from RMB75.5 million in 2008, primarily due to decrease in (i) legal and professional fees, (ii) share based compensation charges, and (iii) office expenses as a result of our cost reduction program implemented in 2009.

***Research and development expenses***

Research and development expenses decreased by 6.5% to RMB17.4 million (US\$2.5 million) in 2009 from RMB18.6 million in 2008, primarily due to the reduction in headcount, depreciation expenses associated with disposal of fixed assets, as well as expense declines in rental, utilities, communication and travel expenses.

***Provision for doubtful accounts***

Provision for doubtful accounts increased to RMB26.3 million (US\$3.8 million) in 2009 from RMB2.9 million in 2008, primarily due to the increased collection risk arising from the significant increase in the aging of our accounts receivable balances as a result of the longer repayment period by our customers.

***Government subsidies***

We did not receive any government subsidy in 2008 or 2009.

***Interest income***

Interest income decreased to RMB4.3 million (US\$0.6 million) in 2009 from RMB7.0 million in 2008, primarily due to a decrease in the amount of our term deposits.

***Gain on sales of short-term investments***

Gain on sales of short-term investments increased to RMB35.5 million (US\$5.2 million) in 2009 from RMB9.9 million in 2008 due to increased investments in marketable securities.

***Change in fair value of marketable options***

Change in fair value of marketable options was RMB27.7 million (US\$4.1 million) in 2009 compared to nil in 2008, which is primarily due to our new investment activities of call and put options.

***Income taxes***

Income tax expense in 2009 increased to RMB4.1 million (US\$0.6 million) in 2009 from RMB0.8 million in 2008 due to a provision for withholding tax on dividends paid by our Chinese subsidiaries to our overseas holding companies.

**Table of Contents*****Net income from continuing operations***

Income from continuing operations in 2009 was RMB8.6 million (US\$1.3 million), compared to loss of RMB8.3 million in 2008, as a result of the cumulative effect of the factors described above.

***Net loss from discontinued operations***

Loss from discontinued operations in 2009 was RMB7.3 million (US\$1.1 million), compared to loss of RMB161.3 million in 2008. The decrease in loss from discontinued operations was primarily due to the impairment of long-lived assets and goodwill in 2008.

***Net income attributable to the Company***

We recognized net income attributable to the Company of RMB1.3 million (US\$0.2 million) in 2009 compared to a net loss attributable to the Company of RMB169.6 million in 2008, as a result of the cumulative effect of the factors described above.

**2008 compared to 2007*****Total net revenues***

We generated total net revenues of RMB104.5 million (US\$15.3 million) in 2008, an increase of 1.5% over our total net revenues of RMB103.0 million in 2007. This revenue increase was principally due to increased sales from the iQM product series and the popularity of Pay-Per Transaction pricing terms that helped us to retain existing clients and to attract potential new users, off-set by the significant decline in iDeclare.CIQ software package sales in 2008. *Enterprise software and related customer maintenance services.* Net revenues from sales of our enterprise software and related customer maintenance services increased by 10.0% to RMB85.0 million (US\$12.5 million) in 2008 from RMB77.3 million in 2007, primarily due to increased sales from the iQM product series and the popularity of Pay-Per Transaction pricing terms, off-set by the significant decline in iDeclare.CIQ software package sales in 2008. In 2008, we signed customer maintenance service contracts with approximately 40,500 users whose customer maintenance service contracts were due for renewal in 2008. We recognized net revenues of RMB39.9 million (US\$5.8 million) from sales of our enterprise software in 2008. We recognized net revenues of RMB45.1 million (US\$6.6 million) from the provision of customer maintenance services in 2008. Of our net revenues from sales of enterprise software and related customer maintenance services, RMB0.5 million and RMB5.5 million (US\$0.8 million) were from sales of the iQM product series and related software maintenance services in 2007 and 2008, respectively, representing a year-on-year increase of 1,000.0%. In addition, RMB21.7 million and RMB27.0 million (US\$4.0 million) were from the Pay-Per Transaction filing fees in 2007 and 2008, respectively, representing a year-on-year increase of 24.4%. However, we sold approximately 2,900 software packages of iDeclare.CIQ in 2008, which is significantly lower than the approximately 8,400 software packages of iDeclare.CIQ sold in 2007, representing a year-on-year decrease of 65.5%.

*Software development services.* Net revenues from our software development services decreased by 23.8% from RMB25.6 million in 2007 to RMB19.5 million (US\$2.9 million) in 2008. In 2008, we did not recognize any net revenues from the provision of software development services to iTowNet and eGrid, previously two of our largest customers for software development services. iTowNet has developed its own platform for providing software development services and now provides software development services directly to its customers, such as the PRC Inspections Administration, that are similar to the software development services that we provide to our customers. As a result of the significant decline in demand by iTowNet and eGrid for our services, and an increase in competition for software development service contracts from other service providers, we did not enter into as many software development contracts in 2008, as compared to 2007.

***Cost of revenues***

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



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

***Gross profit margin***

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

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

***Operating expenses***

Operating expenses decreased significantly to RMB118.9 million (US\$17.4 million) in 2008 from RMB347.0 million in 2007, primarily due to an occurrence of an impairment loss from our B2G reporting unit in 2007 and a lower provision for doubtful accounts recognized in 2008.

***Selling expenses***

Selling expenses decreased significantly to RMB21.9 million (US\$3.2 million) in 2008 from RMB32.4 million in 2007. This decrease was primarily due to the reduction in our (i) office and travel expenses as a result of our cost reduction program implemented in 2008, and (ii) rental and utility expenses as a result of our relocation to our self-owned premises.

***General and administrative expenses***

General and administrative expenses increased by 2.6% to RMB75.5 million (US\$11.1 million) in 2008 from RMB73.6 million in 2007, primarily due to increases in (i) compensation costs incurred from staff reduction, (ii) depreciation charges on newly acquired fixed assets and (iii) share-based compensation charges.

***Research and development expenses***

Research and development expenses decreased by 25.6% to RMB18.6 million (US\$2.7 million) in 2008 from RMB25.0 million in 2007, primarily due to a reduction in the number of research and development employees and rental and utility expenses, which was a result of our relocation to our newly acquired building.

***Provision for doubtful accounts***

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

***Impairment of goodwill***

The goodwill impairment was RMB193.6 million for our B2G reporting unit in 2007.



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***Government subsidies***

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

***Interest income***

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

***Gain on sales of short-term investments***

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

***Gain from disposal of investment under cost method***

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

***Income taxes***

Income tax expense in 2008 was RMB0.8 million (US\$0.1 million), compared to RMB3.1 million in 2007. In 2008, we incurred certain deferred tax liabilities in connection with the timing differences resulting from the accelerated depreciation of certain property and equipment.

***Loss from continuing operations***

Loss from continuing operations amounted to RMB8.3 million (US\$1.2 million) in 2008 as compared to RMB206.5 million in 2007. The decrease in loss was a result of the cumulative effect of the factors described above.

***Loss from discontinued operations***

Loss from discontinued operations amounted to RMB161.3 million (US\$23.6 million) in 2008 as compared to RMB24.1 million in 2007. The increase in loss from discontinued operations in 2008 was mainly due to the impairment loss of long-lived assets and goodwill of our B2B reporting unit.

***Net loss attributable to the Company***

We incurred a net loss attributable to the Company of RMB169.6 million (US\$24.9 million) in 2008 compared to RMB230.5 million in 2007, 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 4.8%, 5.9% and -0.7% in 2007, 2008 and 2009, 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.

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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 is from our cash account. We had no outstanding debt as of December 31, 2009. The following table sets forth the summary of our cash flows for the periods indicated:

|                                                      | <b>For the years ended December 31,</b> |             |             |
|------------------------------------------------------|-----------------------------------------|-------------|-------------|
|                                                      | <b>2007</b>                             | <b>2008</b> | <b>2009</b> |
|                                                      | <b>RMB</b>                              | <b>RMB</b>  | <b>RMB</b>  |
|                                                      | <b>(in millions)</b>                    |             |             |
| Net cash used in operating activities                | (2.9)                                   | (33.9)      | (26.5)      |
| Net cash provided by/(used in) investing activities  | 57.2                                    | (37.4)      | (76.8)      |
| Net cash provided by financing activities            | 1.3                                     |             |             |
| Effect of exchange rate changes                      | (4.3)                                   | (2.0)       | 0.1         |
| Net increase/(decrease) in cash and cash equivalents | 51.3                                    | (73.3)      | (103.2)     |
| Cash and cash equivalents, beginning of year         | 598.6                                   | 649.9       | 576.6       |
| Cash and cash equivalents, end of year               | 649.9                                   | 576.6       | 473.4       |

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**

Cash used in operating activities was RMB26.5 million (US\$3.9 million) in 2009. This was primarily attributable to increased costs in pursuing our B2C strategy in 2009. Cash used in operating activities was RMB33.9 million in 2008. Cash used in operating activities was RMB2.9 million in 2007.

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***Cash flow from investing activities***

Cash used in investing activities was RMB76.8 million (US\$11.3 million) in 2009. This was primarily attributable to purchases of marketable securities.

Cash used in investing activities was RMB37.4 million in 2008. This was primarily attributable to purchases of property and equipment and the purchase of land use rights from Yizhuang Substation of the PRC Country Resources Bureau for RMB30.2 million. The land use rights have a contractual useful life of fifty years.

Cash provided by investing activities was RMB57.2 million in 2007. This was primarily attributable to the re-classification of certain term deposits into cash and cash equivalents, but taking into account cash used in our acquisition of Baichuan.

***Cash flow from financing activities***

We did not generate cash from financing activities in 2009. Financing activities generated cash of nil and RMB1.3 million in 2008 and 2007. This was comprised primarily of proceeds from employees' exercise of their stock options.

***Capital resources***

To better manage our assets for long-term growth, we periodically invest our excess cash in highly liquid equity securities. In addition, from time to time we write call and put options through listed exchange as part of our investment strategy. Our investment committee approves the investment policy covering the investment parameters to be followed with the primary goals being the safety of principal and maintaining the liquidity of funds. 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. Short-term investments classified as available for sale are stated at fair values. Unrealized gains or losses on available-for-sale securities from the changes in fair value are recorded in equity as other comprehensive income (loss). Realized gains or losses, based upon the specific identification method, on the disposal of available-for-sale securities are recorded in the consolidated statement of operations. Liabilities for certain call options of RMB6.1 million (US\$0.9 million) and put option of RMB5.8 million (US\$0.8 million) were included in liabilities at December 31, 2009.

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, 2009, we had RMB473.4 million (US\$69.4 million) in cash and cash equivalents. In addition, as of December 31, 2009, we had invested RMB25.0 million (US\$3.7 million) in term deposits, which are payable at varying maturities from six months to one year.

We believe that our available cash and cash equivalents will be sufficient to meet our capital needs for at least the next 12 months. Except for our net cash provided by operating activities, we currently have no plans to seek additional sources of liquidity in the near future. However, we cannot assure you that our business or operations will not change in a manner that would consume our available capital resources more rapidly than anticipated, especially as we continue to evaluate other investment and acquisition opportunities. As of December 31, 2009, 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."

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

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

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

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

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

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.

As of December 31, 2009, we had 250 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.

Our expenses for research and development activities totaled RMB25.0 million in 2007, RMB18.6 million in 2008 and RMB 17.4 million (US\$2.5 million) in 2009.

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. We are in the process of establishing an additional research and development center in the eastern region of China.

Of our 250 employees dedicated to research and development, 4 employees concentrate their efforts on the research and development of our new B2C business.

***D. Trend information***

Other than as disclosed elsewhere in this annual report, we are not aware of any trends, uncertainties, demands, commitments or events for the period from January 1, 2009 to December 31, 2009 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.

**Table of Contents*****E. Off-balance sheet arrangements***

We are exposed to equity price risk as a result of its investment in equity securities and equity derivatives. Equity price risk results from changes in the level or volatility of equity prices, which affect the value of equity securities, or instruments that derive their value from such securities. We attempt to mitigate our exposure to such risks by not limiting our investment in any one security or index.

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

We have entered into leasing arrangements relating to our office premises, technical support centers and farm for self-grown goods for our B2C business. 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, 2009:

|                    | <b>(in thousands)</b> |       |
|--------------------|-----------------------|-------|
| Less than one year | RMB                   | 2,309 |
| 1-3 years          |                       | 1,680 |
| 3-5 years          |                       | 1,217 |
| More than 5 years  |                       | 3,158 |
| Total              | RMB                   | 8,364 |

As of December 31, 2009, we had unrecognized tax benefits amounting to RMB5.1 million (US\$0.8 million). 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. Recent Accounting Pronouncements***

In June 2009, the Financial Accounting Standards Board ( FASB ) issued revised guidance on the accounting for transfers of financial assets. The revised guidance requires more information about transfers of financial assets, including securitization transactions, and where entities have continuing exposure to the risks related to the transferred financial assets. It eliminates the concept of a qualifying special-purpose entity, changes the requirements for derecognizing financial assets, and requires additional disclosures. This guidance will be effective for the Company on January 1, 2010 and is not expected to have any impact on the Company's consolidated financial statements.

In June 2009, the FASB issued revised guidance on the consolidation of variable interest entities ( VIEs ). The revised guidance requires an analysis to determine whether a variable interest gives the entity a controlling financial interest in a variable interest entity. Additionally, the revised guidance requires an ongoing reassessment and eliminates the quantitative approach previously required for determining whether an entity is the primary beneficiary. This guidance will be effective for the Company on January 1, 2010 and is not expected to have a material impact on the Company's consolidated financial statements.

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In October 2009, the FASB issued new guidance on revenue recognition for arrangements with multiple deliverables and certain revenue arrangements that include software elements. By providing another alternative for determining the selling price of deliverables, the guidance for arrangements with multiple deliverables will allow companies to allocate arrangement consideration in multiple deliverable arrangements in a manner that better reflects the transaction's economics and will often result in earlier revenue recognition. The new guidance modifies the fair value requirements of previous guidance by allowing best estimate of selling price in addition to vendor-specific objective evidence (VSOE) and other vendor objective evidence (VOE, now referred to as TPE standing for third-party evidence) for determining the selling price of a deliverable. A vendor is now required to use its best estimate of the selling price when VSOE or TPE of the selling price cannot be determined. In addition, the residual method of allocating arrangement consideration is no longer permitted under the new guidance. The new guidance for certain revenue arrangements that include software elements removes non-software components of tangible products and certain software components of tangible products from the scope of existing software revenue guidance, resulting in the recognition of revenue similar to that for other tangible products. The new guidance is effective for fiscal years beginning on or after June 15, 2010. However, companies may be able to adopt as early as interim periods ended September 30, 2009. The guidance may be applied either prospectively from the beginning of the fiscal year for new or materially modified arrangements or retrospectively. The Company has not early adopted the new guidance and is currently evaluating the impact on its consolidated financial statements of adopting this guidance.

In December 2009, the FASB issued revised guidance on Consolidations—Improvements to Financial Reporting by Enterprises Involved with VIEs, which became effective for the Company on November 15, 2009. The amendments in this guidance replace the quantitative-based risks and rewards calculation for determining which reporting entity, if any, has a controlling financial interest in a variable interest entity, with an approach focused on identifying which reporting entity has the power to direct the activities of a variable interest entity, that most significantly impact the entity's economic performance and has (1) the obligation to absorb losses of the entity or (2) the right to receive benefits from the entity. An approach that is expected to be primarily qualitative will be more effective for identifying which reporting entity has a controlling financial interest in a variable interest entity. The amendments in this guidance also require additional disclosures about a reporting entity's involvement in variable interest entities, which will enhance the information provided to users of financial statements. The Company believes there will be no material impact on its consolidated financial statements upon adoption of this standard.

In December 2007, the FASB issued new accounting guidance that defines collaborative arrangements and establishes reporting requirements for transactions between participants in a collaborative arrangement and between participants in the arrangement and third parties. It also establishes the appropriate income statement presentation and classification for joint operating activities and payments between participants, as well as the sufficiency of the disclosures related to those arrangements. This new accounting guidance was effective for the Company on January 1, 2009, and its adoption did not have a significant impact on its consolidated financial statements.

In June 2009, the Financial Accounting Standards Board (FASB) approved its Accounting Standards Codification or Codification as the single source of authoritative United States accounting and reporting standards applicable for all nongovernmental entities, with the exception of the SEC and its staff. The Codification, which changes the referencing of financial standards, is effective for interim or annual financial periods ending after September 15, 2009. Therefore, beginning in the third quarter of fiscal year 2009, all references made to US GAAP use the new Codification numbering system prescribed by the FASB. As the Codification did change and alter existing US GAAP, it did not have any impact on the Company's consolidated financial statements.

Effective January 1, 2009, the Company adopted an authoritative pronouncement issued by the FASB regarding non-controlling interests in consolidated financial statements. The pronouncement improves the relevance, comparability, and transparency of financial information provided to investors by requiring all entities to report non-controlling interests in subsidiaries in the same way as required in the consolidated financial statements. Moreover, the pronouncement eliminates the diversity that currently exists in accounting for transactions between an entity and non-controlling interests by requiring they be treated as equity transaction. The pronouncement requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the non-controlling interest. Furthermore, disclosure of the amounts of consolidated net income attributable to the parent

and to the non-controlling interest is required on the face of the financial statements. The pronouncement is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is prohibited. The adoption of the pronouncement required retroactive application of the presentation and disclosure requirements of the standard to all periods presented. The adoption did not impact the consolidated financial statements presented herein, except for the presentation and disclosure requirements affecting all periods presented including:

- (a) the non-controlling interest has been reclassified to equity,
- (b) consolidated net income or loss has been adjusted to include the net income or loss attributable to the non-controlling interest,
- (c) consolidated comprehensive income or loss has been adjusted to include the comprehensive income or loss attributable to the non-controlling interest, and
- (d) for each reporting period the Company must present a reconciliation at the beginning and end of the period of the carrying amount of total equity and equity attributable to the Company and the non-controlling interest.

Accordingly, after adoption, non-controlling interests (approximately negative RMB88,655 and RMB nil at December 31, 2009 and December 31, 2008, respectively) are classified as equity, a change from its previous classification between liabilities and stockholders' equity. Losses attributable to non-controlling interest (approximately RMB88,655, RMB5.5 million and RMB6.1 million for 2009, 2008 and 2007, respectively) are included in net income (loss), although such losses continue to be deducted to measure earnings (loss) per share.

#### **Item 6. Directors, Senior Management and Employees.**

##### ***A. Directors and senior management***

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

| <b>Name</b>        | <b>Age</b> | <b>Position</b>                                                          |
|--------------------|------------|--------------------------------------------------------------------------|
| Shuang Wang        | 47         | Director and Chief Executive Officer                                     |
| Kin Fai Ng         | 65         | Director, Senior Vice President and Company Secretary                    |
| Dachun Zhang       | 65         | Director                                                                 |
| Fushan Chen        | 71         | Director                                                                 |
| Mark Ming Hsun Lee | 38         | Director                                                                 |
| Martin Cheung      | 41         | Director                                                                 |
| Xiaoguang Ren      | 46         | President                                                                |
| Tommy Siu Lun Fork | 48         | Chief Financial Officer                                                  |
| Min Dong           | 46         | Senior Vice President, Legal Affairs, Administration and Human Resources |
| Bolin Wu           | 44         | General Manager, Research and Development and Chief Technology Officer   |

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**Shuang Wang** founded our predecessor, Ninetowns Technology, in 1995 and is now a director and our Chief Executive Officer. From 1992 to 1994, Mr. Wang was the founder and Chief Executive Officer of Ninetowns Technology Co., Ltd., a company engaged in sales of computer hardware in China. From 1989 to 1992, Mr. Wang was the executive deputy general manager of Shenzhen Zhongnong Enterprise Corporation, a company engaged in the import and export of agricultural products. In March 2002, Mr. Wang was awarded the Traverse Cup Prize by Software World Magazine and Microelectronic Industry Development and Research jointly with a number of industry magazines in China for Mr. Wang's outstanding performance in and significant contributions to the information technology industry. In March 2003, Mr. Wang was also recognized as one of the 2002 top ten leaders of the PRC software industry in China by Software World Magazine jointly with China Central TV for his significant contributions to the software industry. Mr. Wang is also the chairman of the board of directors 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.

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





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**Martin Cheung** has served as a director since June 2008. Mr. Cheung currently works as the Corporate Development Director of Profound Heavy Industrial Holding Limited. He also currently serves as an independent non-executive director of China Environmental Resources Group Limited (formerly called Benefun International Holding Limited) and Hong Long Holdings Limited, both of which are companies with securities listed on the Hong Kong Stock Exchange. Mr. Cheung is a member of the American Institute of Certified Public Accountants and is a Certified Public Accountant of Australia. From 2005 to 2008, Mr. Cheung was the Corporate Finance Director at Grant Thornton Corporate Finance Limited. From 2002 to 2005, Mr. Cheung was an Executive Vice President at Japan Asia Securities. From 1994 to 2002, Mr. Cheung was a Vice President of Daiwa Securities. From 1991 to 1994, Mr. Cheung was a senior auditor at Deloitte Touche Tohmatsu. Mr. Cheung obtained a bachelor's degree in Social Sciences from the University of Hong Kong in 1991, a master's of Science 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 Fangyuan 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. Mr. Ren received an executive master of business administration degree from Peking University in January 2010.

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

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

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

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

***B. Compensation***

As of December 31, 2009, 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 2009, the aggregate amount of compensation paid by us to all of our directors and executive officers was approximately RMB5.6 million (US\$0.8 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 RMB8.2 million, RMB8.2 million and RMB5.6 million (US\$0.8 million) for 2007, 2008 and 2009, respectively.

**2003 Plan**

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

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

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

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

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

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

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

*Share options.* Share options under the 2003 Plan are evidenced by an option certificate which contains, among other things, provisions concerning the exercise price and vesting schedule of the share options. The exercise price of all of the options granted under our 2003 Plan is HK\$25 per ordinary share, which we believe was the fair market value of our ordinary shares on the grant date of such options. One-fourth of the share options granted under the 2003 Plan become exercisable on each of May 18, 2004, November 18, 2004, November 18, 2005 and November 18, 2006. Generally, share options under the 2003 Plan are terminated if the grantee's employment is terminated by us, or terminated within 12 months from the date of the grantee's retirement, disability, change in our corporate structure, expiry of employment contract or termination of employment at the discretion of the board.

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*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. The following table summarizes, as of May 31, 2010, the outstanding options granted under our 2003 Plan to our directors and executive officers.

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

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

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

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

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

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

The following table summarizes, as of May 31, 2010, the outstanding options granted under our Amended and Restated 2004 Plan to our directors and executive officers.

|                    | <b>Ordinary<br/>Shares</b>                |                                            |                          |                               |
|--------------------|-------------------------------------------|--------------------------------------------|--------------------------|-------------------------------|
|                    | <b>Underlying<br/>Options<br/>Granted</b> | <b>Exercise<br/>Price<br/>(US\$/Share)</b> | <b>Date of<br/>Grant</b> | <b>Date of<br/>Expiration</b> |
| Xiaoguang Ren      | 19,286                                    | 8.60                                       | February 23,<br>2005     | February 22,<br>2015          |
|                    | 22,368                                    | 3.03                                       | February 5,<br>2008      | February 4,<br>2018           |
|                    | 220,000                                   | 1.40                                       | July 16,<br>2009         | July 15, 2019                 |
|                    | 70,000                                    | 1.60                                       | February 10,<br>2010     | February 9,<br>2020           |
| Bolin Wu           | 35,357                                    | 8.60                                       | February 23,<br>2005     | February 22,<br>2015          |
|                    | 39,930                                    | 3.03                                       | February 5,<br>2008      | February 4,<br>2018           |
|                    | 110,000                                   | 1.40                                       | July 16,<br>2009         | July 15, 2019                 |
|                    | 70,000                                    | 1.60                                       | February 10,<br>2010     | February 9,<br>2020           |
| Tommy Siu Lun Fork | 17,679                                    | 8.60                                       | February 23,<br>2005     | February 22,<br>2015          |

|             |         |      |                      |                      |
|-------------|---------|------|----------------------|----------------------|
|             | 220,000 | 1.40 | July 16,<br>2009     | July 15, 2019        |
|             | 70,000  | 1.60 | February 10,<br>2010 | February 9,<br>2020  |
| Shuang Wang | 20,893  | 8.60 | February 23,<br>2005 | February 22,<br>2015 |
|             | 330,000 | 1.40 | July 16,<br>2009     | July 15, 2019        |
|             | 70,000  | 1.60 | February 10,<br>2010 | February 9,<br>2020  |
| Min Dong    | 17,679  | 8.60 | February 23,<br>2005 | February 22,<br>2015 |
|             | 110,000 | 1.40 | July 16,<br>2009     | July 15, 2019        |
|             | 70,000  | 1.60 | February 10,<br>2010 | February 9,<br>2020  |

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|                    | <b>Ordinary<br/>Shares</b>                | <b>Exercise<br/>Price</b> | <b>Date of<br/>Grant</b> | <b>Date of<br/>Expiration</b> |
|--------------------|-------------------------------------------|---------------------------|--------------------------|-------------------------------|
|                    | <b>Underlying<br/>Options<br/>Granted</b> | <b>(US\$/Share)</b>       |                          |                               |
| Dachun Zhang       | 8,036                                     | 8.60                      | February 23,<br>2005     | February 22,<br>2015          |
|                    | 3,000                                     | 3.03                      | February 5,<br>2008      | February 4,<br>2018           |
|                    | 11,250                                    | 1.40                      | July 16,<br>2009         | July 15, 2019                 |
|                    | 30,000                                    | 1.60                      | February 10,<br>2010     | February 9,<br>2020           |
| Fushan Chen        | 8,036                                     | 8.60                      | February 23,<br>2005     | February 22,<br>2015          |
|                    | 3,000                                     | 3.03                      | February 5,<br>2008      | February 4,<br>2018           |
|                    | 11,250                                    | 1.40                      | July 16,<br>2009         | July 15, 2019                 |
|                    | 30,000                                    | 1.60                      | February 10,<br>2010     | February 9,<br>2020           |
| Mark Ming Hsun Lee | 17,679                                    | 8.60                      | February 23,<br>2005     | February 22,<br>2015          |
|                    | 4,500                                     | 3.03                      | February 5,<br>2008      | February 4,<br>2018           |
|                    | 15,000                                    | 1.40                      | July 16,<br>2009         | July 15, 2019                 |
|                    | 30,000                                    | 1.60                      | February 10,<br>2010     | February 9,<br>2020           |
| Kin Fai Ng         | 12,000                                    | 3.03                      | February 5,<br>2008      | February 4,<br>2018           |
|                    | 90,000                                    | 1.40                      | July 16,<br>2009         | July 15, 2019                 |
|                    | 30,000                                    | 1.60                      | February 10,<br>2010     | February 9,<br>2020           |
| Martin Cheung      | 30,000                                    | 1.40                      | July 16,<br>2009         | July 15, 2019                 |
|                    | 30,000                                    | 1.60                      | February 10,<br>2010     | February 9,<br>2020           |

The following table summarizes, as of May 31, 2010, the outstanding non-vested shares granted under our Amended and Restated 2004 Plan to our directors and executive officers.

|               | <b>Non-vested<br/>Shares</b> | <b>Date of<br/>Grant</b> | <b>End of<br/>Vesting<br/>Period</b> |
|---------------|------------------------------|--------------------------|--------------------------------------|
|               | <b>Granted</b>               |                          |                                      |
| Xiaoguang Ren | 60,037                       |                          |                                      |

|                    |         |                      |                      |
|--------------------|---------|----------------------|----------------------|
|                    |         | February 5,<br>2008  | February 5,<br>2012  |
|                    | 585,771 | February 10,<br>2010 | February 10,<br>2011 |
| Bolin Wu           | 41,709  | February 5,<br>2008  | February 5,<br>2012  |
| Tommy Siu Lun Fork | 20,000  | February 5,<br>2008  | February 5,<br>2012  |
| Shuang Wang        | 30,000  | February 5,<br>2008  | February 5,<br>2012  |
| Min Dong           | 20,000  | February 5,<br>2008  | February 5,<br>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 and equivalent award for each outstanding option. The administrator may in the alternative pay cash or other consideration in exchange for cancellation of the outstanding options.

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

The following table summarizes, as of May 31, 2010, the outstanding non-vested shares granted under our 2006 Plan to our directors and executive officers.

|                    | <b>Non-vested<br/>Shares<br/>Granted</b> | <b>Date of<br/>Grant</b> | <b>End of<br/>Vesting<br/>Period</b> |
|--------------------|------------------------------------------|--------------------------|--------------------------------------|
| Xiaoguang Ren      | 840,000                                  | February 10,<br>2010     | February 10,<br>2011                 |
| Bolin Wu           | 439,912                                  | February 10,<br>2010     | February 10,<br>2011                 |
| Tommy Siu Lun Fork | 41,000                                   | February 10,<br>2010     | February 10,<br>2011                 |
| Shuang Wang        | 41,000                                   | February 10,<br>2010     | February 10,<br>2011                 |
| Min Dong           | 41,000                                   | February 10,<br>2010     | February 10,<br>2011                 |
| Kin Fai Ng         | 41,000                                   | February 10,<br>2010     | February 10,<br>2011                 |

***C. Board practices***

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

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

***Duties of directors***

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

**Board committees**

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

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

- the integrity of our financial statements;
- the qualifications, independence and performance of our independent registered public accounting firm;
- the performance, budget and staffing of our internal audit functions;
- the review and approval of all related party transactions;
- our compliance with legal and regulatory requirements;
- the development and implementation of corporate governance principles, policies, codes of conduct and ethics relating to the operation of our board of directors and its committees as well as our company as a whole;
- appointing, setting the compensation for, retaining, overseeing and terminating our independent registered public accounting firm;
- reviewing and approving the scope and staffing of the independent registered public accounting firm's annual audit plan;
- establishing policies for the hiring of current and former employees of the independent registered public accounting firm;
- evaluating the performance of the officers responsible for internal audit functions and making recommendations regarding the responsibilities, retention and termination of such officers;
- reviewing and approving the critical accounting policies and practices and related-party transactions and off-balance sheet transactions of our company;
- reviewing our internal controls and disclosure controls and procedures in conjunction with our chief executive officer and chief financial officer;
- appointing a compliance officer with respect to our corporate governance guidelines and codes of conduct and ethics;
- meeting annually with management to discuss compliance with our corporate governance guidelines;
- coordinating the training of directors; and
- reporting regularly to the board of directors.

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

- review and approval of the compensation of our executive officers;
- recommendations with respect to our incentive compensation plans and equity-based plans;

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approval of awards or material amendment of any employee benefit plan or share option plan;  
oversight of regulatory compliance with respect to compensation matters; and  
review and approval of any severance or similar termination payments in excess of US\$100,000.

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

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

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

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

**Corporate governance**

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

**D. Employees**

As of December 31, 2009, we had 336 full-time employees. Of our employees, 10 were in management, 17 were in finance, 19 were in administration and human resources, 250 were in research and development and 40 were in sales and marketing.

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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 RMB5.0 million, RMB4.9 million and RMB3.5 million (US\$0.5 million) for 2007, 2008 and 2009, respectively. In addition, we are required by law to contribute approximately 10% in Beijing, 12% in Shanghai and 8% in Guangzhou of the average salaries of all employees for mandatory medical benefits and approximately 1% in Beijing and 2% 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 RMB3.2 million, RMB3.3 million and RMB2.1 million (US\$0.3 million) for 2007, 2008 and 2009, respectively.

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

**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, 2010, 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<br>Beneficially Owned |                        |
|--------------------------------------------------------------|---------------------------------------|------------------------|
|                                                              | Number <sup>(1)</sup>                 | Percent <sup>(2)</sup> |
| <b>Directors and executive officers<sup>(3)</sup></b>        |                                       |                        |
| Shuang Wang <sup>(4)</sup>                                   | 6,518,697                             | 18.01%                 |
| Min Dong <sup>(5)</sup>                                      | 6,518,697                             | 18.01%                 |
| Xiaoguang Ren <sup>(6)</sup>                                 | 1,093,144                             | 3.03%                  |
| Kin Fai Ng <sup>(7)</sup>                                    | 700,725                               | 1.95%                  |
| Bolin Wu <sup>(8)</sup>                                      | 694,135                               | 1.93%                  |
| Tommy Siu Lun Fork <sup>(9)</sup>                            | 645,853                               | 1.79%                  |
| Mark Ming Hsun Lee <sup>(10)</sup>                           | 23,679                                | *%                     |
| Dachun Zhang <sup>(11)</sup>                                 | 12,349                                | *%                     |
| Fushan Chen <sup>(12)</sup>                                  | 12,349                                | *%                     |
| Martin Cheung <sup>(13)</sup>                                | 7,500                                 | *%                     |
| All directors and executive officers as a group (10 persons) | 9,708,431                             | 26.17%                 |
| <b>5% and above shareholders</b>                             |                                       |                        |
| Yong Ping Duan <sup>(14)</sup>                               | 7,072,327                             | 19.76%                 |
| Technology Pioneer Corp. <sup>(15)</sup>                     | 3,070,028                             | 8.58%                  |
| Value Chain International Limited <sup>(16)</sup>            | 2,002,312                             | 5.59%                  |

\* Less than 1%

(1) Beneficial ownership is determined in accordance with

the rules of the SEC, and includes those securities for which voting or investment power with respect to the securities is held.

- (2) The number of ordinary shares outstanding used in calculating the percentage for each listed person includes the ordinary shares underlying options held by such persons and exercisable within 60 days of the date of this annual report. Percentage of beneficial ownership is based on 35,791,834 ordinary shares outstanding as of May 31, 2010. In 2008, 800,000 of the Company's ordinary shares were converted into American Depositary Shares to facilitate our employees cashless exercise of vested stock options and

non-vested  
shares. Stock  
options for  
6,186 ordinary  
shares were  
exercised in  
2008. 120,536  
previously  
non-vested  
shares became  
vested in 2009.

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- (3) The address of our current directors and executive officers is c/o Ninetowns Internet Technology Group Company Limited, 22/F, Building No. 1, Capital A Partners, No. 20 Gongti East Road, Chaoyang District Beijing 100020, PRC.
- (4) Includes
- (i) 4,031,465 ordinary shares held by Mr. Wang,
  - (ii) 2,002,312 ordinary shares held by Mr. Wang through his ownership of Value Chain,
  - (iii) 278,307 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) 90,842 ordinary shares held by Ms. Dong, and
  - (v) 115,771

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) 90,842  
ordinary shares  
held by  
Ms. Dong,
  - (ii) 115,771  
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) 4,031,465  
ordinary shares  
held by  
Mr. Wang and
  - (v) 278,307  
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 823,122 ordinary shares held by Mr. Ren and 270,022 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 10,250 ordinary shares held by Mr. Ng and 634,411 ordinary shares beneficially held by Mr. Ng through his ownership of Oriental Plan Developments Limited, or Oriental Plan, and 56,064 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 460,696 ordinary shares held by Mr. Wu and 233,439 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  
350,250  
ordinary shares  
held by  
Mr. Fork and  
295,603  
ordinary shares  
underlying share  
options held by  
Mr. Fork which  
are currently  
exercisable or  
exercisable  
within 60 days  
of the date of  
this annual  
report.

- (10) Represents  
23,679 ordinary  
shares  
underlying share  
options held by  
Mr. Lee which  
are currently  
exercisable or  
exercisable  
within 60 days  
of the date of  
this annual  
report.

- (11) Represents  
12,349 ordinary  
shares  
underlying share  
options held by  
Mr. Zhang  
which are  
currently

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

(12) Represents  
12,349 ordinary  
shares  
underlying share  
options held by  
Mr. Chen which  
are currently  
exercisable or  
exercisable  
within 60 days  
of the date of  
this annual  
report.

(13) Represents  
7,500 ordinary  
shares  
underlying share  
options held by  
Mr. Cheung  
which are  
currently  
exercisable or  
exercisable  
within 60 days  
of the date of  
this annual  
report.

(14) Includes  
5,072,308  
ordinary shares  
held directly by  
Mr. Duan and  
2,000,019  
ordinary shares  
beneficially held  
by Mr. Duan  
through his  
position as the  
president of  
Enlight  
Foundation, or  
Enlight, a

non-profit  
family  
foundation  
under the laws  
of California.  
Enlight is a  
California  
corporation that  
is owned by  
Mr. Duan. The  
address of  
Enlight is c/o  
SY. Lee &  
Chen, 362 W.  
Garvey Ave.,  
Monterey Park,  
CA 91754.

(15) 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.

(16) 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.

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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.

***B. Related party transactions***

**Overview**

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

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

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

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

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

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**Beijing iTowNet Cyber Technology Ltd.**

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

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

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

In 2007 and 2008, we did not enter into any software development contracts with iTowNet and we did not derive any revenue from the provision of software development services to iTowNet. In 2009, we derived RMB0.4 million revenue from the provision of software development services to iTowNet.

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

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

In late 2003, we decided to implement a franchise program to expand our sales distribution network and Mr. Jing Shao and Mr. 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 Mr. Jing Shao and Mr. Hongmei Tian in July 2003 for an aggregate consideration of RMB8.0 million. The transfer of such interests was completed in February 2004.

As of September 2005, Ninetowns Enke has been 81.25% owned by Mr. Jing Shao and 18.75% owned by Mr. Su Tianjian, one of our former employees. On June 1, 2009, we entered into a new franchise agreement with Ninetowns Enke for iDeclare.CIQ. This agreement has a 19 month term and does not contain any minimum sales commitment. In addition, Ninetowns Enke agreed to act as our sales agent for our enterprise software after sales maintenance services and a sales discount of 22.23%.

We recognized net revenues of approximately RMB2.3 million (US\$0.3 million) from sales of our customer maintenance services to Ninetowns Enke in 2009.

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

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

In December 2006, we revised our franchise agreement with Ninetowns Wang Li for our new software version under the iDeclare.CIQ series. On June 1, 2009, we entered into a new franchise agreement with Ninetowns Wang Li for iDeclare.CIQ. This agreement has a 19 month term and does not contain any minimum sales commitment. In addition, Ninetowns Wang Li agreed to act as our sales agent for our enterprise software after sales maintenance services and a sales discount of 22.23% of total maintenance revenue.

We recognized net revenues of approximately RMB9.3 million (US\$1.4 million) from sales of our software products and related customer maintenance services to Ninetowns Wang Li in 2009.

**Related party trade receivables**

In connection with the transactions described above, we had net trade receivables from related parties amounting to approximately RMB5.7 million (US\$0.8 million) as of December 31, 2009. These receivables consisted primarily of proceeds from sales of enterprise software and related customer maintenance services.

**Board memberships**

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

**Stock option grants**

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

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

Not applicable.

**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.

**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.

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The following table provides the high and low trading prices for our ADSs on the Nasdaq Global Market for (1) the years of 2005, 2006, 2007, 2008 and 2009, (2) the four quarters in 2008 and 2009 and (3) each of the months since December 2009.

|                                                           | <b>Sales Price</b> |            |
|-----------------------------------------------------------|--------------------|------------|
|                                                           | <b>High</b>        | <b>Low</b> |
| <b>Annual highs and lows</b>                              |                    |            |
| <b>2005</b>                                               | US\$ 11.48         | US\$ 4.21  |
| <b>2006</b>                                               | US\$ 6.98          | US\$ 4.29  |
| <b>2007</b>                                               | US\$ 7.20          | US\$ 2.64  |
| <b>2008</b>                                               | US\$ 3.30          | US\$ 0.82  |
| <b>2009</b>                                               | US\$ 2.20          | US\$ 0.86  |
| <b>Quarterly highs and lows</b>                           |                    |            |
| First Quarter 2008                                        | US\$ 3.30          | US\$ 2.05  |
| Second Quarter 2008                                       | US\$ 2.73          | US\$ 2.00  |
| Third Quarter 2008                                        | US\$ 2.46          | US\$ 1.37  |
| Fourth Quarter 2008                                       | US\$ 1.81          | US\$ 0.82  |
| First Quarter 2009                                        | US\$ 1.25          | US\$ 0.86  |
| Second Quarter 2009                                       | US\$ 1.80          | US\$ 0.95  |
| Third Quarter 2009                                        | US\$ 1.85          | US\$ 1.25  |
| Fourth Quarter 2009                                       | US\$ 2.20          | US\$ 1.36  |
| <b>Monthly highs and lows</b>                             |                    |            |
| December 2009                                             | US\$ 1.80          | US\$ 1.36  |
| January 2010                                              | US\$ 1.90          | US\$ 1.50  |
| February 2010                                             | US\$ 1.69          | US\$ 1.52  |
| March 2010                                                | US\$ 1.7           | US\$ 1.46  |
| April 2010                                                | US\$ 1.85          | US\$ 1.52  |
| May 2010                                                  | US\$ 1.79          | US\$ 1.46  |
| June 2010 (for the period to and including June 23, 2010) | US\$ 1.65          | US\$ 1.40  |

**B. Plan of distribution**

Not applicable.

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***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.

***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.

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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.

**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.

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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:

- 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.

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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. 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.

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***Passive foreign investment company***

It is likely that we will be classified as a PFIC for 2009. 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.

We note that if we are considered a PFIC for any taxable year, we will continue to be treated as a PFIC in for any subsequent taxable year with respect to any United States investors who held stock in such PFIC year, 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 and continued PFIC status in the 2007 and 2008 years. As a result, we believe that we would continue to be treated as a PFIC in all taxable years thereafter for any United States Investors, including the 2009 taxable year.

Because it is likely that we will be classified as a PFIC for 2009, 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.

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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 years. Amounts included in a U.S. Holder's income under a mark-to-market election, as well as gain on the actual sale or other disposition of our ordinary shares or our ADSs, are treated as ordinary income. Ordinary loss treatment also applies to the deductible portion of any mark-to-market loss on our ordinary shares or our ADSs, as well as to any loss realized on the actual sale or disposition of our ordinary shares or our ADSs, to the extent that the amount of such loss does not exceed the net mark-to-market gains previously included for such ordinary shares or ADSs. A U.S. Holder's basis in the ordinary shares or ADSs will be adjusted to reflect any such income or loss amounts. The tax rules that apply to distributions by corporations which are not PFICs would apply to distributions by us.

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

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



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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.

***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.

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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 a majority 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.

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.

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

Not applicable.

***G. Statement by experts***

Not applicable.

***H. Documents on display***

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

We are subject to the periodic reporting and other informational requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Under the Exchange Act, we are required to file reports and other information with the Securities and Exchange Commission. Specifically, we are required to file annually a Form 20-F no later than six months after the close of each fiscal year, which close occurs on December 31. Copies of reports and other information, when so filed, may be inspected without charge and may be obtained at prescribed rates at the public reference facilities maintained by the Securities and Exchange Commission at Public Reference Room, 100 F Street NE, Washington, DC. 20549 and at the regional office of the Securities and Exchange Commission located at 175 W. Jackson Boulevard, Suite 900, Chicago, Illinois 60604. The public may obtain information regarding the Washington, D.C. Public Reference Room by calling the Commission at 1-800-SEC-0330. The SEC also maintains a Web site at [www.sec.gov](http://www.sec.gov) that contains reports, proxy and information statements, and other information regarding registrants that make electronic filings with the SEC using its EDGAR system. As a foreign private issuer, we are exempt from the rules under the Exchange Act prescribing the furnishing and content of quarterly reports and proxy statements, and officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act.

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.

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**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, 2010, we have used approximately RMB402 million (US\$59 million) of the net proceeds from our initial public offering for capital expenditure, comprising approximately RMB72 million (US\$10.5 million) for the expansion of existing facilities, approximately RMB78 million (US\$11.4 million) for the purchase of real estate for new research and development centers and approximately RMB252 million (US\$37 million) for strategic investment. None of the net proceeds from our initial public offering included payments to directors or officers of our company, persons owning 10.0% or more of our equity securities or our affiliates.

**Item 15. Controls and Procedures.**

**Disclosure controls and procedures**

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we have performed an evaluation of the effectiveness of our disclosure controls and procedures (as that term is defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of December 31, 2009. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that such disclosure controls and procedures are effective as of December 31, 2009 at the reasonable assurance level to ensure that information required to be disclosed in our periodic reports filed under the Exchange Act is recorded, processed, summarized and reported, within the time period specified by the Securities and Exchange Commission's rules and regulations. Our Chief Executive Officer and Chief Financial Officer also concluded that our disclosure controls and procedures are also effective as of December 31, 2009 to ensure that information required to be discussed in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding any required disclosure.

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

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

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 with the participation and under the supervision of our Chief Executive Officer and our Chief Financial Officer assessed the effectiveness of our internal control over financial reporting as of December 31, 2009 based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, or COSO. Management excluded from this assessment, the business that we acquired in 2009, because it was not possible to conduct an assessment of the business's internal control over financial reporting in the period between the consummation date and the date of management's assessment. With respect to excluding this company, we are required to (1) formally note that management is excluding this acquired business from management's report on internal control over financial reporting; (2) clearly identify the acquired business excluded and have indicated the significance of the acquired business in our company's consolidated financial statements; and (3) disclose material changes, if any, to our internal control over financial reporting due to the acquisition of the is business. As a result of these assessments, our management has concluded that our internal control over financial reporting was effective as of December 31, 2009 based on the criteria established in Internal Control – Integrated Framework issued by COSO. We have excluded Meihuilong, our PRC subsidiary, from our assessment of internal control over financial reporting as of December 31, 2009 because this company was acquired on March 13, 2009 and qualified under current SEC regulation for exclusion from our assessment of internal control over financial reporting. Meihuilong's financial statements comprises approximately 15%, 2% and less than 1% of total revenue, loss from operations and total assets, respectively, included in the consolidated financial statements of the Company as of December 31, 2009.

GHP Horwath, P.C. an independent registered public accounting firm, has audited the consolidated financial statements included in this annual report on Form 20-F and, as part of the audit, has issued an attestation report, included herein on pages F-2 and F-3, on the effectiveness of our internal control over financial reporting.

**Changes in Internal Control over Financial Reporting**

We have continued to improve and upgrade our internal control over financial reporting based on our needs and changes in the business environment. We believe that there is no change in our internal control over financial reporting that occurred during the period covered by the annual report that has materially affected or is reasonably likely to materially affect 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.

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

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

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

On August 27, 2009, GHP Horwath, P.C. was appointed by our board of directors as our independent registered public accounting firm for the fiscal year ending December 31, 2009.

The following table sets forth the aggregate fees in connection with certain professional services rendered by GHP Horwath, P.C., for the periods indicated. We did not pay any tax related or other fees to GHP Horwath, P.C. during the periods indicated.

|                       | <b>For the year ended December 31</b> |              |              |
|-----------------------|---------------------------------------|--------------|--------------|
|                       | <b>2008</b>                           | <b>2009</b>  | <b>2009</b>  |
| Audit fees(1)         | RMB3,957,050                          | RMB3,959,022 | US\$ 580,000 |
| Audit related fees(2) |                                       |              |              |
| Total                 | RMB3,957,050                          | RMB3,959,022 | US\$ 580,000 |

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

(2) Audit related fees consists of fees billed for assurance and related services that are reasonably related to the

performance of  
the audit or  
review of our  
financial  
statements.

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

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

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

None.

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

Not applicable.



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

**(a) Resignation by Former Principal Accountant**

On November 4, 2008, Deloitte Touche Tohmatsu CPA, Ltd., or Deloitte, resigned as our independent registered public accounting firm.

The decision to change independent registered public accounting firm was recommended by our board of directors and approved by our audit committee on November 4, 2008. We reported the change in independent registered public accounting firm on Form 6-K furnished to the SEC on November 7, 2008.

The audit report of Deloitte on our consolidated financial statements for the fiscal year ended December 31, 2007 (which report expresses an unqualified opinion and includes an explanatory paragraph relating to the adoption of authoritative pronouncement issued by the Financial Accounting Standards Board regarding accounting for uncertainty in income taxes and an explanatory paragraph relating to the convenience translation of Renminbi amounts into United States dollar amounts in the financial statements) did not contain an adverse opinion or a disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope or accounting principles. During the fiscal year ended December 31, 2007 and in the subsequent interim period ended November 4, 2008, we did not have any disagreement with Deloitte on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of Deloitte, would have caused them to make reference to the subject matter of the disagreement in their report on the consolidated financial statements for such year and for such period.

During the fiscal year ended December 31, 2007 and through November 4, 2008, there were no reportable events requiring disclosure pursuant to Item 16F(a)(1)(v) of Form 20-F, except that the audit report of Deloitte on the effectiveness of our internal control over financial reporting as of December 31, 2007 contained an adverse opinion because of two material weaknesses. These material weaknesses are described in more detail in our Annual Report on Form 20-F for the fiscal year ended December 31, 2007. As used herein, the term reportable event means any of the items listed in paragraphs (a)(1)(v)(A)-(D) of Item 16F of Form 20-F. Our Audit Committee discussed the reportable events with Deloitte and we authorized Deloitte to respond fully to inquiries of the successor accountant concerning the reportable events pursuant to Item 16F(a)(1)(v) of Regulation S-K.

We provided a copy of this disclosure to Deloitte and requested that Deloitte furnish a letter addressed to the SEC stating whether it agrees with the above statements, and if not, stating the respects in which it does not agree. A copy of the letter from Deloitte addressed to the SEC, dated June 30, 2010, is filed as Exhibit 15.4.

**(b) Engagement of New Principal Accountant**

On November 4, 2008, we appointed GHP Horwath, P.C., or GHP Horwath, as our independent registered public accounting firm. During the fiscal year ended December 31, 2007 and through November 4, 2008, neither we nor anyone on our behalf consulted GHP Horwath regarding either (i) the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on our consolidated financial statements, nor has GHP Horwath provided to us a written report or oral advice that GHP Horwath concluded was an important factor considered by us in reaching a decision as to the accounting, auditing or financial reporting issue, or (ii) any matter that was either the subject of a disagreement with Deloitte, as that term is defined in Item 16F(a)(1)(iv) of Form 20-F and the related instructions to Item 16F of Form 20-F, or a reportable event, as that term is described in Item 16F(a)(1)(v) of Form 20-F.

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**Item 16G. Corporate Governance.**

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

**Table of Contents****PART III****Item 17. Financial Statements.**

We have elected to provide financial statements pursuant to Item 18.

**Item 18. Financial Statements.**

The consolidated financial statements for our company are included at the end of this annual report.

**Item 19. Exhibits.**

| <b>Exhibit Number</b> | <b>Description</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
|-----------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1.1*                  | Amended and Restated Memorandum and Articles of Association of Ninetowns Internet Technology Group Company Limited (incorporated by reference to Exhibit 99.2 from our Form 6-K (File No. 000-51025) filed with Securities and Exchange Commission on October 25, 2006)                                                                                                                                                                                                                                                              |
| 2.1*                  | Specimen American Depositary Receipt of Ninetowns Internet Technology Group Company Limited (incorporated by reference to Exhibit 2.1 from our Annual Report on Form 20-F (Registration No. 000-51025) filed with Securities and Exchange Commission on June 29, 2005)                                                                                                                                                                                                                                                               |
| 2.2*                  | Specimen Share Certificate of Ninetowns Internet Technology Group Company Limited (incorporated by reference to Exhibit 4.2 from our Registration Statement on Form F-1 (Registration No. 333-120184) filed with Securities and Exchange Commission on November 3, 2004)                                                                                                                                                                                                                                                             |
| 4.1*                  | Shareholders Agreement dated October 22, 2003 among Jitter Bug Holdings Limited, AIG Asian Opportunity Fund, L.P., American International Assurance Company (Bermuda) Limited, the shareholders of Ninetowns Internet Technology Group Company Limited (listed on Schedule 1 thereto) and Ninetowns Internet Technology Group Company Limited (incorporated by reference to Exhibit 4.4 from our Registration Statement on Form F-1 (Registration No. 333-120184) filed with Securities and Exchange Commission on November 3, 2004) |
| 4.2*                  | Form of Termination Agreement among Ninetowns Internet Technology Group Company Limited, Jitter Bug Holdings Limited, AIG Asian Opportunity Fund, L.P., American International Assurance Company (Bermuda) Limited and certain other shareholders of Ninetowns Internet Technology Group Company Limited (incorporated by reference to Exhibit 4.5 from our Registration Statement on Form F-1 (Registration No. 333-120184) filed with Securities and Exchange Commission on November 3, 2004)                                      |
| 4.3*                  | Form of Lock-up agreement by and among Ninetowns Internet Technology Group Company Limited and certain of its directors, executive officers and shareholders (incorporated by reference to Exhibit 4.6 from our Registration Statement on Form F-1 (Registration No. 333-120184) filed with Securities and Exchange Commission on November 3, 2004)                                                                                                                                                                                  |
| 4.4*                  | Employee Share Option Scheme (incorporated by reference to Exhibit 10.1 from our Registration Statement on Form F-1 (Registration No. 333-120184) filed with Securities and Exchange Commission on November 3, 2004)                                                                                                                                                                                                                                                                                                                 |
| 4.5*                  | Amended and Restated 2004 Share Option Plan of Ninetowns Internet Technology Group Company Limited (incorporated by reference to Exhibit 4.5 from our Annual Report on Form 20-F (Registration No. 000-51025) filed with Securities and Exchange Commission on June 29, 2006.                                                                                                                                                                                                                                                        |
| 4.6*                  | 2006 Share Incentive Plan of Ninetowns Internet Technology Group Company Limited                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| 4.7*                  | Service Agreement dated October 8, 2003 between Ninetowns Internet Technology Group Company Limited and Shuang Wang (incorporated by reference to Exhibit 10.3 from our                                                                                                                                                                                                                                                                                                                                                              |

- Registration Statement on Form F-1 (Registration No. 333-120184) filed with Securities and Exchange Commission on November 3, 2004)
- 4.8\* Service Agreement dated October 8, 2003 between Ninetowns Internet Technology Group Company Limited and Xiaoguang Ren (incorporated by reference to Exhibit 10.4 from our Registration Statement on Form F-1 (Registration No. 333-120184) filed with Securities and Exchange Commission on November 3, 2004)
- 4.09\* Service Agreement dated September 30, 2003 between Ninetowns Internet Technology Group Company Limited and Tommy Siu Lun Fork (incorporated by reference to Exhibit 10.6 from our Registration Statement on Form F-1 (Registration No. 333-120184) filed with Securities and Exchange Commission on November 3, 2004)

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| <b>Exhibit<br/>Number</b> | <b>Description</b>                                                                                                                                                                                                                                                                                                                                                                                     |
|---------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 4.10*                     | Service Agreement dated October 8, 2003 between Ninetowns Internet Technology Group Company Limited and Kin Fai Ng (incorporated by reference to Exhibit 10.8 from our Registration Statement on Form F-1 (Registration No. 333-120184) filed with Securities and Exchange Commission on November 3, 2004)                                                                                             |
| 4.11*                     | Service Agreement dated October 8, 2003 between Ninetowns Internet Technology Group Company Limited and Min Dong (incorporated by reference to Exhibit 10.10 from our Registration Statement on Form F-1 (Registration No. 333-120184) filed with Securities and Exchange Commission on November 3, 2004)                                                                                              |
| 4.12*                     | Service Agreement dated October 8, 2003 between Ninetowns Internet Technology Group Company Limited and Bolin Wu (incorporated by reference to Exhibit 10.11 from our Registration Statement on Form F-1 (Registration No. 333-120184) filed with Securities and Exchange Commission on November 3, 2004)                                                                                              |
| 4.13*                     | Service Agreement dated November 12, 2004 between Ninetowns Internet Technology Group Company Limited and John Yan Wang (incorporated by reference to Exhibit 10.36 from our Registration Statement on Form F-1 (Registration No. 333-120184) filed with Securities and Exchange Commission on November 30, 2004)                                                                                      |
| 4.14*                     | Translation of Form of Software Sales Agreement (incorporated by reference to Exhibit 10.12 from our Registration Statement on Form F-1 (Registration No. 333-120184) filed with Securities and Exchange Commission on November 3, 2004)                                                                                                                                                               |
| 4.15*                     | Translation of Franchise Agreement dated February 14, 2004 between Beijing Ninetowns Ports Software and Technology Co., Ltd. and Shenzhen Ninetowns Enke Software Technology Co., Ltd. (incorporated by reference to Exhibit 10.17 from our Registration Statement on Form F-1 (Registration No. 333-120184) filed with Securities and Exchange Commission on November 3, 2004)                        |
| 4.16*                     | Translation of Supplemental Agreement dated April 22, 2004, amending Franchise Agreement dated February 14, 2004 (incorporated by reference to Exhibit 10.18 from our Registration Statement on Form F-1 (Registration No. 333-120184) filed with Securities and Exchange Commission on November 3, 2004)                                                                                              |
| 4.17*                     | Translation of Franchise Agreement relating to iDeclare.CIQ software dated May 10, 2006 between Beijing Ninetowns Ports Software and Technology Co., Ltd. and Beijing Ninetowns Zhi Fang Software and Technology Co., Ltd. (incorporated by reference to Exhibit 4.22 from our Annual Report on Form 20-F (Registration No. 000-51025) filed with Securities and Exchange Commission on June 29, 2006) |
| 4.18*                     | Translation of Franchise Agreement relating to iProcess.CIQ software dated May 10, 2006 between Beijing Ninetowns Ports Software and Technology Co., Ltd. and Beijing Ninetowns Zhi Fang Software and Technology Co., Ltd. (incorporated by reference to Exhibit 4.23 from our Annual Report on Form 20-F (Registration No. 000-51025) filed with Securities and Exchange Commission on June 29, 2006) |
| 4.19*                     | Translation of Franchise Agreement relating to Ninetowns Network Quality Supervision Software v1.0 software dated December 26, 2006 between Beijing Ninetowns Network and Software Co., Ltd. and Beijing Ninetowns Zhi Fang Software and Technology Co., Ltd.                                                                                                                                          |
| 4.20*                     | Translation of Franchise Agreement dated May 12, 2006 between Beijing Ninetowns Ports Software and Technology Co., Ltd. and Shenzhen Ninetowns Enke Software Technology Co., Ltd. (incorporated by reference to Exhibit 4.24 from our Annual Report on Form 20-F (Registration No. 000-51025) filed with Securities and Exchange Commission on June 29,                                                |

- 2006)
- 4.21\* Translation of Franchise Agreement relating to Ninetowns Network Quality Supervision Software v1.0 software dated December 26, 2006 between Beijing Ninetowns Network and Software Co., Ltd. and Shenzhen Ninetowns Enke Software Technology Co., Ltd.
- 4.22\* Translation of Franchise Agreement dated May 12, 2006 between Beijing Ninetowns Ports Software and Technology Co., Ltd. and Beijing Ninetowns Xin He Software Technology Co., Ltd. (incorporated by reference to Exhibit 4.25 from our Annual Report on Form 20-F (Registration No. 000-51025) filed with Securities and Exchange Commission on June 29, 2006)
- 4.23\* Translation of Franchise Agreement relating to Ninetowns Network Quality Supervision Software v1.0 software dated December 26, 2006 between Beijing Ninetowns Network and Software Co., Ltd. and Beijing Ninetowns Xin He Software Technology Co., Ltd.
- 4.24\* Translation of Franchise Agreement relating to iDelare v5.0 software dated October 18, 2006 between Beijing Ninetowns Ports Software and Technology Co., Ltd. and Guangzhou Ninetowns Wang Li Software Co., Ltd.

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| <b>Exhibit<br/>Number</b> | <b>Description</b>                                                                                                                                                                                                                                                                                                                                                      |
|---------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 4.25*                     | Translation of Franchise Agreement relating to Ninetowns Network Quality Supervision Software v1.0 software dated December 26, 2006 between Beijing Ninetowns Network and Software Co., Ltd. and Guangzhou Ninetowns Wang Li Software Co., Ltd.                                                                                                                         |
| 4.26*                     | Translation of Union Plaza Lease Agreement dated February 27, 2003 between Beijing Fu Yu Da Real Estate Development Co., Ltd. and Beijing Ninetowns Digital Technology Limited (incorporated by reference to Exhibit 10.19 from our Registration Statement on Form F-1 (Registration No. 333-120184) filed with Securities and Exchange Commission on November 3, 2004) |
| 4.27*                     | Translation of Renewal Agreement dated May 23, 2005 between Beijing Fu Yu Da Real Estate Development Co., Ltd. and Beijing Ninetowns Ports Software and Technology Co., Ltd. (incorporated by reference to Exhibit 4.32 from our Annual Report on Form 20-F (Registration No. 000-51025) filed with Securities and Exchange Commission on June 29, 2006)                |
| 4.28*                     | Translation of Renewal Agreement dated August 30, 2005 between Beijing Fu Yu Da Real Estate Development Co., Ltd. and Beijing Ninetowns Ports Software and Technology Co., Ltd. (incorporated by reference to Exhibit 4.33 from our Annual Report on Form 20-F (Registration No. 000-51025) filed with Securities and Exchange Commission on June 29, 2006)             |
| 4.29*                     | Translation of Renewal Agreement dated March 8, 2006 between Beijing Fu Yu Da Real Estate Development Co., Ltd. and Beijing Ninetowns Ports Software and Technology Co., Ltd. (incorporated by reference to Exhibit 4.28 from our Annual Report on Form 20-F (Registration No. 000-51025) filed with Securities and Exchange Commission on June 29, 2006)               |
| 4.30*                     | Translation of Renewal Agreement dated September 20, 2006 between Beijing Fu Yu Da Real Estate Development Co., Ltd. and Beijing Ninetowns Ports Software and Technology Co., Ltd.                                                                                                                                                                                      |
| 4.31*                     | Translation of Renewal Agreement dated December 6, 2006 between Beijing Fu Yu Da Real Estate Development Co., Ltd. and Beijing Ninetowns Ports Software and Technology Co., Ltd.                                                                                                                                                                                        |
| 4.32*                     | Translation of Renewal Agreement dated March 20, 2007 between Beijing Fu Yu Da Real Estate Development Co., Ltd. and Beijing Ninetowns Ports Software and Technology Co., Ltd.                                                                                                                                                                                          |
| 4.33*                     | Translation of Extension Agreement dated August 9, 2005 between Beijing Fu Yu Da Real Estate Development Co., Ltd. and Beijing Ninetowns Ports Software and Technology Co., Ltd. (incorporated by reference to Exhibit 4.29 from our Annual Report on Form 20-F (Registration No. 000-51025) filed with Securities and Exchange Commission on June 29, 2006)            |
| 4.34*                     | Translation of Renewal Agreement dated March 8, 2006 between Beijing Fu Yu Da Real Estate Development Co., Ltd. and Beijing Ninetowns Ports Software and Technology Co., Ltd. (incorporated by reference to Exhibit 4.30 from our Annual Report on Form 20-F (Registration No. 000-51025) filed with Securities and Exchange Commission on June 29, 2006)               |
| 4.35*                     | Translation of Renewal Agreement dated September 20, 2006 between Beijing Fu Yu Da Real Estate Development Co., Ltd. and Beijing Ninetowns Ports Software and Technology Co., Ltd.                                                                                                                                                                                      |
| 4.36*                     |                                                                                                                                                                                                                                                                                                                                                                         |

- Translation of Renewal Agreement of Extension 1 dated December 21, 2006 between Beijing Fu Yu Da Real Estate Development Co., Ltd. and Beijing Ninetowns Ports Software and Technology Co., Ltd.
- 4.37\* Translation of Renewal Agreement of Extension 1 dated March 20, 2007 between Beijing Fu Yu Da Real Estate Development Co., Ltd. and Beijing Ninetowns Ports Software and Technology Co., Ltd.
- 4.38\* Translation of Extension Agreement dated December 23, 2005 between Beijing Fu Yu Da Real Estate Development Co., Ltd. and Beijing Ninetowns Digital Technology Limited (incorporated by reference to Exhibit 4.31 from our Annual Report on Form 20-F (Registration No. 000-51025) filed with Securities and Exchange Commission on June 29, 2006)
- 4.39\* Translation of Renewal Agreement of Extension 2 dated June 6, 2006 between Beijing Fu Yu Da Real Estate Development Co., Ltd. and Beijing Ninetowns Ports Software and Technology Co., Ltd.
- 4.40\* Translation of Renewal Agreement of Extension 2 dated December 18, 2006 between Beijing Fu Yu Da Real Estate Development Co., Ltd. and Beijing Ninetowns Ports Software and Technology Co., Ltd.
- 4.41\* Translation of Renewal Agreement of Extension 2 dated March 20, 2007 between Beijing Fu Yu Da Real Estate Development Co., Ltd. and Beijing Ninetowns Ports Software and Technology Co., Ltd.
- 4.42\* Translation of Renewal Agreement of Extension 3 dated November 27, 2006 between Beijing Fu Yu Da Real Estate Development Co., Ltd. and Beijing Ninetowns Ports Software and Technology Co., Ltd.



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| <b>Exhibit<br/>Number</b> | <b>Description</b>                                                                                                                                                                                                                                                                                                                                                                                                                 |
|---------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 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) |
| 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)

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| <b>Exhibit<br/>Number</b> | <b>Description</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|---------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 4.56*                     | Share Subscription Agreement dated October 9, 2003 among Ninetowns Internet Technology Group Company Limited, Jitter Bug Holdings Limited, AIG Asian Opportunity Fund, L.P., American International Assurance Company (Bermuda) Limited, Mr. Shuang Wang and Ms. Min Dong (incorporated by reference to Exhibit 10.31 from our Registration Statement on Form F-1 (Registration No. 333-120184) filed with Securities and Exchange Commission on November 3, 2004) |
| 4.57*                     | Sale and Purchase Agreement dated October 16, 2003 among Ninetowns Internet Technology Group Company Limited, Jitter Bug Holdings Limited and Huitung Investments (BVI) Limited (incorporated by reference to Exhibit 10.32 from our Registration Statement on Form F-1 (Registration No. 333-120184) filed with Securities and Exchange Commission on November 3, 2004)                                                                                           |
| 4.58*                     | Subscription Agreement dated December 11, 2003 among Ninetowns Internet Technology Group Company Limited, Jitter Bug Holdings Limited, Titan I Venture Capital Co., Ltd, Titan II Venture Capital Co., Ltd. and CFM Investments Limited CFM Greater China Fund (incorporated by reference to Exhibit 10.33 from our Registration Statement on Form F-1 (Registration No. 333-120184) filed with Securities and Exchange Commission on November 3, 2004)            |
| 4.59*                     | Subscription Agreement dated December 11, 2003 among Ninetowns Internet Technology Group Company Limited, Jitter Bug Holdings Limited and Ferndale Associates Limited (incorporated by reference to Exhibit 10.34 from our Registration Statement on Form F-1 (Registration No. 333-120184) filed with Securities and Exchange Commission on November 3, 2004)                                                                                                     |
| 4.60*                     | Form of Right of First Refusal Agreement dated as of November 2, 2004 among Ninetowns Internet Technology Group Company Limited, Ninetowns Import & Export e-Commerce Co., Ltd., Shuang Wang and Min Dong (incorporated by reference to Exhibit 10.35 from our Registration Statement on Form F-1 (Registration No. 333-120184) filed with Securities and Exchange Commission on November 3, 2004)                                                                 |
| 4.61*                     | Translation of Software Development Contract for an Integrated Origin Certificate Electronic Management System dated December 15, 2004 between Beijing iTowNet Cyber Technology Ltd. and Beijing Ninetowns Ports Software and Technology Co., Ltd. (incorporated by reference to Exhibit 4.39 from our Annual Report on Form 20-F (Registration No. 000-51025) filed with Securities and Exchange Commission on June 29, 2005)                                     |
| 4.62*                     | Translation of Software Development Contract for Internal Decision & Support System dated January 27, 2005 between the State Administration for Quality Supervision and Inspection and Quarantine of the PRC and Beijing Ninetowns Ports Software and Technology Co., Ltd. (incorporated by reference to Exhibit 4.40 from our Annual Report on Form 20-F (Registration No. 000-51025) filed with Securities and Exchange Commission on June 29, 2005)             |
| 4.63*                     | Translation of Software Development Contract for Export Electronic Monitoring Project (Phase I) dated March 31, 2005 between Beijing Regard Technology Co., Ltd. and Beijing Ninetowns Ports Software and Technology Co., Ltd. (incorporated by reference to Exhibit 4.41 from our Annual Report on Form 20-F (Registration No. 000-51025) filed with Securities and Exchange Commission on June 29, 2005)                                                         |
| 4.64*                     | Summary of Sale and Purchase Agreement between Beijing Ninetowns Times Electronic Commerce Limited and Dauphin Science Business Park Construction & Development Co.,                                                                                                                                                                                                                                                                                               |

- Ltd. of Beijing Zhongguancun Fengtai Science Park (incorporated by reference to Exhibit 4.42 from our Annual Report on Form 20-F (Registration No. 000-51025) filed with Securities and Exchange Commission on June 29, 2005)
- 4.65\* Summary of form of the Sale and Purchase Agreement between Beijing Ninetowns Ports Software and Technology Co., Ltd. and Beijing Heng Fu Plaza Development Co., Ltd. (incorporated by reference to Exhibit 4.43 from our Annual Report on Form 20-F (Registration No. 000-51025) filed with Securities and Exchange Commission on June 29, 2005)
- 4.66\* Translation of Software Development Contract for Export Electronic Monitoring Project (Phase 2) dated August 29, 2005 between eGrid Technology Ltd. and Beijing Ninetowns Ports Software and Technology Co., Ltd. (incorporated by reference to Exhibit 4.54 from our Annual Report on Form 20-F (Registration No. 000-51025) filed with Securities and Exchange Commission on June 29, 2006)
- 4.67\* Translation of Software Development Contract for Waste Import Electronic Monitoring dated June 28, 2005 between Beijing Regard Technology Co., Ltd. and Beijing Ninetowns Ports Software and Technology Co., Ltd. (incorporated by reference to Exhibit 4.55 from our Annual Report on Form 20-F (Registration No. 000-51025) filed with Securities and Exchange Commission on June 29, 2006)

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| <b>Exhibit<br/>Number</b> | <b>Description</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
|---------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 4.68*                     | Translation of Software Development Contract for Electronic Business Integrated Service Platform dated June 28, 2005 between Beijing Regard Technology Co., Ltd. and Beijing Ninetowns Ports Software and Technology Co., Ltd. (incorporated by reference to Exhibit 4.56 from our Annual Report on Form 20-F (Registration No. 000-51025) filed with Securities and Exchange Commission on June 29, 2006)                                                                                  |
| 4.69*                     | Translation of Software Development Contract for Electronic Monitoring System Software Project (Common version for Enterprise) dated August 1, 2005 between State Administration for Quality Supervision and Inspection and Quarantine of the PRC and Beijing Ninetowns Ports Software and Technology Co., Ltd. (incorporated by reference to Exhibit 4.57 from our Annual Report on Form 20-F (Registration No. 000-51025) filed with Securities and Exchange Commission on June 29, 2006) |
| 4.70*                     | Share and Purchase Agreement dated September 3, 2006, among Ninetowns Digital World Trade Holdings Limited, Beprecise Investments Limited, Global Market Group Limited, Global Market Group (Asia) Limited, Global Market (Guangzhou) Co., Ltd., Pan Weijia and Pan Weinian (incorporated by reference to Exhibit 99.4 from our Form 6-K (File No.000-51025) filed with Securities and Exchange Commission on September 22, 2006)                                                           |
| 4.71*                     | Investor's Rights Agreement dated October 19, 2006, among Beprecise Investments Limited, Global Market Group Limited, Global Market Group (Asia) Limited, Global Market (Guangzhou) Co., Ltd., Pan Weijia and Pan Weinian                                                                                                                                                                                                                                                                   |
| 4.72*                     | Share and Purchase Agreement dated April 9, 2007, among Ixworth Enterprises Limited, Beijing Ninetowns Network and Software Co., Ltd., Fan Hui Yang, Zhi Sheng Limited, Ample Spring Holdings Limited, Beijing Baichuan Tongda Science and Technology Development Co., Ltd., Zhou Peiji and Zhou Lijun                                                                                                                                                                                      |
| 4.73*                     | Shareholders Agreement dated April 26, 2007, among Ixworth Enterprises Limited, Fan Hui Yang, Zhi Sheng Limited and Ample Spring Holdings Limited                                                                                                                                                                                                                                                                                                                                           |
| 4.74*                     | Translation of Software Copyright Assignment Agreement dated November 10, 2006 between Department Service Center of Dongguan Entry-Exit Inspection and Quarantine Bureau and Beijing Ninetowns Ports Software and Technology Co., Ltd.                                                                                                                                                                                                                                                      |
| 4.75*                     | Amendment to Share Purchase and Subscription Agreement dated December 22, 2007, among Ixworth Enterprises Limited, Beijing Ninetowns Network and Software Co., Ltd., Fan Hui Yang, Zhi Sheng Limited, Ample Spring Holdings Limited, Beijing Baichuan Tongda Science and Technology Development Co., Ltd., Zhou Peiji and Zhou Lijun.                                                                                                                                                       |
| 4.76*                     | Translation of Pre-sale Contract for Commodity House in Beijing Municipality dated June 25, 2007 between Beijing Hengfu Plaza Development Co., Ltd. and Beijing Ninetowns Ports Software and Technology Co., Ltd.                                                                                                                                                                                                                                                                           |
| 4.77*                     | Translation of Sale Contract for Commodity House dated September 19, 2007 between Guangzhou Hejing Real Estate Development Co., Ltd. and Guangdong Ninetowns Technology Co., Ltd.                                                                                                                                                                                                                                                                                                           |
| 4.78*                     | Translation of Construction Land Use Right Grant Contract dated October 30, 2008 between Beijing Ninetowns Software Co., Ltd. and Beijing Land Resource Bureau, Economic Technological Development Area Branch                                                                                                                                                                                                                                                                              |
| 4.79*                     | Translation of Supplemental Agreement to Construction Land Use Right Grant Contract dated October 30, 2008 between Beijing Ninetowns Software Co., Ltd. and Beijing Land Resource Bureau, Economic Technological Development Area Branch                                                                                                                                                                                                                                                    |
| 4.80*                     | Translation of Franchise Agreement relating to Ninetowns Network Quality Supervision Software v1.0 software dated August 1, 2008 between Beijing Ninetowns Network and                                                                                                                                                                                                                                                                                                                      |

- 4.81\* Software Co., Ltd. and Beijing Ninetowns Zhi Fang Software and Technology Co., Ltd.  
Translation of Franchise Agreement relating to Ninetowns Network Quality Supervision Software v1.0 software dated August 1, 2008 between Beijing Ninetowns Network and Software Co., Ltd. and Shenzhen Ninetowns Enke Software Technology Co., Ltd.
- 4.82\* Translation of Franchise Agreement relating to Ninetowns Network Quality Supervision Software v1.0 software dated August 1, 2008 between Beijing Ninetowns Network and Software Co., Ltd. and Beijing Ninetowns Xin He Software Technology Co., Ltd.
- 4.83\* Translation of Franchise Agreement relating to Ninetowns Network Quality Supervision Software v1.0 software dated August 1, 2008 between Beijing Ninetowns Network and Software Co., Ltd. and Guangzhou Ninetowns Wang Li Software Co., Ltd.
- 4.84\* Translation of Franchise Agreement relating to iDeclare V5.0 software dated August 1, 2008 between Beijing Ninetowns Ports Software and Technology Co., Ltd. and Beijing Ninetowns Zhi Fang Software and Technology Co., Ltd.

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| <b>Exhibit<br/>Number</b> | <b>Description</b>                                                                                                                                                                                                                                       |
|---------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 4.85*                     | Translation of Franchise Agreement relating to iDeclare V5.0 software dated August 1, 2008 between Beijing Ninetowns Ports Software and Technology Co., Ltd. and Shenzhen Ninetowns Enke Software Technology Co., Ltd.                                   |
| 4.86*                     | Translation of Franchise Agreement relating to iDeclare V5.0 software dated August 1, 2008 between Beijing Ninetowns Ports Software and Technology Co., Ltd. and Beijing Ninetowns Xin He Software Technology Co., Ltd.                                  |
| 4.87*                     | Translation of Franchise Agreement relating to iDeclare V5.0 software dated August 1, 2008 between Beijing Ninetowns Ports Software and Technology Co., Ltd. and Guangzhou Ninetowns Wang Li Software Co., Ltd.                                          |
| 4.88                      | Translation of Franchise Agreement relating to Ninetowns Network Quality Supervision Software v1.0 software dated June 1, 2009 between Beijing Ninetowns Network and Software Co., Ltd. and Beijing Ninetowns Zhi Fang Software and Technology Co., Ltd. |
| 4.89                      | Translation of Franchise Agreement relating to Ninetowns Network Quality Supervision Software v1.0 software dated June 1, 2009 between Beijing Ninetowns Network and Software Co., Ltd. and Shenzhen Ninetowns Enke Software Technology Co., Ltd.        |
| 4.90                      | Translation of Franchise Agreement relating to Ninetowns Network Quality Supervision Software v1.0 software dated June 1, 2009 between Beijing Ninetowns Network and Software Co., Ltd. and Beijing Ninetowns Xin He Software Technology Co., Ltd.       |
| 4.91                      | Translation of Franchise Agreement relating to Ninetowns Network Quality Supervision Software v1.0 software dated June 1, 2009 between Beijing Ninetowns Network and Software Co., Ltd. and Guangzhou Ninetowns Wang Li Software Co., Ltd.               |
| 4.92                      | Translation of Franchise Agreement relating to iDeclare V5.0 software dated October 1, 2009 between Beijing Ninetowns Ports Software and Technology Co., Ltd. and Beijing Ninetowns Zhi Fang Software and Technology Co., Ltd.                           |
| 4.93                      | Translation of Franchise Agreement relating to iDeclare V5.0 software dated October 1, 2009 between Beijing Ninetowns Ports Software and Technology Co., Ltd. and Shenzhen Ninetowns Enke Software Technology Co., Ltd.                                  |
| 4.94                      | Translation of Franchise Agreement relating to iDeclare V5.0 software dated October 1, 2009 between Beijing Ninetowns Ports Software and Technology Co., Ltd. and Beijing Ninetowns Xin He Software Technology Co., Ltd.                                 |
| 4.95                      | Translation of Franchise Agreement relating to iDeclare V5.0 software dated October 1, 2009 between Beijing Ninetowns Ports Software and Technology Co., Ltd. and Guangzhou Ninetowns Wang Li Software Co., Ltd.                                         |
| 4.96                      | Translation of Lease Agreement relating to warehouse lease dated January 25, 2010 between Beijing Ninetowns Sky Eco-agriculture Co., Ltd. and Beijing Shunfeng Runlin Technology and Trade Co., Ltd.                                                     |
| 4.97                      | Translation of Sublease Agreement relating to land sublease dated June 29, 2010, between Beijing Ninetowns Sky Eco-Agriculture Co., Ltd. and Beijing Huaixiang Xiandai Agriculture 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 GHP Horwath, P.C.
- 15.2 Consent of Conyers Dill & Pearman
- 15.3 Consent of Commerce & Finance Law Offices
- 15.4 Consent of Deloitte Touche Tohmatsu CPA, Ltd.

\* 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 30th day of June, 2010.

**NINETOWNS INTERNET TECHNOLOGY  
GROUP COMPANY LIMITED**

By: /s/ Shuang Wang

Name: Shuang Wang  
Title: Chief Executive Officer

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| <u>Consolidated balance sheets as of December 31, 2008 and 2009</u>                                         | F - 5  |
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| <u>Consolidated statements of cash flows for the years ended December 31, 2007, 2008 and 2009</u>           | F - 11 |
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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Board of Directors and Shareholders

Ninetowns Internet Technology Group Company Limited

We have audited the accompanying consolidated balance sheets of Ninetowns Internet Technology Group Company Limited and subsidiaries (the Company) as of December 31, 2009 and 2008, and the related consolidated statements of operations, comprehensive income, changes in equity, and cash flows for each of the years in the two-year period ended December 31, 2009, and the financial statement schedule for the years ended December 31, 2009 and 2008. We also have audited the Company's internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and schedule, 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 Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the Company's internal control over financial reporting based on our 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 and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audits of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As indicated in the accompanying Management's Annual Report on Internal Control Over Financial Reporting appearing under Item 15 of the Company's December 31, 2009 annual report on Form 20-F, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include a business acquisition during 2009 because it was not possible to conduct an assessment of the acquired business's internal control over financial reporting in the period between the consummation date and the date of management's assessment. The business comprises approximately 15%, 2% and less than 1% of total revenue, loss from operations and total assets, respectively, included in the consolidated financial statements of the Company as of December 31, 2009. Our audit of internal control over financial reporting of the Company also did not include an evaluation of the internal control over financial reporting of the acquired business.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2009 and 2008, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2009 in conformity with accounting principles generally accepted in the United States of America. In our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

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As discussed in Note 2 to the consolidated financial statements, during 2009 the provisions of new accounting standards relating to non-controlling interests were adopted.

We have also audited the adjustments to the 2007 consolidated financial statements to retrospectively apply the change in accounting for discontinued operations, as described in Note 3, and the change in presentation and disclosure requirements for the adoption of accounting guidance related to non-controlling interest in 2009, as described in Note 2. Our procedures included (1) obtaining the Company's underlying accounting analysis, comparing the discontinued operations and non-controlling interest presented to such analysis, (2) comparing previously reported amounts to the previously issued financial statements for such year, and (3) testing the mathematical accuracy of the presentation. In our opinion, such retrospective adjustments are appropriate and have been properly applied. However, we were not engaged to audit, review, or apply any procedures to the 2007 consolidated financial statements of the Company other than with respect to the retrospective adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2007 consolidated financial statements taken as a whole.

/s/ GHP HORWATH, P.C.

Denver, Colorado

June 30, 2010

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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, before the effects of the retrospective adjustments for the discontinued operations discussed in Note 3 and the retrospective application of the authoritative pronouncement issued by the Financial Accounting Standards Board ( FASB ) regarding the noncontrolling interests discussed in Note 2 to the consolidated financial statements, the accompanying consolidated statements of operations, comprehensive income, changes in equity, and cash flows of Ninetowns Internet Technology Group Company Limited, its subsidiaries and variable interest entities (collectively, the Company ) for the year ended December 31, 2007 (the 2007 consolidated financial statements before the effects of the retrospective adjustments discussed in Note 3 to the consolidated financial statements are not presented herein), 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 audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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 audit provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements, before the effects of the retrospective adjustments for the discontinued operations discussed in Note 3 and the retrospective application of the authoritative pronouncement issued by the FASB regarding the noncontrolling interests discussed in Note 2 to the consolidated financial statements, present fairly, in all material respects, the results of the Company s operations and its cash flows for the year 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.

We were not engaged to audit, review, or apply any procedures to the retrospective adjustments for the discontinued operations discussed in Note 3 and the retrospective application of the authoritative pronouncement issued by the FASB regarding the noncontrolling interests discussed in Note 2 to the consolidated financial statements and, accordingly, we do not express an opinion or any other form of assurance about whether such retrospective adjustments are appropriate and have been properly applied. Those retrospective adjustments were audited by other auditors.

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)

|                                                                                                      | 2008           | As of December 31, |                |
|------------------------------------------------------------------------------------------------------|----------------|--------------------|----------------|
|                                                                                                      | RMB            | 2009               | 2009           |
|                                                                                                      |                | RMB                | US\$           |
| <b>ASSETS</b>                                                                                        |                |                    |                |
| <b>Current assets:</b>                                                                               |                |                    |                |
| Cash and cash equivalents                                                                            | 576,642        | 473,448            | 69,361         |
| Restricted cash                                                                                      | 670            | 790                | 116            |
| Short-term investments:                                                                              |                |                    |                |
| Trading securities                                                                                   |                | 917                | 134            |
| Available-for-sale securities                                                                        | 10,024         | 170,309            | 24,950         |
| Term deposits                                                                                        | 28,000         | 25,000             | 3,663          |
| Trade receivables from customers:                                                                    |                |                    |                |
| Billed, less allowance for doubtful accounts of RMB5,028 in 2008 and RMB24,806 in 2009, respectively | 27,166         | 11,944             | 1,750          |
| Unbilled                                                                                             | 772            | 508                | 74             |
| Trade receivables from related parties:                                                              |                |                    |                |
| Billed, less allowance for doubtful accounts RMB265 and RMB6,610 in 2008 and 2009, respectively      | 6,005          | 5,469              | 801            |
| Unbilled                                                                                             |                | 200                | 29             |
| Inventories                                                                                          | 1,367          | 2,403              | 352            |
| Prepaid expenses and other current assets                                                            | 6,987          | 6,046              | 886            |
| Deferred tax assets                                                                                  | 132            | 1,008              | 148            |
| <b>Total current assets</b>                                                                          | <b>657,765</b> | <b>698,042</b>     | <b>102,264</b> |
| Property and equipment, net                                                                          | 213,181        | 204,788            | 30,002         |
| Investments under cost method                                                                        | 40,293         | 40,237             | 5,895          |
| Acquired intangible assets, net                                                                      | 41,269         | 35,709             | 5,231          |
| Other non-current assets                                                                             | 817            | 815                | 119            |
| <b>TOTAL ASSETS</b>                                                                                  | <b>953,325</b> | <b>979,591</b>     | <b>143,511</b> |

(continued)

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

|                                                                                                                                                                                                                         | 2008           | As of December 31, |                |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|--------------------|----------------|
|                                                                                                                                                                                                                         | RMB            | 2009               | 2009           |
|                                                                                                                                                                                                                         |                | RMB                | US\$           |
| <b>LIABILITIES AND EQUITY</b>                                                                                                                                                                                           |                |                    |                |
| Current liabilities:                                                                                                                                                                                                    |                |                    |                |
| Option liabilities                                                                                                                                                                                                      |                | 11,854             | 1,737          |
| Accounts payable and accrued expenses                                                                                                                                                                                   | 13,516         | 11,369             | 1,666          |
| Advance from customers                                                                                                                                                                                                  | 8,310          | 10,476             | 1,534          |
| Deferred revenue                                                                                                                                                                                                        | 21,392         | 10,453             | 1,531          |
| Income taxes payable                                                                                                                                                                                                    | 6,190          | 6,577              | 964            |
| Other taxes payable                                                                                                                                                                                                     | 1,635          | 672                | 98             |
| Unrecognized tax benefits                                                                                                                                                                                               | 295            | 375                | 55             |
| <b>Total current liabilities</b>                                                                                                                                                                                        | <b>51,338</b>  | <b>51,776</b>      | <b>7,585</b>   |
| Non-current liabilities:                                                                                                                                                                                                |                |                    |                |
| Deferred tax liabilities                                                                                                                                                                                                | 1,807          | 713                | 105            |
| Unrecognized tax benefits                                                                                                                                                                                               |                | 4,766              | 698            |
| <b>Total liabilities</b>                                                                                                                                                                                                | <b>53,145</b>  | <b>57,255</b>      | <b>8,388</b>   |
| Equity:                                                                                                                                                                                                                 |                |                    |                |
| Shareholders' equity of the Company                                                                                                                                                                                     |                |                    |                |
| Ordinary shares, par value RMB0.027(HK\$0.025) per share:<br>8,000,000,000 shares authorized; 34,998,020 shares issued and<br>outstanding in 2008 and 35,118,556 shares issued and outstanding in<br>2009, respectively |                |                    |                |
|                                                                                                                                                                                                                         | 926            | 929                | 136            |
| Additional paid-in capital                                                                                                                                                                                              | 880,581        | 885,045            | 129,660        |
| Accumulated deficit                                                                                                                                                                                                     | (25,172)       | (33,163)           | (4,858)        |
| Statutory reserve                                                                                                                                                                                                       | 65,736         | 75,059             | 10,996         |
| Accumulated other comprehensive loss                                                                                                                                                                                    | (21,891)       | (5,445)            | (798)          |
| <b>Total shareholders' equity of the Company</b>                                                                                                                                                                        | <b>900,180</b> | <b>922,425</b>     | <b>135,136</b> |
| <b>Non-controlling interest</b>                                                                                                                                                                                         |                | (89)               | (13)           |
| <b>Total equity</b>                                                                                                                                                                                                     | <b>900,180</b> | <b>922,336</b>     | <b>135,123</b> |
| <b>TOTAL LIABILITIES AND EQUITY</b>                                                                                                                                                                                     | <b>953,325</b> | <b>979,591</b>     | <b>143,511</b> |

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, |                  |                  |                 |
|------------------------------------------------------------------------------------------------------------------------------------|--------------------------|------------------|------------------|-----------------|
|                                                                                                                                    | 2007                     | 2008             | 2009             | 2009            |
|                                                                                                                                    | RMB                      | RMB              | RMB              | US\$            |
| Net revenues:                                                                                                                      |                          |                  |                  |                 |
| Enterprise software and related customer maintenance services:                                                                     |                          |                  |                  |                 |
| external customers                                                                                                                 | 67,822                   | 70,514           | 46,846           | 6,863           |
| related parties (Note 15)                                                                                                          | 9,505                    | 14,451           | 11,541           | 1,691           |
| Software development services:                                                                                                     |                          |                  |                  |                 |
| external customers                                                                                                                 | 25,642                   | 19,458           | 17,013           | 2,493           |
| related parties (Note 15)                                                                                                          |                          |                  | 350              | 51              |
| Food sales and services                                                                                                            |                          | 94               | 18,004           | 2,637           |
| <b>Total net revenues</b>                                                                                                          | <b>102,969</b>           | <b>104,517</b>   | <b>93,754</b>    | <b>13,735</b>   |
| <br>                                                                                                                               |                          |                  |                  |                 |
| Cost of revenues:                                                                                                                  |                          |                  |                  |                 |
| Enterprise software and related customer maintenance services                                                                      |                          |                  |                  |                 |
| Software development services (including share-based compensation expense of RMB126 in 2007, RMB287 in 2008 and RMB51 in 2009)     | (17,748)                 | (12,423)         | (11,552)         | (1,692)         |
| Food sales and services                                                                                                            |                          | (76)             | (17,046)         | (2,498)         |
| <b>Total cost of revenues</b>                                                                                                      | <b>(17,748)</b>          | <b>(12,499)</b>  | <b>(28,598)</b>  | <b>(4,190)</b>  |
| <br>                                                                                                                               |                          |                  |                  |                 |
| <b>Gross profit</b>                                                                                                                | <b>85,221</b>            | <b>92,018</b>    | <b>65,156</b>    | <b>9,545</b>    |
| <br>                                                                                                                               |                          |                  |                  |                 |
| Operating expenses:                                                                                                                |                          |                  |                  |                 |
| Selling and marketing (including share-based compensation expense of RMB628 in 2007, RMB1,633 in 2008 and RMB787 in 2009)          | (32,379)                 | (21,942)         | (17,369)         | (2,546)         |
| General and administrative (including share-based compensation expense of RMB1,145 in 2007, RMB3,789 in 2008 and RMB3,297 in 2009) | (73,636)                 | (75,523)         | (62,877)         | (9,212)         |
| Research and development (including share-based compensation expense of RMB27 in 2007, RMB1,162 in 2008 and RMB332 in 2009)        | (25,026)                 | (18,566)         | (17,373)         | (2,545)         |
| Allowance for doubtful accounts, net                                                                                               | (22,395)                 | (2,881)          | (26,259)         | (3,847)         |
| Impairment of goodwill                                                                                                             | (193,570)                |                  |                  |                 |
| <b>Total operating expenses</b>                                                                                                    | <b>(347,006)</b>         | <b>(118,912)</b> | <b>(123,878)</b> | <b>(18,150)</b> |

(continued)



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

|                                                                           | Years Ended December 31, |             |             |              |
|---------------------------------------------------------------------------|--------------------------|-------------|-------------|--------------|
|                                                                           | 2007<br>RMB              | 2008<br>RMB | 2009<br>RMB | 2009<br>US\$ |
| Government subsidies                                                      | 1,015                    |             |             |              |
| Loss from operations                                                      | (260,770)                | (26,894)    | (58,722)    | (8,605)      |
| Interest income                                                           | 13,885                   | 7,026       | 4,280       | 627          |
| Gain on sales of short-term investments                                   | 43,546                   | 9,866       | 35,474      | 5,196        |
| Change in fair value of marketable options                                |                          |             | 27,684      | 4,056        |
| Gain from disposal of investment under cost method                        |                          | 2,187       |             |              |
| Other income                                                              |                          | 358         | 3,974       | 582          |
| (Loss) income before income tax and non-controlling interests             | (203,339)                | (7,457)     | 12,690      | 1,856        |
| Income tax expense                                                        | (3,130)                  | (836)       | (4,100)     | (601)        |
| (Loss) income from continuing operations before non-controlling interests | (206,469)                | (8,293)     | 8,590       | 1,255        |
| Loss from discontinued operations, net of tax                             | (30,115)                 | (166,802)   | (7,347)     | (1,076)      |
| Net (loss) income                                                         | (236,584)                | (175,095)   | 1,243       | 179          |
| Attributable to non-controlling interest - discontinued operations        | 6,053                    | 5,483       | 89          | 13           |
| Attributable to the Company                                               | (230,531)                | (169,612)   | 1,332       | 192          |
| (Loss) income from continuing operations per share:                       |                          |             |             |              |
| Basic                                                                     | (5.90)                   | (0.24)      | 0.25        | 0.04         |
| Diluted                                                                   | (5.90)                   | (0.24)      | 0.25        | 0.04         |
| Loss from discontinued operations per share:                              |                          |             |             |              |
| Basic                                                                     | (0.69)                   | (4.61)      | (0.21)      | (0.03)       |
| Diluted                                                                   | (0.69)                   | (4.61)      | (0.21)      | (0.03)       |

(Loss) income attributable to the Company per share:

|         |        |        |      |      |
|---------|--------|--------|------|------|
| Basic   | (6.59) | (4.85) | 0.04 | 0.01 |
| Diluted | (6.59) | (4.85) | 0.04 | 0.01 |

Weighted average shares used in computation:

|         |            |            |            |            |
|---------|------------|------------|------------|------------|
| Basic   | 34,966,830 | 34,997,505 | 35,100,194 | 35,100,194 |
| Diluted | 34,966,830 | 34,997,505 | 35,100,194 | 35,100,194 |

See notes to consolidated financial statements.

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

|                                                                       | Years Ended December 31, |             |             | 2009<br>US\$ |
|-----------------------------------------------------------------------|--------------------------|-------------|-------------|--------------|
|                                                                       | 2007<br>RMB              | 2008<br>RMB | 2009<br>RMB |              |
| <b>Net (loss) income</b>                                              | (236,584)                | (175,095)   | 1,243       | 179          |
| Foreign currency translation loss                                     | (6,977)                  | (4,126)     | (5)         | (1)          |
| Unrealized gain (loss) on available-for-sale securities               | 2,874                    | (5,999)     | 16,451      | 2,410        |
| <b>Comprehensive (loss) income</b>                                    | (240,687)                | (185,220)   | 17,689      | 2,588        |
| Less: comprehensive loss attributable to the non-controlling interest | 6,053                    | 5,483       | 89          | 13           |
| <b>Comprehensive (loss) income attributable to the Company</b>        | (234,634)                | (179,737)   | 17,778      | 2,601        |

See notes to consolidated financial statements.

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

SHAREHOLDERS EQUITY OF THE COMPANY

|                                                                     | Ordinary Shares   |            | Additional     | Treasury Shares |                | Retained       | Statutory     | Accumulated     | Non-         | Total            |
|---------------------------------------------------------------------|-------------------|------------|----------------|-----------------|----------------|----------------|---------------|-----------------|--------------|------------------|
|                                                                     | Shares            | Amount     | Paid-in        | Shares          | Amount         | Earnings       | Reserve       | Other           | Controlling  |                  |
|                                                                     |                   | RMB        | Capital        |                 | RMB            | (Accumulated   | RMB           | Comprehensive   | Interest     |                  |
|                                                                     |                   |            | RMB            |                 |                | Deficit)       |               | (Loss)          | RMB          | RMB              |
| <b>Balance as of January 1, 2007</b>                                | <b>34,991,834</b> | <b>926</b> | <b>871,642</b> | <b>(47,862)</b> | <b>(1,268)</b> | <b>394,056</b> | <b>47,287</b> | <b>(7,663)</b>  |              | <b>1,304,980</b> |
| Cumulative effect of unrecognized tax benefit on adoption of ASC740 |                   |            |                |                 |                | (636)          |               |                 |              | (636)            |
| Issuance of ADR shares for the exercises of employee share options  |                   |            |                | 47,862          | 1,268          |                |               |                 |              | 1,268            |
| Provision for statutory reserve                                     |                   |            |                |                 |                | (17,544)       | 17,544        |                 |              |                  |
| Non-controlling interest upon acquisition of VIE                    |                   |            |                |                 |                |                |               |                 | 11,536       | 11,536           |
| Net loss                                                            |                   |            |                |                 |                | (230,531)      |               |                 | (6,053)      | (236,584)        |
| 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            |
| <b>Balance as of December 31, 2007</b>                              | <b>34,991,834</b> | <b>926</b> | <b>873,568</b> |                 |                | <b>145,345</b> | <b>64,831</b> | <b>(11,766)</b> | <b>5,483</b> | <b>1,078,387</b> |
| Issuance of ADR shares for the exercises of employee share          | 6,186             |            | 142            |                 |                |                |               |                 |              | 142              |

|                                                               |                   |             |                |                 |               |                 |             |                |
|---------------------------------------------------------------|-------------------|-------------|----------------|-----------------|---------------|-----------------|-------------|----------------|
| options                                                       |                   |             |                |                 |               |                 |             |                |
| Provision for statutory reserve                               |                   |             |                | (905)           | 905           |                 |             |                |
| Net loss                                                      |                   |             |                | (169,612)       |               |                 | (5,483)     | (175,095)      |
| Foreign currency translation adjustments                      |                   |             |                |                 |               |                 | (4,126)     | (4,126)        |
| Employee share options compensation                           |                   | 6,871       |                |                 |               |                 |             | 6,871          |
| Unrealized loss on available-for-sale securities              |                   |             |                |                 |               |                 | (5,999)     | (5,999)        |
| <b>Balance as of December 31, 2008</b>                        | <b>34,998,020</b> | <b>926</b>  | <b>880,581</b> | <b>(25,172)</b> | <b>65,736</b> | <b>(21,891)</b> |             | <b>900,180</b> |
| Issuance of ADR shares under employee stock compensation      | 120,536           | 3           | (3)            |                 |               |                 |             |                |
| Provision for statutory reserve                               |                   |             |                | (9,323)         | 9,323         |                 |             |                |
| Net income (loss)                                             |                   |             |                | 1,332           |               |                 | (89)        | 1,243          |
| Foreign currency translation adjustments                      |                   |             |                |                 |               |                 | (5)         | (5)            |
| Employee share options compensation                           |                   |             | 4,467          |                 |               |                 |             | 4,467          |
| Unrealized gain on available-for-sale securities (net of tax) |                   |             |                |                 |               |                 | 16,451      | 16,451         |
| <b>Balance as of December 31, 2009</b>                        | <b>35,118,556</b> | <b>929</b>  | <b>885,045</b> | <b>(33,163)</b> | <b>75,059</b> | <b>(5,445)</b>  | <b>(89)</b> | <b>922,336</b> |
|                                                               | US\$136           | US\$129,660 |                | (US\$4,858)     | US\$10,996    | (US\$798)       | (US\$13)    | US\$135,123    |

See notes to consolidated financial statements.

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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, |           |          |         |
|------------------------------------------------------------------------------------------------|--------------------------|-----------|----------|---------|
|                                                                                                | 2007                     | 2008      | 2009     | 2009    |
|                                                                                                | RMB                      | RMB       | RMB      | US\$    |
| Cash flows from operating activities:                                                          |                          |           |          |         |
| Net (loss) income                                                                              | (236,584)                | (175,095) | 1,243    | 179     |
| Adjustments to reconcile (loss) income to net cash provided by (used in) operating activities: |                          |           |          |         |
| Loss on disposal of property and equipment                                                     | 1,544                    | 2,406     | 1,291    | 190     |
| Depreciation of property and equipment                                                         | 9,867                    | 17,922    | 16,916   | 2,479   |
| Amortization of other non-current assets                                                       |                          | 103       | 116      | 18      |
| Amortization of acquired intangible assets                                                     | 14,466                   | 18,991    | 5,560    | 816     |
| Gain from sale of trading securities                                                           | (43,204)                 | (9,866)   | (6,881)  | (1,008) |
| Gain from sale of available-for-sale securities                                                | (342)                    |           | (14,461) | (2,118) |
| Gain from disposal of investment under cost method                                             |                          | (2,187)   |          |         |
| Gain from sales of property                                                                    |                          |           | (633)    | (93)    |
| Allowance for doubtful accounts                                                                | 22,395                   | 2,881     | 27,020   | 3,958   |
| Goodwill impairment                                                                            | 193,570                  | 78,081    |          |         |
| Property and equipment impairment                                                              |                          | 4,339     |          |         |
| Intangible assets impairment                                                                   |                          | 43,747    |          |         |
| Proceeds from sales of trading securities                                                      | 94,834                   |           |          |         |
| Purchase of trading securities                                                                 | (51,630)                 |           |          |         |
| Employee share-based compensation                                                              | 1,926                    | 6,871     | 4,467    | 654     |
| Gain from short sale of stock options                                                          |                          |           | (41,810) | (6,125) |
| Changes in operating assets and liabilities:                                                   |                          |           |          |         |
| Trade receivables from customers                                                               | (15,312)                 | 277       | (10,973) | (1,608) |
| Trade receivables from related parties                                                         | 2,577                    | 346       | 535      | 78      |
| Inventories                                                                                    | (191)                    | 5,644     | (1,036)  | (152)   |
| Prepaid expenses and other current assets                                                      | 11,986                   | 9,739     | 821      | 120     |
| Accounts payable and accrued expenses                                                          | (17,518)                 | (6,794)   | (2,180)  | (319)   |
| Advance from customers                                                                         | 4,140                    | (6,150)   | 2,166    | 318     |
| Deferred revenue                                                                               | 6,089                    | (11,080)  | (10,939) | (1,603) |
| Income taxes payable                                                                           | 315                      | (868)     | 5,232    | 766     |
| Other taxes payable                                                                            | (744)                    | 47        | (963)    | (141)   |
| Deferred taxes, net                                                                            | (1,125)                  | (13,235)  | (1,969)  | (288)   |
| Net cash used in operating activities                                                          | (2,941)                  | (33,881)  | (26,478) | (3,879) |
| Cash flows from investing activities:                                                          |                          |           |          |         |
| (Increase) decrease in restricted cash                                                         | (853)                    | 183       | (120)    | (18)    |
| Decrease (increase) of term deposits                                                           | 281,209                  | (2,000)   | 3,000    | 439     |
| Cash paid for investments under cost method                                                    | (4,500)                  | (7,085)   |          |         |
| Cash paid for establishment of an affiliate                                                    | (2,450)                  |           |          |         |
| Proceeds from sales of trading securities                                                      |                          | 27,516    | 20,126   | 2,949   |

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|                                                              |           |          |           |          |
|--------------------------------------------------------------|-----------|----------|-----------|----------|
| Purchase of trading securities                               |           | (17,650) | (14,162)  | (2,075)  |
| Purchases of available-for-sale securities                   | (10,076)  | (5,061)  | (306,648) | (44,924) |
| Proceeds from sale of available-for-sale securities          | 2,330     |          | 177,179   | 25,957   |
| Proceeds from short sale of options                          |           |          | 73,508    | 10,769   |
| Cover short or assignment of option liabilities              |           |          | (19,835)  | (2,907)  |
| Purchase of property and equipment                           | (71,782)  | (13,397) | (5,976)   | (875)    |
| Proceeds from sale of property                               |           |          | 872       | 128      |
| Purchase of intangible assets                                |           | (30,156) |           |          |
| Deposits paid for acquisition of property and equipment      | (34,804)  |          | (4,802)   | (703)    |
| Acquisition of a business, net of cash acquired of RMB 3,119 | (101,881) |          |           |          |
| Proceeds from disposal of investments under cost method      |           | 7,714    |           |          |
| Proceeds from liquidation of an affiliate                    |           | 2,450    |           |          |
| Return of deposit for acquisition of property and equipment  |           | 120      |           |          |
| Net cash provided by (used in) investing activities          | 57,193    | (37,366) | (76,858)  | (11,260) |

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

|                                                           | Years Ended December 31, |          |           |          |
|-----------------------------------------------------------|--------------------------|----------|-----------|----------|
|                                                           | 2007                     | 2008     | 2009      | 2009     |
|                                                           | RMB                      | RMB      | RMB       | US\$     |
| Cash flows from financing activities:                     |                          |          |           |          |
| Exercise of share options                                 | 1,268                    |          |           |          |
| Net cash provided by financing activities                 | 1,268                    |          |           |          |
| Effect of exchange rate changes on cash                   | (4,305)                  | (1,974)  | 142       | 21       |
| Net increase (decrease) in cash and cash equivalents      | 51,215                   | (73,221) | (103,194) | (15,118) |
| Cash and cash equivalents at the beginning of the year    | 598,648                  | 649,863  | 576,642   | 84,479   |
| Cash and cash equivalents at the end of the year          | 649,863                  | 576,642  | 473,448   | 69,361   |
| Supplemental disclosure of non-cash investing activities: |                          |          |           |          |
| Account payable for purchase of property and equipment    | 3,258                    |          |           |          |
| Other receivable for sale of property and equipment       |                          |          | 642       | 94       |
| Supplemental cash flow information:                       |                          |          |           |          |
| Cash paid during the year for income taxes                | 909                      | 780      | 881       | 129      |

See notes to consolidated financial statements.

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NINETOWNS INTERNET TECHNOLOGY GROUP COMPANY LIMITED  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 FOR THE YEARS ENDED DECEMBER 31, 2007, 2008 AND 2009

(In thousands, except share and per share data)

**1. ORGANIZATION AND PRINCIPAL ACTIVITIES**

Ninetowns Internet Technology Group Company Limited ( Ninetowns ) was incorporated in the Cayman Islands as an exempted limited liability company on February 8, 2002 under the Companies Law of the Cayman Islands. At the time of its incorporation, all of the outstanding ordinary shares of Ninetowns were held by Jitter Bug Holdings Limited ( Jitter Bug ). Substantially all of Ninetowns' business is conducted in the People's Republic of China (the PRC ) through its subsidiaries and variable interest entities ( VIEs ). Ninetowns, its subsidiaries, and its VIEs (collectively, the Company ) are principally engaged in (i) the sale of enterprise software and provision of the related after-sales maintenance services, (ii) software development services, (iii) from April 2007 to March 2009, Business to Business ( B2B ) search engine operations and the provision of B2B search services, and (iv) beginning in the first half of 2009, the provision of food sales and services targeting Chinese consumers.

As of December 31, 2009, a summary of the subsidiaries and VIEs of Ninetowns was as follows:

| Name of entity                                                                                   | Place of<br>incorporation/<br>establishment | Effective<br>ownership<br>interest | Principal activities |
|--------------------------------------------------------------------------------------------------|---------------------------------------------|------------------------------------|----------------------|
| Subsidiaries:                                                                                    |                                             |                                    |                      |
| Ixworth Enterprises Limited ( Ixworth )                                                          | British Virgin<br>Islands ( BVI )           | 100%                               | Investment holding   |
| Asia Pacific Logistics Limited ( Asia<br>Pacific )                                               | BVI                                         | 100%                               | Investment holding   |
| Better Chance International Limited<br>( Better Chance )                                         | BVI                                         | 100%                               | Investment holding   |
| Beprecise Investments Limited<br>( Beprecise )                                                   | BVI                                         | 100%                               | Investment holding   |
| Ample Spring Holdings Limited<br>( Ample Spring )                                                | BVI                                         | 70%                                | Inactive             |
| New Take Limited                                                                                 | Hong Kong                                   | 100%                               | Investment holding   |
| Shielder Limited                                                                                 | Hong Kong                                   | 100%                               | Investment holding   |
| Nine Masters (China) E-Catering<br>Services Holdings Company Limited<br>( Nine Masters E-C ) (i) | BVI                                         | 100%                               | Inactive             |
|                                                                                                  | BVI                                         | 100%                               | Inactive             |

Ninetowns Organic Agricultural Holdings Limited ( OFD Holding ) (ii)

|                                                                                       |     |      |                                                                                                                               |
|---------------------------------------------------------------------------------------|-----|------|-------------------------------------------------------------------------------------------------------------------------------|
| Beijing New Take Electronic Commerce Limited ( Beijing New Take )                     | PRC | 100% | Inactive                                                                                                                      |
| Beijing Ninetowns Times Electronic Commerce Limited ( Beijing Ninetowns Times )       | PRC | 100% | Inactive                                                                                                                      |
| Beijing Ninetowns Digital Technology Limited ( Beijing Ninetowns Digital Technology ) | PRC | 100% | Inactive                                                                                                                      |
| Beijing Ninetowns Ports Software and Technology Co., Ltd ( Beijing Ninetowns Ports )  | PRC | 100% | Sale of enterprise software and provision of the related after-sales services, and provision of software development services |

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NINETOWNS INTERNET TECHNOLOGY GROUP COMPANY LIMITED  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 FOR THE YEARS ENDED DECEMBER 31, 2007, 2008 AND 2009 (continued)

(In thousands, except share and per share data)

## 1. ORGANIZATION AND PRINCIPAL ACTIVITIES-continued

| Name of entity                                                                              | Place of<br>Incorporation/<br>Establishment | Effective<br>ownership<br>interest | Principal activities                                                                                                          |
|---------------------------------------------------------------------------------------------|---------------------------------------------|------------------------------------|-------------------------------------------------------------------------------------------------------------------------------|
| 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, and provision of software development services |
| Beijing Ninetowns Software Co., Ltd. ( Beijing Software )                                   | PRC                                         | 100%                               | Inactive                                                                                                                      |
| Dongguan Ninetowns Software Co., Ltd. ( Dongguan Software )                                 | PRC                                         | 100%                               | Provision of enterprise software services                                                                                     |
| Guangdong Nine Masters E-Catering Management Co., Ltd ( Guangdong Nine Masters ) (iii)      | PRC                                         | 100%                               | Inactive                                                                                                                      |
| Shanghai Nine Masters Meihuilong Catering Management Co., Ltd. ( Shanghai Meihuilong ) (iv) | PRC                                         | 100%                               | Provision of e-catering services                                                                                              |
| Variable interest entities:                                                                 |                                             |                                    |                                                                                                                               |
| Beijing Ronghe Tongshang Network Technology Limited ( Ronghe Tongshang )                    | PRC                                         | 100%                               | Inactive                                                                                                                      |
| Beijing Ninetowns Sky Eco-agriculture Co., Ltd. ( Beijing Sky ) (v)                         | PRC                                         | 100%                               | Sale of dietary products, daily necessities, home appliances and crop cultivation.                                            |
| Shanghai Tootoo Eco-agriculture Co., Ltd.                                                   | PRC                                         | 100%                               | Cultivation and sales of crops and technical consultation and services                                                        |

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |            |            |                                                      |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|------------|------------------------------------------------------|
| <p>( Shanghai Tootoo ) (vi)</p> <p>Beijing Baichuan Tongda<br/>Science and Technology<br/>Development Co., Ltd.<br/>( Baichuan Tongda )</p> <p>(i) Nine Masters<br/>E-C, a<br/>wholly-owned<br/>subsidiary of the<br/>Company, was<br/>incorporated on<br/>January 12,<br/>2009.</p> <p>(ii) OFD Holding, a<br/>wholly-owned<br/>subsidiary of the<br/>Company, was<br/>incorporated on<br/>February 6,<br/>2009.</p> <p>(iii) Guangdong<br/>Nine Masters, a<br/>wholly-owned<br/>subsidiary of the<br/>Company, was<br/>incorporated on<br/>May 5, 2009.</p> <p>(iv) In 2009, we<br/>acquired a<br/>100% equity<br/>interest in<br/>Shanghai<br/>Meihuilong for<br/>a consideration<br/>of RMB 100.<br/>The business<br/>acquisition was<br/>insignificant for<br/>financial<br/>reporting<br/>purposes.</p> <p>(v) Beijing Sky, a<br/>wholly-owned<br/>subsidiary of<br/>Ronghe</p> | <p>PRC</p> | <p>70%</p> | <p>related to agricultural sales</p> <p>Inactive</p> |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|------------|------------------------------------------------------|

Tongshang, was  
incorporated on  
February 26,  
2009.

- (vi) Shanghai  
Tootoo, a  
wholly-owned  
subsidiary of  
Beijing Sky ,  
was  
incorporated on  
June 9, 2009.



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(In thousands, except share and per share data)

1. ORGANIZATION AND PRINCIPAL ACTIVITIES-continued

PRC regulations prohibit direct foreign ownership of business entities that provide internet content, or ICP, services in the PRC, such as the business of providing online solutions for international trade. In December 2006, Ronghe Tongshang was established in the PRC by three designated equity owners who are PRC citizens and legally own Ronghe Tongshang. Pursuant to a series of contractual arrangements with Ronghe Tongshang, the Company provides exclusive technical consulting and management services to Ronghe Tongshang. A summary of the major terms of the agreements are as follows:

The Company has the sole discretion to determine the amount of the fees it will receive and it intends to transfer substantially all of the economic benefits of Ronghe Tongshang to the Company;

The Company provides guarantees on the execution of all business contracts entered by Ronghe Tongshang in its business operation. Ronghe Tongshang pledges its assets to the Company as collateral for such guarantees. Through December 31, 2009, Ronghe Tongshang has not yet entered into any business contracts that would require guarantees from the Company;

The Company may dispose of the collateralized registered capital at its sole discretion without limitation or restriction. The Company has the right and sole discretion to purchase all or part of the registered capital from equity owners when such purchase becomes legally allowable;

The equity owners may not dispose of or enter into any other agreements involving the common shares without prior agreement by the Company.

In 2008, the Company entered into a series of agreements with Beijing Guochuangwanwei Information Technology Limited Company ( Guochuang ), under which the Company, through Guochuang, increased the registered capital of Ronghe Tongshang through an entrusted loan of RMB60,000 to Guochuang. The three original shareholders of Ronghe Tongshang, also entered into agreements with Guochuang whereby Guochuang became the sole shareholder of Ronghe Tongshang. Guochuang s interest in Ronghe Tongshang has been pledged to the Company as collateral for the entrusted loan.

In 2009, Guochuang entered into a series of agreements with two designated PRC citizens, by which the entrusted loan of RMB60,000 was transferred from Guochuang to these two owners ( New Owners ). The New Owners became the shareholders of Ronghe Tongshang and their interests in Ronghe Tongshang have been pledged to the Company as collateral for the entrusted loan. The New Owners act as the nominee shareholders and have contractually agreed not to make any decision regarding Ronghe Tongshang s operations and business without the Company s consent. In addition, the Company is obliged to absorb the expected losses and is entitled to receive the expected residual returns of Ronghe Tongshang.

The above arrangements assigned all of the equity owners rights and obligations to the Company, resulting in (i) the equity owners lacking the ability to make decisions that have a significant effect on Ronghe Tongshang s operations, and (ii) the Company s ability to extract the profits from the operations of Ronghe Tongshang, and to assume Ronghe Tongshang s residual benefits. Because the Company is the sole variable interest holder of Ronghe Tongshang, it is the primary beneficiary of Ronghe Tongshang. Accordingly, the Company has consolidated the results of Ronghe Tongshang

since its inception.

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1. ORGANIZATION AND PRINCIPAL ACTIVITIES-continued

Baichuan Tongda is a PRC company that was established on February 24, 2004 for providing internet content services in the areas of B2B services. The founders of Baichuan Tongda were two PRC citizens ( original shareholders ). In April 2007, as a part of the acquisition transaction of Ample Spring and Baichuan Tongda, two designated PRC citizens ( 70% registered shareholders ) acquired 70% of the registered capital from the original shareholders. Pursuant to a series of contractual arrangements with Baichuan Tongda and the 70% registered shareholders, the Company bears the risk of, and enjoys the rewards from the ownership of Baichuan Tongda. A summary of the major terms of the arrangements is as follows:

The 70% registered shareholders irrevocably granted the Company the right to make all operating and business decisions for Baichuan Tongda on behalf of the 70% registered shareholders;

All registered capital owned by the 70% registered shareholders is pledged to the Company as collateral against service fees payable to the Company;

The Company may dispose of the collateralized registered capital at its sole discretion without limitation or restriction. The Company has the right and sole discretion to purchase all or part of the registered capital from the 70% registered shareholders when such purchase becomes legally permitted;

The 70% registered shareholders may not dispose of or enter into any other agreement involving the shares owned by them without prior agreement by the Company;

The Company is engaged by Baichuan Tongda as the exclusive service provider for business and technical support services and is entitled to receive a fee for the services provided;

The Company has made an entrusted loan to Baichuan Tongda in the amount of RMB40,000 to finance the operations of Baichuan Tongda.

Through the above arrangements, the Company is the primary beneficiary of Baichuan Tongda. Accordingly, Baichuan Tongda is a variable interest entity of the Company and the financial statements of Baichuan Tongda have been consolidated by the Company since the designated 70% registered shareholders acquired the 70% equity interests from the original shareholders.

In March, 2009, the Company discontinued its B2B business conducted through its VIEs (Note 3). Financial positions and operating results for VIEs are summarized below:

|                                                                       | As of December 31, |         |
|-----------------------------------------------------------------------|--------------------|---------|
|                                                                       | 2008               | 2009    |
|                                                                       | RMB                | RMB     |
| Total assets                                                          | 70,061             | 57,202  |
| Total liabilities (consisting primarily of other current liabilities) | (1,407)            | (2,776) |

  

|                    | Years Ended December 31, |       |       |
|--------------------|--------------------------|-------|-------|
|                    | 2007                     | 2008  | 2009  |
|                    | RMB                      | RMB   | RMB   |
| Total net revenues | 274                      | 1,100 | 4,136 |

|                |          |          |         |
|----------------|----------|----------|---------|
| Total net loss | (14,315) | (16,803) | (9,038) |
|----------------|----------|----------|---------|

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

***Basis of presentation*** - The consolidated financial statements of the Company have been prepared in accordance with the accounting principles generally accepted in the United States of America ( US GAAP ). All amounts in the accompanying consolidated financial statements and the related notes are expressed in Renminbi ( RMB ). The amounts expressed in United States dollars ( US\$ ) are presented solely for the convenience of the readers and are translated at a rate of RMB6.8259 to US\$1, the approximate rate of exchange at December 31, 2009. Such translations should not be construed to be the amounts that would have been reported under US GAAP.

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2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES-continued

Certain amounts in the 2007 and 2008 financial statements and the related notes have been retrospectively adjusted to reflect the effect of discontinued operations as described in Note 3.

***Basis of consolidation*** - The consolidated financial statements include the financial statements of Ninetowns and its subsidiaries and VIEs. All significant intercompany transactions and balances are eliminated on consolidation.

***Use of estimates*** - The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates. The Company bases its estimates on historical experience and various other factors believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Significant accounting estimates reflected in the Company's consolidated financial statements include the allowance for doubtful accounts, estimated costs to complete in a percentage of completion arrangement, estimated useful lives and impairment of acquired intangible assets and goodwill, valuation allowance for deferred tax assets, fair values of derivatives and purchase price allocations relating to businesses acquired.

***Cash and cash equivalents*** - Cash and cash equivalents consist of cash on hand, demand deposits and highly liquid investments, which are unrestricted as to withdrawal and use, and have remaining maturities of three months or less when purchased.

***Restricted cash*** - The Company's restricted cash is related to deposits required by certain customers for the software development services provided by the Company.

***Term deposits*** - Term deposits consist of deposits placed with financial institutions with remaining maturities of greater than three months but less than one year.

***Short-term investments*** - To enable the Company to better manage its assets for long-term growth, the Company periodically invests its excess cash in highly liquid equity securities. In addition, from time to time the Company may write call and put options through listed exchange as part of its investment strategy. The Company's investment committee approves the investment policy covering the investment parameters to be followed with the primary goals being the safety of principal and maintaining the liquidity of funds. 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. Short-term investments classified as available for sale are stated at fair values. Unrealized gains or losses on available-for-sale securities from the changes in fair value are recorded in equity as other comprehensive income (loss). Realized gains or losses, based upon the specific identification method, on the disposal of available-for-sale securities are recorded in the consolidated statement of operations.

The Company reviews investments in available-for-sale securities as of each balance sheet date for other-than-temporary declines in fair value. If the Company determines that a decline in fair value is other-than-temporary (OTTI), 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, 2007 and 2008. The Company recorded an OTTI loss of RMB1,683 in 2009.

Derivative financial instruments consisting of written call and put options (option liabilities) are initially recorded at fair value and are re-valued at each reporting date, with changes in fair value included in earnings.

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## 2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES-continued

**Inventories** - Inventories are stated at the lower of cost or market price. Cost is determined by the first in first out method. Provision for diminution in value on inventories is made using the specific identification method. No inventory provisions were made in 2007, 2008 and 2009.

**Trade receivables and allowance for doubtful accounts** - Trade receivables mainly represents amounts earned and collectible from customers. The Company provides an allowance for doubtful accounts based on its aging analysis of trade receivables, customers' credit-worthiness, past collection history, and changes in a customer's payment terms. The Company also provides a specific allowance if there is strong evidence that indicates the trade receivables are uncollectible, and writes off such trade receivables and specific allowance within one year if circumstances are not improved. Trade receivables stated in the consolidated balance sheet are net of such allowance.

Changes in the allowance for doubtful accounts were as follows for the years ended December 31, 2007, 2008 and 2009:

|                                            | 2007<br>RMB | 2008<br>RMB | 2009<br>RMB |
|--------------------------------------------|-------------|-------------|-------------|
| Balance at January 1,                      | 1,088       | 23,299      | 5,293       |
| Provision for allowance for doubtful debts | 25,078      | 3,702       | 26,385      |
| Recovery                                   | (2,683)     | (821)       |             |
| Write offs                                 | (184)       | (20,887)    | (262)       |
| <br>                                       |             |             |             |
| Balance at December 31,                    | 23,299      | 5,293       | 31,416      |

**Property and equipment** - Property and equipment are recorded at cost less accumulated depreciation, amortization and provision for impairment loss. Depreciation and amortization are provided on a straight-line basis over the estimated useful lives of the assets. Estimated useful lives of property and equipment are as follows:

|                                          |                                  |
|------------------------------------------|----------------------------------|
| Buildings                                | 20 years                         |
| 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, purchased software for internal use and land use right, are carried at cost, less accumulated amortization and provision for impairment loss.

Amortization is calculated on a straight-line basis over the expected useful life of the assets of five years, except for the land use right which is amortized over fifty years. Amortization expenses for the years ended December 31, 2007, 2008 and 2009 were RMB14,466, RMB18,991 and RMB5,560 respectively.





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2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES-continued

***Impairment of long-lived assets*** - The Company evaluates its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When these events occur, the Company measures impairment by comparing the carrying amount of the assets to future undiscounted net cash flows expected to result from the use of the assets and their eventual disposition. If the sum of the expected undiscounted cash flow is less than the carrying amount of the assets, the Company would adjust the carrying value of the asset based on the fair value and recognize an impairment loss. Fair value is estimated using expected discounted future cash flows. Impairment losses recognized in the years ended December 31, 2007, 2008 and 2009 were RMB nil, RMB48,086 and RMB nil, respectively. The impairment charge of RMB48,086 in 2008 is related to the Company's now-discontinued B2B services segment.

***Impairment of goodwill*** - Goodwill represents the excess of the purchase price over the fair value of the identifiable assets and liabilities acquired. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired. The Company completes a two-step goodwill impairment test. The first step compares the fair values of each reporting unit to its carrying amount, including goodwill. Fair value is principally estimated using expected discounted future cash flows. If the fair value of each reporting unit exceeds its carrying amount, goodwill is not impaired and the second step will not be required. If the carrying amount of a reporting unit exceeds its fair value, the second step compares the implied fair value of goodwill to the carrying value of a reporting unit's goodwill. The implied fair value of goodwill is determined in a manner similar to accounting for a business combination with the allocation of the assessed fair value determined in the first step to the assets and liabilities of the reporting unit. The excess of the fair value of the reporting unit over the amounts assigned to the assets and liabilities is the implied fair value of goodwill. An impairment loss is recognized for any excess in the carrying value of goodwill over the implied fair value of goodwill.

Management performed the annual goodwill impairment test as of December 31, 2007 and 2008. In 2007 and 2008, based on the impairment assessment performed by management, the Company recorded a goodwill impairment charge of RMB193,570 and RMB78,081, respectively. The impairment charge in 2007 related to the Company's enterprise software and related customer maintenance service, and software development services segments. The Company's financial outlook from maintenance services for the free software offered by the Chinese government was negatively impacted due to several factors. First, the Chinese government's declining promotion of its free software resulted in a corresponding decline in the need for the Company's maintenance services. Additionally, the Company believes there was uncertainty surrounding the Chinese government's future promotional plans for its free software. As a result, the Company decided to revise downward the financial performance projections and assumptions of its enterprise software and related customer maintenance service segment, resulting in a goodwill impairment loss of RMB187,770 for this segment in 2007. For the software development services segment, the Company experienced a slowdown in the demand for such services by the government and therefore also revised downward the financial performance projections and assumptions, resulting in an impairment loss of RMB5,800 for this segment in 2007. The impairment charge of RMB78,081 in 2008 is related to the Company's now-discontinued B2B services segment.

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## 2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES-continued

The changes in the carrying amount of goodwill by reporting unit for the years ended December 31, 2007 and 2008 were as follows:

|                                     | Enterprise software<br>and related<br>customer<br>maintenance<br>services<br>RMB | Software<br>development<br>services<br>RMB | B2B<br>services<br>RMB | Total<br>RMB |
|-------------------------------------|----------------------------------------------------------------------------------|--------------------------------------------|------------------------|--------------|
| Balance as of January 1, 2007       | 187,770                                                                          | 5,800                                      |                        | 193,570      |
| Goodwill acquired during the year   |                                                                                  |                                            | 78,081                 | 78,081       |
| Goodwill impairment during the year | (187,770)                                                                        | (5,800)                                    |                        | (193,570)    |
| Balance as of December 31, 2007     |                                                                                  |                                            | 78,081                 | 78,081       |
| Goodwill impairment during the year |                                                                                  |                                            | (78,081)               | (78,081)     |

Balance as of December 31, 2008

**Investments under cost method** - For investment in an investee over which the Company does not have significant influence, the Company carries the investment at cost adjusted for other-than-temporary declines in fair value, and recognizes income when receiving dividends from distributions of the investee's earnings. The Company reviews its investments under cost method for impairment whenever events or changes in circumstances indicate that the carrying value may no longer be recoverable. An impairment loss is recognized in earnings equal to the difference between the investment cost and its fair value at the balance sheet date of the reporting period for which the assessment is made. No impairment charge was recorded for the years ended December 31, 2007, 2008 and 2009.

**Income taxes** - Deferred income taxes are provided using the asset and liability method. Under this method, deferred income taxes are recognized for tax credits and net operating losses available for carry-forward and significant temporary differences. Deferred tax assets and liabilities are classified as current or non-current based upon the classification of the related asset or liability in the financial statements or the expected timing of their reversal if they do not relate to a specific asset or liability. A valuation allowance is provided to reduce the amount of deferred tax assets if it is considered more likely than not that some portion of, or all of the deferred tax assets will not be realized. Current income taxes are provided for in accordance with the laws and regulations applicable to the Company as enacted by the relevant tax authorities.

On January 1, 2007, the Company adopted new accounting guidance related to uncertainty in income taxes. 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, new guidance was provided on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company recognizes interest and penalties related to uncertain tax benefits as a component of income tax expense. The Company's tax years from 2003 to 2009 are subject to examination by the tax

authorities.

**Revenue recognition** - The Company's revenue is derived from three primary sources: (i) sale of enterprise software and related customer maintenance services; (ii) software development services; (iii) food sales and catering 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 no more than 12 months.

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2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES-continued

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

Revenues from software development services requiring significant production, modification, or customization of the software are recognized over the installation and customization period based on the percentage of completion method, which 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.

Revenues from food sales are generally recognized upon delivery and revenues from catering services are generally recognized when the catering services are provided.

With the exception of rebates of value added tax on sales of software and related maintenance services ( VAT rebate ) received from the Chinese tax authorities as part of the PRC government's policy of encouraging software development in the PRC, the Company reports revenue net of business tax. The VAT rebate was RMB4,347, RMB2,910 and RMB853 during 2007, 2008 and 2009, respectively. Pursuant to certain PRC rules relating to value-added tax, Beijing Ninetowns Times, Beijing Ninetowns Digital Technology, Beijing Ninetowns Ports and Beijing Ninetowns Network are entitled to a rebate of value-added tax paid, at a rate of 14% of the sales value for self-developed software products, excluding revenues from maintenance services and upgrade rights that are sold separately.

**Cost of revenue** - Cost of revenue includes procurement costs for products sold, and direct costs associated with the delivery of software development and maintenance services, and food related products and services, including salaries, employee benefits and overhead costs associated with employees providing the related services.

**Research and development costs** - Research and development expenses include payroll, employee benefits and other costs associated with product development. Technological feasibility for the Company's software products is reached shortly before the products are released for production. Cost incurred after technological feasibility has historically been immaterial. Accordingly, the Company expenses all research and development costs when incurred.

**Advertising costs** - Advertising costs are expensed in the period incurred. The Company incurred advertising costs totaling RMB6,277, RMB8,298 and RMB1,580 during the years ended December 31, 2007, 2008 and 2009, respectively.

**Government subsidies** - Government subsidies represent amounts granted by local governments to reward companies that have made contributions in the development of the electronic and software industries as well as

companies that contribute significantly to local taxes. The Company reports government subsidies when it becomes due and receivable and the Company does not believe that it has any obligation to repay the amounts received.

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2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES-continued

**Foreign currency translation** - The functional currency of the Company's subsidiaries and VIEs established in the PRC is RMB. The functional currency of Ninetowns and its subsidiaries established in countries other than the PRC is the US dollar. Transactions denominated in other currencies are recorded in the applicable functional currencies at the rates of exchange prevailing when the transactions occur. Monetary assets and liabilities denominated in other currencies are translated into the applicable functional currencies at rates of exchange in effect at the balance sheet dates. Non-monetary assets and liabilities are remeasured into the applicable functional currencies at historical exchange rates. Exchange gains and losses are recorded in the consolidated statements of operations.

The Company has chosen RMB as its reporting currency. Assets and liabilities are translated at the exchange rates at the balance sheet date, equity accounts are translated at historical exchange rates and revenues, expenses, gains and losses are translated using the average rate for the year. Translation adjustments are reported as cumulative translation adjustments and are shown as a separate component of other comprehensive income/loss in the statement of shareholders' equity.

**Comprehensive income** - Comprehensive income includes net income/loss, foreign currency translation adjustments and unrealized gain or loss on investments in available-for-sale securities.

**Foreign currency risk** - RMB is not a freely convertible currency. The State Administration for Foreign Exchange, under the authority of the People's Bank of China, controls the conversion of the RMB into foreign currencies. The value of the RMB is subject to changes in PRC government policies and to international economic and political developments affecting supply and demand in the China Foreign Exchange Trading System market. RMB balances in cash and cash equivalents and term deposits of the Company included RMB494,615 at December 31, 2008 and RMB356,977 at December 31, 2009.

**Equity price risk** -The Company is exposed to equity price risk as a result of its investments in equity securities and written options. Equity price risk results from changes in the level or volatility of equity prices, which affect the value of equity securities, or instruments that derive their value from such securities. The Company attempts to mitigate its exposure to such risks by not limiting its investment to any one security or index.

**Concentration of credit risk** - Financial instruments that potentially expose the Company to significant concentrations of credit risk consist primarily of cash and cash equivalents, short-term investments, trade receivables, and term deposits. The Company places its cash and cash equivalents with financial institutions with high-credit ratings and quality. Short-term investments are traded through highly rated equity security brokers. The Company conducts credit evaluations of customers and generally does not require collateral or other security from its customers. The Company establishes an allowance for doubtful accounts primarily based upon the age of the receivables and factors surrounding the credit risk of specific customers.

**Fair value measurement** - Effective January 1, 2008 and 2009, the Company adopted new accounting guidance related to fair value measurements for its financial and nonfinancial assets and liabilities. The guidance adopted on January 1, 2009, did not have a significant impact on the Company. Short-term investments and option liabilities are stated at fair value. The carrying value of all other financial instruments approximates their fair value due to the short-term nature of these instruments.

The guidance defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. It also establishes a fair value hierarchy which prioritizes the inputs to valuation techniques used to measure fair value into three broad levels.

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2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES-continued

*Level 1 Inputs*

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

*Level 2 Inputs*

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

*Level 3 Inputs*

Level 3 inputs are unobservable inputs that shall be used to measure fair value to the extent that observable inputs are not available for the asset or liability.

***Share-based compensation*** - The Company recognizes compensation cost on a straight-line basis over the requisite service period, which is generally the vesting period, and measures the cost of employee services received in exchange for stock based compensation at the grant date fair value of the awards.

***Net income/loss per share*** - Basic net income/loss per share is computed by dividing net income/loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year. Diluted net income/loss per ordinary share reflects the potential dilution that could occur if securities or other contracts to issue ordinary shares were exercised into ordinary shares. Ordinary share equivalents are excluded from the computation of the diluted net income/loss per share in periods when their effect would be anti-dilutive.

***Recently issued accounting pronouncements*** - In June 2009, the Financial Accounting Standards Board ( FASB ) issued revised guidance on the accounting for transfers of financial assets. The revised guidance requires more information about transfers of financial assets, including securitization transactions, and where entities have continuing exposure to the risks related to the transferred financial assets. It eliminates the concept of a qualifying special-purpose entity, changes the requirements for derecognizing financial assets, and requires additional disclosures. This guidance will be effective for the Company on January 1, 2010 and is not expected to have any impact on the Company's consolidated financial statements.

In June 2009, the FASB issued revised guidance on the consolidation of VIEs. The revised guidance requires an analysis to determine whether a variable interest gives the entity a controlling financial interest in a variable interest entity. Additionally, the revised guidance requires an ongoing reassessment and eliminates the quantitative approach previously required for determining whether an entity is the primary beneficiary. This guidance will be effective for the Company on January 1, 2010 and is not expected to have a material impact on the Company's consolidated financial statements.



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2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES-continued

In October 2009, the FASB issued new guidance on revenue recognition for arrangements with multiple deliverables and certain revenue arrangements that include software elements. By providing another alternative for determining the selling price of deliverables, the guidance for arrangements with multiple deliverables will allow companies to allocate arrangement consideration in multiple deliverable arrangements in a manner that better reflects the transaction's economics and will often result in earlier revenue recognition. The new guidance modifies the fair value requirements of previous guidance by allowing best estimate of selling price in addition to vendor-specific objective evidence (VSOE) and other vendor objective evidence (VOE, now referred to as TPE standing for third-party evidence) for determining the selling price of a deliverable. A vendor is now required to use its best estimate of the selling price when VSOE or TPE of the selling price cannot be determined. In addition, the residual method of allocating arrangement consideration is no longer permitted under the new guidance. The new guidance for certain revenue arrangements that include software elements removes non-software components of tangible products and certain software components of tangible products from the scope of existing software revenue guidance, resulting in the recognition of revenue similar to that for other tangible products. The new guidance is effective for fiscal years beginning on or after June 15, 2010. However, companies may be able to adopt as early as interim periods ended September 30, 2009. The guidance may be applied either prospectively from the beginning of the fiscal year for new or materially modified arrangements or retrospectively. The Company has not early adopted the new guidance and is currently evaluating the impact on its consolidated financial statements of adopting this guidance.

In December 2009, the FASB issued revised guidance on Consolidations—Improvements to Financial Reporting by Enterprises Involved with VIEs which is effective for the Company on November 15, 2009. The amendments in this guidance replace the quantitative-based risks and rewards calculation for determining which reporting entity, if any, has a controlling financial interest in a variable interest entity, with an approach focused on identifying which reporting entity has the power to direct the activities of a variable interest entity, that most significantly impact the entity's economic performance and has (1) the obligation to absorb losses of the entity or (2) the right to receive benefits from the entity. An approach that is expected to be primarily qualitative will be more effective for identifying which reporting entity has a controlling financial interest in a variable interest entity. The amendments in this guidance also require additional disclosures about a reporting entity's involvement in variable interest entities, which will enhance the information provided to users of financial statements. The Company believes there will be no material impact on its consolidated financial statements upon adoption of this standard.

In December 2007, the FASB issued new accounting guidance that defines collaborative arrangements and establishes reporting requirements for transactions between participants in a collaborative arrangement and between participants in the arrangement and third parties. It also establishes the appropriate income statement presentation and classification for joint operating activities and payments between participants, as well as the sufficiency of the disclosures related to those arrangements. This new accounting guidance was effective for the Company on January 1, 2009, and its adoption did not have a significant impact on its consolidated financial statements.

In June 2009, the Financial Accounting Standards Board (FASB) approved its Accounting Standards Codification or Codification as the single source of authoritative United States accounting and reporting standards applicable for all nongovernmental entities, with the exception of the SEC and its staff. The Codification, which changes the

referencing of financial standards, is effective for interim or annual financial periods ending after September 15, 2009. Therefore, beginning in the third quarter of fiscal year 2009, all references made to US GAAP use the new Codification numbering system prescribed by the FASB. As the Codification did change and alter existing US GAAP, it did not have any impact on the Company's consolidated financial statements.

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2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES-continued

Effective January 1, 2009, the Company adopted an authoritative pronouncement issued by the FASB regarding non-controlling interests in consolidated financial statements. The pronouncement improves the relevance, comparability, and transparency of financial information provided to investors by requiring all entities to report non-controlling interests in subsidiaries in the same way as required in the consolidated financial statements. Moreover, the pronouncement eliminates the diversity that currently exists in accounting for transactions between an entity and non-controlling interests by requiring they be treated as equity transaction. The pronouncement requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the non-controlling interest. Furthermore, disclosure of the amounts of consolidated net income attributable to the parent and to the non-controlling interest is required on the face of the financial statements. The pronouncement is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is prohibited. The adoption of the pronouncement required retroactive application of the presentation and disclosure requirements of the standard to all periods presented. The adoption did not impact the consolidated financial statements presented herein, except for the presentation and disclosure requirements affecting all periods presented including:

- (a) the non-controlling interest has been reclassified to equity,
- (b) consolidated net income or loss has been adjusted to include the net income or loss attributable to the non-controlling interest,
- (c) consolidated comprehensive income or loss has been adjusted to include the comprehensive income or loss attributable to the non-controlling interest and
- (d) for each reporting period the Company must present a reconciliation at the beginning and end of the period of the carrying amount of total equity and equity attributable to the Company and the non-controlling interest.

Accordingly, after adoption, non-controlling interests (approximately negative RMB89 and RMB nil at December 31, 2009 and December 31, 2008, respectively) are classified as equity, a change from its previous classification between liabilities and stockholders' equity. Losses attributable to non-controlling interest (approximately RMB89, RMB5,483 and RMB6,053 for 2009, 2008 and 2007, respectively) are included in net income (loss), although such losses continue to be deducted to measure earnings (loss) per share.

3. DISCONTINUED OPERATIONS

On March 20, 2009, the Company announced that it has undertaken a thorough review of its overall B2B strategy for international trade and decided to discontinue its tootoo.com business. This decision was made in light of the major changes in the global economic environment. Tootoo.com was originally developed as a B2B search and service provider for suppliers and buyers engaged in international trade.

As a result of this decision, the Company recognized a one-time non-cash impairment charge of approximately RMB115 million against its long-lived assets and goodwill in 2008.

Summarized operating results from discontinued operations included in the Company's consolidated statements of operations were as follows:

|                                                               | Years ended December 31, |             |             |
|---------------------------------------------------------------|--------------------------|-------------|-------------|
|                                                               | 2007<br>RMB              | 2008<br>RMB | 2009<br>RMB |
| Net revenues                                                  | 489                      | 2,496       | 880         |
| Loss before income taxes                                      | (33,002)                 | (181,020)   | (7,347)     |
| Income tax benefit                                            | 2,887                    | 14,218      |             |
| Loss from discontinued operations, net of tax                 | (30,115)                 | (166,802)   | (7,347)     |
| Non-controlling interest in discontinued operations           | 6,053                    | 5,483       | 89          |
| Loss from discontinued operations attributable to the Company | (24,062)                 | (161,319)   | (7,258)     |
| Loss per share from discontinued operations -basic            | (0.69)                   | (4.61)      | (0.21)      |
| Loss per share from discontinued operations -diluted          | (0.69)                   | (4.61)      | (0.21)      |

#### 4. SHORT-TERM INVESTMENTS

Short-term investments include trading securities and available-for-sale securities. Trading securities consist of investments in marketable equity securities with the intention of selling them in the short term. Available-for-sale securities consist principally of equity securities and balanced funds without a contractual expiration date issued by major financial institutions.

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## 4. SHORT-TERM INVESTMENTS-continued

The following table provides additional information concerning the Company's trading securities and available-for-sale securities:

Trading securities:

|                    | December 31, 2008 (RMB) |                      |                       |            | December 31, 2009 (RMB) |                      |                       |            |
|--------------------|-------------------------|----------------------|-----------------------|------------|-------------------------|----------------------|-----------------------|------------|
|                    | Cost                    | Gross realized gains | Gross realized losses | Fair value | Cost                    | Gross realized gains | Gross realized losses | Fair value |
| Trading securities |                         |                      |                       |            | 917                     |                      |                       | 917        |
| Total              |                         |                      |                       |            | 917                     |                      |                       | 917        |

Available-for-sale securities:

|                               | December 31, 2008 (RMB) |                        |                         |            | December 31, 2009 (RMB) |                        |                         |                                 |            |
|-------------------------------|-------------------------|------------------------|-------------------------|------------|-------------------------|------------------------|-------------------------|---------------------------------|------------|
|                               | Cost                    | Gross unrealized gains | Gross unrealized losses | Fair value | Cost                    | Gross unrealized gains | Gross unrealized losses | Other-than-temporary impairment | Fair value |
| Available-for-sale securities | 13,149                  |                        | (3,125)                 | 10,024     | 158,674                 | 13,488                 | (170)                   | (1,683)                         | 170,309    |
| Total                         | 13,149                  |                        | (3,125)                 | 10,024     | 158,674                 | 13,488                 | (170)                   | (1,683)                         | 170,309    |

At December 31, 2009, one of the Company's available-for-sale securities had an unrealized loss of approximately RMB1,853. This security relates to a fund that invests in natural gas related projects and represents approximately 4% of total investments. Although the Company had the ability to hold this security (and has the ability to hold all of its available-for-sale securities for a long-term period), the Company sold this security in January 2010 and realized a loss of RMB1,683. Therefore, management determined it appropriate to classify a portion of unrealized loss as an OTTI as of December 31, 2009. The Company assesses all of its available-for-sale securities and has determined that no other OTTIs are present at December 31, 2009.

Proceeds, gross realized gains and gross realized losses on securities classified as available for sale for each of the years ended December 31, 2007, 2008 and 2009 are as follows:

|                       | Years ended December 31, |             |             |
|-----------------------|--------------------------|-------------|-------------|
|                       | 2007<br>RMB              | 2008<br>RMB | 2009<br>RMB |
| Proceeds              | 2,330                    |             | 177,179     |
| Gross realized gains  | 342                      |             | 27,823      |
| Gross realized losses |                          |             | (13,362)    |



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**4. SHORT-TERM INVESTMENTS-continued**

The summary of trading and available-for-sale securities measured and recorded at fair value on a recurring basis as of December 31, 2009 is as follows:

| Description                   | December 31, 2009<br>(RMB) | Fair Value Measurements at Reporting Date                               |                                                              |                                                          |
|-------------------------------|----------------------------|-------------------------------------------------------------------------|--------------------------------------------------------------|----------------------------------------------------------|
|                               |                            | Quoted Prices in Active Markets for Identical Assets (Level 1)<br>(RMB) | Using Significant Other Observable Inputs (Level 2)<br>(RMB) | Using Significant Unobservable Inputs (Level 3)<br>(RMB) |
| Available-for-sale securities | 170,309                    | 170,309                                                                 |                                                              |                                                          |
| Trading securities            | 917                        | 917                                                                     |                                                              |                                                          |
| <b>Total</b>                  | <b>171,226</b>             | <b>171,226</b>                                                          |                                                              |                                                          |

**5. INVENTORIES**

Inventories consisted of the following:

|                                       | December 31, |              |
|---------------------------------------|--------------|--------------|
|                                       | 2008<br>RMB  | 2009<br>RMB  |
| Computer accessories                  | 1,302        | 1,107        |
| Food products and related consumables | 65           | 1,296        |
|                                       | <b>1,367</b> | <b>2,403</b> |

**6. PREPAID EXPENSES AND OTHER CURRENT ASSETS**

Prepaid expenses and other current assets consisted of the following:

|                                       | December 31, |              |
|---------------------------------------|--------------|--------------|
|                                       | 2008<br>RMB  | 2009<br>RMB  |
| Advances to employees                 | 2,277        | 1,242        |
| Prepaid expenses                      | 3,482        | 2,089        |
| Deposits for office rental, utilities | 325          | 1,094        |
| Interest receivable for term deposits | 571          | 242          |
| Value added tax recoverable           | 75           | 268          |
| Other receivables                     | 257          | 1,111        |
|                                       | <b>6,987</b> | <b>6,046</b> |





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**7. PROPERTY AND EQUIPMENT, NET**

Property and equipment, net consisted of the following:

|                                                 | December 31,   |                |
|-------------------------------------------------|----------------|----------------|
|                                                 | 2008           | 2009           |
|                                                 | RMB            | RMB            |
| Buildings                                       | 193,814        | 197,452        |
| Leasehold improvements                          | 6,512          | 7,885          |
| Furniture, fixtures and office equipment        | 5,096          | 5,774          |
| Computer equipment                              | 32,336         | 30,600         |
| Motor vehicles                                  | 7,012          | 7,859          |
| <b>Total</b>                                    | <b>244,770</b> | <b>249,570</b> |
| Less: accumulated depreciation and amortization | (31,589)       | (44,782)       |
| <b>Property and equipment, net</b>              | <b>213,181</b> | <b>204,788</b> |

In March 2009, the Company announced the decision to wind down the B2B services. In conjunction with the winding down of the B2B business, the Company revised the estimate of future cash flows used in evaluating the fair value of long-lived assets using the discounted cash flow method. As a result, the fair value of long-lived assets was significantly reduced and the Company recognized an impairment loss of RMB4,339 in 2008 against computer equipment related to the now-discontinued B2B business.

Depreciation and amortization expenses for the years ended December 31, 2007, 2008 and 2009 were RMB9,867, RMB17,922, and RMB 16,916, respectively.

**8. INVESTMENTS UNDER COST METHOD**

|               | December 31,  |               |
|---------------|---------------|---------------|
|               | 2008          | 2009          |
|               | RMB           | RMB           |
| Global Market | 28,708        | 28,663        |
| Tophere       | 4,500         | 4,500         |
| GCL           | 7,085         | 7,074         |
|               | <b>40,293</b> | <b>40,237</b> |

In September 2006, the Company entered into a subscription agreement with Global Market Group Limited ( Global Market ) to acquire 1,940,000 Series A preferred shares, which represented 16.25% of the equity interest in Global Market on an as-converted basis for cash consideration of RMB38,929 (US\$5,000). The Company's Chief Executive Officer is a director of Global Market. Because the Company cannot exercise significant influence over Global Market, the investment is accounted for under the cost method.

The original subscription agreement contained put and call options. The call option gave the Company the right to acquire a certain number of Global Market's ordinary shares at a nominal price of US\$1 in the event Global Market's earnings fell below a predetermined level, or to receive cash if additional earnings requirements were not met. The put option gave Global Market the right to repurchase up to 285,000 ordinary shares from the Company at a nominal price of US\$1 if Global Market's earnings were above a predetermined level.



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8. INVESTMENTS UNDER COST METHOD-continued

In March 2008, Global Market issued and allotted 7,653,846 Series B Preferred Shares to certain investors, after which the Company's equity interest in Global Market was diluted to 9.90%. The Company and Global Market both waived the put and call options set out in the original Series A preferred shares subscription agreement.

In 2008, the Company entered into a share repurchase agreement with Global Market, under which Global Market repurchased 309,468 Series A preferred shares from the Company for a cash consideration of RMB 7,725 (US\$1,112) and the Company's equity interest in Global Market was further reduced to 9.03%. The Company recognized a gain of RMB 2,187 (US\$321) upon the disposal of the Series A preferred shares.

In 2009, Global Market made a stock split that each share of US\$0.001 in the share capital be subdivided into twenty-five shares of US\$0.00004 each. After the split, the Company's share remains 9.03%.

In June 2010, Global Market paid a cash payment of special dividends to the holders of its ordinary shares, Series A preferred shares and Series B preferred shares. The Company received dividends of RMB6,164 (US\$903).

In June 2010, the Company entered into a share purchase agreement with Global Market, under which Global Market and Shanghai International Growth Investment Limited purchased 24,714,225 Series A preferred shares from the Company for a cash consideration of RMB26,448 (US\$3,875). The Company's equity interest in Global Market was further reduced to 3.55%.

In November 2007, the Company entered into an agreement with Hangzhou Tophere Info-Tech Inc. ( Tophere ), a Chinese B2B food and beverage trade facilitator headquartered in Hangzhou, to acquire a 19.8% equity interest for a cash consideration of RMB4,500. Because the Company cannot exercise significant influence over Tophere, the investment is accounted for under the cost method.

In June 2008, the Company entered into an investment agreement with Pearl Ever Group Limited ( Pearl Ever ), under which the Company, through Pearl Ever, invested RMB7,085 (US\$1,000) into GCL Silicon Technology Holdings Inc. ( GCL ) for a 0.06% interest in GCL's equity. Because the Company cannot exercise significant influence over GCL, the investment is accounted for under the cost method.

In May 2010, the Company sold part of the investment in GCL, and received RMB7,626, (US\$1,117).

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**9. ACQUIRED INTANGIBLE ASSETS, NET**

Acquired intangible assets, net consisted of the following:

|                                        | December 31,  |               |
|----------------------------------------|---------------|---------------|
|                                        | 2008          | 2009          |
|                                        | RMB           | RMB           |
| Customer lists and relationships       | 6,131         | 6,131         |
| Completed technology                   | 5,251         | 5,251         |
| Purchased software for internal use    | 17,200        | 17,200        |
| Land use right                         | 30,156        | 30,156        |
| <b>Total</b>                           | <b>58,738</b> | <b>58,738</b> |
| Less: Accumulated amortization         | (17,469)      | (23,029)      |
| <b>Acquired intangible assets, net</b> | <b>41,269</b> | <b>35,709</b> |

In October 2008, the Company acquired a land use right from Yizhuang Substation of the PRC Country Resources Bureau for RMB 30,156. The land use right has a contractual useful life of 50 years.

In March 2009, the Company announced the decision to wind down the B2B services. In conjunction with the winding down of the B2B business, the Company revised the estimate of future cash flows used in evaluating the fair value of long-lived assets using the discounted cash flow method. As a result, the fair value of long-lived assets was significantly reduced and the Company recognized an impairment loss of RMB43,747 in 2008 against customer lists and relationships, completed technology and other acquired intangible assets related to the now discontinued B2B business.

Amortization expenses for the years ended December 31, 2007, 2008, and 2009 were RMB14,466, RMB18,991, and RMB5,560, respectively.

The following table represents the total estimated amortization of intangible assets for the next five years:

| For the Year Ending December 31 | Estimated Amortization<br>Expense<br>RMB |
|---------------------------------|------------------------------------------|
| 2010                            | 4,043                                    |
| 2011                            | 3,470                                    |
| 2012                            | 603                                      |
| 2013                            | 603                                      |
| 2014                            | 603                                      |
|                                 | <b>9,322</b>                             |

**10. OPTION LIABILITIES**

The Company writes call and put options through listed exchanges. When the Company writes an option, an amount equal to the premium received by the Company is recorded as a liability and is subsequently adjusted to the current fair value of the option written. Premiums received from writing options that expired are treated by the Company on the expiration date as realized gains from investments. If a call option is exercised, the premium is added to the proceeds from the sale of the underlying security in determining whether the Company has realized a gain or loss. If a

put option is exercised, the premium is deducted from the total purchase price in determining the cost of the underlying security. The Company, as the option writer of an option, bears the market risk of an unfavorable change in the price of the security underlying the written options. At December 31, 2009, option liabilities included liabilities for call options of RMB6,054 and put options of RMB5,800.

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**11. ACCOUNTS PAYABLE AND ACCRUED EXPENSES**

Accounts payable and accrued expenses consisted the following:

|                                     | December 31, |        |
|-------------------------------------|--------------|--------|
|                                     | 2008         | 2009   |
|                                     | RMB          | RMB    |
| Salary and wages                    | 3,274        | 2,449  |
| Professional fees                   | 1,117        | 87     |
| Accounts payable and other payables | 3,008        | 5,565  |
| Office expenses payable             | 1,015        | 1,088  |
| Accrued expenses                    | 5,102        | 2,180  |
|                                     | 13,516       | 11,369 |

**12. INCOME TAXES**

Ninetowns is a tax exempted company incorporated in the Cayman Islands. No provision for Hong Kong Profits Tax has been made as the subsidiaries incorporated in Hong Kong had no assessable profits earned or derived from Hong Kong during the years ended December 31, 2007, 2008 and 2009. The subsidiaries incorporated in the PRC other than Hong Kong are governed by the Income Tax Law of the PRC Concerning Foreign Investment and Foreign Enterprises and various local income tax laws (the "Income Tax Laws").

On March 16, 2007, the National People's Congress adopted the 2008 PRC Enterprise Income Tax Law (the "New Income Tax Law"), which went into effective on January 1, 2008. The New Income Tax Law imposes a unified income tax rate of 25% for domestic and foreign enterprises. New and High Technology Enterprise will enjoy a favorable tax rate of 15%. The New Income Tax Law also provides a five-year transitional period for those entities established before March 16, 2007, which enjoy a favorable income tax rate less than 25% under the previous income tax laws, to gradually change their rates to 25%. In addition, the New Income Tax Law provides grandfather treatment for enterprises which were qualified as "New and High Technology Enterprises" under the previous income tax laws and were established before March 16, 2007, if they continue to meet the criteria for New and High Technology Enterprises after January 1, 2008. The grandfather provision allows these enterprises to continue to enjoy their unexpired tax holiday provided by the previous income tax laws and rules.

The New and High Technology Enterprises status allows qualifying entities to be eligible for a 15% tax rate for three years. At the conclusion of the three year period, the qualifying enterprise has the option to renew its New and High Technology Enterprises status for an additional three years through a simplified application process if such enterprise's business operations continue to qualify for New and High Technology Enterprises status. After the first six years, the enterprise would have to go through a new application process in order to renew its New and High Technology Enterprises status.

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12. INCOME TAXES-continued

Under the New Income Tax Law, if the PRC subsidiaries and VIEs wish to qualify for a preferential rate for years commencing on or after January 1, 2008, they will need to qualify as a High and New Technology Enterprise Strongly Supported by the State under the new rules. Until the PRC subsidiaries and VIEs receive official approval for this new status, they will be subject to the statutory 25% tax rate. Furthermore, under the New Income Tax Law a resident enterprise, which includes an enterprise established outside of the PRC with management located in the PRC, will be subject to the PRC income tax. If the PRC tax authorities subsequently determine that the Company and its subsidiaries registered outside the PRC should be deemed a resident enterprise, the Company and its subsidiaries registered outside the PRC will be subject to the PRC income tax at a rate of 25%.

Beijing New Take, Beijing Ninetowns Times and Beijing Ninetowns Digital Technology were awarded the certificate of New and High Technology Enterprise and were at an income tax rate of 15% for the year ended December 31, 2007. In 2008 and 2009, Beijing New Take, Beijing Ninetowns Times and Beijing Ninetowns Digital Technology were subject to an enterprise income tax rate of 25%.

Beijing Ninetowns Ports was awarded the certificate of New and High Technology Enterprise and was at an income tax rate of 7.5% for the year ended December 31, 2007. In 2008, Beijing Ninetowns Ports was at an income tax rate of 25% and in 2009 was at an income tax rate of 15%.

Guangdong Ninetowns was awarded the certificate of New and High Technology Enterprise and was exempted from the enterprise income tax for the year ended December 31, 2007. In 2008, Guangdong Ninetowns was under the grandfather treatment and enjoyed the unexpired tax holiday with a rate of 7.5%. In 2009, Guangdong Ninetowns was subject to a preferential enterprise income tax rate of 15%.

Beijing Ninetowns Network Software and Beijing Ronghe Tongshang were awarded the certificate of New and High Technology Enterprise and were exempted from enterprise income tax for the year ended December 31, 2007. In 2008 and 2009, Beijing Ninetowns Network Software and Beijing Ronghe Tongshang were subject to an enterprise income tax rate of 25%.

Baichuan Tongda was acquired in April 2007 and was subject to an income tax rate of 33%, 25% and 25% in 2007, 2008 and 2009, respectively.

Beijing Software and Dongguan Software were established in 2008 and were subject to an income tax rate of 25% in 2008 and 2009.

Beijing Sky, Shanghai Meihuilong, Shanghai Tootoo, and Guangdong Nine Masters were established in 2009 and were subject to an income tax rate of 25% in 2009.

During the years ended December 31, 2007, 2008 and 2009, if the Company's subsidiaries in the PRC had not been awarded tax holidays or had special tax concessions, they would have recorded an additional provision for income taxes totaling RMB23,501, RMB nil and RMB501, respectively. Basic net income (loss) per share would have been changed to RMB(7.26), RMB(4.85) and RMB0.02 and diluted net income (loss) per share would have been changed to RMB(7.26), RMB(4.85) and RMB0.02, for the years ended December 31, 2007, 2008, and 2009, respectively.

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## 12. INCOME TAXES-continued

Income tax expense (benefit) consisted of the following:

|              | Years Ended December 31 |             |             |
|--------------|-------------------------|-------------|-------------|
|              | 2007<br>RMB             | 2008<br>RMB | 2009<br>RMB |
| Current tax  | 1,367                   | (147)       | 6,070       |
| Deferred tax | 1,763                   | 983         | (1,970)     |
|              | 3,130                   | 836         | 4,100       |

As of December 31, 2008 and 2009, significant temporary differences between the tax basis and financial statement basis of accounting for assets and liabilities that gave rise to deferred taxes were principally related to the following:

|                                                    | December 31 |             |
|----------------------------------------------------|-------------|-------------|
|                                                    | 2008<br>RMB | 2009<br>RMB |
| Current deferred tax assets (liabilities)          |             |             |
| Short-term deferred revenue (B2G)                  | 4,811       | 1,463       |
| Allowance for doubtful accounts                    |             | 6,596       |
| Less: valuation allowances                         | (4,679)     | (7,051)     |
| Current deferred tax assets                        | 132         | 1,008       |
| Non-current deferred tax assets                    |             |             |
| Net operating losses carry forwards                | 7,801       | 8,105       |
| Less: valuation allowances                         | (7,801)     | (8,105)     |
| Non-current deferred tax assets                    |             |             |
| Non-current deferred tax liabilities               |             |             |
| Accelerated depreciation of property and equipment | (1,807)     | (713)       |
| Non-current deferred tax liabilities               | (1,807)     | (713)       |

The Company has operating loss carry forwards totaling RMB31,203 and RMB32,825 as of December 31, 2008 and 2009 respectively, all of which were from PRC subsidiaries and will expire on various dates between December 31, 2013 and December 31, 2014.

As of December 31, 2008 and 2009, a valuation allowance was provided against deferred tax assets arising from net operating loss carry-forwards, and short-term deferred revenue of certain PRC subsidiaries and VIEs due to the uncertainty of realization. Adjustment will be made to the valuation allowance if events occur in the future that indicate changes in the amount of deferred tax assets that may be realized.



The Company operates through multiple subsidiaries and VIEs and the valuation allowances are considered separately for each subsidiary and VIE. The Company does not file consolidated tax returns, therefore, losses and deferred taxes from one subsidiary or VIE may not be used to offset another subsidiary's or VIE's earnings or deferred taxes.

If the Company were to be a non-resident for PRC tax purposes, dividends paid to it out of profits earned after January 1, 2008 would be subject to a withholding tax. In the case of dividends paid by PRC subsidiaries the withholding tax would be 10% and in the case of a subsidiary 25% or more directly owned by residents in the Hong Kong Special Administrative Region, the withholding tax would be 5%.

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## 12. INCOME TAXES-continued

Aggregate undistributed earnings of the Company's subsidiaries and its VIEs located in the PRC that are available for distribution to the Company of approximately RMB541,000 and RMB550,000 at December 31, 2008 and 2009 are considered to be indefinitely reinvested, and accordingly, no provision has been made for the Chinese dividend withholding taxes that would be payable upon the distribution of those amounts to the Company. The Chinese tax authorities have clarified that distributions made out of pre-January 1, 2008 retained earnings will not be subject to the withholding tax. Current tax expense for the year ended December 31, 2009 includes estimated withholding tax related to dividends in excess of pre-January 1, 2008 retained earnings paid by Chinese subsidiaries to overseas holding companies.

A reconciliation between income tax expense (benefit) computed by applying the PRC statutory income tax rate of 25% to income (loss) before income taxes and the actual provision for income taxes is as follows:

|                                                                                                 | Years Ended December 31, |         |         |
|-------------------------------------------------------------------------------------------------|--------------------------|---------|---------|
|                                                                                                 | 2007                     | 2008    | 2009    |
| PRC statutory income tax                                                                        | (33.0%)                  | (25.0%) | 25.0%   |
| Expenses not deductible for tax purposes                                                        | 6.4%                     | 18.2%   | 21.9%   |
| Provision for withholding tax on inter-company distributions                                    |                          |         | 37.5%   |
| Permanent differences                                                                           | 11.1%                    | 12.0%   | (32.6%) |
| Tax exemption and tax relief granted to PRC subsidiaries                                        | 15.5%                    | (9.7%)  | (4.0%)  |
| Effect on deferred taxes due to changes in tax rates under the new law for certain subsidiaries | (1.5%)                   | (6.7%)  | (15.5%) |
|                                                                                                 | (1.5%)                   | (11.2%) | 32.3%   |

A reconciliation of the beginning and ending amount of unrecognized tax benefit is as follows:

|                                                              | RMB   |
|--------------------------------------------------------------|-------|
| Balance at January 1, 2008                                   | 832   |
| Additions based on tax positions related to the current year | 151   |
| Reversal based on tax positions related to the current year  | (688) |
| Balance at December 31, 2008                                 | 295   |
| Additions based on tax positions related to the current year | 4,989 |
| Reversal based on tax positions related to the current year  | (143) |
| Balance at December 31, 2009                                 | 5,141 |

The Company does not anticipate any significant change within 12 months of this reporting date to its uncertain tax positions. Interest and penalties recognized in the statement of operations and current liabilities was not significant in 2007, 2008 and 2009.

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**13. OTHER TAXES PAYABLE**

|                                              | December 31, |             |
|----------------------------------------------|--------------|-------------|
|                                              | 2008<br>RMB  | 2009<br>RMB |
| Individual income tax withholding            | 196          | 144         |
| Business tax payable                         | 863          | 1,231       |
| Value added taxes payable (recoverable), net | (302)        | (703)       |
| Property tax                                 | 878          |             |
|                                              | 1,635        | 672         |

The Company's subsidiaries in the PRC, other than Hong Kong, are subject to a 17% value added tax on revenues from the sales of hardware to customers and, in addition, are subject to business taxes and value added taxes at the rates of 5% and 3%, on service revenues from software development and sales of software, respectively. Value added taxes payable for hardware sales is reported net of value added taxes paid for inventory purchases. There is no VAT on food sales and services. The Company is also required to withhold PRC individual income taxes on employees payroll for remittance to the tax authorities. In addition, in October 2008, the Company purchased a land use right resulting in a property tax liability thereon.

**14. NET (LOSS) INCOME PER SHARE**

The following table sets forth the computation of basic and diluted (loss) income per share for the periods indicated:

|                                                                                                         | Years ended December 31, |             |             |
|---------------------------------------------------------------------------------------------------------|--------------------------|-------------|-------------|
|                                                                                                         | 2007<br>RMB              | 2008<br>RMB | 2009<br>RMB |
| Numerator used in basic (loss) income per share:                                                        |                          |             |             |
| (Loss) income from continuing operations before non-controlling interests                               | (206,469)                | (8,293)     | 8,590       |
| Loss from discontinued operations attributable to the Company                                           | (24,062)                 | (161,319)   | (7,258)     |
| (Loss) income attributable to the Company                                                               | (230,531)                | (169,612)   | 1,332       |
| Shares (denominator):                                                                                   |                          |             |             |
| Weighted average ordinary shares outstanding                                                            | 34,966,830               | 34,997,505  | 35,100,194  |
| Plus: incremental shares from assumed conversion of stock options                                       |                          |             |             |
| Weighted average ordinary shares outstanding used in computing diluted (loss) income per ordinary share | 34,966,830               | 34,997,505  | 35,100,194  |
| (Loss) income from continuing operations per share basic                                                | (5.90)                   | (0.24)      | 0.25        |
| (Loss) income from continuing operations per share diluted                                              | (5.90)                   | (0.24)      | 0.25        |
| Loss from discontinued operations per share basic                                                       | (0.69)                   | (4.61)      | (0.21)      |

|                                                     |         |        |        |        |
|-----------------------------------------------------|---------|--------|--------|--------|
| Loss from discontinued operations per share         | diluted | (0.69) | (4.61) | (0.21) |
| (Loss) income attributable to the Company per share | basic   | (6.59) | (4.85) | 0.04   |
| (Loss) income attributable to the Company per share | diluted | (6.59) | (4.85) | 0.04   |

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14. NET (LOSS) INCOME PER SHARE-continued

American Depository Receipts held by the Company to facilitate cashless exercises of vested employee stock options and non-vested shares for 673,278 and 793,814 ordinary shares have been excluded from shares issued and outstanding as of December 31, 2009 and 2008, respectively.

The Company had 924,528, 2,185,830 and 3,320,311 ordinary share equivalents outstanding, that could potentially dilute basic income (loss) per share in the future, which were excluded in the computation of diluted (loss) income per share in 2007, 2008 and 2009, respectively, as their effect would have been anti-dilutive.

15. RELATED PARTY TRANSACTIONS AND BALANCES

*Sales of enterprises software and related customer maintenance service:*

The Company has an agreement with Shenzhen Ninetowns Enke Software Technology Co., Ltd. ( Ninetowns Enke ), a company owned by the Company's former employee, for the distribution of the Company's enterprise software in the southern region of the PRC. During the years ended December 31, 2007, 2008 and 2009, the Company recognized net revenues of RMB2,937, RMB2,475 and RMB2,268, respectively, from the sales of enterprise software and related customer maintenance service to Ninetowns Enke.

The Company signed an agreement with Guangzhou Wangli Software Co., Ltd. ( Guangzhou Wangli ), a company owned by a minority shareholder of one of the Company's VIEs, for the distribution of the Company's enterprise software in the PRC. During the years ended December 31, 2007, 2008 and 2009, the Company recognized net revenues of RMB6,348, RMB11,976 and RMB9,273, respectively, from the sales of enterprise software and related customer maintenance services to Guangzhou Wangli.

The Company sold software products to Beijing iTowNet Cyber Technology Ltd. ( Beijing iTowNet ) in which two members of the Company's senior management serve as director and supervisor, directly and indirectly, amounting to RMB229 in the year ended December 31, 2007. The Company did not sell software products to Beijing iTowNet in 2008. In 2009, the Company provided software development services to Beijing iTowNet and recognized net revenue of RMB350.

*Other:*

In November 2004, the Company entered into an option agreement to acquire a 49% ownership interest in Beijing iTowNet, exercisable at the Company's option. In the event the purchase becomes permissible under the relevant laws of the PRC and the Company exercises its option, the purchase price will be RMB206,915 (US\$25 million) plus an amount calculated at 5% per year compounded annually for the years the selling company held an ownership interest in Beijing iTowNet less any dividends or distributions the selling company received during its ownership of Beijing iTowNet.

*Related party balances:*

As of December 31, 2008 and 2009, trade receivables from related parties in respect of sales of enterprises software and related customer maintenance services and software development services were RMB6,005 and RMB5,669, respectively. The Company adopted the same accounting policies that were applied to trade receivables due from customers for the allowance for doubtful accounts related to related party receivables.

At January 1, 2008, RMB1,450 was due to an affiliate, Guangzhou Yuejiu. In 2008, Guangzhou Yuejiu was liquidated and the amount was repaid.

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**16. SHARE OPTION PLANS****The 2003 Plan**

The Company's 2003 Plan (the 2003 Plan) allows the Company to issue options to employees and directors to acquire 2,574,400 of the Company's ordinary shares. The 2003 Plan will remain in effect for ten years starting from the date of adoption.

As of December 31, 2008 and 2009, options to purchase 1,338,753 and 1,276,449 ordinary shares were outstanding, respectively, under the 2003 Plan. As of December 31, 2008 and 2009, there were 383,955 and 446,259 options, respectively, available under the 2003 Plan for future grants.

**The 2004 Plan (as amended)**

Under the Amended and Restated 2004 Plan (the 2004 Plan, as amended), the Company may grant options to its employees that are exercisable for up to 4.3 million ordinary shares at prices to be determined by the Company's Board of Directors. The 2004 Plan, as amended, also permits the Company to grant share appreciation rights, restricted share awards, and performance awards. The 2004 Plan, as amended, will automatically terminate in ten years from grant date unless the Company terminates it earlier.

On February 23, 2005, Ninetowns granted options to certain employees to purchase 890,000 ordinary shares at an exercise price of RMB71 (US\$8.6) per ordinary share, which was the closing fair market value of the Company's ordinary shares on the day before the grant date. The options will vest over four years at 25% per year from the grant date. Any options granted but not exercised will expire on February 22, 2015.

On February 5, 2008, Ninetowns granted options to certain employees to purchase 374,769 ordinary shares at an exercise price of RMB22 (US\$3.03) per ordinary share, which was the closing fair market value of the Company's ordinary shares on the day before the grant date. The options will vest over four years at 25% per year from the grant date. Any options granted but not exercised will expire on February 4, 2018.

On July 16, 2009, Ninetowns granted options to certain employees to purchase 1,369,800 ordinary shares at an exercise price of RMB10 (US\$1.4) per ordinary share, which was the average closing fair market value of the Company's ordinary shares for the month before the grant date. The options will vest over four years at 25% per year from the grant date. Any options granted but not exercised will expire on July 15, 2019.

As of December 31, 2008 and 2009, options to purchase 774,396 and 2,043,862 ordinary shares were outstanding, respectively.

The fair value of the option awards is estimated on the respective dates of grant using a dividend adjusted Black Scholes pricing model that uses the assumptions noted in the following table.

| Options grants                                | 2005 Grant | 2008 Grant | 2009 Grant |
|-----------------------------------------------|------------|------------|------------|
| Weighted average risk-free rate of interest   | 5%         | 3.89%      | 2.9%       |
| Weighted average expected option life (years) | 6.25 years | 6.25 years | 6.25 years |
| Weighted average volatility rate              | 55%        | 53%        | 61%        |
| Weighted average dividend yield               | 0%         | 0%         | 0%         |

The risk-free rate of interest is based on the market yield of China Sovereign Bond Denominated in USD with maturity nearest to the expected term as of the valuation date. No dividend is expected to be paid in the future. The expected life of the option is derived using the mid-point method, which is calculated as the period between the grant date and the expected exercise date.

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**16. SHARE OPTION PLANS-continued**

On February 5, 2008, Ninetowns granted 401,685 nonvested shares to certain employees. The nonvested shares will vest over four years at 25% per year from the grant date.

On July 16, 2009, Ninetowns granted 58,698 nonvested shares to certain employees. 25% of the nonvested shares will vest on the grant date and the remaining will vest over three years at 25% per year from the grant date. As of December 31, 2008 and 2009, 380,559 and 298,256 nonvested shares were outstanding.

As of December 31, 2008 and 2009, 3,145,045 and 1,837,346 share-based instruments were available under the 2004 Plan, as amended, for future grants.

**The 2006 Plan**

In December 2005, the Company's shareholders approved the 2006 stock incentive plan (the 2006 Plan) which allows the Company to offer a variety of share-based awards to employees and employees of the Company's affiliates and subsidiaries including share options, restricted shares, and other similar awards. The exercise price must be at least equal to 100% of the fair market value of the ordinary shares on the grant date. The 2006 Plan will be automatically terminated in 2015. At December 31, 2009, the Company had not granted any options or other types of awards under the 2006 Plan.

A summary of the share options and nonvested shares activities is as follows:

|                                  | 2007                    |                                                 | Years ended December 31,<br>2008 |                                                 | 2009                                                |                                                 |
|----------------------------------|-------------------------|-------------------------------------------------|----------------------------------|-------------------------------------------------|-----------------------------------------------------|-------------------------------------------------|
|                                  | Number<br>of<br>options | Weighted<br>Average<br>Exercise<br>price<br>RMB | Number<br>of<br>options          | Weighted<br>average<br>exercise<br>price<br>RMB | Number<br>of<br>options                             | Weighted<br>average<br>exercise<br>price<br>RMB |
| Share options                    |                         |                                                 |                                  |                                                 |                                                     |                                                 |
| Outstanding at beginning of year | 2,500,947               | 40                                              | 2,030,973                        | 40                                              | 2,113,149                                           | 36                                              |
| Granted                          |                         |                                                 | 374,769                          | 22                                              | 1,369,800                                           | 22                                              |
| Exercised                        | (47,862)                | 26                                              | (6,186)                          | 26                                              |                                                     |                                                 |
| Cancelled                        | (422,112)               | 39                                              | (286,407)                        | 50                                              | (162,638)                                           | 34                                              |
| Outstanding at end of year       | 2,030,973               | 40                                              | 2,113,149                        | 36                                              | 3,320,311                                           | 25                                              |
| Exercisable at end of year       | 1,872,918               | 37                                              | 1,711,666                        | 36                                              | 1,790,239                                           | 37                                              |
| Nonvested Shares                 |                         |                                                 |                                  | Shares                                          | Weighted-average<br>grant-date<br>fair value<br>RMB |                                                 |
| Nonvested at January 1, 2009     |                         |                                                 |                                  | 380,559                                         | 20.97                                               |                                                 |
| Granted                          |                         |                                                 |                                  | 58,698                                          | 10.59                                               |                                                 |
| Vested                           |                         |                                                 |                                  | (120,536)                                       | 19.71                                               |                                                 |
| Forfeited                        |                         |                                                 |                                  | (20,465)                                        | 20.97                                               |                                                 |

Nonvested at December 31, 2009

298,256

19.44

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## 16. SHARE OPTION PLANS-continued

The total intrinsic value of options exercised during the years ended December 31, 2007, 2008, and 2009 was RMB0.6 million, RMB nil, and RMB nil, respectively. As of December 31, 2009, the aggregate intrinsic value of both options outstanding and options exercisable was RMB nil.

The outstanding options as of December 31, 2009 have the following characteristics:

| Number    | Options outstanding                         |                                    | Options exercisable                   |                    |                                       |
|-----------|---------------------------------------------|------------------------------------|---------------------------------------|--------------------|---------------------------------------|
|           | Weighted average remaining contractual life | Fair value per share at grant date | Weighted average exercise price (RMB) | Number exercisable | Weighted average exercise price (RMB) |
| 1,276,449 | 3.875                                       | RMB0.297<br>(HK\$0.286)            | 26                                    | 1,276,449          | 26                                    |
| 460,936   | 5.167                                       | RMB40.42<br>(US\$4.896)            | 71                                    | 460,936            | 71                                    |
| 213,126   | 8.099                                       | RMB11.63<br>(US\$1.619)            | 22                                    | 52,854             | 22                                    |
| 1,369,800 | 9.496                                       | RMB6.49<br>(US\$0.947)             | 10                                    |                    |                                       |
| 3,320,311 | 6.644                                       |                                    | 25                                    | 1,790,239          | 37                                    |

As of December 31, 2009, the unrecognized share-based compensation cost related to options was approximately RMB6,026 and is expected to be recognized over a weighted average vesting period of 2.5 years. As of December 31, 2009, the unrecognized share-based compensation cost related to nonvested share-based compensation arrangements was approximately RMB2,028 and is expected to be recognized over a weighted-average vesting period of 2.2 years. The amounts of share-based compensation attributable to cost of revenues, sales and marketing, general and administrative expenses, and research and development included in those line items in the consolidated statements of operations are as follows:

|                                        | Year Ended December 31, |             |             |
|----------------------------------------|-------------------------|-------------|-------------|
|                                        | 2007<br>RMB             | 2008<br>RMB | 2009<br>RMB |
| Cost of revenues                       | 126                     | 287         | 51          |
| Sales and marketing                    | 628                     | 1,633       | 787         |
| General and administrative             | 1,145                   | 3,789       | 3,297       |
| Research and development               | 27                      | 1,162       | 332         |
| Total share-based compensation expense | 1,926                   | 6,871       | 4,467       |

In 2009, 673,278 of the Company's ordinary shares were reserved for future share option exercises.



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**17. COMMITMENTS**

The Company has operating lease agreements principally for its office properties in the PRC. The leases have remaining terms ranging from 12 to 24 months and are renewable subject to negotiation. Rental expense was RMB11,699, RMB7,955 and RMB7,056, for the years ended December 31, 2007, 2008 and 2009, respectively. Future minimum lease payments under non-cancellable operating lease agreements at December 31, 2008 are as follows:

|                         | RMB   |
|-------------------------|-------|
| Year ending December 31 |       |
| 2010                    | 2,309 |
| 2011                    | 1,004 |
| <br>                    |       |
| Total                   | 3,313 |

The Company has entered into franchise agreements to undertake marketing, distribution and service activities. Under these agreements, the Company is obligated to provide advertising, training and telephone support associated with its software licenses and products. The Company did not have any significant outstanding obligation and commitment at December 31, 2009.

**18. SEGMENT INFORMATION**

Before 2007, the Company had three operating segments: enterprise software segment, software development services segment, and computer hardware sales segment. The enterprise software segment is engaged in the development, distribution and sale of software products, the provision of customer maintenance services to end-users, and the research and development of new enterprise software. The software development services segment is responsible for the development and integration of software in accordance with the customers' specifications and requirements. The computer hardware sales segment is engaged in the sale of computer hardware and accessories. These three segments are all under the Company's business to government ( B2G ) division.

In the second quarter of 2007, the Company completed the acquisition of Ample Spring and Baichuan Tongda, a vertical search engine services provider, and formally launched the Company's B2B search services and services platform, tootoo.com. As a result, the Company added a new operating segment, (i.e., B2B), which provided online B2B search services by selling keywords to improve the customers' rankings in search results on the Company's marketplaces. In March 2009, the Company's B2B segment was discontinued. Also, in 2009 the Company launched its food sales and services business targeting Chinese consumers.

For financial reporting purposes, operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance. The Company's chief operating decision maker is the Chief Executive Officer. Segment information provided to the chief operating decision maker is prepared using the accounting principles and the relevant financial regulations applicable to enterprises with foreign investment as established by the Ministry of Finance in the PRC ( PRC GAAP ). The principal differences between the PRC GAAP and US GAAP as they relate to the Company are primarily (i) revenue recognition from the sale of enterprise software, (ii) the classification of the PRC value added tax refund, and (iii) the recognition of share-based compensation expenses.



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## 18. SEGMENT INFORMATION-continued

The Company's reportable segments offer different products and services. Each reportable segment is assigned a member of senior management who has knowledge about the products and services, specific operational risks, and opportunities associated with the segment.

The following is a summary of financial information relating to each segment expressed under PRC GAAP:

|                                      | Year Ended December 31, 2007                                                        |                                            |              |
|--------------------------------------|-------------------------------------------------------------------------------------|--------------------------------------------|--------------|
|                                      | Enterprise<br>software<br>and related<br>customer<br>maintenance<br>services<br>RMB | Software<br>development<br>services<br>RMB | Total<br>RMB |
| Net revenues from external customers | 52,481                                                                              | 25,642                                     | 78,123       |
| Net revenues from related parties    | 8,241                                                                               |                                            | 8,241        |
| Gross profit                         | 60,848                                                                              | 7,894                                      | 68,742       |

|                                      | Year ended December 31, 2008                                                           |                                            |              |              |
|--------------------------------------|----------------------------------------------------------------------------------------|--------------------------------------------|--------------|--------------|
|                                      | Enterprise<br>software<br>and<br>related<br>customer<br>maintenance<br>services<br>RMB | Software<br>development<br>services<br>RMB | Other<br>RMB | Total<br>RMB |
| Net revenues from external customers | 67,315                                                                                 | 19,458                                     | 94           | 86,867       |
| Net revenues from related parties    | 14,387                                                                                 |                                            |              | 14,387       |
| Gross profit                         | 82,024                                                                                 | 7,035                                      | 18           | 89,077       |

|  | Year ended December 31, 2009                                                    |                                     |                             |
|--|---------------------------------------------------------------------------------|-------------------------------------|-----------------------------|
|  | Enterprise<br>software<br>and<br>related<br>customer<br>maintenance<br>services | Software<br>development<br>services | Food<br>related<br>business |

|                                      | RMB    | RMB    | RMB    | RMB    |
|--------------------------------------|--------|--------|--------|--------|
| Net revenues from external customers | 38,472 | 17,013 | 18,004 | 73,489 |
| Net revenues from related parties    | 9,482  | 350    |        | 9,832  |
| Gross profit                         | 48,005 | 5,811  | 958    | 54,774 |

The Company does not allocate operating expenses to individual segments when making decisions about allocating resources to the segments and assessing their performance.

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## 18. SEGMENT INFORMATION-continued

The following is a reconciliation of the amounts presented for reportable segments under PRC GAAP to the consolidated totals reported under US GAAP:

|                                                              | Years ended December 31, |               |               |
|--------------------------------------------------------------|--------------------------|---------------|---------------|
|                                                              | 2007                     | 2008          | 2009          |
|                                                              | RMB                      | RMB           | RMB           |
| Net revenues from external customers under PRC GAAP          | 78,123                   | 86,867        | 73,489        |
| U.S. GAAP adjustments:                                       |                          |               |               |
| Differences in the timing of revenue recognition             | 11,346                   | 353           | 7,763         |
| PRC value added tax refund                                   | 3,995                    | 2,846         | 611           |
| <br>Total net revenues from external customers under US GAAP | <br>93,464               | <br>90,066    | <br>81,863    |
| <br>Net revenues from related parties under PRC GAAP         | <br>8,241                | <br>14,387    | <br>9,832     |
| U.S. GAAP adjustments:                                       |                          |               |               |
| Differences in the timing of revenue recognition             | 912                      |               | 1,817         |
| PRC value added tax refund                                   | 352                      | 64            | 242           |
| <br>Total net revenues from related parties under US GAAP    | <br>9,505                | <br>14,451    | <br>11,891    |
| <br>Gross profit under PRC GAAP                              | <br>68,742               | <br>89,042    | <br>54,774    |
| U.S. GAAP adjustments:                                       |                          |               |               |
| Differences in the timing of revenue recognition             | 12,258                   | 353           | 9,580         |
| PRC value added tax refund                                   | 4,347                    | 2,910         | 853           |
| Share-based compensation expenses                            | (126)                    | (287)         | (51)          |
| <br>Gross profit under US GAAP                               | <br>85,221               | <br>92,018    | <br>65,156    |
| <br>Operating expenses                                       | <br>(347,006)            | <br>(118,912) | <br>(123,878) |
| Government subsidies                                         | 1,015                    |               |               |
| <br>Loss from operations                                     | <br>(260,770)            | <br>(26,894)  | <br>(58,722)  |
| Interest income                                              | 13,885                   | 7,026         | 4,280         |
| Gain on sales of marketable equity securities                | 43,546                   | 9,866         | 35,474        |
| Gain on fair value change of stock option short sales        |                          |               | 27,684        |
| Gains from disposal of investment under cost method          |                          | 2,187         |               |
| Other income                                                 |                          | 358           | 3,974         |

|                                         |           |         |        |
|-----------------------------------------|-----------|---------|--------|
| (Loss) income before income tax expense | (203,339) | (7,457) | 12,690 |
|-----------------------------------------|-----------|---------|--------|



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 FOR THE YEARS ENDED DECEMBER 31, 2007, 2008 AND 2009 (continued)

(In thousands, except share and per share data)

**18. SEGMENT INFORMATION-continued**

The Company does not allocate assets to individual segments when making decisions about allocating resources to the segments and assessing their performance.

**19. MAJOR CUSTOMERS**

Details of customers accounting for 10% or more of net revenues are as follows:

| Customer | Years ended December 31, |      |      |
|----------|--------------------------|------|------|
|          | 2007                     | 2008 | 2009 |
| A        | 17%                      | 18%  | 18%  |
| B        | 23%                      | 20%  | 19%  |

**20. EMPLOYEE BENEFIT PLANS**

Employees of the Company located in the PRC other than Hong Kong are covered by the retirement plans defined by local practice and regulations, which are essentially defined contribution schemes. The calculation of contributions for the eligible employees is based on 20% of the applicable payroll costs. Certain employees of the Company who are located in Hong Kong have joined the Mandatory Provident Fund ( MPF ) Scheme which is also a defined contribution scheme. The contribution to the MPF Scheme is calculated based on the rules set out in the MPF Ordinance in Hong Kong which is 5% of the relevant income of the employee with a specific ceiling. The expenses recorded by the Company related to these defined contribution schemes were RMB5,029, RMB4,884, and RMB3,549 for the years ended December 31, 2007, 2008, and 2009, respectively.

In addition, the Company is required by law to contribute approximately 10%, 1%, and 1.1% of applicable salaries of certain employees for medical, unemployment benefits, and workers compensation, respectively. The PRC government is directly responsible for the payments of the benefits to these employees. The amounts contributed were RMB3,219, RMB3,299, and RMB2,075 for the years ended December 31, 2007, 2008, and 2009, respectively.

**21. CHINA CONTRIBUTION PLAN AND PROFIT APPROPRIATION**

As stipulated by the relevant laws and regulations in the PRC, the Company's subsidiaries and VIEs in the PRC are required to maintain a non-distributable statutory surplus reserve. Appropriations to the statutory surplus reserve are required to be made at not less than 10% of profit after taxes as reported in these entities' statutory financial statements prepared under PRC GAAP. Once appropriated, these amounts are not available for future distribution to owners or shareholders. Once the general reserve is accumulated to 50% of these entities' registered capital, these entities can choose not to provide additional reserves. The statutory reserve may be applied against prior year losses, if any, and may be used for general business expansion and production and an increase in the registered capital of these entities. Amounts contributed to the statutory reserve were RMB65,736 and RMB75,059 as of December 31, 2008 and 2009, respectively.

The general reserve is used to offset future extraordinary losses. The subsidiaries may, upon a resolution of the shareholders, convert the general reserve into capital. The staff welfare and bonus reserve is used for the collective welfare of the employees of the subsidiaries. The enterprise expansion reserve is used for the expansion of the subsidiaries' operations and can be converted to capital subject to approval by the relevant authorities. These reserves represent appropriations of retained earnings determined according to PRC laws and may not be distributed.

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NINETOWNS INTERNET TECHNOLOGY GROUP COMPANY LIMITED  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2007, 2008 AND 2009 (continued)

(In thousands, except share and per share data)

21. CHINA CONTRIBUTION PLAN AND PROFIT APPROPRIATION-continued

RMB905 and RMB9,323 were appropriated from net income to statutory reserves by Ninetown's subsidiaries in the PRC for the years ended December 31, 2008 and 2009 respectively.

Relevant PRC Statutory laws and regulations permit payments of dividends by Ninetown's PRC subsidiaries and VIEs only from their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. In addition, the general reserve requires annual appropriations of 10% of after-tax profit to be set aside prior to the payment of dividends. As a result of these PRC laws and regulations, the Company's PRC subsidiary and VIEs are restricted in their abilities to transfer funds to the Company in the form of dividends, loans or advances. Total restricted net assets of the Company's consolidated PRC subsidiaries and VIEs were RMB540,984 and RMB550,307 as of December 31, 2008 and 2009, respectively.

22. SUBSEQUENT EVENTS

On February 10, 2010, the Company granted 976,500 options and 585,771 restricted shares under the 2004 Plan, as amended, as well as 2,213,824 restricted shares under the 2006 Plan.

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NINETOWNS INTERNET TECHNOLOGY GROUP COMPANY LIMITED  
 SCHEDULE I CONDENSED FINANCIAL INFORMATION OF PARENT COMPANY  
 BALANCE SHEETS

(In thousands, except share and per share data)

|                                                                                                                                                                                                                          | Years Ended December 31, |                |                |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------|----------------|----------------|
|                                                                                                                                                                                                                          | 2008<br>RMB              | 2009<br>RMB    | 2009<br>US\$   |
| <b>ASSETS</b>                                                                                                                                                                                                            |                          |                |                |
| Current assets:                                                                                                                                                                                                          |                          |                |                |
| Cash and cash equivalents                                                                                                                                                                                                | 104,704                  | 134,828        | 19,752         |
| Investment in available-for-sale securities                                                                                                                                                                              |                          | 120,032        | 17,585         |
| Prepaid expenses and other current assets                                                                                                                                                                                | 818                      | 561            | 82             |
| Amounts due from subsidiaries                                                                                                                                                                                            | 525,631                  | 427,335        | 62,605         |
| Total current assets                                                                                                                                                                                                     | 631,153                  | 682,756        | 100,024        |
| Investments in subsidiaries                                                                                                                                                                                              | 281,367                  | 251,732        | 36,879         |
| <b>TOTAL ASSETS</b>                                                                                                                                                                                                      | <b>912,520</b>           | <b>934,488</b> | <b>136,903</b> |
| <br><b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                                                                                                                                                                          |                          |                |                |
| Option liabilities                                                                                                                                                                                                       |                          | 11,854         | 1,737          |
| Other payables                                                                                                                                                                                                           | 4,614                    | 111            | 17             |
| Amounts due to subsidiaries                                                                                                                                                                                              | 7,726                    | 98             | 13             |
| Total current liabilities                                                                                                                                                                                                | 12,340                   | 12,063         | 1,767          |
| Shareholders' equity:                                                                                                                                                                                                    |                          |                |                |
| Ordinary shares, par value RMB0.027 (HK\$0.025) per share:<br>8,000,000,000 shares authorized; 34,998,020 shares issued and<br>outstanding in 2008 and 35,118,556 shares issued and outstanding in<br>2009, respectively |                          |                |                |
|                                                                                                                                                                                                                          | 926                      | 929            | 136            |
| Additional paid-in capital                                                                                                                                                                                               | 880,581                  | 885,045        | 129,660        |
| Retained earnings                                                                                                                                                                                                        | 40,564                   | 41,896         | 6,138          |
| Accumulated other comprehensive loss                                                                                                                                                                                     | (21,891)                 | (5,445)        | (798)          |
| Total shareholders' equity                                                                                                                                                                                               | 900,180                  | 922,425        | 135,136        |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>                                                                                                                                                                        | <b>912,520</b>           | <b>934,488</b> | <b>136,903</b> |



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NINETOWNS INTERNET TECHNOLOGY GROUP COMPANY LIMITED  
 SCHEDULE I CONDENSED FINANCIAL INFORMATION OF PARENT COMPANY (CONTINUED)  
 STATEMENTS OF OPERATIONS

(In thousands, except share and per share data)

|                                                         | Years Ended December 31, |             |             |              |
|---------------------------------------------------------|--------------------------|-------------|-------------|--------------|
|                                                         | 2007<br>RMB              | 2008<br>RMB | 2009<br>RMB | 2009<br>US\$ |
| Selling and marketing expenses                          |                          | (2,654)     |             |              |
| General and administrative expenses                     | (21,682)                 | (27,030)    | (16,506)    | (2,420)      |
| Loss from operations                                    | (21,682)                 | (29,684)    | (16,506)    | (2,420)      |
| Interest income                                         | 2,334                    | 364         | 15          | 2            |
| Gain on sales of short-term investments                 |                          |             | 28,587      | 4,188        |
| Change in fair value of marketable options              |                          |             | 27,684      | 4,056        |
| Other income                                            |                          |             | 1,804       | 264          |
| (Loss) income before equity in earnings of subsidiaries | (19,348)                 | (29,320)    | 41,584      | 6,090        |
| Equity in losses of subsidiaries                        | (211,183)                | (140,292)   | (40,252)    | (5,898)      |
| Net (loss) income                                       | (230,531)                | (169,612)   | 1,332       | 192          |
| Net (loss) income per share                             |                          |             |             |              |
| Basic                                                   | (6.59)                   | (4.85)      | 0.04        | 0.01         |
| Diluted                                                 | (6.59)                   | (4.85)      | 0.04        | 0.01         |
| Weighted average shares used in computation:            |                          |             |             |              |
| Basic                                                   | 34,966,830               | 34,997,505  | 35,100,194  | 35,100,194   |
| Diluted                                                 | 34,966,830               | 34,997,505  | 35,100,194  | 35,100,194   |

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NINETOWNS INTERNET TECHNOLOGY GROUP COMPANY LIMITED  
 SCHEDULE I CONDENSED FINANCIAL INFORMATION OF PARENT COMPANY (CONTINUED)  
 STATEMENT OF COMPREHENSIVE INCOME

(In thousands, except share and per share data)

|                                                         | Years Ended December 31, |             |             |              |
|---------------------------------------------------------|--------------------------|-------------|-------------|--------------|
|                                                         | 2007<br>RMB              | 2008<br>RMB | 2009<br>RMB | 2009<br>US\$ |
| <b>Net (loss) income</b>                                | (230,531)                | (169,612)   | 1,332       | 192          |
| Foreign currency translation loss                       | (6,977)                  | (4,126)     | (5)         | (1)          |
| Unrealized gain (loss) on available-for-sale securities | 2,874                    | (5,999)     | 16,451      | 2,410        |
| <b>Comprehensive (loss) income</b>                      | (234,634)                | (179,737)   | 17,778      | 2,601        |

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NINETOWNS INTERNET TECHNOLOGY GROUP COMPANY LIMITED  
 SCHEDULE I CONDENSED FINANCIAL INFORMATION OF THE PARENT COMPANY (CONTINUED)  
 STATEMENTS OF CHANGES IN EQUITY  
 (In thousands, except share and per share data)

|                                                                                 | Ordinary shares |               | Additional                | Treasury Shares |               | Retained                        | Accumulated                                       | Total     |
|---------------------------------------------------------------------------------|-----------------|---------------|---------------------------|-----------------|---------------|---------------------------------|---------------------------------------------------|-----------|
|                                                                                 | Shares          | Amount<br>RMB | Paid-in<br>Capital<br>RMB | Shares          | Amount<br>RMB | (Accumulated<br>Deficit)<br>RMB | Other<br>Comprehensive<br>Income<br>(loss)<br>RMB |           |
| Balance as of<br>January 1, 2007                                                | 34,991,834      | 926           | 871,642                   | (47,862)        | (1,268)       | 441,343                         | (7,663)                                           | 1,304,980 |
| Cumulative effect<br>of unrecognized<br>tax benefit on<br>adoption of<br>ASC740 |                 |               |                           |                 |               | (636)                           |                                                   | (636)     |
| Issuance of ADR<br>shares for the<br>exercise of<br>employee share<br>options   |                 |               |                           | 47,862          | 1,268         |                                 |                                                   | 1,268     |
| Net loss                                                                        |                 |               |                           |                 |               | (230,531)                       |                                                   | (230,531) |
| Foreign currency<br>translation<br>adjustments                                  |                 |               |                           |                 |               |                                 | (6,977)                                           | (6,977)   |
| Employee share<br>options<br>compensation                                       |                 |               | 1,926                     |                 |               |                                 |                                                   | 1,926     |
| Unrealized gain on<br>available-for-sale<br>securities                          |                 |               |                           |                 |               |                                 | 2,874                                             | 2,874     |
| Balance as of<br>December 31, 2007                                              | 34,991,834      | 926           | 873,568                   |                 |               | 210,176                         | (11,766)                                          | 1,072,904 |
| Issuance of ADR<br>shares for the<br>exercise of<br>employee share<br>options   | 6,186           |               | 142                       |                 |               |                                 |                                                   | 142       |
| Net loss                                                                        |                 |               |                           |                 |               | (169,612)                       |                                                   | (169,612) |
| Foreign currency<br>translation<br>adjustments                                  |                 |               |                           |                 |               |                                 | (7,000)                                           | (7,000)   |
| Employee share<br>options<br>compensation                                       |                 |               | 6,871                     |                 |               |                                 |                                                   | 6,871     |

|                                                                   |            |         |             |  |           |           |             |
|-------------------------------------------------------------------|------------|---------|-------------|--|-----------|-----------|-------------|
| Unrealized loss on available-for-sale securities                  |            |         |             |  |           | (3,125)   | (3,125)     |
| Balance as of December 31, 2008                                   | 34,998,020 | 926     | 880,581     |  | 40,564    | (21,891)  | 900,180     |
| Issuance of ADR shares for the exercise of employee share options | 120,536    | 3       | (3)         |  |           |           |             |
| Net income                                                        |            |         |             |  | 1,332     |           | 1,332       |
| Foreign currency translation adjustments                          |            |         |             |  |           | (5)       | (5)         |
| Employee share options compensation                               |            |         | 4,467       |  |           |           | 4,467       |
| Unrealized loss on available-for-sale securities (net of tax)     |            |         |             |  |           | 16,451    | 16,451      |
| Balance as of December 31, 2009                                   | 35,118,556 | 929     | 885,045     |  | 41,896    | (5,445)   | 922,425     |
|                                                                   |            | US\$136 | US\$129,660 |  | US\$6,138 | (US\$798) | US\$135,136 |



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NINETOWNS INTERNET TECHNOLOGY GROUP COMPANY LIMITED  
 SCHEDULE I CONDENSED FINANCIAL INFORMATION OF PARENT COMPANY (CONTINUED)  
 STATEMENTS OF CASH FLOWS

(In thousands, except share and per share data)

|                                                                             | Years Ended December 31, |           |           |          |
|-----------------------------------------------------------------------------|--------------------------|-----------|-----------|----------|
|                                                                             | 2007                     | 2008      | 2009      | 2009     |
|                                                                             | RMB                      | RMB       | RMB       | US\$     |
| Cash flows from operating activities:                                       |                          |           |           |          |
| Net (loss) income                                                           | (230,531)                | (169,612) | 1,332     | 192      |
| Adjustments to reconcile net loss to net cash used in operating activities: |                          |           |           |          |
| Equity in earnings of subsidiaries                                          | 211,183                  | 140,292   | 40,252    | 5,897    |
| Changes in operating assets and liabilities:                                |                          |           |           |          |
| Gain from sale of available for sale securities                             |                          |           | (14,461)  | (2,118)  |
| Prepaid expenses and other current assets                                   | 2,673                    | 6,406     | 256       | 38       |
| Other payables                                                              | (1,084)                  | 1,508     | (4,499)   | (659)    |
| Amounts due to subsidiaries                                                 | 104                      | 7,628     | (7,622)   | (1,116)  |
| Gain from option liabilities                                                |                          |           | (41,810)  | (6,125)  |
| Net cash used in operating activities                                       | (17,655)                 | (13,778)  | (26,552)  | (3,891)  |
| Cash flows from investing activities:                                       |                          |           |           |          |
| Purchase of available-for-sale securities                                   |                          |           | (271,568) | (39,784) |
| Proceeds from sales of available-for-sale securities                        |                          |           | 177,179   | 25,957   |
| Proceeds from short sale of options                                         |                          |           | 73,508    | 10,769   |
| Cover short or assignment of option liabilities                             |                          |           | (19,835)  | (2,907)  |
| (Increase) decrease in amounts due from subsidiaries                        | (19,462)                 | 88,580    | 97,548    | 14,291   |
| Net cash (used in) provided by investing activities                         | (19,462)                 | 88,580    | 56,832    | 8,326    |
| Cash flows from financing activities:                                       |                          |           |           |          |
| Exercise of share options                                                   | 1,268                    |           |           |          |
| Net cash provided by financing activities                                   | 1,268                    |           |           |          |
| Effect of exchange rate changes on cash                                     | (4,386)                  | (3,452)   | (156)     | (22)     |
| Net (decrease) increase in cash and cash equivalents                        | (40,235)                 | 71,350    | 30,124    | 4,413    |
| Cash and cash equivalents at the beginning of the year                      | 73,589                   | 33,354    | 104,704   | 15,339   |
| Cash and cash equivalents at the end of the year                            | 33,354                   | 104,704   | 134,828   | 19,752   |

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NINETOWNS INTERNET TECHNOLOGY GROUP COMPANY LIMITED

SCHEDULE I CONDENSED FINANCIAL INFORMATION OF PARENT COMPANY (CONTINUED)

Notes to Schedule I:

Basis of preparation

The parent-company condensed financial information of Ninetowns is prepared using the same accounting policies as set out in the Company's consolidated financial statements except that Ninetowns uses the equity method to account for its investments in subsidiaries.

Amounts due from and due to subsidiaries

Amounts due from subsidiaries represents amounts loaned to subsidiaries for their investments in the Company's PRC subsidiaries. Amounts due from subsidiaries are non-interest bearing, unsecured and do not have specified payment terms. Amounts due to subsidiaries are payable within one year.

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