NINETOWNS INTERNET TECHNOLOGY GROUP CO LTD
Form 20-F/A
June 27, 2008

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

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FORM 20-F/A
UNDER
THE SECURITIES ACT OF 1933

_____

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

OR

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

For the fiscal year ended December 31, 2006.
Commission file number: 000-51025

OR

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

OR

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

Date of event requiring this shell company report _____.

For the transition period from _____ to _____.

Commission file number _____.

Ninetowns Internet Technology Group Company Limited
(Exact name of Registrant as specified in its charter)

Cayman Islands
(Jurisdiction of incorporation or organization)

22nd Floor, No. 1 Tower

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Chaoyang District Beijing 100020
The People's Republic of China
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(Address of principal executive offices)

SEC 1852 (12-05) Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

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

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Indicate the number of outstanding shares of each of the Issuer's class of capital or common stock as of the close of the period covered by this Annual Report: 34,991,834 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 |X|

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 |X|

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 |X| 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 |X| Non-accelerated filer |_|

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 |_| Item 18 |X|

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 |X|

EXPLANATORY NOTE

This Amendment No. 2 on Form 20-F/A, or Amendment No. 2, amends our annual report on Form 20-F for the year ended December 31, 2006, or the Annual Report, filed with the Securities and Exchange Commission on July 16, 2007. This Amendment No. 2 includes the complete text of each item that was amended by Amendment No. 1 on Form 20-F/A, or Amendment No.1, filed with the Securities and Exchange Commission on July 17, 2007.

Except as described above, this Amendment No. 2 does not revise or update the Annual Report or Amendment No. 1 in any other way.

Item 3. Key Information.

A. Selected financial information and other data

The following table shows selected consolidated financial information and other data for our business. You should read the following information in conjunction with Item 5 of this annual report, "Operating and Financial Review and Prospects." The statement of operations data and cash flow data for the years ended December 31, 2004, 2005 and 2006, and the balance sheet data as of December 31, 2005 and 2006, 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 2002 and 2003, and the balance sheet data as of December 31, 2002 and 2003, are derived from our audited consolidated financial statements which have not been included in this annual report.

In thousands, except per share, per ADS and operating data and percentages	For the year ended December 31,					
	2002	2003	2004	2005	2006	2006(1)
Statement of operations data						
Total net revenues:						
Enterprise software	RMB 93,375	RMB 113,791	RMB 188,720	RMB 203,488	RMB 116,833	US$ 14,971
Software development services	14,400	19,045	12,723	35,700	36,017	4,615
Computer hardware sales	258	72	104	678	398	51
	108,033	132,908	201,547	239,866	153,248	19,637
Cost of revenues:						
Enterprise software	(1,115)	(1,532)	(1,528)	(495)	-	-
Software development services	(3,534)	(4,939)	(2,970)	(18,192)	(16,805)	(2,153)
Computer hardware sales	(216)	(48)	(9)	(482)	(134)	(17)
	(4,865)	(6,519)	(4,507)	(19,169)	(16,939)	(2,170)
Gross profit	103,168	126,389	197,040	220,697	136,309	17,467
Operating expenses:						
Selling expenses	(13,604)	(13,674)	(15,977)	(25,752)	(13,604)	(1,743)
General and administrative expenses	(12,195)	(56,911)	(36,572)	(49,538)	(65,928)	(8,448)
	(4,108)	(2,691)	(4,819)	(11,249)	(29,825)	(3,822)

Research and development expenses						
Total operating expenses	(29,907)	(73,276)	(57,368)	(86,539)	(109,357)	(14,013)
Government subsidies	458	211	1,340	447	705	90
Income from operations	73,719	53,324	141,012	134,605	27,657	3,544
Interest income	619	1,220	3,768	17,625	19,302	2,473

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In thousands, except per share, per ADS and operating data and percentages	For the years ended December 31,					
	2002	2003	2004	2005	2006	2006(1)
Income before provision for income taxes minority interests and equity in earnings of an affilliate	RMB 74,338	RMB 54,544	RMB 144,780	RMB 152,230	RMB 46,959	US$ 6,017
Provision for income taxes	(2,061)	(4,116)	(1,823)	(626)	(1,031)	(132)
Income before minority interest and equity in earnings of an affiliate	72,277	50,428	142,957	151,604	45,928	5,885
Minority interest	(7,299)	(9,239)	(9,006)	—	-	-
Equity in earnings of an affiliate	79	—	—	—	-	-
Net income	65,057	41,189	133,951	151,604	45,928	5,885
Net income per share and ADS(2):						
Basic	2.96	1.82	4.96	4.39	1.32	0.17
Diluted	2.96	1.82	4.74	4.25	1.30	0.17
Cash flow data:						
Net cash provided by operating activities	56,984	87,244	143,270	146,372	40,832	5,232
Depreciation and amortization	1,126	874	2,120	5,293	9,137	1,171
Net cash provided by (used in) investing activities	15,613	(39,629)	(179,405)	(110,851)	(176,483)	(22,614)
Net cash provided by (used in) financing activities	(30,531)	70,250	565,597	2,044	6,328	811

	As of December 31,					
	2002	2003	2004	2005	2006	2006(1)
Balance sheet data:						
Cash and cash equivalents	RMB 49,666	RMB167,531	RMB696,993	RMB731,474	RMB598,648	US$76,709
Trade receivables, net of allowance for doubtful debts, from:						
external customers	28,179	31,096	43,913	45,996	43,142	5,528
related parties	9,000	31,885	30,940	29,752	3,963	508
Term deposits	24,832	65,664	150,913	207,000	307,209	39,365
Total assets	133,287	323,975	1,222,182	1,345,773	1,365,289	174,945
Deferred revenue	44,420	70,608	97,230	67,886	26,383	3,381
Total liabilities	56,581	94,234	131,130	98,808	60,309	7,728
Mezzanine equity	—	46,937	—	—	-	-
Total shareholders' equity	68,671	165,530	1,090,452	1,246,365	1,304,980	167,217
Number of ordinary shares outstanding	—	22,780,000	34,391,834	34,991,834	34,991,834	34,991,834

(1) For the convenience of the reader, the RMB amounts are expressed in U.S. dollars at the rate of RMB7.8041 to US$1.00, the noon buying rate in effect on December 29, 2006 as quoted by the Federal Reserve Bank of New York.
(2) On November 9, 2004, our shareholders approved a 4-for-1 share split. All shares and per share data have been restated to give retroactive effect to this share split. One ADS represents one ordinary share.

Exchange rate information

Our business is primarily conducted in China and denominated in Renminbi. This annual report contains translations of Renminbi amounts into U.S. dollars at a specific rate solely for the convenience of the reader. The conversion of Renminbi into U.S. dollars in this annual report is based on the noon buying rate in The City of New York for cable transfers of Renminbi as certified for customs purposes by the Federal Reserve Bank of New York. Unless otherwise noted, all translations from Renminbi to U.S. dollars and from U.S. dollars to Renminbi in this annual report were made at a rate of RMB7.8041 to US$1.00, the noon buying rate in effect as of December 29, 2006. We make no representation that any Renminbi or U.S. dollar amounts could have been, or could be, converted into U.S. dollars or Renminbi, as the case may be, at any particular rate, the rates stated below, or at all. In addition, such translations should not be construed to be the amounts that would have been reported under U.S. GAAP. The PRC government imposes controls over its foreign currency reserves in part through direct regulation of the conversion of Renminbi into foreign exchange and through restrictions on foreign trade.

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

	Noon Buying Rate			
	Period End	Average (1)	Low	High
	(RMB per US$1.00)			
2002	8.2800	8.2770	8.2800	8.2669
2003	8.2767	8.2771	8.2880	8.2765
2004	8.2765	8.2768	8.2774	8.2764
2005	8.0702	8.1940	8.0702	8.2765
2006	7.8041	7.9723	7.8041	8.0702
2007				
January	7.7714	7.7876	7.7705	7.8127
February	7.7410	7.7502	7.7410	7.7632
March	7.7232	7.7369	7.7232	7.7454
April	7.7090	7.7247	7.7090	7.7345
May	7.6516	7.6773	7.6463	7.7065
June	7.6120	7.6333	7.6120	7.6680
July(2)	7.5690	7.5908	7.5660	7.6055

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

(2) For the period to and including July 12, 2007.

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 software development services that are either used by the State Administration for Quality Supervision and Inspection and Quarantine of the PRC, or PRC Inspections Administration, or by Beijing iTowNet Cyber Technology Ltd., or iTowNet, the operator of the PRC Inspections Administration's data exchange platforms and electronic processing systems, have accounted for substantially all of our total net revenues. We expect that, in the near future, we will continue to generate a substantial portion of our total net revenues through sales of enterprise software and software development services that will be used in connection with PRC Inspections Administration filings. Net revenues from sales of enterprise software for PRC Inspections Administration filings accounted for 93.6%, 84.8% and 76.2% of our total net revenues in 2004, 2005 and 2006, respectively. Net revenues

from software development services provided, directly or indirectly, to the PRC Inspections Administration and iTowNet accounted for 5.7%, 11.7% and 10.7% of our total net revenues in 2004, 2005 and 2006, 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.

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

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

In August 2005, the PRC Inspections Administration selected our company as the winning bidder in connection with the PRC Inspections Administration's request for proposals for the development of a software product that has certain basic functionalities similar to those of iDeclare.CIQ and iProcess.CIQ. The PRC Inspections Administration agreed to pay a one-time fee of RMB3.3 million (US$423,000) to purchase the ownership of the software product that we developed. In February 2006, the PRC Inspections Administration commenced the distribution of the software products that our company developed, free-of-charge to end-users. As certain basic functionalities of the newly developed software products are similar to those of iDeclare.CIQ and iProcess.CIQ, the provision of such software products free-of-charge by the PRC Inspections Administration will likely have a material adverse effect on our results of operations in the short-term and on our future profitability. For example, we sold, together with our franchisees, approximately 1,500 and 2,200 software packages of iDeclare.CIQ during the first quarter of 2006 and 2007, respectively, which is significantly lower than the approximately 8,000 software packages of iDeclare.CIQ sold by our company and our former distributors and franchisees during the first quarter of 2005. In May 2007, the PRC Inspections Administration selected our company as one of the winning bidders in connection with the PRC Inspections Administration's request for proposals for servicing the free import/export e-filing software provided by the PRC Inspections Administration.

We are in the process of diversifying our business focus to include other businesses in addition to the sales of our enterprise software and the provision of software development services. Our new potential business ventures and limited operating history in such potential business ventures may make it difficult for you to evaluate our business, and our limited resources may affect our ability to manage the growth we expect to achieve.

We generated substantially all of our total net revenues from the sales of our enterprise software and the provision of software development services in 2006. Currently, we are in the process of expanding our business focus from the development of software products and the provision of software development services to other potential business ventures. We anticipate that a material portion of our net revenue in

the future will be derived from businesses that are not directly related to sales of our enterprise software or the provision of software development services.

We are still in the process of evaluating and market-testing potential business ventures, including potential investments in the business-to-business, or B2B, industry in China. Accordingly, we have no operating history in respect to such potential business ventures upon which you can evaluate our business and prospects in such area. Furthermore, as part of our operation expansion, we need to continue to develop and improve our staff training, financial and management controls and our reporting systems and procedures. We cannot assure you that we will be able to efficiently or effectively manage or grow our operations, and any failure to do so may limit our future growth and materially adversely 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, 2007, Shuang Wang, our Chief Executive Officer and a director of our company, or Mr. Wang, and Min Dong, our Senior Vice President of Legal Affairs, Administration and Human Resources and the spouse of Mr. Wang, or Ms. Dong, beneficially own 17.99% 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, Mr. Yong Ping Duan, or Mr. Duan, and Technology Pioneer Corp., or Technology Pioneer, beneficially own 13.26% and 8.77% of our American Depositary Shares, or ADSs, respectively. Mr. Duan will have substantial influence over the outcome of most corporate actions. As a result, Mr. Wang, Ms. Dong and Mr. Duan 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 and Mr. Duan 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. iTowNet is 51.0% owned by the PRC Inspections Administration and is the ultimate user of a substantial portion of all the software development services we provide and operates the data exchange platforms that interface between international trade enterprises using our enterprise software and the PRC Inspections Administration's internal electronic processing systems. iTowNet receives a fee of RMB5 from the end-users for each submission made over its data exchange platforms. Mr. Wang is a non-executive director and the vice-chairman of the board of directors of iTowNet. Due to their ownership interest in iTowNet and Mr. Wang's position as a director of iTowNet, the interests of Mr. Wang and Ms. Dong may also differ from those of our other shareholders.

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

We derived RMB22.9 million, RMB17.3 million and nil, or 11.4%, 7.2% and nil of our total net revenues in 2004, 2005 and 2006, respectively, from iTowNet, which is our related party and a major customer for our software development services.

In addition, we derived RMB24.2 million and RMB16.4 million (US$2.1 million), or 10.1% and 10.7%, of our total net revenues in 2005 and 2006, respectively, from eGrid Technology Ltd., or eGrid, (formerly

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known as Beijing Regard Technology Co., Ltd., or Beijing Regard), which is our related party and another major customer for our software development services. We did not derive any of our total net revenues in 2004 from eGrid. We derived RMB25.2 million, RMB47.5 million and RMB21.2 million (US$2.7 million), or 13.4%, 19.8% and 13.9% of our total net revenues in 2004, 2005 and 2006, respectively, from Shenzhen Ninetowns Enke Software Technology Co., Ltd., or Ninetowns Enke, which is our related party and also one of our franchisees.

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

Since a significant part of the growth of our total net revenues in 2004, 2005 and 2006 was generated from software development services, a decline in demand for those services or a change in our relationship with the primary purchasers of those services may result in a significant reduction in our total net revenues and our net revenues from the provision of software development services.

We have provided software development services to iTowNet since April 2002. In addition, we provide software development services either directly, or indirectly as a sub-contractor for eGrid, to iTowNet. See Item 7 of this annual report, “Major Shareholders and Related Party Transactions — Related party transactions — eGrid Technology Ltd.”. Net revenues from the provision of software development services, either directly to iTowNet or indirectly to iTowNet through eGrid, accounted for approximately 4.8%, 11.7% and 8.4% of our total net revenues, and 75.4%, 78.7% and 35.9% of our net revenues from the provision of software development services, in 2004, 2005 and 2006, respectively. We intend to continue to offer these services to iTowNet and eGrid, but if we are unable to obtain additional software development contracts from iTowNet or from eGrid, we may cease to provide software development services or experience a significant reduction in our total net revenues and our net revenues from the provision of software development services.

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

As of May 31, 2007, 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) Guangzhou Ninetowns Wang Li Software Co., Ltd., or Ninetowns Wang Li, and (iv) Ninetowns Enke, who as a result of their purchases of enterprise software 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 from Ninetowns Zhi Fang were RMB3.3 million and RMB10.0 million (US$1.3 million), which represented 6.5% of our total net revenues for 2006. Our net revenues from sales of our enterprise software from Ninetowns Xin He were RMB9.2 million (US$1.2 million), which represented 6.0% of our total net revenues for 2006. Our net revenues from sales of our enterprise software from Ninetowns Wang Li were RMB0.5 million (US$61,000), which represented 0.3% of our total net revenues for 2006. Our net revenues from sales of our enterprise software from Ninetowns Enke were RMB25.2million, RMB47.5 million and RMB21.2 million (US$2.7 million) or 13.4%, 19.8% and 13.9% of our total net revenues in 2004, 2005 and 2006, respectively.

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

eGrid and iTowNet have been our two largest customers for software development services. Our net revenues from the provision of software development and other services to eGrid were RMB24.2 million and RMB16.4 million (US$2.1 million) or 10.0% and 10.7% of our total net revenues in 2005 and 2006, respectively. We did not recognize any net revenues from the provision of software development and other services to eGrid in 2004. Our net revenues from the provision of software development services to iTowNet were RMB9.6 million, RMB4.1million and nil, or 4.8%, 1.7% and nil of our total net revenues, in 2004, 2005 and 2006, respectively. 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 billed 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, 2006, our billed receivables amounted to approximately RMB21.9 million (US$2.8 million), of which our trade receivables from related parties amounted to RMB4.0 million (US$0.5 million). Our trade receivables as of December 31, 2006 represented approximately 2.2% of our total current assets and our billed receivables from related parties represented approximately 0.4% of our total current assets. As of December 31, 2006, we had an allowance for doubtful debts of approximately RMB1.1 million (US$0.1 million). If any of our franchisees or any of our other customers fails to pay, or delays payment on, all or part of these receivables, we would be required to make additional allowances for doubtful debts and our profitability and financial position could decline.

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

Our executive officers, directors and shareholders with 5.0% or more shareholding of our company and their affiliates beneficially own approximately 46.35% of our outstanding ordinary shares. Such concentration of ownership might have the effect of delaying or preventing a change in control of our company which could in turn reduce the market price of our ADSs and the voting and other rights of our other shareholders.

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

We offer one year of customer maintenance services with our iDeclare.CIQ basic package, and charge a fee of RMB1,500 per licensee for customer maintenance services each year thereafter. However, until September 2003, we did not emphasize the marketing of customer maintenance services because we were focused on building our relationships with our users and we believed that not all of our users and potential users were accustomed to being charged for this type of service. In 2006, we offered customer maintenance service contracts to approximately 29,000 users, so that approximately 23.8% of the total number of users due for a maintenance contract renewal in 2006 paid for the renewal. In 2006, we recognized approximately RMB41.5 million (US$5.3 million) from provision of customer maintenance services.

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

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

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 accounted for approximately 87.1%, 79.3% and 70.4% of our total net revenues in 2004, 2005 and 2006, respectively. Any decrease in the demand for or price of iDeclare.CIQ, any increase in competition to iDeclare.CIQ, including but not limited to as a result of the PRC Inspections Administration's and iTowNet's endorsement of a comparable product, any failure by our company to develop additional enterprise software, any significant shift in our marketing efforts, any lasting or prolonged interruption that prevents our enterprise software from delivering data to government entities due to system failures or other factors, or any other adverse development specific to iDeclare.CIQ, could materially reduce our total net revenues. In February 2006, the PRC Inspections Administration commenced to promote and distribute a software product, which 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 and will likely continue to decline. For example, we sold, together with our franchisees, approximately 1,500 and 2,200 software packages of iDeclare.CIQ during the first quarter of 2006 and 2007, respectively, which is significantly lower than the approximately 8,000 software packages of iDeclare.CIQ sold by our company and our former distributors and franchisees during the first quarter of 2005. In the event such decline continues, we expect to experience a significant decline in our total net revenues.

Competition could reduce our profit margins and revenues.

Companies that have expertise in marketing and providing government-related software products and services may begin to compete with us. There are companies that provide software products and services similar to ours in many other countries. 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 allocate resources to pursue opportunities relating to the needs of international trade enterprises making government filings in China.

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

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

Selective acquisitions and investments in new businesses form part of our strategy to further expand our business. In 2006 and 2007, we made investments in a leading Chinese B2B trade facilitator and a leading Chinese B2B vertical search engine operator, respectively. In May 2007, we launched our new B2B vertical search platform, tootoo.com. We plan to utilize these investments in combination with our existing software expertise to further increase our service profile. If we are presented with additional opportunities, we may acquire additional complementary companies, products or technologies, or invest in new businesses. Future acquisitions and investments and the subsequent integration of new companies, assets or business ventures would require significant time and attention from our management. The diversion of our management's attention to integrate such acquisitions or investments and any difficulties encountered in any integration process could have a material adverse effect on our ability to manage our business and expose us to potential risks, including risks associated with the integration of new operations, technologies and personnel, unforeseen or hidden liabilities, the diversion of resources from our existing businesses and technologies, the inability to generate sufficient revenues to offset the costs and expenses of acquisitions and investments, and potential loss of, or harm to, our relationships with employees, customers and suppliers.

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

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

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

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

Our success depends on our ability to attract, retain, train and motivate highly skilled employees, including experienced software engineers, technical personnel and sales and marketing personnel, all of whom are in great demand in China. In particular, we depend on software engineers who have expertise and experience in creating enterprise software for international trade enterprises as well as providing software development services to PRC government agencies. We may not be able to attract or retain the key personnel that we will need to achieve our business objectives. In addition, as we are still a relatively young company and our business has grown rapidly since our establishment, at times our ability to train and integrate new employees into our operations may not meet the growing demands of our business. As the PRC economy continues to develop, demand for personnel with the skills we require to create and

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distribute our enterprise software 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 or provide software development services to PRC government agencies.

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

We adopted the 2003 Plan in November 2003, and the Amended and Restated 2004 Plan and the 2006 Share Incentive Plan in October 2005, or collectively, the Plans. As of December 31, 2006, we had granted options under the Plans with the right to purchase a total of 3,464,000 ordinary shares, of which 165,809 unexercised options had been returned to the pool of our ungranted options as a result of resignation from employment by a few former employees.

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

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

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

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

Our historical growth has placed, and such growth and any further growth 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 growth effectively. Such effective management will require us to implement additional management information systems, to

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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 growth and 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. We may accrue substantial trade receivables in connection with such projects, because we seldom receive pre-payment or progress payments during the project. As a result, we may need to substantially increase our expenses without assurance that we will be paid for our software development services. Furthermore, we may not recognize any revenue from software development projects in any given period because we recognize revenue from such services only when a contract has been signed. If our customers do not pay us, or delay paying us, for our software development services, our working capital requirements and expenses may increase without a corresponding increase in net revenues, which would adversely affect our profitability.

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

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

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

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

product liability or legal claims. Any imposition of liability on us may adversely affect our business and increase our costs, resulting in reduced revenues and profitability.

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 substantially equivalent intellectual property. We cannot be certain that the steps we have taken will prevent misappropriations of our technology. From time to time, we may have to resort to litigation or other measures to try to enforce our intellectual property rights, which could result in substantial costs and diversion of our resources. We may be unable to enforce our intellectual property rights even through litigation or other measures, particularly in China. See "— Risks related to doing business in China — The uncertain legal environment in China could limit the legal protections available to you and could adversely affect our ability to provide our products and services in China." In particular, we are aware of an online video game company in China whose name is substantially similar to our name in Chinese. Although we have registered our trademarks in China, we cannot assure you that such company will not take actions against us for trademark infringement. We are in the process of registering our trademark outside of China.

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

We sold some of our enterprise software before they were registered for sale with the Ministry of Information Industry of the PRC, which could expose us to penalties.

We sold our iDeclare.CIQ basic package before it was registered for sale with the Ministry of Information Industry of the PRC, a registration which is required of all PRC software products. We obtained the registration certificate for iDeclare.CIQ in September 2001, 14 months after sales commenced in July 2000 and recorded net revenues from sales of enterprise software of approximately RMB12.6 million in the period prior to issuance of the registration certificate. Our PRC counsel has advised us that the PRC regulations requiring the registration of software prior to its public sale do not set out any specific penalties for the sales of unregistered software products, except that PRC regulators may issue warnings and public censures. Although we were not aware of any warning or public censure related to our pre-registration sales issued by any government entity as of the date of this annual report, our business may be adversely affected if penalties are subsequently imposed by the Ministry of Information Industry of the PRC.

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

All of our principal PRC operating subsidiaries enjoy or are entitled to enjoy preferential tax treatment in the form of reduced tax rates or tax holidays provided by the PRC government or its local agencies or bureaus. Beijing New Take Electronic Commerce Limited, or Beijing New Take; Beijing Ninetowns Times Electronic Commerce Limited, or Ninetowns Times; Ninetowns Digital Technology Limited, or Ninetowns Digital, currently benefit from a 15.0% preferential enterprise income tax, or EIT, rate. Beijing Ninetowns Ports Software and Technology Co., Ltd., or Ninetowns Ports, currently benefit from a 7.5% preferential EIT rate. Shanghai New Take Digital Technology Co., Ltd., or Shanghai New Take, currently benefit from a 16.5% preferential EIT rate. Beijing Ninetowns Network and Software Co., Ltd., or Ninetowns Network, and Guangdong Ninetowns Technology Co., Ltd., or Guangdong Ninetowns Technology, are currently entitled to an exemption from EIT. Beijing Ronge Tongshang Network Technology Limited, or Ronge Tongshang, which is our variable interest entity, is currently entitled to a 15.0% preferential EIT rate. As a result of these preferential tax treatments and the recognition of deferred tax assets for deductible temporary differences, our effective income tax rate for 2006 was 2.2%. In addition, we also receive from the PRC government a 14.0% value added tax, or VAT, refund on sales of certain registered software. We cannot assure you that we will continue to enjoy this preferential tax treatment in the future, either due to a change in the PRC government's tax policies or because a subsidiary or variable interest entity fails to satisfy the financial and operational criteria necessary to maintain its eligibility for such preferential tax treatment. Any reduction in our preferential tax treatment could materially reduce our net income.

On March 16, 2007, the 2008 PRC Enterprise Income Tax Law was enacted. Under the new law, effective on January 1, 2008, the PRC government will adopt an uniform EIT rate of 25.0% for all enterprises (including foreign-invested enterprises) and revoke the current tax exemption, reduction and preferential treatments applicable to foreign-invested enterprises. However, the preferential EIT rate of 15.0% for "high and new technology enterprises" was strongly supported by the State and current preferential tax treatments for foreign-invested high and new technology enterprises are expected to be grandfathered for a period of five years following the effective date of the new law. We believe that our PRC operating subsidiaries and variable interest entity will continue to qualify as high and new technology enterprises entitled to the 15.0% preferential EIT rate, and therefore we will not be adversely affected by the new law. However, we cannot assure you that we will continue to enjoy this preferential tax treatment in the future, either due to a change in the PRC government's tax policies or because a subsidiary or variable interest entity fails to satisfy the financial and operational criteria necessary to maintain its eligibility for such preferential tax treatment. Any reduction in our preferential tax treatment could materially reduce our net income. Additionally, because the PRC State Council has not promulgated detailed rules for the 2008 PRC Tax Law, our subsidiaries and variable interest entities may not qualify as "high and new technology enterprises" and thus may not be entitled to a preferential EIT rate of 15.0%. Instead, our subsidiaries and variable interest entities may be subject to the standard EIT rate of 25.0% after the current preferential tax treatment they enjoy expires. We will seek to apply for "high and new technology enterprise" status for our subsidiaries and variable interest entities once the detailed rules are made available to us. In addition, under the 2008 PRC Enterprise Income Tax Law, enterprises established under the laws of foreign countries or regions whose "de facto management bodies" are located within the PRC are considered resident enterprises and will generally be subject to the EIT at the rate of 25.0% on its global income. However, the 2008 PRC Enterprise Income Tax Law does not define the term "de facto management bodies." Substantially all of our management is currently located in the PRC and if they remain located in the PRC after the effective date of the PRC Enterprise Income Tax Law, we may be considered to be a resident enterprise and therefore may be subject to the EIT at the rate of 25.0% on our global income in the PRC.

It is likely that we would be considered a passive foreign investment company for 2006, 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 2006. 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 5 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 emerging nature of our market and its rapid evolution will require us to continually improve the performance, features and reliability of our enterprise software particularly in response to changing market standards, and require us to introduce enterprise software or make enhancements to existing enterprise software as quickly as possible and prior to our competitors. 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.

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 is a new and rapidly evolving 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.

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

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

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

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

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

We conduct our business entirely through our operating subsidiaries and variable interest entities incorporated in China. Our subsidiaries are generally subject to laws and regulations applicable to foreign investment in China and, in particular, laws applicable to wholly foreign-owned enterprises. The PRC legal system is a civil law system based on written statutes. Unlike common law systems, it is a system in which decided legal cases have little precedential value. In the late 1970s, the PRC government began to promulgate a comprehensive system of laws and regulations governing economic matters. However, these laws, regulations and legal requirements are relatively new and are evolving rapidly, and their interpretation and

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enforcement involve uncertainties. These uncertainties could limit the legal protections available to foreign investors and entities, including you and us, such as the right of foreign-invested enterprises to hold licenses and permits such as customs-related business licenses and permits, software licenses and licenses and approvals necessary to provide services to government enterprises. As the PRC legal system matures, changes in its legislation or interpretation of its legislation may adversely affect our ability to provide our products and services in China.

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

PRC law requires that lessors of properties possess title certificates to the leased properties. We currently have approximately eight leases for properties that we use as employee housing or as our offices for technical support centers in Guangdong Province for which the lessors cannot provide copies of the required title certificates. If there are disputes over the ownership of any of these leased properties for which the lessors do not possess title certificates, our leases may be deemed invalid by the PRC courts and we may be forced to vacate these properties.

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

In early 2003, several economies in Asia, including Hong Kong and China, were affected by the outbreak of Severe Acute Respiratory Syndrome, or SARS. Several confirmed or suspected SARS cases were reported in early 2004 in Beijing and Anhui Province in China. In addition, lethal outbreaks of avian influenza A (H5N1) infection among poultry were reported by several countries in Asia, including China in 2005. In March 2007, a new fatal case of avian influenza was reported in Anhui Province in China. If there is a recurrence of an outbreak of SARS or avian influenza, it may adversely affect our total net revenues, growth and profits. For instance, a recurrence of SARS, avian influenza or any other epidemic may reduce the level of economic activity in affected areas and negatively impact international trade activities involving China, which could have a negative impact on our business. In addition, health or other government regulations may require temporary closure of our offices, government offices or the offices of our customers, which will severely disrupt our business operations and have a material adverse effect on our total net revenues, growth and profits.

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

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

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

The value of our ordinary shares and our ADSs will be affected by the foreign exchange rate between U.S. dollars and Renminbi. For example, to the extent that we need to convert U.S. dollars into Renminbi for our operational needs and if the Renminbi appreciates against the U.S. dollar at that time, our financial condition and the price of our ordinary shares and our ADSs may be adversely affected. Conversely, if we decide to convert our Renminbi into U.S. dollars for the purpose of declaring dividends on our ordinary shares or for other business purposes and the U.S. dollar appreciates against the Renminbi, the U.S. dollar equivalent of our earnings from our subsidiaries and variable interest entities in China would be reduced.

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

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

In October 2005, SAFE issued the Notice on Issues Relating to the Administration of Foreign Exchange in Fund – Raising and Return Investment Activities of Domestic Residents Conducted via Offshore Special Purpose Companies, or Notice 75, which took effect on November 1, 2005. Notice 75 supersedes prior SAFE regulations promulgated in January and April of 2005. Notice 75 requires PRC residents to register with the relevant local SAFE branch in connection with their establishment or control of an offshore entity established for the purpose of overseas equity financing involving onshore assets or equity interests held by them. The term “PRC residents” as used in Notice 75 includes PRC citizens as wells 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.

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

A number of terms and provision in Notice 75 remain unclear. Because of uncertainty over how Notice 75 will be interpreted and implemented, we cannot predict how it will affect our business operations or future strategies. For example, our present and prospective PRC subsidiaries' or variable interest entities' ability to conduct foreign exchange activities, such as remitting dividends and foreign-currency denominated borrowings, may be subject to compliance with Notice 75 requirements by our PRC resident shareholders. Despite our efforts to fully comply with the SAFE regulations, we cannot assure you that we will obtain, or receive waivers

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

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

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

The SEC generally exempts foreign private issuers such as our company from its proxy solicitation requirements. As a holder of ADSs, you may instruct the 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 or New York law, or the deposit agreement, that would prevent the transferability of ADSs. Under the deposit agreement, however, the depository may close its books for our ADR facility from time to time at its discretion, which may prevent you from transferring your ADSs when you wish to do so.

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

We are a holding company with no significant assets other than our equity interests in our subsidiaries in China. As a result, we rely on dividends and other distributions paid to us by our subsidiaries in China, including the funds necessary to service 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 and deprive us of our primary source of funds.

Relevant PRC laws and regulations permit payments of dividends by our PRC subsidiaries only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. In addition, the statutory general reserve fund, which requires annual appropriations of 10% of net after-tax income should be set aside prior to payment of any dividends. As a result of these and other restrictions under PRC laws and regulations, our PRC subsidiaries and affiliates are restricted in their ability to transfer a portion of their net assets to us either in the form of dividends, loans or advances, restricted portion amounted to approximately RMB522.5 million (US$67.0 million), or 40.0% of our total consolidated net assets as of December 31, 2006.

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.

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

Our corporate affairs are governed by our amended and restated memorandum and articles of association, the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) and the common law of the Cayman Islands. The rights of shareholders to take action against the directors and actions by minority shareholders are to a large extent governed by the common law of the Cayman Islands. Cayman

Islands law in this area may not be as established and may differ from provisions under statutes or judicial precedent in existence in the United States. As a result, our public shareholders may face different considerations in protecting their interests in actions against our management, directors or our controlling shareholder than would shareholders of a corporation incorporated in a jurisdiction of the United States.

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

- to recognize or enforce against us judgments of courts of the United States based on certain civil liability provisions of U.S. securities laws; and

- in original actions brought in the Cayman Islands, to impose liabilities against us based on certain civil liability provisions of U.S. securities laws that are penal in nature.

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

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

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

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

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

We may be at risk of securities class action litigation.

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

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

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

Our management has determined that our internal control over financial reporting as at December 31, 2006 was effective. 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.

Item 4. Information on the Company.

A. History and development of the company

Our predecessor, Ninetowns Technology, a “share cooperative enterprise” formed under PRC law on March 22, 1995, focused on the research and development of software related to the declaration process, in addition to selling computer hardware and accessories. Through a series of restructuring transactions in 2000, Ixworth Enterprises Limited, or Ixworth, a company incorporated in the British Virgin Islands, acquired 90.0% of the equity interest of Ninetowns Technology. Such 90.0% equity interest acquired by Ixworth was held by New Take Limited, or New Take, and Shielder Limited, or Shielder, both Hong Kong companies, through their respective subsidiaries, Beijing New Take and Ninetowns Times. In September 2003, we issued 21,999,996 ordinary shares to Jitter Bug Holdings Limited, or Jitter Bug, the parent company of Ixworth. Jitter Bug simultaneously transferred 100.0% of the equity interest in Ixworth to us. We were incorporated in the Cayman Islands on February 8, 2002 as Ninetowns Digital World Trade Technology Holdings Limited. We changed our name to “Ninetowns Digital World Trade One Technology Holdings Limited” on June 11, 2002 and then to “Ninetowns Digital World Trade Holdings Limited” on April 7, 2003. On June 30, 2004, we signed definitive agreements to acquire the remaining 10.0% equity interest in Shanghai New Take for a consideration of RMB50,000 from Import & Export. From August to October 2004, we completed a series of reorganization transactions to acquire from our shareholder Value Chain International Limited, or Value Chain, the remaining 10.0% equity interest in Beijing New Take, Ninetowns Digital, Ninetowns Times, Ninetowns Ports and Shanghai New Take, as well as a 70.0% equity interest in Tsingdao Fujin, in exchange for 2,002,312 ordinary shares and US$5,876,540 in cash. On November 8, 2006, Tsingdao Fujin terminated its registration with the Qingdao Industry and

Commercial Administrative Bureau, Shinan Branch. 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 National Market, under the symbol "NINE." On December 8, 2004, we completed the initial public offering of our ADSs, each of which represented one ordinary share. Ixworth formed Beprecise Investments Limited, or Beprecise, a British Virgin Islands Company, as a wholly-owned subsidiary in 2006. On October 19, 2006, our wholly-owned subsidiary, Beprecise, acquired a 16.25% interest in Global Market Group Limited, or Global Market. On September 15, 2006, we changed our name to "Ninetowns Internet Technology Group Company Limited." On April 27, 2007, our wholly-owned subsidiary, Ixworth, acquired a 70% interest in Ample Spring Holdings Limited, or Ample Spring, a company incorporated in the British Virgin Islands.

We conduct our business in China through seven PRC subsidiaries, namely (i) Beijing New Take, (ii) Ninetowns Digital, (iii) Ninetowns Times, (iv) Ninetowns Ports, (v) Shanghai New Take, (vi) Guangdong Ninetowns Technology and (vii) Ninetowns Network; two variable interest entities, namely (i) Ronghe Tongshang and (ii) Beijing Baichuan Tongda Science and Technology Development Company Ltd., or Baichuan, which we effectively control, through a series of contractual agreements entered into in 2006 and 2007, respectively. For more information, see Item 7 of this annual report "Major Shareholders and Related Party Transactions – Related party transactions—Control over Ronghe Tongshang" and "Major Shareholders and Related Party Transactions – Related party transactions—Control over Baichuan." Our principal executive offices are located at 5th Floor, Union Plaza, 20 Chaowai Street, Chaoyang District, Beijing 100020, People's Republic of China. Our telephone number in China is (86 10) 6588-7788. 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 2004, 2005 and 2006, which totaled approximately RMB51.5 million, RMB31.4 million and RMB75.9 million (US$9.7 million), respectively, consisted primarily of purchases of property and equipment as well as copyright for software, acquisition of interests in subsidiaries and other investments. During 2004, 2005 and 2006, we paid deposits for the acquisition of property and equipment in the amounts of RMB49.7 million, RMB23.4 million and RMB0.4 million (US$48,000), respectively. We anticipate that we will incur capital expenditures in 2007 of approximately RMB30.0 million (US$3.8 million) to purchase equipment and software products to support our new software development projects and development of new potential business ventures, approximately RMB65.0 million (US$8.3 million) to acquire office premises and office furniture as part of our effort to reduce office rental expenses in the future, and approximately RMB125 million (US$16.0 million) for strategic acquisitions and investments. We expect to use our cash flow from operations and our available cash to fund such capital expenditures (including capital expenditures for development of new software products and functions) and to execute our business strategy.

B. Business overview

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

(i) electronic application to the PRC Inspections Administration for an Origin Certificate;

(ii) electronic application to the PRC Inspections Administration for goods inspection;

(iii) electronic transfer of various import/export documents between the local inspection agency branch office where an international trade enterprise is located and the branch office at the discharging port or station through which the relevant goods are being imported into or exported from the PRC; and

(iv) electronic transfer of documents from the PRC Inspections Administration to PRC Customs.

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

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

We believe the market for our enterprise software is large and relatively under-penetrated. The market for our enterprise software relating to the declaration process consists of international trade enterprises in China. According to the PRC Ministry of Commerce, there were approximately 609,276 foreign-invested companies registered to do business in China as of May 31, 2007, many of which engage in importing goods into and exporting goods from China, as well as millions of PRC-based companies which do not have foreign investment but which do engage in importing and exporting. Of these companies, as of May 31, 2007, only approximately 150,000 engaged in electronic import/export declaration processing. We believe approximately 134,000, or approximately 89.3%, of such users use our enterprise software to complete the declaration process with the PRC Inspections Administration.

In August 2005, the PRC Inspections Administration selected our company as the winning bidder in connection with the PRC Inspections Administration’s request for proposals for the development of a software product that has certain basic functionalities similar to those of iDeclare.CIQ and iProcess.CIQ. The PRC Inspections Administration agreed to pay a one-time fee of RMB3.3 million (US$423,000) to purchase the ownership of the software product that we developed. The development of such software product was completed in December 2005 and the PRC Inspections Administration commenced to distribute such software products free-of-charge to end-users in February 2006. We believe that the distribution of free software products, while in the long-term would further increase the number of e-filers and in turn increase demand for our enterprise software services, would also have a significant adverse

effect on our business, our results of operations and profitability in the short-term. For example, we sold, together with our franchisees, approximately 1,500 and 2,200 software packages of iDeclare.CIQ during the first quarter of 2006 and 2007, respectively, which is significantly lower than the approximately 8,000 software packages of iDeclare.CIQ sold by our company and our former distributors and franchisees during the first quarter of 2005.

In 2006, we derived 76.2% of our total net revenues from sales of enterprise software and 23.5% from software development services. Specifically, our enterprise software recognized net revenues of RMB188.7 million, RMB203.5 million and RMB116.8 million (US$15.0 million) in 2004, 2005 and 2006, respectively. We believe there were approximately 95,000, 122,000 and 130,000 licensees of our enterprise software registered on their data exchange platforms as of December 31, 2004, 2005 and 2006, respectively.

We intend to increase our revenues by leveraging and strengthening our market reputation, enhancing value for our clients through broader product offerings and improved customer maintenance services, expanding our client base through increased marketing, maintaining our leadership in technical and industry knowledge and pursuing selective strategic acquisitions and investments. However, given the uncertain impact on our business resulting from the distribution of free software products by the PRC Inspections Administration to end-users, 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.

Reduction of costs associated with declaration filings

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

Convenience of filing anytime and from anywhere over the Internet

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

User-friendly software

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

Competitive advantages

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

First to market, setting the industry standard

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

- we helped build the PRC Inspections Administration's system for accepting and processing electronic declarations,
- our enterprise software is highly reliable,
- we believe our enterprise software was the first made available for electronic declaration processing with the PRC Inspections Administration,
- we believe our enterprise software was the first product endorsed by the PRC Inspections Administration for use in such declarations, and
- as of May 31, 2007, our enterprise software is being used by approximately 89.3% 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. Mr. Wang and Ms. Dong also beneficially own a 49.0% equity interest in iTowNet, which is 51.0% owned by the PRC Inspections Administration and operates the data exchange platforms that interface between international trade enterprises using our enterprise software and the PRC Inspections Administration's internal electronic processing system. We continue to work closely with the PRC Inspections Administration to refine our enterprise software to reflect changes in the PRC Inspections Administration's information systems, procedures, rules and regulations and to create new software functions to address additional aspects of the declaration process. For more information regarding our relationship with the PRC Inspections Administration. See Item 3D of this annual report, "Risk factors – Risks related to our business – We currently generate substantially all of our total net revenues from either PRC government agencies or in connection with PRC government agency filings and approval procedures, 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

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authenticated as having a licensed copy of our enterprise software and as having a properly registered account with the PRC Inspections Administration in order to conduct electronic transactions over the PRC Inspections Administration's data exchange platforms, thus making it difficult to use pirated copies of our enterprise software.

Strong market reputation

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

Extensive distribution and support network

Currently, through our own distribution network and our franchisees, we maintain four 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. For example, in March 2002, Mr. Shuang Wang was awarded the Traverse Cup Prize by Software World Magazine jointly with a number of industry magazines in China for his 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 and China Central TV for his significant contributions to the PRC software industry. We believe our management team's (i) close relationship with the PRC Inspections Administration, (ii) deep and broad experience with PRC import/export processes, (iii) knowledge of PRC import/export policies and business requirements and (iv) strong product development capabilities provide us with the ability to develop high-quality software to serve the needs of our markets.

Business strategy

Our primary goal is to create long-term shareholder value and to become the leading software company that enables enterprises and government agencies to streamline their import/export processes in China. Our new B2B strategy leverages our market intelligence in business-to-government, or B2G, trade processing, by integrating B2B vertical search capabilities into our service profile with pioneering vertical search technology. We believe China's rapidly growing import/export activities, continuous import/export policy changes and evolving import/export filing requirements, coupled with the PRC government's initiative to streamline and use the Internet to carry out various government operations, provide us with significant growth opportunities. We intend to use our cash flow from operations and our available cash to pursue the following strategies:

Leverage and strengthen our market reputation by creating new products

We believe that we have a strong market reputation for enabling international trade enterprises to complete electronic declarations over the Internet efficiently and cost effectively. We intend to expand this brand recognition for PRC Inspections Administration-related products to other PRC trade-related government agencies and trade-related third parties such as banks, insurers and logistics providers. For example, we launched a new product series called iProcess.CIQ in June 2005, which enables international trade enterprises and their suppliers to submit product quality-related data to the PRC Inspections Administration throughout the production process over the Internet. Such information allows the PRC Inspections Administration to accelerate the approval process and provide better monitoring support. We believe that building a strong brand is an essential element of our sales and marketing strategy because brand recognition allows us to grow our revenues rapidly without incurring significant marketing costs.

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

We intend to develop new functions for our existing products to enhance the interaction between our users and the PRC Inspections Administration, other PRC trade-related government agencies and related third parties. For example, we are in the process of developing additional functions to further expand our existing iDeclare.CIQ products, such as applications for permits to import used equipment, paint, food and cosmetic products. In addition, we currently support our existing users jointly with our four franchisees through four technical support centers operated and maintained by us and 43 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 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 connection with our pursuit of selective strategic acquisitions, on October 19, 2006, our indirect wholly-owned subsidiary, Beprecise, acquired a 16.25% interest in Global Market for a consideration of US$5,000,000. Global Market is a leading Chinese B2B trade facilitator headquartered in Guangzhou. On April 27, 2007, Ixworth, our wholly-owned subsidiary, acquired a 70% interest in Ample Spring, for a consideration of RMB210 million (US$26.9 million). Ample Spring is a related party of Baichuan, a leading Chinese B2B vertical search engine operator. In May 2007, our company launched tootoo.com, our new B2B vertical search platform. By leveraging our B2G expertise with these recent acquisitions and integrating Baichuan's pioneering vertical search technology and supplier ranking system with the in-depth quality validation process offered by our existing software solutions, tootoo.com is positioned to become a leading B2B search and service provider. We plan to continue to seek opportunities to cooperate with other B2B platforms and technology to further increase our service profile.

Products and services

In 2006, we derived 76.2% of our total net revenues from sales of enterprise software and 23.5% of our total net revenues from provision of software development services.

The products and services we offered in 2006 included the following:

Enterprise software

We have five enterprise software products currently available commercially or in trial version: (i) iDeclare.CIQ, (ii) iProcess.CIQ, (iii) User Message Agent, or UMA, (iv) iMonitor.CGA and (v) iValue.

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. In 2004, 2005 and 2006, we generated RMB175.5 million, RMB186.5 million and RMB107.9 million (US$13.8 million), respectively, of net revenues from sales of the iDeclare.CIQ basic package and related customer maintenance services (including the per declaration fees as described below), which represented a substantial portion of our net revenues from sales of enterprise software in each of those periods.

A limited number of our iDeclare.CIQ users, substantially all of whom are located in Guangdong Province, China, do not pay a one-time license fee or annual customer maintenance service fees. Instead, such users pay a fee of RMB20 per declaration filing made using iDeclare.CIQ. Net revenues from sales of enterprise software included RMB24.1 million, RMB23.6 million and RMB21.9 million (US$2.8 million) of such per-use fees, or 12.8%, 9.8% and 18.7% of our net revenues for sales of enterprise software in 2004, 2005 and 2006, respectively.

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

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

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

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

- The Origin Certificate processing application allows users to apply for and obtain over the Internet an Origin Certificate, which is a required document showing the place of origin of goods imported or exported. iDeclare.CIQ's Origin Certificate processing application has five software functions that allow an international trade enterprise to obtain Origin Certificates. The different software functions relate to the import/export regulations of different countries and can help an enterprise determine if it qualifies for favorable tariffs between China and a second country. To date, all five software functions have been included in the iDeclare.CIQ product series.

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

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

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.

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

Traditional paper-based filing method	iDeclare.CIQ electronic filing method
declaration form filled manually	electronic input minimizes mistakes arising from illegible handwriting
declaration form physically submitted to the PRC Inspections Administration	submission of electronic declaration form reduces cost and time
long waiting time in the process of declaration	no physical queue-up for submission required
incomplete information or mistakes in declaration form cause delay, stress and additional costs	built-in error detection function helps prevent omissions and mistakes

iProcess.CIQ series

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

Furthermore, users of our iDeclare.CIQ product series that have paid their annual maintenance fees may share data between the iDeclare.CIQ and iProcess.CIQ product series. This will not only reduce data input requirements for iDeclare.CIQ users, but may also encourage existing iDeclare.CIQ product series users to pay their annual maintenance fees.

In 2005 and 2006, we generated RMB3.3 million and RMB5.5 million (US$0.7 million), respectively, of net revenues from sales of the iProcess.CIQ product series.

UMA series

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

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

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

In 2005 and 2006, we recognized RMB13.5 million and RMB3.5 million (US$0.4 million), respectively, in net revenues from sales of the UMA series of enterprise software and related customer maintenance services. We

currently do not expect to have significant sales of the UMA series of enterprise software and related services.

iMonitor.CGA series

The iMonitor.CGA series of software and hardware products was commercially introduced in June 2004 and was designed to be installed at the customs clearing gates of PRC Customs branch offices to allow inspection of goods-in-bond. The purpose of an inspection of goods-in-bond is, among other things, to monitor and inspect shipping containers to prevent such shipping containers from passing PRC Customs without paying the required tariffs. We expect the price per system of iMonitor.CGA, including software and certain hardware, for example cameras and sensors, to range from RMB100,000 to RMB200,000, and we intend to charge an annual maintenance fee after the first year of installation. We have not yet determined the maintenance fee for iMonitor.CGA product series. The price per system of iMonitor.CGA will be determined through negotiations with our potential customers for such product, which we expect to be mainly trade-related PRC government agencies. To date, we have not recognized any significant revenues from the sale of iMonitor.CGA product series.

Our iMonitor.CGA product series has two main applications: (i) data collection through container number recognition, and (ii) gate inspection.

- The container number recognition application allows PRC Customs to manage the thousands of shipping containers that pass through China's import/export ports daily by using cameras to observe, identify and process identification numbers painted on the exterior of shipping containers.

- The gate inspection application provides PRC Customs an entire suite of applications, ranging from the container number recognition application described above to the tracking of vehicles and containers. The gate inspection application uses automatic sensors to electronically observe, transmit, process and manage data such as vehicle driver identification, vehicle license plate numbers, shipping container identification codes and shipping container size and weight, as well as the movement of vehicles and containers in the PRC Customs ports. The gate inspection application also verifies the collected information against the information stated in the relevant declaration documents.

Our iMonitor.CGA series of products interfaces with PRC Customs' multiple cameras and sensors installed at import/export clearing gates to process the captured images and output the results in an organized and easy-to-manage manner. The main advantage of iMonitor.CGA product series is its automation of previously manual inspection procedures which significantly reduces the staff costs and time that it would take for information gathering, while increasing accuracy of the information gathered.

iValue series

A trial version of iValue product was introduced in March 2004. The purpose of the iValue product series is to provide services that are complementary to a user's interaction with the PRC Inspections Administration and PRC Customs. Currently, iValue product series has only one principal application: electronic bill payment. This application allows users to electronically pay PRC Inspections Administration- or PRC Customs-related fees over the Internet via a platform that we operate. This trial product minimizes staff costs associated with in-person payments and delays associated with payments by post. Electronic payments are made as wire transfers directly from a payor's bank account at a participating bank. Funds are released upon receipt of wire instructions by the participating bank through our iValue platform. As a result, we are not exposed to the credit risk of the payor. The iValue product series also allows integration of payment records into other software and databases.

Since we only introduced our iValue product in a trial version, we have not marketed the iValue product to international trade enterprises and we have not yet determined the pricing model for, or recognized any revenues from, this product.

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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 upgrades to: (i) the internal software systems used by PRC government agencies and their related entities to process electronic filings made with our enterprise software, and (ii) the data exchange platforms which serve as the interface between such systems and users of our enterprise software.

In 2003, we provided software development services primarily to Beijing Regard in connection with Beijing Regard's contracts to provide software development services for iTowNet. Under this arrangement, Beijing Regard designs software for iTowNet and subcontracts the software coding work to us. We enter into all contracts with iTowNet and eGrid on an arm's length basis. See Item 7 of this annual report, "Major Shareholders and Related Party Transactions — Related party transactions." On January 27, 2005, we entered into a software development contract with the PRC Inspections Administration pursuant to which we contracted to develop an internal Decision & Support System for the PRC Inspections Administration for RMB5.6 million.

On February 16, 2006 and February 28, 2006, we entered into two software development contracts with the PRC Inspections Administration pursuant to which we contracted to develop an electronic monitoring system and an "import and export hygiene monitoring system" for the PRC Inspections Administration for RMB3.3 million (US$423,000) and RMB1.6 million (US$205,000), respectively.

We offer our software development services on a fixed-fee basis. We often start work on software development projects based on verbal agreements and do not receive payment until the completion of a particular project. We believe such practice is consistent with the general practice in the government-related software development industry in China.

Technology

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

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

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

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

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

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

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

Products under development

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

Additional iValue modules

We are currently developing additional functions to complement iValue to process status enquiries for a user's PRC Inspections Administration filings and to allow for enrollment in online courses, such as customs declarer examinations. We cannot predict if or when such efforts will be completed.

iDeclare.CGA Series

Similar to the PRC Inspections Administration, PRC Customs has a standardized set of forms used by international trade enterprises and we plan to work with PRC Customs to develop enterprise software that will facilitate electronic filings of such forms. We intend for this enterprise software to enable electronic filings of customs, manifest, bill of lading, export goods receipt and other declarations. In addition, we also plan to work with PRC local tax authorities to develop a product to facilitate electronic filings of tax and ATA Carnet declarations, which are international customs documents that permit duty-free and tax-free temporary import of goods for up to one year. Research and development work on the iDeclare.CGA product series commenced in the second quarter of 2004; we cannot predict if or when such efforts will be completed.

Production and hardware design

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

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 week-long Chinese New Year holidays, which occur in January or February each year. In addition, net revenues from software development services are typically higher in the third and fourth quarters of each year because our software development contracts are usually signed during that time. However, we cannot predict when our software development contracts will be signed in the future, or if they will be signed at all.

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

- acceptance of our products and services in China;
- the strength of our relationships with the PRC Inspections Administration, PRC Customs and other PRC government agencies;
- our ability to attract and retain users;
- our ability to develop new software products and services;
- PRC government regulation of software sales and development; and
- general economic conditions in China.

Quality

We are committed to delivering enterprise software and services of consistently superior quality to our customers. We believe our commitment to quality and our total quality management system are key elements to our operation as a leading provider of enterprise software to international trade enterprises and trade-related PRC government agencies.

On August 3, 2004, we were awarded the ISO 9001:2000 Quality Management System Recognition Certificate. ISO 9001:2000 is a worldwide quality management system certification program regarding management system standards administered by the International Organization for Standardization. Our enterprise software has also been endorsed by the PRC Inspections Administration for electronic customs declaration.

Sales and marketing

We have implemented our sales and marketing initiative in three phases. In the first phase, we relied mainly on direct sales of new software products to international trade enterprises. In the second phase, we used authorized distributors to reach additional international trade enterprises. We are currently implementing the third phase of our sales and marketing initiative by helping third parties establish franchisee 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 franchisees, 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, 2006, we had a sales and marketing force consisting of approximately 130 people, serving mainly the southern regions of China. Our sales and marketing representatives also perform customer maintenance services.

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

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

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

Sales by authorized distributors

We had previously contracted with distributors to undertake marketing, distribution and service activities in certain provinces in China where we do not have any offices or where our customer maintenance service capabilities are insufficient to serve and support our international trade enterprise clients. However, it is our current strategy to develop our distribution and technical support network through franchisees. As of December 31, 2005, the distribution agreements with our two former authorized distributors, Panyu Chengchang Trade Development Co., Ltd., or Panyu Chengchang, and Shanghai Tomorrow Technology Development Co., Ltd., or Tomorrow Technology, expired and we chose not to renew them due to our plans to develop our franchisee network. We currently do not have any distributor.

For 2004, 2005 and 2006, net revenues from sales of enterprise software we recognized from our former authorized distributors amounted to approximately RMB77.0 million, RMB71.4 million and RMB17.0 million (US$2.2 million), respectively.

Sales by our franchisee

It is our current strategy to expand our franchisee network to undertake marketing, distribution and service activities using the “Ninetowns” brand name. As of December 31, 2006, we have four franchisees, Ninetowns Enke, Ninetowns Zhi Fang, Ninetowns Xin He and Ninetowns Wang Li. Our franchise agreement with Ninetowns Enke was entered into in February 2004. Pursuant to the franchise agreement, Ninetowns Enke agreed to a minimum sales commitment of RMB50.0 million for the two

years ended February 14, 2006 and a sales discount of RMB1,000 per each iDeclare.CIQ basic package purchased from our company. In addition, Ninetowns Enke also agreed to act as our sales agent to sell after sales maintenance services for our enterprise software to our customers. On April 22, 2004, we agreed with Ninetowns Enke to amend the franchise agreement to revise certain pricing terms. This agreement has a two-year term and contains minimum sales commitments. On May 12, 2006, we entered into a new franchise agreement with Ninetowns Enke for our iDeclare.CIQ basic package. This agreement has a two-year term and does not contain any minimum sales commitment. Our franchise agreements with Ninetowns Zhi Fang were entered into in May 2005 for two of our software products, iQs under the iProcess.CIQ series and our iDeclare.CIQ basic package. Each of these franchise agreements has a two-year term and does not contain any minimum sales commitment. In January 2006, we engaged Ninetowns Xin He, as a new franchisee. The franchise agreement with Ninetowns Xin He has a two-year term and does not contain any minimum sales commitment. In October 2006, we entered into a franchise agreement with our newest franchisee, Ninetowns Wang Li for our iDeclare.CIQ basic package. This agreement has a two-year term and does not contain minimum sales commitments. In December 2006, we entered into new franchise agreements with Ninetowns Enke, Ninetowns Xin He, Ninetowns Zhi Fang and Ninetowns Wang Li for our new software version under the iDeclare.CIQ series, Ninetowns Network Quality Supervision Software v1.0 software, each for two-year terms and without minimum sales commitments. Our franchisees provide customer maintenance services to our enterprise software users. We intend to focus on establishing new franchisee arrangements in the future.

For 2004, 2005 and 2006, net revenues from the sale of enterprise software generated by our franchisee amounted to approximately RMB25.2 million, RMB50.8 million and RMB40.9 million (US$5.2 million), respectively.

Customers

In 2006, our customers for sales of enterprise software include our two former distributors, and 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 2004, 2005 and 2006, our five largest enterprise software customers, which consisted primarily of our former distributors and franchisees, accounted for approximately 56.0%, 60.1% and 49.1%, respectively, of our net revenues from sales of enterprise software.

Our customers for software development services include the PRC Inspections Administration, iTowNet, eGrid and other third party customers. We did not recognize any net revenues from provision of software development services until 2002. iTowNet and eGrid accounted for substantially all of our net revenues for provision of software development services in 2004 and 2005. In 2006, net revenues from provision of software development services to iTownet and eGrid accounted for approximately 35.9% of our total software development revenue.

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

- help-desk support via telephone, facsimile or e-mail;

- site visits to carry out maintenance procedures;
- training for new updates of our enterprise software; and
- automatic updates of software relating to changes in codes associated with goods, countries and regions and changes to import/export regulations.

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

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

Each of our technical support centers functions as a call center that responds to calls from customers located in the surrounding areas. As of December 31, 2004, 2005 and 2006, we had 360, 454 and 128 customer service and technical support employees, respectively.

Competition

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

We compete with several software developers in bidding for software development projects. In particular, we compete against eGrid, which is a related party of our company and one of our major customers in our software development business, to provide software development services to iTowNet.

Many other companies may in the future provide software and development services of the type we offer. Companies that have expertise in marketing and providing technical services to government entities may begin to compete with us by further developing their services and increasing their focus on this aspect of their business. There are companies which provide e-government services and enterprise software similar to ours in many other countries. In addition, there are other companies in China which are focusing on providing such services to government agencies in China; in particular, regional providers attempting to implement systems for provincial branches of government agencies such as PRC Customs. Furthermore, there can be no assurance that software, hardware or other companies unrelated to us will not allocate resources to pursue opportunities relating to the needs of international trade enterprises making government filings in China.

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

- reputation in the market;
- understanding of the needs of PRC international trade-related government agencies, such as the PRC Inspections Administration, as well as endorsements from such agencies;

- the quality of our products and services;

- responsiveness to the needs of users;
- installed base of international trade enterprise customers;
- cost-effectiveness; and
- distribution network.

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

Intellectual property rights

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

As of December 31, 2006, we had registered 38 software copyrights and three trademarks in China. Although we have no registered trademarks outside China, we are in the process of registering certain of our trademarks in the United States and Hong Kong.

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

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

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

New Business

We are currently in the process of exploring potential opportunities related to international trade. We commenced market research in the first quarter of 2006 and we are currently evaluating various business models and experimenting with new products. We cannot predict if or when any of such efforts will be completed.

However, we have pursued selective strategic acquisitions. On October 19, 2006, our indirect wholly-owned subsidiary, Beprecise, acquired a 16.25% interest in Global Market, a leading Chinese B2B trade facilitator headquartered in Guangzhou. On April 27, 2007, Ixworth, our wholly-owned subsidiary, acquired a 70% interest in Ample Spring, a related party of Baichuan, a leading Chinese B2B vertical search engine operator. In May 2007, our company launched tootoo.com, our new B2B vertical search platform. By leveraging our B2G expertise with these recent acquisitions and integrating Baichuan's pioneering vertical search technology and supplier ranking system with the in-depth quality validation process offered by our existing software solutions, tootoo.com is positioned to become a leading B2B

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search and service provider. We plan to continue to seek opportunities to cooperate with other B2B platforms and technology to further increase our service profile.

Regulation

Political, legal, economic and social considerations in China

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

Foreign investment policies

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

New regulation relating to the administration of an office

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

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

Regulation of the software industry

Software copyright

The State Council of the PRC, or the State Council, promulgated the Regulations for the Protection of Computer Software, or the Software Protection Regulations, on December 20, 2001, and such regulations became effective on January 1, 2002. The Software Protection Regulations were promulgated, among other things, to protect the copyright of computer software in China. According to the Software Protection Regulations, computer software that is independently developed and exists in a physical form will be protected. However, such protection does not apply to any ideas, mathematical concepts, processing and operation methods used in the development of software products.

Under the Software Protection Regulations, PRC citizens, legal persons and organizations enjoy copyright protection for computer software they develop, regardless of whether the software has been published. In addition, foreigners or any person without a nationality enjoy copyright protection of computer software they develop, if such computer software was first distributed in China.

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

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

Software copyright registration

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

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

agreement with respect to the registration, any of the copyright owners may apply for registration but the names of the other copyright owners must be recorded on the application.

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

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

Software products registration

On October 27, 2000, the Ministry of Information Industry of the PRC, or the MII, issued the Measures Concerning Software Products Administration, to regulate and administer software products and promote the development of the software Industry in China. Pursuant to the Measures Concerning Software Products Administration, all software products operated or sold in China must be duly registered with the relevant authorities.

To produce software products in China, the software production units should meet certain requirements, such as the possession of (i) enterprise legal person status and a scope of operations which includes the computer software business; (ii) a fixed production site; (iii) conditions and technologies for producing software products; and (iv) quality control measures and capabilities for the production of software products. Software developers or producers are allowed to sell their registered software products independently or through agents, or by way of licensing. If the software products are sold through a distribution agent, there must be a contract between the software developer and the agent, and between the agent and its sub-agents, if any, specifying the distribution rights, distribution territory and distribution term as well as the technical services to be provided by the distribution agent. The MII and other relevant departments may carry out supervision and inspection over the development, production, operation and import/export activities of software products in China.

Policies to encourage the development of software and integrated circuit industries

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

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

(ii) providing tax incentives, including a tax rebate for taxpayers who sell self-developed software products, before 2010, the amount of the 17.0% statutory value added tax that exceeds 3.0%, will be refunded immediately when paid. There is a full exemption from the PRC enterprise income tax for two years starting from the first profit-making year of operations and a 50.0%-relief from the PRC enterprise income tax for the following three years for recognized newly established enterprises that are engaged in the software industry. The software enterprises of particular importance pursuant to the state stipulations, which do not enjoy any tax exemption benefit in a

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given year, will be subject to a reduced enterprise income tax rate of 10.0% in that year. Moreover, software enterprises that import certain equipment for the development of their self-developed software, with limited exemptions, are also entitled to the exemption of import related value-added tax;

(iii) providing government support, such as government funding in the development of software technology;

(iv) providing preferential treatment, such as credit facilities with low interest rates to enterprises that export software products;

(v) taking various strategies to ensure the software industry has sufficient expertise; and

(vi) implementing measures to enhance intellectual property protection in China.

Regulation of foreign exchange and dividend distribution

Foreign exchange

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

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

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

Dividend distribution

The principal PRC regulations governing the distribution of dividends by our wholly foreign-owned enterprises are (i) The Wholly Foreign-Owned Enterprise Law (1986), as amended in 2000; and (ii) Implementation Regulations under the Wholly Foreign-Owned Enterprise Law (2001).

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

Restricted net assets

Relevant PRC laws and regulations permit payments of dividends by our PRC subsidiaries only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. In addition, the statutory general reserve fund, which requires annual appropriations of 10% of net after-tax income should be set aside prior to payment of any dividends. As a result of these and other restrictions under PRC laws and regulations, our PRC subsidiary and affiliate 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 RMB522.5 million (US$67.0 million), or 40.0% of our total consolidated net assets as of December 31, 2006.

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

Regulation of the import/export industry

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

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

- executing the inspection and quarantine, appraising and supervising of import and export commodities;

- implementing the quarantine and supervision for the import and export of animals and plants and the inspection, supervision and administration of the sanitary and food quality;

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

- administering the issuance of Origin Certificates for commodities and the general certificates of origin;

- formulating the development plan of technologies for commodity inspection and quarantine; and

- developing international cooperation and technology exchanges related to commodity inspection and quarantine and carrying out the implementation work relating to technological barriers to trade, as stipulated.

Customs General Administration of the PRC

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

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

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

Import/ Export license system

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

Administrative provisions on the Origin Certificate

All exporters may apply for origin certificates in respect of the products to be exported out of China. In compliance with the Implementation Rules of the Place of Origin for Export Goods of the PRC issued on April 1, 1992, which became effective on May 1, 1992, and the Provisions for the Issuance of the Origin Certificate for Export Goods of the PRC (Trial Implementation), which became effective on January 1, 1996, and to strengthen the administration of the issuance of Origin Certificates, the Ministry of Foreign

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Trade and Economic Cooperation, currently known as the Ministry of Commerce, promulgated the Administrative Provisions of the PRC on Origin Certificate on March 8, 1996, or the Administrative Provisions. The Administrative Provisions are aimed at facilitating the implementation of a national EDI project by the Ministry of Commerce. The Ministry of Commerce made use of the recommended standard form of the Origin Certificate issued by the then State Technology Supervision Administration of the PRC on July 1, 1996, to standardize and regulate the administration, subscription, printing, transportation, record-keeping, issuance, calculation and examination of the Origin Certificate, thus minimizing or eliminating the occurrence of forged or fake Origin Certificates. The new standard form of the Origin Certificate bears a uniform serial number.

Commodity quality inspection and quarantine inspection

Commodity quality inspection

The Law on the People's Republic of China on Import and Export Commodity Inspection adopted by the Standing Committee of the Seventh National People's Congress on February 21, 1989, which became effective on August 1, 1989, as amended on April 28, 2002, provides that all imported and exported commodities included in a published inspection list must be inspected in accordance with the relevant compulsory inspection standards or other standards specified by the state inspection authorities prior to export out of China or use or sale in China for imported goods. On October 23, 1992, the State Import and Export Commodities Inspection Bureau, with the approval of the State Council, promulgated the Implementing Provisions for Law of the People's Republic of China on Import and Export Commodity Inspection, which stipulates particular requirements for the import and export commodity inspection.

Quarantine inspection

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

C. Organizational structure

We conduct substantially all of our business through seven PRC subsidiaries and two variable interest entities in China. The following diagram illustrates our subsidiaries, their country of incorporation and the proportion of our ownership of each as of May 31, 2007.

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

D. Property and equipment

Our principal executive offices occupy a total of approximately 3,170 square meters on the 5th, 12th, 14th and 17th floors of Union Plaza, 20 Chaowai Street and the 20th floor of the Fan Li Building, 22 Chowai Street, Chaoyang District, Beijing 100020 PRC. In addition, we occupy a representative office of approximately 200 square meters at Suites 1705-6, 17/F, Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong. As of May 31, 2007, we have one premise which we own and we have also leased 9 premises in the following cities and municipalities to serve as technical support centers and quarters for our technical support staff:

Location	Office space (in square meters)	Number of employees
Guangdong Province		
Dongguan	921.69	44
Guangzhou	120.85	60
Beijing	551.65	37
Shanghai	139.00	12
Total	1,733.19	153

During 2005, we transferred a number of technical support centers to our franchisees in an effort to reduce the number of technical support centers that we operate on our own. We currently support our existing users jointly with our four franchisees through four technical support centers operated and maintained by us and 43 technical support centers operated and maintained by our four franchisees located in most of the major import/export cities in China.

Ninetowns Ports acquired, subject to the receipt of the necessary title certificates, four residential units in the Sing Sun Building in Guangzhou, with aggregate space of approximately 355 square meters and uses such premises as employee housing for our employees in Guangzhou. During 2006, Ninetowns Ports acquired two commercial units as offices with aggregate space of approximately 340.61 square meters.

Ninetowns Times owns two commercial units in the Qingdao Bai Sing Building in Qingdao, with aggregate space of approximately 384 square meters and uses such commercial units as offices. Ninetowns Times also acquired, subject to the receipt of the necessary title certificates, an eight-storey building in Fengtai, with aggregate space of approximately 2,206.59 square meters and uses such building as a call center for our technical support services and also as a research and development center.

Ninetowns Ports also acquired four floors and the naming right of a building in Beijing. See Item 7 of this annual report, "Major Shareholders and Related Party Transactions — Related party transactions — Transaction with Mr. Ko Jin Heng."

Insurance

The insurance industry in China is still at an early stage of development. We are not required to maintain business liability insurance, and, to our knowledge, other software companies in China do not maintain such insurance. As a result, we do not have business liability insurance coverage, but we do maintain vehicle liability insurance. Moreover, 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.

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Item 5. Operating and Financial Review and Prospects.

Overview

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

We generated total net revenues of RMB201.5 million, RMB239.9 million and RMB153.2 million (US$19.6 million) in 2004, 2005 and 2006, respectively. The decrease in our total net revenues was due to the PRC Inspections Administration's free distribution of products that are similar to our iDeclare.CIQ product series. Our net income in 2004 was RMB134.0 million increasing to RMB151.6 million in 2005. Our net income in 2006 was RMB45.9 million (US$5.9 million) representing a 69.7% decrease from 2005. We believe there were approximately 95,000, 122,000 and 130,000 licensees of our enterprise software registered to effect electronic import/export processing with the PRC Inspections Administration as of December 31, 2004, 2005 and 2006, respectively.

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

Focus on sales of enterprise software and software development services

Our predecessor, Ninetowns Technology, was formed in 1995 to focus on the research and development of software related to the declaration process, in addition to selling computer hardware and accessories. During the first several years of our operations, our net revenues from computer hardware sales constituted almost all of our total net revenues and provided the necessary funding for our development of software related to the declaration process. As we developed, we engaged in three main lines of business: (i) sales of enterprise software and related customer maintenance services, (ii) provision of software development services, and (iii) sales of computer hardware and accessories. Since 2001, we have shifted our business focus from sales of computer hardware and accessories to sales of enterprise software and related customer maintenance services and provision of software development services. Sales of computer hardware and accessories accounted for an insignificant percentage of our total net revenues in 2006 and are expected to be a negligible part of our business in the future. We intend to continue deploying our resources on sales of enterprise software and related customer maintenance services and provision of software development services that enable enterprises and trade-related PRC government agencies to streamline the import/export process in China.

Growth of the import/export industry in China

Our financial results have been, and we expect them to continue to be, affected by the growth of the import/export industry in China. According to Global Insight, the total value of import/export transactions in China reached approximately US$1.7 trillion in 2006, up from approximately US$1.2 trillion in 2004 and approximately US$1.4 million in 2005. As a result of China's accession into the WTO in 2001, tariffs imposed by China on all imported goods are expected to be reduced and PRC-imposed import quotas and permit requirements are expected to be gradually eliminated. We believe the combination of a rapidly

growing PRC economy and China's accession to the WTO will accelerate the growth of the import/export industry in China, and as a result create additional demand for our products and services.

Increase in number of potential users

The number of users of our enterprise software has increased significantly since we first launched our iDeclare.CIQ software products in August 2000. This increase is partially attributable to the increasing number of PRC international trade enterprises and partially attributable to the increasing demand from such enterprises for more efficient import/export processing methods. We expect an increase in the number of PRC international trade enterprises as the PRC economy continues to expand. We believe this in turn will increase demand for our enterprise software and related customer maintenance services and software development services, as international trade enterprises seek an efficient means of completing the declaration process.

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 product series. The PRC Inspections Administration agreed to pay a one-time fee of RMB3.3 million (US$423,000) to purchase the ownership of the software product that we developed. In February 2006, the PRC Inspections Administration commenced to distribute such software products free-of-charge to end-users. We believe that the 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, would have a significant adverse effect on our total net revenue, our results of operations and profitability in the short-term. For example, we sold, together with our franchisees, approximately 1,500 and 2,200 software packages of iDeclare.CIQ during the first quarter of 2006 and 2007, respectively, which is significantly lower than the approximately 8,000 software packages of iDeclare.CIQ sold by our company and our former distributors and franchisees during the first quarter of 2005. In May 2007, the PRC Inspections Administration selected our company as one of the winning bidders in connection with the PRC Inspections Administration's request for proposals for servicing the free import/export e-filing software provided by the PRC Inspections Administration.

Expanding our user base through franchisees

We believe our user base has substantial growth potential due to the high number of international trade enterprises that possess import/export rights in China. According to the PRC Ministry of Commerce, there were approximately 609,276 foreign-invested companies registered to do business in China as of May 31, 2007. In addition, there are numerous PRC-based companies that possess import/export rights. A key component of our growth strategy is to secure new customers through the efforts of our franchisees and we intend to engage additional franchisees to expand our marketing and distribution network. Currently, we have engaged four franchisees to undertake marketing, distribution and service activities in China.

Description of revenues, cost items and trade receivables

We primarily operate in three lines of business: (i) sales of enterprise software, (ii) software development services, and (iii) sales of computer hardware and accessories. Currently, our total net revenues are primarily derived from our sales of enterprise software. Our net revenues from sales of computer hardware and accessories constituted less than 0.3% of our total net revenues for 2006. In May 2007, we launched tootoo.com, our new B2B vertical search platform.

Total net revenues

Currently, we generate total net revenues primarily from (i) sales of enterprise software products and fees from customer maintenance services, (ii) fees from software development services, and (iii) sales of computer hardware and accessories.

We derived RMB51.7 million, RMB89.1million and RMB37.6 million (US$4.8 million), or 25.6%, 37.1% and 24.6% of our total net revenues in 2004, 2005 and 2006, respectively, from our related parties iTowNet and eGrid, which are two of our major customers for software development services, and Ninetowns Enke, which is one of our franchisees.

Our total net revenues are net of business tax and VAT, but include VAT refunds as discussed below. Our sales of enterprise software products and computer hardware and accessories are generally subject to a VAT of 17.0%. Our fees charged for software development services and customer maintenance service for enterprise software products are generally subject to a 5.0% business tax. Pursuant to the laws and regulations of the PRC, three of our subsidiaries in China are entitled to a refund of the 14.0% VAT for certain self-developed software products. We recognize the VAT refunds at the same time we recognize net revenues from sales of enterprise software. VAT refunds are included in our net revenues from sales of enterprise software. In 2006, we recognized RMB10.5 million (US$1.3 million) in VAT refunds. We cannot predict how much our net revenues from sales of our enterprise software or software development services will increase in the future, or if they will increase at all.

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

In addition to direct sales, we also sold our enterprise software to our former distributors and franchisees for further sale to users. As of December 31, 2005, the distribution agreements with our former distributors, Panyu Chengchang and Tomorrow Technology, expired and we chose not to renew them due to our efforts to develop our franchisee network. In May 2005, January 2006 and October 2006, we engaged three new franchisees and we currently have four franchisees. Our per-unit license fee for enterprise software products charged to our former distributors and franchisees is based on our negotiated sales arrangement with the former distributor or franchisee, and is less than the RMB4,500 per-unit license fee we receive from direct sales. We also sell iDeclare.CIQ products on a fee-per-declaration filing basis to a limited number of users, substantially all of whom are located in Guangdong Province, China. Our ability to grow our net revenues from sales of enterprise software 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. It is currently unclear how the distribution of free enterprise software by the PRC Inspections Administration affects our ability to grow our net revenues from sales of enterprise software.

Notwithstanding that we intend to charge for such maintenance services, we believe our users and potential customers are not accustomed to being charged for this type of service and it is unclear to us

how many of our users will pay for such maintenance services. In 2006, we collected customer maintenance service fees from approximately 29,000 users, representing approximately 23.8% of our users due to renew their maintenance service. We intend to continue to increase our marketing and collection efforts with respect to these customer maintenance service fees. We expect our profit margin from sales of enterprise software to decrease if the VAT refund is eliminated or reduced by the PRC tax authorities. We expect net revenues from per declaration filing fees to increase with our increased sales of enterprise software, but to remain stable as a percentage of our total net revenues.

Software development services. Our net revenues from software development services are derived primarily from contracts related to PRC government agency software development projects, such as our services for the PRC Inspections Administration and the data exchange platforms operated by iTowNet, which is our related party, and our services for eGrid, which is also our related party. 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 man-hours spent and the costs invested in the project. Billing is generally done periodically in accordance with predetermined milestones as established by the contract. We expect net revenues from software development services to increase as we are engaged by additional PRC government agencies, such as PRC Customs, to perform such services, but we cannot predict how much such revenues will grow in the future, or if they will grow at all.

Computer hardware sales. Although we derived significant net revenues from computer hardware sales in the past, we expect net revenues from this business to represent an insignificant portion of our total net revenues in the future.

Cost of revenues

Our cost of revenues consists principally of costs related to sales of our enterprise software and our provision of software development services.

Enterprise software. Our enterprise software consists of standardized software, the production of which involves minimal cost. We have production arrangements with several outside contractors, under which they produce the compact discs that contain our software and charge us a fee for such services. We package such compact discs with compact disc holders and ship the packages from our Beijing headquarters to our branch offices, former distributors and franchisees. As a result, the cost of revenues for sales of enterprise software consists mainly of outsourcing costs to those outside contractors and costs associated with packaging and shipping of software. Currently, we also distribute our enterprise software products through the Internet. We expect our cost of revenues from sales of enterprise software to increase as a percentage of our total net revenues because we will be required to recognize additional cost of revenues after we commercially introduce our iMonitor.CGA product series, since the costs associated with our iMonitor.CGA product series as a percentage of net revenues from sales of enterprise software are higher than the costs associated with our iDeclare.CIQ product series.

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

Computer hardware sales. Our cost of revenues from computer hardware sales is minimal because (i) we do not manufacture these products, but source them from third party manufacturers, (ii) we maintain minimal inventories of computer hardware and accessories, and (iii) we have a very low volume of sales in this line of business.

Gross profit margin

Our gross profit margin is primarily affected by our net revenues from sales of enterprise software and the cost of revenues for our software development services. For the purpose of calculating our gross profits, costs that are not otherwise specifically allocated are allocated to our costs associated with (i) sales of enterprise software, (ii) software development services, and (iii) sales of computer hardware and accessories, in proportion to the gross profits from these lines of business prior to the allocation of such common costs. We expect our enterprise software gross profit margin to decrease with our expected increase in iMonitor.CGA sales because the costs associated with iMonitor.CGA, as a percentage of net revenues from sales of enterprise software, are higher than the costs associated with our iDeclare.CIQ product series. We expect our software development services gross profit margin to decrease as we invest in more advanced technologies in new software development projects. We do not expect our computer hardware line of business to impact our gross profit as we continue to shift our business focus to our other lines of business.

Operating expenses

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

Selling expenses. Selling expenses consist primarily of sales, marketing and personnel expenses, customer service expenses, associated rental expenses, marketing and advertising expenses and travel and entertainment expenses for our sales and marketing staff. We expense all selling expenses as they are incurred. As we engage additional franchisees to expand our marketing and distribution network, we expect to significantly decrease the number of our sales and marketing staff. This, after netting off the effect of the increase in our stock-based compensation expenses, resulted in a significant decrease in our selling expenses for 2006. We expect to expand our marketing and advertising campaigns to compete with the free software distributed by the PRC Inspections Administration and we intend to increase incentive payments to salespersons to promote our enterprise platform products. In addition, if we decide to engage in a new line of business, we expect to increase the number of our sales and marketing staff to promote that business. As a result of the above, we generally expect a gradual increase in our selling expenses.

General and administrative expenses. General and administrative expenses consist primarily of personnel expenses, office rental expenses, general office expenses, travel and entertainment expenses, professional fees and allowance for doubtful debts. We expense all general and administrative expenses as they are incurred. In 2006, we incurred substantially higher general and administrative expenses than in earlier years (excluding the impact of stock-based compensation charge of RMB35.0 million in 2003) as a result of increases in (i) professional fees incurred related to our status as a public company and our acquisition and investment activities, (ii) depreciation and amortization charges on fixed assets and intangible assets, (iii) increase in stock-based compensation expenses and (iv) increase in the number of employees due to our expansion into the B2B business. We expect our general and administrative expenses to increase continuously in 2007.

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 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 increase in stock-based compensation expenses, (iv) an expected increase in our potential new business ventures and (v) our investment in software licenses for development tools to increase the productivity of our overall research and development efforts.

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

Taxation

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

PRC enterprise income tax. Our PRC operating subsidiaries and variable interest entities are subject to PRC EIT on their taxable income. Pursuant to PRC tax laws, EIT is generally assessed at the rate of 33.0% of taxable income.

Beijing New Take, Ninetowns Times and Ninetowns Digital are afforded favorable tax treatment and are only subject to a 15.0% EIT, Shanghai New Take and Ninetowns Ports are also afforded favorable tax treatment. Shanghai New Take was exempt from EIT from January 1, 2003 to December 31, 2004 and is subject to a 16.5% EIT from January 1, 2005 to December 31, 2007. Ninetowns Ports was exempt from EIT from August 1, 2003 to December 31, 2005 and is subject to a 7.5% EIT for the period from January 1, 2006 to December 31, 2008. Guangdong Ninetowns Technology is entitled to an exemption from EIT from January 1, 2006 to December 31, 2007. Ninetowns Network is entitled to an exemption from EIT from January 1, 2006 to December 31, 2008. Ronghe Tongshang is currently subject to a 15.0% EIT.

Ninetowns Digital, Beijing New Take, Ninetowns Times, Ninetowns Ports, Ninetowns Network and Ronge Tongshang have qualified as “new and high technology enterprises” and have been granted preferential EIT rates based on such status. Shanghai New Take has also been granted preferential EIT rates based on its status as a software company. Relevant PRC government authorities specify certain financial and operational criteria for a company to comply with in order to maintain its status as a new and high technology enterprise.

Baichman is currently subject to a 33.0% EIT.

PRC business tax. Our PRC operating subsidiaries are also subject to PRC business tax. We primarily pay business tax on our net revenues generated from software development services and customer maintenance services. Our PRC operating subsidiaries and variable interest entities generally pay a 5.0% business tax on our net

revenues derived from software development services and customer maintenance services and this business tax is deducted from our total net revenues.

Value-added tax. Our PRC operating subsidiaries are also generally subject to a 17.0% VAT on sales of computer hardware and accessories and our enterprise software products. Pursuant to PRC tax regulations, Ninetowns Times, Ninetowns Digital and Ninetowns Ports are entitled to a 14.0% VAT refund on sales of certain registered self-developed software products. Our net revenues from sales of such enterprise software include VAT refunds in the amount of RMB17.4 million, RMB19.8 million and RMB10.5 million (US$1.3 million) in 2004, 2005 and 2006, respectively.

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

Trade receivables

Our trade receivables from external customers and trade receivables from related parties consist primarily of amounts due from our franchisees for enterprise software delivered to them and amounts billed but not paid and amounts unbilled for our software development services. Our trade receivables balance due from related parties was RMB4.0 million (US$0.5 million) as of December 31, 2006.

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

We account for the sales of our enterprise software in accordance with American Institute of Certified Public Accountants, or AICPA, Statement of Position (SOP) 97-2, “Software Revenue Recognition.” The application of SOP 97-2 requires judgment, including whether a software arrangement includes multiple elements, and if so, whether vendor-specific objective evidence, or VSOE, of fair value exists for those elements. Our customers receive certain elements of our enterprise software over a period of time, including post-delivery repair and enterprise software maintenance, training, telephone support and nonspecific enhancements of the software on a when-and-if-available basis. As no fair value of these elements can be assessed reliably, we recognize such revenues ratably over the contract period of the software arrangement, which is usually 12 months. Changes to the elements in a software arrangement, the ability to identify VSOE for those elements, and the fair value of the respective elements could all materially impact the amount of earned and unearned revenue. Enterprise software revenues received or receivable but not yet recognized are accounted for as deferred revenue on our balance sheet. Deferred revenue is reduced proportionately as enterprise software revenues are recognized ratably over the 12-month period.

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 revenues from these projects based on the percentage-of-completion of the contracts, in which revenue recognition is based on the actual hours spent and the

estimated costs to complete the projects. Billing is generally done periodically in accordance with predetermined milestones as established by the contract. The determination of percentage-of-completion with reference to actual hours spent and the estimated costs to complete the projects requires significant judgment.

Stock-based compensation

Effective January 1, 2006, we adopted the fair value recognition provisions of SFAS 123R, using the modified prospective transition method. Under this method, share-based compensation expense recognized beginning January 1, 2006 includes: (a) compensation expense for all share-based compensation awards granted prior to, but not yet vested as of January 1, 2006, based on the fair market value as of the grant date, measured in accordance with Statement of Financial Accounting Standards No. 123, “Accounting for Stock-Based Compensation” issued by FASB and (b) compensation expense for all share-based compensation awards granted on or subsequent to January 1, 2006, based on grant-date fair value estimated in accordance with the provisions of SFAS 123R. We recognize share-based compensation costs on a straight-line basis over the requisite service period which is generally the vesting period. For share-based compensation awards that were granted before we became a public company and are not yet vested, the fair value is measured using the minimum value method and we continue to report these options under APB 25. For options vested prior to January 1, 2006, we accounted for share-based compensation plans in accordance with APB 25.

We recorded a compensation charge of RMB10.3 million for the options granted to our employees under our 2004 Plan. As we have not granted options to our employees under the 2006 Share Incentive Plan, we do not have compensation charges that are associated with the 2006 Share Incentive Plan to record.

Trade receivables

We perform ongoing credit evaluations of our customers and adjust credit limits based on payment history and the customer’s current credit-worthiness, as determined by our review of their current credit information. We extended three months of credit to our former distributors and franchisees pursuant to

our distribution and franchise agreements. However, it took on average five to six months for our former distributors and franchisees, who are also our major customers, to settle their debts to us. Therefore, in some fiscal periods, our trade receivables increased, and may increase in the future, to an amount which is approximately equal to our total net revenues for such period. We continuously monitor collections and payments from our customers and maintain allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make the required payments and use the specific identification method to record such allowances. We typically write-off billed receivables that are over 360 days outstanding. While such credit losses have historically been within our expectations and the provisions established, we cannot guarantee that we will continue to experience the same credit loss rates that we have had in the past. The billed receivables from Ninetowns Enke, iTowNet and eGrid, which are our customers that are related to us, were approximately 18.1% of our total billed receivables as of December 31, 2006. The billed receivables from our customers and franchisees, which are unrelated to us, were approximately 81.9% of our total billed receivables as of December 31, 2006. Since our billed receivables are concentrated in a relatively small number of customers, a significant change in the liquidity or financial position of any one of these customers could have a material adverse impact on the collectibility of our billed receivables and our future operating results.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of the identifiable assets and liabilities acquired. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired. We completed a two-step goodwill impairment test for 2004, 2005 and 2006. The first step compares the fair values of each reporting unit to its carrying amount, including goodwill. If the fair value of each reporting unit exceeds its carrying amount, goodwill is not impaired and the second step will not be required. If the carrying amount of a reporting unit exceeds its fair value, the second step compares the implied fair value of goodwill to the carrying value of a reporting unit's goodwill. The implied fair value of goodwill is determined in a manner similar to accounting for a business combination with the allocation of the assessed fair value determined in the first step to the assets and liabilities of the reporting unit. The excess of the fair value of the reporting unit over the amounts assigned to the assets and liabilities is the implied fair value of goodwill. An impairment loss is recognized for any excess in the carrying value of goodwill over the implied fair value of goodwill. Based on the Company's assessment, there was no impairment of goodwill for the years ended December 31, 2004, 2005 and 2006.

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.

	Year ended December 31,		
	2004	2005	2006
Total net revenues:			
Enterprise software	93.6%	84.8%	76.2%
Software development services	6.3	14.9	23.5
Computer hardware sales	0.1	0.3	0.3
Cost of revenues:			

Enterprise software	0.7	0.2	-
Software development services	1.5	7.6	11.0
Computer hardware sales	–	0.2	0.1
Gross profit	97.8	92.0	88.9

	Year Ended December 31,		
	2004	2005	2006
Operating expenses:			
Selling expenses	7.9	10.7	8.9
General and administrative expenses	18.2	20.6	43.0
Research and development expenses	2.4	4.7	19.5
Total operating expenses	28.5	36	71.4
Government subsidies	0.6	0.2	0.5
Income from operations	69.9	56.2	18.0
Interest income	1.9	7.3	12.6
Income before provision for income taxes and minority interest	71.8	63.5	30.6
Provision for income taxes	0.9	0.3	0.6
Income before minority interests	70.9	63.2	30.0
Minority interests	4.4	–	
Net income	66.5%	63.2%	30.0%

2006 compared to 2005

Total net revenues

We generated total net revenues of RMB153.2 million (US$19.6 million) in 2006, a decrease of 36.1% over our total net revenues of RMB239.9 million in 2005. This revenue decrease was principally the result of the PRC Inspections Administration's free distribution of products that are similar to our iDeclare product series.

Enterprise software. Net revenues from sales of our enterprise software decreased by 42.6% to RMB116.8 million (US$15.0 million) in 2006 from RMB203.5 million in 2005, primarily as a result of the PRC Inspections Administration's free distribution of products that are similar to our iDeclare product series. The availability of a free software product that has similar functions as iDeclare caused our sales of our iDeclare product series to decline significantly. In 2006, we signed customer maintenance service contracts with approximately 29,000 users whose customer maintenance service contracts were due for renewal in 2006. We recognized net revenues of RMB43.4 million (US$5.6 million) from provision of customer maintenance services in 2006. Of our net revenues from sales of enterprise software, RMB23.6 million and RMB21.9 million (US$2.8 million) were from per declaration filing fees in 2005 and 2006, respectively, representing a year-on-year decrease of 7.2%. As of December 31, 2006, we believe there were approximately 130,000 licensees of our enterprise software registered to effect electronic import/export processing over the data exchange platforms of iTowNet, an increase of 6.6% from approximately 122,000 of such licensees as of December 31, 2005.

Software development services. Net revenues from our software development services increased by 0.9% from RMB35.7 million in 2005 to RMB36.0 million (US$4.6 million) in 2006. In 2006, we did not enter into as many software development contracts as compared to 2005, but we completed some project milestones and recognized revenue for software development contracts signed in 2005.

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

Cost of revenues

Enterprise software. Cost of revenues from sales of enterprise software decreased by 100% to nil in 2006 as compared to RMB495,000 in 2005. Since iDeclare is now generally distributed through the Internet, we

incurred minimal outsourcing costs to outside contractors and costs associated with packaging and shipping of software.

Software development services. Cost of revenues from software development services decreased to RMB16.8 million (US$2.2 million) in 2006 from RMB18.2 million in 2005, primarily as a result of fewer number of software development service contracts signed in 2006. As of December 31, 2006, the Company did not have capitalized costs related to such projects which represents a decrease of 100% over the prior year's balance of RMB153,000 as of December 31, 2005.

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

Gross profit margin

Enterprise software. Gross profit margin for sales of enterprise software in 2006 was 100% compared to 99.8% in 2005 primarily because iDeclare is now generally distributed through the Internet and we incurred minimal outsourcing costs to outside contractors and costs associated with packaging and shipping of software.

Software development services. Gross profit margin for software development services in 2006 remained relatively stable at 53.3% compared to 49.0% in 2005.

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

Operating expenses

Operating expenses increased by 26.4% to RMB109.4 million (US$14.0 million) in 2006 from RMB86.5 million in 2005, primarily as a result of our efforts to expand our business through new business models, additional staff, increase in stock-based compensation costs and increased research and development.

Selling expenses

Selling expenses decreased by 47.2% to RMB13.6 million (US$1.7 million) in 2006 from RMB25.7 million in 2005, primarily due to our change in business model from direct sales to franchise sales.

General and administrative expenses

General and administrative expenses increased by 33.1% to RMB65.9 million (US$8.4 million) in 2006 from RMB49.5 million in 2005, primarily due to increases in (i) professional fees incurred in relation to our acquisition and investment activities and compliance requirements applicable to us as a public company in the United States, (ii) depreciation and amortization charges on fixed assets and intangible assets, (iii) stock-based compensation costs and (iv) general personnel expenses, office expenses, communication expenses, traveling expenses and insurance expenses, in each case associated with the increase in the scale of our operations.

Research and development expenses

Research and development expenses increased significantly by 165.1% to RMB29.8 million (US$3.8 million) in 2006 from RMB11.2 million in 2005, primarily due to an increase in (i) stock-based compensation costs and (ii) staff costs related to the research and development of our new products primarily related to our new B2B business.

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Government subsidies

We received government subsidies of RMB705,000 (US$90,000) in 2006, which represented an increase of 57.8% from RMB 477,000 in 2005, primarily attributable to the receipt of government subsidies for research and development of an electronic platform from the Committee of Zhongguancun Science Park.

Interest income

Interest income increased to RMB19.3 million (US$2.5 million) in 2006 from RMB17.6 million in 2005, primarily due an increase in the amount of our term deposits.

Income taxes

Income taxes increased by 64.7% to RMB1.0 million (US$132,000) in 2006 from RMB626,000 in 2005, as Ninetowns Ports, who is one of our major operating subsidiaries and was exempt from EIT from August 1, 2003 to December 31, 2005, became subject to a 7.5% EIT starting from January 1, 2006.

Net income

Net income decreased significantly by 69.7% to RMB45.9 million (US$5.9 million) in 2006 from RMB151.6 million in 2005 as a result of the cumulative effect of the factors described above.

2005 compared to 2004

Total net revenues

We generated total net revenues of RMB239.9 million in 2005, an increase of 19.0% over our total net revenues of RMB201.5 million in 2004. This revenue growth was principally the result of the expansion of both of our enterprise software business and software development business and the recognition of net revenues from sales of enterprise software that were made in 2004.

Enterprise software. Net revenues from sales of our enterprise software increased by 7.8% to RMB203.5 million in 2005 from RMB188.7 million in 2004, primarily as a result of an increase in the number of users of our enterprise software, which is partially attributable to the increasing number of international trade enterprises operating in China and also attributable to the increasing demand for more efficient import/export processing methods. The increase in our net revenues from enterprise software is also attributable to the increase in the number of customer maintenance service contracts sold to our existing users. In 2005, we signed customer maintenance service contracts with approximately 44,600 users whose customer maintenance service contracts were due for renewal in 2005. We recognized net revenues of RMB33.2 million from provision of customer maintenance services in 2005. Of our net revenues from sales of enterprise software, RMB24.1 million and RMB23.6 million were from per declaration filing fees in 2004 and 2005, respectively, representing a year-on-year decrease of 2.1%. As of December 31, 2005, we believe there were approximately 122,000 licensees of our enterprise software registered to effect electronic import/export processing over the data exchange platforms of iTowNet, an increase of 28.4% from approximately 95,000 of such licensees as of December 31, 2004.

Software development services. Net revenues from our software development services increased significantly to RMB35.7 million in 2005 from RMB12.7 million in 2004. This increase is attributable to the fact that a number of software development projects were initiated in 2004 based on oral commitments from our customers but contracts for such projects were not signed until 2005, and therefore net revenues were not recognized until 2005.

Computer hardware sales. Net revenues from computer hardware sales comprised less than 1.0% of our total net revenues as we gradually exited this line of business.

Cost of revenues

Enterprise software. Cost of revenues from sales of enterprise software decreased by 67.6% to RMB495,000 in 2005 as compared to RMB1.5 million in 2004, due to the effects of more stringent cost controls.

Software development services. Cost of revenues from software development services increased significantly to RMB18.2 million in 2005 from RMB3.0 million in 2004, primarily as a result of our work on software development projects in 2004 based on oral commitments from our customers but contracts for such projects were not signed until 2005, and therefore the cost for such projects were not recognized until 2005. As of December 31, 2005, the Company has capitalized costs related to such projects totaling RMB153,000 which represents a significant decrease from the prior year’s balance of RMB6.7 million as of December 31, 2004.

Computer hardware sales. Cost of revenues from computer hardware sales was insignificant in 2005.

Gross profit margin

Enterprise software. Gross profit margin for sales of enterprise software in 2005 remained stable at 99.8% compared to 99.2% in 2004 primarily because our costs of producing our enterprise software are relatively low and did not change between the periods presented.

Software development services. Gross profit margin for software development services in 2005 decreased to 49.0% compared to 76.7% in 2004, which is mainly attributable to an increase in software development personnel expenses.

Computer hardware sales. Gross profit margin for computer hardware sales decreased to 28.9% in 2005 from 91.3% in 2004, primarily due to increased sales of lower-margin products such as desktop computers.

Operating expenses

Operating expenses increased by 50.8% to RMB86.5 million in 2005 from RMB57.4 million in 2004, primarily as a result of our efforts to expand our business through increased sales, additional staff and increased research and development.

Selling expenses

Selling expenses increased by 61.2% to RMB25.7 million in 2005 from RMB16.0 million in 2004, primarily due to an increase in advertising, office, rental, staff and travel expenses related to increased sales and the expansion of our distribution network.

General and administrative expenses

General and administrative expenses increased by 35.5% to RMB49.5 million in 2005 from RMB36.6 million in 2004, primarily due to increases in (i) professional fees incurred in relation to compliance requirements applicable to us as a public company in the United States, (ii) depreciation and amortization charges on fixed assets and intangible assets and (iii) general personnel expenses, office expenses, communication expenses, traveling expenses and insurance expenses, in each case associated with the increase in the scale of our operations.

Research and development expenses

Research and development expenses increased by 133.4% to RMB11.2 million in 2005 from RMB4.8 million in 2004, primarily due to an increase in staff costs related to the research and development of our new products such as a PRC Customs declaration filing system and an electronic payment system.

Government subsidies

Government subsidies decreased by 66.6% to RMB447,000 in 2005 from RMB1.3 million in 2004. This was attributable to our receipt of a RMB1.0 million government subsidy for research and development work from the Electronic Information Industry Fund of the Ministry of Information Industry of the PRC in 2004. We did not receive such subsidy in 2005.

Interest income

Interest income increased by significantly to RMB17.6 million in 2005 from RMB3.8 million in 2004, primarily due to interest income derived from our net proceeds from our initial public offering in December 2004.

Income taxes

Income taxes decreased by 65.7% to RMB626,000 in 2005 from RMB1.8 million in 2004, primarily due to the increasing operations of Ninetowns Ports, which was exempt from enterprise income tax in 2005.

Net income

Net income increased by 13.2% to RMB151.6 million in 2005 from RMB134.0 million in 2004 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 3.9%, 1.8% and 1.5% in 2004, 2005 and 2006, respectively.

Foreign currency risk

Substantially all of our revenues and expenses are denominated in Renminbi, but a certain amount of our cash is kept in U.S. dollars and Hong Kong dollars in reputable financial institutions in Hong Kong and the United States. Although we believe that in general, our exposure to foreign exchange risks should be limited, our cash flows and revenues will be affected by the foreign exchange rate between U.S. dollars and Renminbi. For example, if we decide to convert our Renminbi into U.S. dollars for the purpose of declaring dividends on our ordinary shares or for other business purposes and the U.S. dollar appreciates against the Renminbi, the U.S. dollar equivalent of our earnings from our subsidiaries in China would be reduced. In addition, our cash flows and revenues may also be affected by the foreign exchange rate between Renminbi and Hong Kong dollars or U.S. dollars and Hong Kong dollars, as we have certain operating expenses related to our representative office in Hong Kong that are denominated in Hong Kong dollars.

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

B. Liquidity and capital resources

Our primary sources of liquidity have been net cash provided by operating activities. We had no outstanding debt as of December 31, 2006. The following table sets forth the summary of our cash flows for the periods indicated:

	For the years ended December 31,				
	2003	2004	2005	2006	2006
			(in millions)		
Net cash provided by operating activities	RMB 87.2	RMB 143.3	RMB 146.4	RMB 40.8	US$ 5.2
Net cash used in investing activities	(39.6)	(179.4)	(110.9)	(176.5)	22.6
Net cash provided by financing activities	70.2	565.6	2.0	6.3	0.8
Net increase / (decrease) in cash and cash equivalents	117.8	529.5	(34.5)	(132.8)	(17.0)
Cash and cash equivalents, beginning of year	49.7	167.5	697.0	731.5	93.7
Cash and cash equivalents, end of year	RMB 167.5	RMB 697.0	RMB731.5	RMB598.6	US$76.7

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

Cash flow from operating activities

We provided cash from operating activities of RMB40.8 milion (US$5.2 million) in 2006. This was primarily attributable to our cash receipts from sales of enterprise software and software development services. We provided cash in operating activities of RMB146.4 million in 2005. This was primarily attributable to our cash receipts from sales of enterprise software and software development services. We generated cash from operating activities of RMB143.3 million in 2004. This was primarily attributable to our cash receipts from sales of enterprise and software development services.

Cash flow from investing activities

Cash used in investing activities was RMB176.5 million (US$22.6) million in 2006. This was primarily attributable to our purchase of property and equipment for our new B2B business and our investment in Global Market, our purchase of intangible assets and increase of term deposits.

Cash used in investing activities was RMB110.9 million in 2005. This was primarily attributable to a deposit payment for the acquisition of an additional floor of the building under construction in Beijing, our purchases of property and equipment and an increase in our term deposits. Investing activities used cash of RMB179.4 million in 2004. This was primarily attributable to our purchase of three floors and the naming rights of a building under construction in Beijing, computer equipment, furniture, fixtures and office equipment, the acquisition of minority interests in our subsidiaries and increase of term deposits, offset by the repayment of loans by Import & Export.

Cash flow from financing activities

Financing activities generated cash of RMB6.3 million (US$0.8 million), in 2006. This was comprised primarily of employee's exercise of their vested share options. Financing activities provided cash of RMB2.0 million in 2005. This was comprised primarily of receipt of proceeds on exercise of stock options by our employees offset by our repayment of outstanding advances from shareholders. Financing activities provided cash of RMB565.6 million in 2004. This was comprised primarily of the net proceeds from our initial public offering in December 2004 of RMB531.4 million and approximately US$3.0 million of escrowed net proceeds from our capital-raising activities in 2003, which we received from escrow in September 2004, offset by our repayment of loans to Jitter Bug.

Capital resources

Our primary source of liquidity is cash flow from operating activities. Our cash and cash equivalents primarily consist of cash on hand and bank deposits. As of December 31, 2006, we had RMB598.6 million (US$76.7 million) in cash and cash equivalents. In addition, as of December 31, 2006, we had invested RMB307.2 million (US$39.4 million) in term deposits, which are payable at varying maturities from three to six months.

We believe that our available cash and cash equivalents and cash provided by operating activities will be sufficient to meet our capital needs for at least the next 12 months. Except for our net cash provided by operating activities, we currently have no plans to seek additional sources of liquidity in the near future. However, we cannot assure you that our business or operations will not change in a manner that would consume our available capital resources more rapidly than anticipated, especially as we continue to evaluate other investment and acquisition opportunities. As of December 31, 2006, we had no lines of credit or other credit facilities.

Capital expenditures

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

C. Research and development

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

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- 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. In the past, we shared ownership in a foreign trade business system software with Jingjiang A-Bin Software Workshop, or A-Bin, and a declaration software system that is not a part of our iDeclare.CIQ product series, with Beijing Regard. We are not selling either software and, to our knowledge, neither A-Bin nor Beijing Regard is currently selling such software.

As of December 31, 2006, we had 424 employees dedicated to research and development, 22 of whom have master's degrees and two of whom have Ph.D. degrees. Most of our research and development efforts are located in our principal executive offices in Beijing and in our research and development center in Fengtai.

Our expenses for research and development activities totaled RMB4.8 million in 2004, RMB11.2 million in 2005 and RMB29.8 million (US$3.8 million) in 2006.

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. We are in the process of establishing two additional research and development centers, one in the eastern region of China and one in the southern region of China, and we expect those research and development centers to be fully functional by the middle of 2008.

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, 2006 to December 31, 2006 that are reasonably likely to have a material effect on our net revenues, income, profitability, liquidity or capital resources, or that caused the disclosed financial information to be not necessarily indicative of future operating results or financial conditions.

E. Off-balance sheet arrangements

In September 2006, we entered into a subscription agreement with Global Market to subscribe 1,940,000 Series A preferred shares, which represents 16.25% of the fully diluted equity interest in Global Market on an if-converted basis, for a cash consideration of US$5.0 million. The subscription agreement contains certain put and call options. The call option gives us a right to acquire a variable number of Global Market's ordinary shares at a nominal price of US$1.00 in the event Global Market's earnings fall below a predetermined level or to receive cash if additional earnings requirements are not met. The put option gives Global Market a right to repurchase up to 285,000 issued ordinary shares from us at a nominal price of US$1.00 when Global Market's earnings are above a predetermined level. These put and call options are accounted for as embedded derivatives and because they are not clearly and closely related to the Series A preferred share agreement, they should be bifurcated and marked to market on each balance sheet date. These embedded derivatives are bundled together and reported as a single, compound embedded derivative instrument. As of December 31, 2006, the fair value of this bundled derivative instrument was not material because we have only had our investment in Global Market for a short period of time and Global Market's projected operating results are expected to be within a reasonable range that will not cause a significant change in our investment value.

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

F. Contractual obligations

We have entered into leasing arrangements relating to our office premises and technical support centers. Our contractual obligations regarding these lease arrangements generally consist of rental payments and other charges that are due and payable on a monthly basis during the term of the relevant lease. In general, our lessors have the right to terminate the lease agreements and repossess the leased premises if we fail to make the prescribed payments for two consecutive months, or the expiration of a reasonable period after service of notice for non-payment of rent by the lessors. The following sets forth our commitments under these leases as of December 31, 2006:

	(in thousands)
Less than one year	RMB1,959
1-3 years	155
3-5 years	—
More than 5 years	—
Total	RMB2,114

As of December 31, 2006, we had no purchase obligations or long-term commitments other than the lease obligations described above.

G. Recently issued accounting pronouncements

In February 2006, the FASB issued SFAS No. 155, “Accounting for Certain Hybrid Financial Instruments-an amendment of FASB Statements No. 133 and 140.” SFAS No. 155 amends SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities”, to permit fair value re-measurement for any hybrid financial instrument with an embedded derivative that otherwise would require bifurcation, provided that the whole instrument is accounted for on

a fair value basis. SFAS No. 155 amends SFAS No. 140, “Accounting for the Impairment or Disposal of Long-Lived Assets”, to allow a qualifying special-purpose entity to hold a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. SFAS No. 155 applies to all financial instruments acquired or issued after the beginning of an entity’s first fiscal year that begins after September 15, 2006, with earlier application allowed. The Company does not expect the adoption of SFAS No. 155 to have a material impact on its consolidated results of operations and financial condition.

In June 2006, the FASB ratified the provisions of the Emerging Issue Task Force Issue No. 06-3 “How Sales Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement” (“EITF 06-3”), which requires the Company to disclose how it accounts for taxes imposed on and concurrent with a specific revenue-producing transaction. EITF 06-3 will be effective for the Company starting January 1, 2007. The Company does not believe that the application of EITF 06-03 will have a material effect on its financial position, cash flow and results of operations

In July 2006, the FASB issued FIN 48, “Accounting for Uncertainty in Income Taxes — an Interpretation of FASB Statement No. 109” which clarifies the accounting for uncertainty in tax positions. This Interpretation requires that the Company recognize and disclose in its financial statements the impact of a tax position if that position is more likely than not of being sustained on audit, based on the technical merits of the position. The provisions of FIN 48 became effective for the Company on January 1, 2007, with the cumulative effect of the change in accounting principle, if any, recorded as an adjustment to opening retained earnings. The Company is currently evaluating the impact of adopting FIN 48 and its impact on its consolidated financial position, results of operations, and cash flows.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS No.157 applies under other accounting pronouncements that require or permit fair value measurements and accordingly does not require any new fair value measurements. SFAS No.157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company is currently evaluating whether the adoption of SFAS No. 157 will have a material effect on its consolidated results of operations and financial position.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities, Including an amendment of FASB Statement No. 115". SFAS No. 159 provides companies with an option to report selected financial assets and liabilities at fair value. SFAS No. 159 requires companies to provide additional information that will help investors and other users of financial statements to more easily understand the effect of the company's choice to use fair value on its earnings. It also requires entities to display the fair value of those assets and liabilities for which the Company has chosen to use fair value on the face of the balance sheet. SFAS No. 159 is effective as of the beginning of an entity's first fiscal year beginning after November 15, 2007. The Company is currently evaluating whether the adoption of SFAS No. 159 will have a material effect on its consolidated results of operations and financial position.

Item 7. Major Shareholders and Related Party Transactions.

A. Major shareholders

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

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

B. Related party transactions

Overview

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

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

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

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

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

Transactions with Mr. Wang and Ms. Dong

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

Pursuant to a right of first refusal agreement dated as of November 2, 2004, among Import & Export, Mr. Wang, Ms. Dong and our company, Import & Export has agreed to sell its 49.0% interest in iTowNet to our company if, at any time while we are required to submit reports to the SEC, Import & Export is allowed to sell such interest to us under relevant PRC law and policy. Our right of first refusal is subject to the

statutory right of first refusal of the PRC Inspections Administration to purchase such interest. If we exercise our right of first refusal, we have agreed to purchase the 49.0% interest in iTowNet at a purchase price of US$25.0 million, plus a compounded interest rate of 5.0% per year for each year that Import & Export held the 49.0% interest since August 23, 2001, but deducting any dividend or distribution that Import & Export had previously received or receives in the future from iTowNet. Our audit committee has 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.

Ms. Dong's sister, Li Dong, was a shareholder and director of Beijing Regard, a company which was our significant customer for software development services in 2003 and competes with us for the provision of software development services to iTowNet and the PRC Inspections Administration. Li Dong currently does not own any interest in eGrid and is not a director or officer of eGrid.

Beijing iTowNet Cyber Technology Ltd.

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

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

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

In 2006, we did not recognize revenues from the provision of software development services to iTowNet.

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

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

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

We recognized net revenues of approximately RMB12.9 (US$1.7 million) from sales of our software development services to eGrid in 2006.

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

In late 2003, we decided to implement a franchise program to expand our sales distribution network and Jing Shao and Hongmei Tian, one of our former employees, expressed an interest in establishing such a franchisee relationship with us. In order to do so, they needed to establish a technology company in China, which is burdensome, requires substantial paperwork and often involves a long waiting period. Yadi Yangguang, together with the other shareholders of Jinwangge, agreed to sell 100.0% of the equity interest in Jinwangge to Jing Shao and Hongmei Tian in July 2003 for an aggregate consideration of RMB8.0 million. The transfer of such interests was completed in February 2004.

In September 2003, we entered into a franchise agreement with Jinwangge for the distribution of iDeclare.CIQ in the southern region of China. This agreement has a two-year term, contains minimum sales commitments and is renewable upon mutual agreement of the parties within 120 days of expiration. We sell our enterprise software to Jinwangge at a discount pursuant to a negotiated formula. On February 10, 2004, Jinwangge was re-named "Shenzhen Ninetowns Enke Software Technology Co., Ltd." and was then 81.25% owned by Jing Shao and 18.75% owned by Hongmei Tian. We entered into a franchise agreement with Ninetowns Enke on February 14, 2004 on terms substantially identical to the terms in the franchise agreement with Jinwangge. Pursuant to the franchise agreement, Ninetowns Enke agreed to a minimum sales commitment of RMB50.0 million for the two years ending February 14, 2006 and a sales discount of RMB1,000 per each iDeclare.CIQ package purchased from our company. In addition, Ninetowns Enke also agreed to act as our sales agent for our enterprise software after sales maintenance services and a sales discount of RMB750 per each maintenance contract sold to customer. On April 22, 2004, we agreed with Ninetowns Enke to amend the franchise agreement to revise certain pricing terms.

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

We recognized net revenues of approximately RMB21.2 million (US$2.7 million) from sales of our software products to Ninetowns Enke in 2006.

Transaction with Mr. Ko Jin Heng

Mr. Ko Jin Heng, one of the directors of Jitter Bug, is also a director and the vice chairman of Beijing Heng Fu Plaza Development Co. Ltd, or Beijing Heng Fu. Jitter Bug was our principal shareholder until December 1, 2005. Beijing Heng Fu received a refundable deposit of RMB28.0 million (US$3.4 million) from Ninetowns Ports after entering into a Provisional Sale and Purchase Agreement on June 15, 2004 with Ninetowns Ports and received the remainder of RMB19.3 million (US$2.3 million) on September 14, 2004. After making such payments, Ninetowns Ports acquired the naming rights of a building in Beijing which is being constructed by Beijing Heng Fu. Pursuant to certain sale and purchase agreements dated July 30, 2004, Ninetowns Ports acquired from Beijing Heng Fu, subject to the receipt of the necessary title certificates, three floors of such building. The purchase price for the three floors was approximately 25.0% below its fair market value, as determined by an independent third party. In March 2005, Ninetowns Ports also entered into a sale and purchase agreement with Beijing Heng Fu pursuant to which Ninetowns Ports acquired from Beijing Heng Fu, subject to the receipt of the necessary title certificates, an additional floor in such building for the purchase price of approximately RMB18.6 million (US$2.2 million). Construction of the building was completed at the end of 2006. We expect to move into the building by the end of 2007.

Control over Ronghe Tongshang

In March 2006, Mr. Wang, Mr. Ren and Ms. Dong established Ronghe Tongshang. We entered into a series of contractual agreements with Ronghe Tongshang and its current shareholders that provide us with effective control over Ronghe Tongshang. Tootoo.com is owned by Ronghe Tongshang. In May 2007, we launched tootoo.com, our new B2B vertical search platform. We plan to leverage our B2G expertise with our recent acquisitions and contractual relationships to position tootoo.com as a leading B2B search and service provider.

Control over Baichuan

In April 2007, in connection with our acquisition through our wholly-owned subsidiary, Ixworth, of a 70% interest in Ample Spring, we entered into a series of contractual agreements with Baichuan, Mr. Wang and Mr. Ren, previously shareholders of Baichuan, which provide us with effective control over Baichuan.

Related party trade receivables

In connection with the transactions described above, we had trade receivables from related parties amounting to RMB4.0 million (US$0.5 million) or 18.1% of our billed receivables as of December 31, 2006. These receivables consisted primarily of proceeds from sales of enterprise software and fees from software development services.

Board memberships

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

Stock option grants

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

C. Interests of experts and counsel

Not applicable.

Item 16C. Principal Accountant Fees and Services.

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

	For the year ended December 31		
	2005	2006	2006
Audit fees(1)	RMB2,463,000	RMB3,789,000	US$486,000
Audit related fees	372,000	526,000	67,000
Total	RMB2,835,000	RMB4,315,000	US$553,000

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

Audit Committee Pre-Approval Policy and Procedures

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

Exhibit Number	Description
12.1	Certification of Chief Executive Officer pursuant to SEC Rule 13a-14(a)
12.2	Certification of Chief Financial Officer pursuant to SEC Rule 13a-14(a)
13.1	Certification of Chief Executive Officer pursuant to SEC Rule 13a-14(b)
13.2	Certification of Chief Financial Officer pursuant to SEC Rule 13a-14(b)
15.1	Consent of Deloitte Touche Tohmatsu CPA Ltd.

Signatures

The company hereby certifies that it meets all of the requirements for filing its annual report on Form 20-F/A and that it has duly caused and authorized the undersigned to sign this annual report on its behalf on this 27th day of June, 2008.

NINETOWNS INTERNET
TECHNOLOGY GROUP
COMPANY LIMITED

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