

NINETOWNS INTERNET TECHNOLOGY GROUP CO LTD

Form 20-F

April 27, 2012

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

(Mark One)

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

OR

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

For the fiscal year ended December 31, 2011

OR

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

OR

..

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

Date of event requiring this shell company report

For the transition period from to

Commission file number: 000-51025

Ninetowns Internet Technology Group Company Limited

(Exact name of Registrant as specified in its charter)

Not Applicable

(Translation of Registrant's name into English)

Cayman Islands

(Jurisdiction of incorporation or organization)

22nd Floor, Building No.1

Capital A Partners, No. 20 Gong Ti East Road

Chaoyang District Beijing 100020

The People's Republic of China

(Address of principal executive offices)

Tommy Siu Lun Fork

Chief Financial Officer

Phone: +852-9021-9597

Facsimile: +852-2868-4483

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

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

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

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

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Title of each class	Name of each exchange on which registered
American Depositary Shares, or ADSs, every ADS representing one ordinary share, par value HK\$0.025 per share	NASDAQ Global Market LLC (NASDAQ Global Market)*
Ordinary shares, par value HK\$0.025 per share	NASDAQ Global Market LLC (NASDAQ Global Market)*

* Not for trading, but only in connection with the listing on the Nasdaq Global Market of the American Depositary Shares.
Securities registered or to be registered pursuant to Section 12(g) of the Act:

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

None

(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report. 38,791,834 ordinary shares, par value HK\$0.025 per share as of December 31, 2011

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

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

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

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

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

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

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

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

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. " Yes " No

Table of Contents

TABLE OF CONTENTS

	Page
<u>INTRODUCTION</u>	1
<u>CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS</u>	1
<u>PART I</u>	1
<u>ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS</u>	1
<u>ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE</u>	1
<u>ITEM 3. KEY INFORMATION</u>	2
<u>ITEM 4. INFORMATION ON THE COMPANY</u>	30
<u>ITEM 4A. UNRESOLVED STAFF COMMENTS</u>	55
<u>ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS</u>	56
<u>ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES</u>	74
<u>ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS</u>	85
<u>ITEM 8. FINANCIAL INFORMATION</u>	86
<u>ITEM 9. THE OFFERING AND LISTING</u>	87
<u>ITEM 10. ADDITIONAL INFORMATION</u>	89
<u>ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	96
<u>ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES</u>	96
<u>PART II</u>	99
<u>ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES</u>	99
<u>ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS</u>	99
<u>ITEM 15. CONTROLS AND PROCEDURES</u>	100
<u>ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT</u>	100
<u>ITEM 16B. CODE OF ETHICS</u>	101
<u>ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES</u>	101
<u>ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEE</u>	101
<u>ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS</u>	101
<u>ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT</u>	101
<u>ITEM 16G. CORPORATE GOVERNANCE</u>	102
<u>PART III</u>	102
<u>ITEM 17. FINANCIAL STATEMENTS</u>	102
<u>ITEM 18. FINANCIAL STATEMENTS</u>	102
<u>ITEM 19. EXHIBITS</u>	102
<u>SIGNATURE</u>	111

Table of Contents

Introduction

This annual report on Form 20-F includes our audited consolidated financial statements for the years ended December 31, 2009, 2010 and 2011, and as of December 31, 2010 and 2011. References to 2009, 2010, 2011, 2012 and 2013 are, where appropriate, references to the years ending December 31, 2009, 2010, 2011, 2012 and 2013, respectively.

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

References to China or the PRC are to the People's Republic of China, excluding Taiwan, Hong Kong and Macau. Facts and statistics in this annual report relating to the enterprise software and related services market, the PRC import/export industry and economic data are derived from various government and research publications.

Cautionary Note Regarding Forward-looking Statements

This annual report contains forward-looking statements that are based on our current expectations, assumptions, estimates and projections about us and our industry. All statements other than statements of historical fact in this annual report are forward-looking statements. These forward-looking statements can be identified by words or phrases such as anticipate, believe, continue, estimate, expect, intend, is/are likely, may, plan, should, will, or other similar expressions. The forward-looking statements included in this annual report relate to, among others:

our anticipated capital expenditures and our ability to fund such expenditures;

our expectations about growth in demand for our products and services;

acquisitions or investments in businesses, products or technologies that are complementary to our own;

our ability to adjust to technological change; and

our belief about the effects of government regulation on our business.

These forward-looking statements involve various risks and uncertainties. Although we believe that our expectations expressed in these forward-looking statements are reasonable, our expectations may turn out to be incorrect. Our actual results could be materially different from our expectations. Important risks and factors that could cause our actual results to be materially different from our expectations are generally set forth in Item 3.D Key Information Risk Factors and other sections in this annual report.

The forward-looking statements made in this annual report relate only to events or information as of the date on which the statements are made in this annual report. We undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date on which the statements are made or to reflect the occurrence of unanticipated events.

PART I

Item 1. Identity of Directors, Senior Management and Advisors.

Not applicable.

Item 2. Offer Statistics and Expected Timetable.

Not applicable.

Table of Contents**Item 3. Key Information.****A. Selected financial data**

The following table shows selected consolidated financial information and other data for our business. You should read the following information in conjunction with our financial statements and the accompanying notes and 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, 2009, 2010 and 2011, and the balance sheet data as of December 31, 2010 and 2011, 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. generally accepted accounting principals, or U.S. GAAP.

The statement of operations data for 2007 and 2008, and the balance sheet data as of December 31, 2007, 2008 and 2009, are derived from our audited consolidated financial statements which have not been included in this annual report.

In thousands, except per share and per ADS data	For the years ended December 31,					2011 ⁽¹⁾ US\$
	2007 RMB	2008 RMB	2009 RMB	2010 RMB	2011 RMB	
Selected statement of operations data:						
Total net revenues:						
Enterprise software and related customer maintenance services	77,327	84,965	58,387	49,650	61,014	9,694
Software development services	25,642	19,458	17,363	23,809	5,963	947
Food sales and services		94	3,889	5,448	8,239	1,309
	102,969	104,517	79,639	78,907	75,216	11,950
Cost of revenues:						
Enterprise software and related customer maintenance services						
Software development services	(17,748)	(12,423)	(11,552)	(10,144)	(2,281)	(362)
Food sales and services		(76)	(6,308)	(6,910)	(8,452)	(1,343)
	(17,748)	(12,499)	(17,860)	(17,054)	(10,733)	(1,705)
Gross profit	85,221	92,018	61,779	61,853	64,483	10,245
Operating expenses:						
Selling and marketing	(32,379)	(21,942)	(13,771)	(16,663)	(22,493)	(3,574)
General and administrative	(73,636)	(75,523)	(62,030)	(89,531)	(79,354)	(12,608)
Research and development	(25,026)	(18,566)	(17,373)	(15,695)	(11,042)	(1,754)
Allowance for doubtful accounts, net	(22,395)	(2,881)	(26,204)	(2,585)	6,841	1,087

Table of Contents

In thousands, except per share and per ADS data	For the years ended December 31,					
	2007 RMB	2008 RMB	2009 RMB	2010 RMB	2011 RMB	2011 ⁽¹⁾ US\$
Impairment of goodwill	(193,570)					
Total operating expenses	(347,006)	(118,912)	(119,378)	(124,474)	(106,048)	(16,849)
Government subsidies	1,015					
Loss from operations	(260,770)	(26,894)	(57,599)	(62,621)	(41,565)	(6,604)
Interest income	13,885	7,026	4,274	3,686	1,922	305
Gain on sales of short-term investments	43,546	9,866	35,474	65,146	32,689	5,194
Change in fair value of marketable options			27,684	(18,211)	7,252	1,152
Gain (loss) on investment under cost method		2,187		12,153	(3,373)	(536)
Income from equity method of investments					1,639	260
Other income		358	3,911	13,448	5,994	952
(Loss) income before income tax and non-controlling interests	(203,339)	(7,457)	13,744	13,601	4,558	723
Income tax expense	(3,130)	(836)	(4,100)	(878)	(1,048)	(167)
(Loss) income from continuing operations before non-controlling interests	(206,469)	(8,293)	9,644	12,723	3,510	556
Loss from discontinued operations, net of tax	(30,115)	(166,802)	(8,401)	(398)		
Net (loss) income	(236,584)	(175,095)	1,243	12,325	3,510	556
Attributable to non-controlling interests-discontinued operations	6,053	5,483	89		15	2
Attributable to the Company	(230,531)	(169,612)	1,332	12,325	3,525	558
(Loss) income from continuing operations per share:						
Basic	(5.90)	(0.24)	0.28	0.35	0.09	0.01
Diluted	(5.90)	(0.24)	0.28	0.34	0.09	0.01
Loss from discontinued operations per share:						
Basic	(0.69)	(4.61)	(0.24)	(0.01)		
Diluted	(0.69)	(4.61)	(0.24)	(0.01)		
(Loss) income per share and ADS:						
Basic	(6.59)	(4.85)	0.04	0.34	0.09	0.01
Diluted	(6.59)	(4.85)	0.04	0.33	0.09	0.01
Selected cash flow data:						
Net cash (used in) provided by operating activities	(2,941)	(33,881)	(26,478)	8,853	(62,994)	(10,009)
Net cash provided by (used in) investing activities	57,193	(37,366)	(76,858)	21,762	(224,784)	(35,715)
Net cash provided by financing activities	1,268				49,523	7,869

In thousands, except share, per share and per ADS data	As of December 31,					
	2007 RMB	2008 RMB	2009 RMB	2010 RMB	2011 RMB	2011 ⁽¹⁾ US\$

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Selected balance sheet data:

Cash and cash equivalents	649,863	576,642	473,448	500,618	257,345	40,888
Restricted cash	853	670	790	245	88	14
Short-term investments:						
Trading securities			917	523	708	112
Available-for-sale securities	10,962	10,024	170,309	231,339	245,090	38,941
Trade receivables, net of allowance for doubtful accounts	37,446	33,943	18,121	2,042	3,921	623

Table of Contents

Term deposits	26,000	28,000	25,000	8,154	5,088	808
Real estate property under development					305,469	48,534
Investments under equity method					230,579	36,635
Total assets	1,171,180	953,325	979,591	989,584	1,282,124	203,709
Deferred revenue	32,472	21,392	10,453	10,699	14,332	2,277
Deferred subsidies					240,240	38,170
Total liabilities	92,793	53,145	57,255	40,759	296,720	47,143
Net assets	1,078,387	900,180	922,336	948,825	985,404	156,566
Total equity of the Company	1,072,904	900,180	922,336	948,825	985,404	156,566
Number of ordinary shares outstanding	34,991,834	35,791,834	35,791,834	35,791,834	38,791,834	38,791,834

- (i) For the convenience of the reader, RMB amounts are expressed in U.S. dollars at the rate of RMB6.2939 to US\$1.00, the noon buying rate in effect on December 31, 2011 as quoted by the Federal Reserve Bank of New York.
- (ii) In 2011, 3,000,000 of the Company's ordinary shares were converted into American Depositary Shares to facilitate our employees' cashless exercise of vested stock options and non-vested shares. 795,329 previously non-vested shares became vested in 2011.
- (iii) Certain reclassifications of previous reported amounts have been made to conform to the current period presentation. These reclassifications are primarily due to the presentation of (i) discontinued business-to-business operations and the discontinued catering business; and (ii) dividends received from investments under cost method.

Exchange Rate Information

Our business is primarily conducted in China and a substantial majority of our revenues are denominated in Renminbi. For all dates and periods through December 31, 2008, the exchange rates are 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. For January 1, 2009 and all later dates and periods, the exchange rate refers to the exchange rate as set forth in the H.10 statistical release of the Federal Reserve Board. Unless otherwise indicated, conversions of RMB into U.S. dollars in this annual report are based on the exchange rate, as of December 31, 2011, which was RMB6.2939 to US\$1.00. 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. 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 the Renminbi and the U.S. dollar for the periods indicated.

	Period End	Noon Buying Rate		
		Average ⁽¹⁾	Low	High
		(RMB per US\$1.00)		
2007	7.2946	7.5806	7.8127	7.2946
2008	6.8225	6.9193	7.2946	6.7800
2009	6.8259	6.8295	6.8470	6.8176
2010	6.6000	6.7603	6.8330	6.6000
2011	6.2939	6.4475	6.6364	6.2939
Most recent Six Months				
October 2011	6.3547	6.3708	6.3825	6.3547
November 2011	6.3765	6.3564	6.3829	6.3400
December 2011	6.2939	6.3482	6.3733	6.2939
January 2012	6.3080	6.3119	6.3330	6.2940
February 2012	6.2935	6.2997	6.3120	6.2935
March 2012	6.2975	6.3125	6.3315	6.2975
April 2012 (through April 20)	6.3080	6.3052	6.3150	6.2975

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Annual averages are calculated by averaging the exchange rates on the last business day of each month. Monthly averages are calculated using the average of the daily rates during the relevant period.

Table of Contents

On April 20, 2012, the exchange rate set forth in the H. 10 statistical release of the Federal Reserve Board was RMB6.3080 to US\$1.00.

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

Sales of our enterprise software and related customer maintenance services and software development services that are either used by the State Administration for Quality Supervision and Inspection and Quarantine of the PRC, or the PRC Inspections Administration, or by regional PRC inspection and quarantine bureaus, have accounted for substantially all of our total net revenues. In the near future, we expect to generate a substantial portion of our total net revenues through (i) sales of enterprise software and related customer maintenance services and (ii) software development services that are used in connection with the PRC Inspections Administration filings. Net revenues from sales of enterprise software and related customer maintenance services for PRC Inspections Administration filings accounted for 73.3%, 62.9% and 81.1% of our total net revenues in 2009, 2010 and 2011, respectively.

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

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

Table of Contents

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

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

In August 2005, the PRC Inspections Administration selected our company as the winning bidder in connection with the PRC Inspections Administration's request for proposals for the development of a software product that has certain basic functionalities similar to those of iDeclare.CIQ and iProcess.CIQ. The PRC Inspections Administration agreed to pay a one-time fee of RMB3.3 million to purchase the ownership of the software product that we developed. In February 2006, the PRC Inspections Administration commenced the distribution of the software products that our company developed, free-of-charge to end-users. As certain basic functionalities of the newly developed software products are similar to those of iDeclare.CIQ and iProcess.CIQ, the provision of such software products free-of-charge by the PRC Inspections Administration has had a material adverse effect on our results of operations.

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

We generated a significant portion of our total net revenues from the sales of our enterprise software and related customer maintenance services, and the provision of software development services in 2011. Currently, we are in the process of expanding our business focus from the development of software products and the provision of software development services to other potential business ventures, such as consumer goods and real estate. We anticipate that a material portion of our net revenue in the future will be derived from businesses that are not directly related to sales of our enterprise software and related customer maintenance services or the provision of software development services.

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

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

In April 2011, we expanded our business to focus on a new strategic initiative to invest in real estate development. We acquired land use rights for undeveloped land in Huainan, Dalian and Binzhou, China. We plan to develop mixed-use real estate projects on such properties.

In January 2012, we changed the construction planning of approximately 58,530 square meters land located in Lu Dong District, Beijing Economic Technological Development Area, or Yizhuang, from construction of self-use offices to development of mixed-use real estate projects for sale or rent. We acquired the land use rights of Yizhuang in 2008.

In June 2011, we entered into a series of agreements with respect to certain financing arrangements for the "Smarter Town" project to be developed by Huainan Huacheng Estate Co., Ltd., or Huainan Huacheng, our wholly-owned indirect subsidiary. Such agreements were terminated on February 9, 2012. We will continue the development of the "Smarter Town" project and may seek other alternative financing options in the future. As our B2C food related and real estate investment businesses are currently under

Table of Contents

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

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

As of April 20, 2012, 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 17.24% of our ordinary shares. Mr. Wang and Ms. Dong will have substantial influence over the management and policies of our company and the outcome of most corporate actions. In addition, we understand from publicly available information that Mr. Yong Ping Duan, or Mr. Duan, and Technology Pioneer Corp., or Technology Pioneer, beneficially own 18.23% and 7.91% of our American Depositary Shares, or ADSs, respectively. Mr. Duan and Technology Pioneer will also have substantial influence over the outcome of most corporate actions. As a result, Mr. Wang, Ms. Dong, Mr. Duan and Technology Pioneer have the power to take corporate actions which other shareholders may not believe are in their best interests or in the best interests of our company. There can be no assurance that Mr. Wang, Ms. Dong, Mr. Duan and Technology Pioneer will not cause our company to take such corporate actions.

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

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

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 April 20, 2012, 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) Shenzhen Ninetowns Enke Software Technology Co., Ltd., or Ninetowns Enke, who as a result of their purchases of enterprise software and related customer maintenance services for distribution to end-users, are also four of our largest customers. We currently do not have any distributor.

Table of Contents

Our net revenues from sales of our enterprise software and related customer maintenance services from Ninetowns Zhi Fang were approximately RMB16.9 million, RMB16.8 million and RMB25.3 million (US\$4.0 million), which represented 20.7%, 21.0% and 33.7% of our total net revenues for 2009, 2010 and 2011, respectively.

Our net revenues from sales of our enterprise software and related customer maintenance services from Ninetowns Xin He were approximately RMB17.4 million, RMB9.6 million and RMB12.3 million (US\$2.0 million), which represented 21.7%, 12.0% and 16.4% of our total net revenues for 2009, 2010 and 2011, respectively.

Our net revenues from sales of our enterprise software and related customer maintenance services from Ninetowns Wang Li were approximately RMB9.3 million, RMB7.6 million and RMB8.6 million (US\$1.4 million), which represented 11.6%, 9.5% and 11.4% of our total net revenues for 2009, 2010 and 2011, respectively.

Our net revenues from sales of our enterprise software and related customer maintenance services from Ninetowns Enke were approximately RMB2.3 million, RMB1.5 million and RMB1.7 million (US\$0.3 million) or 2.8%, 1.9% and 2.2% of our total net revenues in 2009, 2010 and 2011, respectively.

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

In the event one or more of our customers discussed above discontinues their businesses or their dealings with us, and we are unable to find an adequate replacement for such customer in a timely manner, we would suffer a decline in total net revenues and in turn would need to significantly increase our sales and marketing expenditures. Our trade receivables are significant and if customers fail to pay amounts owed, our profitability and financial position could decline.

As of December 31, 2011, our total net trade receivables amounted to approximately RMB3.9 million (US\$0.6 million), which represented approximately 0.7% of our total current assets. As of December 31, 2011, we had an allowance for doubtful debts of approximately RMB4.4 million (US\$0.7 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 be affected.

In June 2011, we entered into certain debt repayment agreements with Ninetowns Zhi Fang, Ninetowns Xin He and Ninetowns Wang Li, or the Debt Repayment Agreements, pursuant to which:

We waived certain due and unpaid receivables from Ninetowns Zhi Fang in the amount of RMB8.77 million (US\$1.32 million). Ninetowns Zhi Fang agreed to pay certain other due and unpaid receivables in the amount of RMB3.4 million (US\$515,000) to us by December 31, 2012, with 50% of such amount due by December 31, 2011 and the remaining 50% due by December 31, 2012.

We waived certain due and unpaid receivables from Ninetowns Xin He in the amount of RMB6.46 million (US\$979,000). Ninetowns Xin He agreed to pay certain other outstanding due and unpaid receivables in the amount of RMB3.6 million (US\$545,000) to us by December 31, 2012, with 50% of such amount due by December 31, 2011 and the remaining 50% due by December 31, 2012.

We waived certain due and unpaid receivables from Ninetowns Wang Li in the amount of RMB7.55 million (US\$1.14 million). Ninetowns Wang Li agreed to pay certain other outstanding due and unpaid receivables in the amount of RMB2.5 million (US\$379,000) to us by December 31, 2012, with 50% of such amount due by December 31, 2011 and the remaining 50% due by December 31, 2012.

The receivables we waived pursuant to the Debt Repayment Agreements had been fully provided for in our bad debt allowance in our financial statements. As of April 20, 2012, we believe that Ninetowns Zhi Fang, Ninetowns Xin He and Ninetowns Wang Li have materially complied with the terms of the Debt Repayment Agreements.

Table of Contents

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 55.16% of our outstanding ordinary shares. Such concentration of ownership might have the effect of delaying or preventing a change in control of our company which could in turn reduce the market price of our ADSs and the voting and other rights of our other shareholders.

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

We offer one year of customer maintenance services with our iDeclare.CIQ basic package, and charge a fee of RMB1,500 per licensee for customer maintenance services each year thereafter. In 2011, we offered customer maintenance service contracts to approximately 18,700 users, so that approximately 13% of the total number of users due for a maintenance contract renewal in 2011 paid for the renewal. However, we believe that not all of our users and potential users were accustomed to being charged for this type of service. In 2011, we recognized approximately RMB56.0 million (US\$8.9 million) from the provision of customer maintenance services, including the fees we collected from the Pay-Per-Transaction users.

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

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

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

Sales of iDeclare.CIQ and related customer maintenance services accounted for approximately 73.3%, 62.9% and 81.1% of our total net revenues in 2009, 2010 and 2011, respectively. Any of the following events could materially reduce our total net revenues.

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

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

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

any other adverse development specific to iDeclare.CIQ, or

a significant slowdown of China's economy.

A substantial portion of our profits are derived from non-operating income. We cannot guarantee the sustainability of our non-operating income and our financial conditions may be adversely affected if our non-operating income decreases.

We received a substantial amount of income from our investment activities in 2011, including investment in publicly-listed securities in China's A-Share stock markets and equity securities and call and put options in the U.S. capital markets. We generated approximately RMB35.5 million, RMB65.1 million and RMB32.7 million (US\$5.2 million) of gains on sales of short term investments in 2009, 2010, 2011, respectively. We do

not have professional investment expertise or employ professional investment

Table of Contents

personnel. The success of our investments depends on factors that are not entirely within our control, including the performances and volatility of stock markets in China and U.S. Therefore, we cannot guarantee the sustainability of our gains on sales of short term investments. Should we lose money in our investment activities, our financial conditions may be significantly and adversely affected.

Competition could reduce our profit margins and revenues.

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

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

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

In 2011, we acquired certain land use rights in China and we intend to develop real estate projects in Huainan, Dalian, Binzhou and Beijing, China.

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.

Table of Contents

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 also need to hire additional employees who are experienced in the B2C food related and real estate development businesses. We may not be able to attract or retain the key personnel that we need to achieve our business objectives. At times our ability to find and train new employees who have the requisite business experience may not meet the growing demands of our business. As the PRC economy continues to develop, demand for personnel with the skills that we require is expected to increase, which could raise our costs or make it impracticable for us to hire skilled or experienced personnel. Certain of our senior software engineers, technical officers or staff members are not bound by non-competition agreements and those who are not bound could decide to resign or work for our competitors at any time without any contractual restriction. The departure of any of these personnel could have a material adverse effect on our ability to create enterprise software for international trade enterprises, provide software development services to PRC government agencies or develop and expand our business.

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

We have the 2003 Plan, the Amended and Restated 2004 Plan, and the 2006 Share Incentive Plan, or collectively, the Plans. As of December 31, 2011, we granted options under the Plans with the right to purchase a total of 6,185,469 ordinary shares and we granted 3,259,979 non-vested shares, of which 1,634,491 unexercised options and 50,102 unvested non-vested shares had been returned to the pool of our share-based awards as a result of resignation from employment by former employees.

We account for compensation costs for certain share options using a fair-value based method and recognize expenses in our consolidated statement of operations in accordance with the relevant rules under U.S. GAAP, which may have a material and adverse effect on our reported earnings. Moreover, the additional expenses associated with share-based compensation may reduce the attractiveness of such incentive plan to us. However, if we reduce the scope of the Plans, we may not be able to attract and retain key personnel, as share options are an important employee recruitment and retention tool. If we grant employee share options or other share-based compensation in the future, our net income could be adversely affected.

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

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

Table of Contents

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

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

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

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

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

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

There can be no assurance that infringement or other claims will not be asserted or prosecuted against us in the future or that any past or future assertions or prosecutions will not materially and adversely affect our business, results of operations and financial condition. Any such claims, with or without merit, could be time-consuming, result in costly litigation and diversion of technical and management personnel or require us to develop non-infringing technology or enter into royalty or licensing agreements. Such royalty or licensing agreements, if required, may not be available on terms acceptable to us, or at all. In the event of a successful claim of infringement

Table of Contents

against us, our revenues may decrease and our expenses to obtain or develop non-infringing technology or to license the infringed or similar technology may increase. In addition, our failure or inability to develop non-infringing technology or license the infringed or similar technology on a timely basis may cause our business, results of operations and financial condition to be negatively affected. See Item 4 of this annual report, Information on the Company Business overview Intellectual property rights.

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

We receive from the PRC government a 14.0% rebate for value added tax on sales of software and software-related services, or VAT rebate. For our B2C food related business, the revenue from our self-grown goods is exempt from VAT. We cannot assure you that we will continue to enjoy this preferential tax treatment in the future, either due to a change in the PRC government's tax policies or because a subsidiary or variable interest entity, or VIE, fails to satisfy the financial and operational criteria necessary to maintain its eligibility for such preferential tax treatment. Any reduction in our preferential tax treatment could materially reduce our net income.

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

The New and High Technology Enterprise status allows qualifying enterprises to be eligible for a preferential 15% tax rate for three years. At the conclusion of the three year period, the qualifying enterprise has the option to renew its New and High Technology Enterprise status for an additional three years if such enterprise's business operations continue to qualify for New and High Technology Enterprise status. At the conclusion of the renewed period, the enterprise would have to go through a new application process to renew its New and High Technology Enterprise status. As of December 2011, we received certifications of New and High Technology Enterprise status for Beijing Ninetowns Ports Software and Technology Co., Ltd., or Ninetowns Ports, and Guangdong Ninetowns Technology Co., Ltd., or Guangdong Ninetowns, which qualify them for the preferential 15% tax rate for tax year 2011.

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

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

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

We are a holding company incorporated in the Cayman Islands, which indirectly holds, through New Take Limited., or New Take and Shielder Limited., or Shielder, which are Hong Kong companies, our equity interest in our PRC subsidiaries. The New EIT Law and its implementation rules, both of which became effective on January 1, 2008, provide that China-sourced income of foreign enterprises, such as dividends paid by a PRC subsidiary to its overseas

Table of Contents

parent, is normally subject to PRC withholding tax at a rate of 10.0%, unless there are applicable treaties that reduce such rate. Under a special arrangement between China and Hong Kong, such dividend withholding tax rate is reduced to 5.0% if a Hong Kong resident enterprise owns over 25.0% of the PRC company distributing the dividends. As New Take and Shielder, are Hong Kong companies and own 90.0% of Beijing New Take Electronic Commerce Limited, or Beijing New Take, and Beijing Ninetowns Times Electronic Commerce Limited, or Ninetowns Times, respectively, dividends that Beijing New Take and Ninetowns Times pay New Take and Shielder, respectively, are subject to a withholding tax at the rate of 5.0%, provided that New Take and Shielder and our company are not considered to be PRC tax resident enterprises. Furthermore, according to the Circular regarding the Implementation of Dividend-related Provisions in the Tax Treaty issued by the State Administration of Taxation on February 22, 2009, if the main purpose of an offshore arrangement is to obtain a preferential tax treatment, the PRC tax authorities have the discretion to adjust the preferential tax rate enjoyed by the relevant offshore entity. As New Take and Shielder are intermediate holding companies and not engaged in any commercial activities in Hong Kong, the tax authorities may regard the main purpose of New Take and Shielder as obtaining a lower withholding tax rate of 5.0%. As a result, the tax authorities could levy a higher withholding tax rate to dividends received by New Take and Shielder from Beijing New Take and Ninetowns Times.

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

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

Additionally, under the New EIT Law, enterprises established under the laws of foreign countries or regions whose de facto management bodies are located within the PRC are considered resident enterprises and is generally subject to the enterprise income tax, or EIT, at the rate of 25.0% on its global income. However, the New Income Tax Law does not define the term de facto management bodies. Under the implementation rules to the Enterprise Income Tax Law, a de facto management body is defined as a body that has material and overall management and control over the manufacturing and business operations, personnel and human resources, finances and other assets of an enterprise. In addition, the tax circular mentioned above details that certain Chinese-invested enterprises will be classified as resident enterprises if the following are located or resident in China: senior management personnel and departments that are responsible for daily production, operation and management; financial and personnel decision making bodies; key properties, accounting books, company seal, and minutes of board meetings and shareholders meetings; and half or more of the senior management or directors having voting rights. Certain members of our board of directors and our management are currently located in the PRC and if they remain located in the PRC after the effective date of the New EIT Law, we may be considered to be a resident enterprise and therefore may be subject to the EIT at the rate of 25.0% on our global income in the PRC.

We face uncertainty from the Circular on Strengthening the Administration of Enterprise Income Tax on Non-PRC Resident Enterprise Share Transfers (SAT Circular No. 698) issued by the PRC State Administration of Taxation, effective as of January 1, 2008

Pursuant to SAT Circular No. 698, except for the purchase and sale of equity through a public securities market, where a non-resident enterprise transfers the equity interests of a PRC resident enterprise indirectly by disposition of the equity interests of an overseas holding company, or an Indirect Transfer, and the overseas holding company is located in a tax jurisdiction that has an effective tax rate less than 12.5% or does not tax foreign income of its residents, the non-resident enterprise, being the transferor, must report this Indirect Transfer to the appropriate tax authority of the PRC resident enterprise. Using a substance over form approach, the PRC tax authority may disregard the existence of the overseas holding company if it lacks a reasonable commercial purpose and was established for the purpose of reducing, avoiding or deferring PRC tax. As a result, gains derived from such as

Table of Contents

Indirect Transfer may be subject to PRC tax at a rate of up to 10%. SAT Circular No. 698 also provides that, where a non-PRC resident enterprise transfers its equity interests in a PRC resident enterprise to its related parties at a price lower than the fair market value, the relevant tax authority has the power to make a reasonable adjustment to the taxable income of the transaction.

There is uncertainty as to the application of SAT Circular No. 698. For example, while the term "Indirect Transfer" is not clearly defined, it is understood that the PRC tax authorities have jurisdiction to request information from a wide range of foreign entities having no direct contact with China. Moreover, the PRC tax authorities have not promulgated any formal provisions or formally declared or stated how to calculate the effective tax rates in foreign tax jurisdictions, and the process and format of the reporting of an Indirect Transfer to the appropriate tax authority of the relevant PRC resident enterprise remain unclear. In addition, there are no formal declarations with regard to how to determine whether a foreign investor has adopted an abusive arrangement in order to reduce, avoid or defer PRC tax. SAT Circular No. 698 may be determined by the tax authorities to be applicable to transactions in which non-resident investors were involved, if any of such transactions were determined by the tax authorities to lack reasonable commercial purpose. As a result, we may become at risk of being taxed under SAT Circular No. 698 and may be required to expend valuable resources to comply with SAT Circular No. 698 or to establish that we should not be taxed under SAT Circular No. 698, which may have a material adverse effect on our business, financial condition, results of operations and growth prospects.

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

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

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

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

The United States Investment Company Act of 1940, or the 1940 Act, provides generally that a company is an investment company that is required to register as such under the 1940 Act and comply with its regulations if: (i) the company is or holds itself out as being engaged primarily in the business of investing, reinvesting or trading in securities; or (ii) more than 40% of the value of the company's total assets is represented by investment securities as defined therein. The 1940 Act contains substantive regulations with respect to investment companies, including restrictions on their capital structure, operations, transactions with affiliates and other matters that would be incompatible with our operations. We may therefore have to incur significant costs and management time to avoid investment company status and may suffer other adverse consequences if we are deemed to be an investment company under the 1940 Act.

Table of Contents

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

It is likely that we are considered a passive foreign investment company for 2011, 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 depends 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 are classified as a PFIC for 2011. As a result, U.S. holders of shares may be subject to United States federal income tax consequences that are less favorable than those that would apply if we were not a PFIC.

For example, gain from the sale of our shares may be ineligible for preferential capital gains rates and may be subject to an interest charge. Please see Item 10 of this annual report, Additional Information Taxation United States federal income taxation.

The success of our B2C food related business depends on our ability to identify and respond to constantly changing consumer preferences.

The e-commerce and retail industries are subject to changing consumer preferences. Consequently, we must stay abreast of emerging lifestyles and consumer trends, and anticipate trends that appeal to existing and potential customers. Shifts in consumer preferences or eating habits away from organic food products may materially affect our business if we do not adjust our product offerings promptly and appropriately. In addition, our continued success depends, in general, on the economic conditions, disposable income and consumer confidence in the areas in which we sell our products, all of which can affect discretionary consumer spending. Adverse changes in these factors would reduce our total net revenues from our B2C food related business and limit our pricing, which will reduce our profitability.

We may fail to obtain, or may experience material delays in obtaining or renewing, necessary qualification certificates and government approvals for our real estate development operations, which would adversely affect our business.

The real estate industry in China is highly regulated. Real estate developers in China must abide by various laws and regulations, including implementation rules promulgated by local governments to enforce these laws and regulations. As a precondition to engaging in real estate development in China, a property developer must obtain a qualification certificate and renew it on an annual basis unless the rules and regulations allow for a longer renewal period. According to the current PRC regulations on qualification of property developers, a newly established property developer must first apply for a provisional qualification certificate with a one-year validity, which can be extended for a maximum of two years. If the newly established property developer fails to commence a property development project within the one-year period when the provisional qualification certificate is in effect, it will not be allowed to extend its provisional qualification certificate. More established property developers must also apply for renewal of their qualification certificates on an annual basis. It is mandatory under government regulations that developers fulfill all statutory requirements before obtaining or renewing their qualification certificates. We may not be able to obtain the qualification certificates in a timely manner, or at all, as and when they become due to expire. If we do not possess valid qualification certificates, the government may refuse to issue pre-sale and other permits necessary for our property development business. In addition, the government may impose a penalty on us and our project companies for failure to comply with the relevant licensing requirements. If we are unable to meet the relevant requirements, and therefore are unable to obtain or renew the qualification certificates or pass the annual verification, our future business and financial condition could be materially and adversely affected.

Table of Contents

We develop our real estate projects through project companies. These project companies must also hold valid qualification certificates to be able to conduct their businesses. As of April 20, 2012, Beijing Ninetowns Software Co., Ltd., or Ninetowns Software, Huainan Huacheng, Dalian Aviation Changzheng Technology Development Co., Ltd., or Dalian Changzheng and Binzhou Ruichen Real Estate Development Co., Ltd., or Binzhou Ruichen, have obtained the Provisional Qualification Certificate. We cannot assure you that our project companies will be able to obtain, extend or renew the qualification certificates. If our project companies do not possess valid qualification certificates, the PRC Government may refuse to issue pre-sale and other permits necessary for our property development business. In addition, the PRC Government may impose a penalty on us and our project companies for failure to comply with the licensing requirements. The occurrence of any of the above events may have a material adverse effect on our future business, financial condition and operating results.

Before commencing, and during the course of, the development of a project, we also need to apply for various licenses, permits, certificates and approvals, including land use rights certificates, construction site planning permits, construction work planning permits, construction permits, pre-sale permits and completion acceptance certificates. We need to satisfy various requirements to obtain these certificates and permits. As of April 20, 2012, Ninetowns Software has obtained the land use rights certificate, construction site planning permit for Yizhuang; Huainan Huacheng has obtained the land use rights certificate for the Smarter Town project in Huainan; Dalian Changzheng has obtained the land use rights certificate and construction site planning permit for both Phrase I and Phase II of the project in Dalian, and obtained the construction work planning permit for Phrase I; Binzhou Ruichen has obtained the land use rights certificates for approximately 57,027 square meters of the project in Binzhou. To date, we are still in the process of applying for other certificates and permits, and we cannot guarantee that we will not encounter serious delays or difficulties in this process. In the event that we fail to obtain the necessary certificates and permits for any of our projects, or a serious delay occurs, we may not be able to maintain our development schedule and our future business and cash flows may be adversely affected. We may also be forced to forfeit land to the government if we fail to comply with statutory development deadlines imposed under land grants or the terms of the land use rights grant contracts.

It is difficult to evaluate our results of operations and future prospects due to our limited operating history in the real estate development industry.

We expanded our business to focus on investment in real estate development in 2011, initially in Huainan, Dalian, Binzhou and Beijing, China. Accordingly, we have a limited operating history in the real estate development industry from which you can evaluate our business and future prospects. We may not be able to continue our growth at rates similar to those at which we have recently grown, if at all, because, among other reasons, we may not be able to maintain the current level of business operations or to expand our business operations into other geographic regions in future periods. As a result, our historical operating results may not provide a meaningful basis for evaluating our business, results of operations and financial condition. Accordingly, you should not rely on our results of operations for any prior periods as an indication of our future performance.

Our joint ventures could result in unforeseen expenses or disruptive effects on our business.

In 2011, we formed several joint ventures with our partners and we may continue to pursue joint venture opportunities. Any joint venture that we pursue may be accompanied by a number of risks. We may not be in a position to exercise sole decision-making authority regarding the joint ventures. We may not be able to control the quality of products produced by the joint venture. Depending on the terms of the joint venture agreement, we may need the consent of our joint venture partner(s) for the joint venture to take certain actions, such as the payment of distributions. In addition, our joint venture partners and the joint venture themselves may hold different views or have different interests from ours, and therefore may compete in the same market with us, in which case our interest and future development may be materially adversely affected.

We rely on third-party contractors.

Substantially all of our real estate project construction and related work are outsourced to third-party contractors. We are exposed to risks that the performance of our contractors may not meet our standards or specifications. Negligence or poor work quality by contractors may result in defects in our buildings or residential units, which could in turn cause us to suffer financial losses, harm our reputation or expose us to third-party claims. We work

Table of Contents

with multiple contractors on different projects and we cannot guarantee that we can effectively monitor their work at all times. Although our construction and other contracts contain provisions designed to protect us, we may be unable to successfully enforce these rights and, even if we are able to successfully enforce these rights, the third-party contractor may not have sufficient financial resources to compensate us. Moreover, the contractors may undertake projects from other property developers, engage in risky undertakings or encounter financial or other difficulties, such as supply shortages, labor disputes or work accidents, which may cause delays in the completion of our property projects or increases our costs.

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

We signed a Pre-sale Contract for Commodity House in Beijing Municipality with Beijing Hengfu Square Development Company Limited, or Hengfu, to purchase a total of 7,992 square meters in Capital A Partners, which is where our principal offices are located. As of April 20, 2012, we have not obtained the ownership certificate of our principal offices as a result of a third-party lawsuit against Capital A Partners' developer.

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

Risks related to our industry

The software 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.

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

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

Table of Contents

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

The software industry in China and the regulatory environment has been and continues to be subject to uncertainty. Although the PRC government adopted policies to encourage the development of the PRC electronic government, or e-government, industry through the Three Digitizations Project, there can be no assurance that policies and the government's standards, rules and regulations relating to the e-government software industry, such as the Regulations for the Protection of Computer Software, will not be implemented, interpreted or revised in a manner that may force us to implement changes to our existing enterprise software or change how we provide products and services to our customers, which could increase our expenses and decrease our profitability. See Item 4 of this annual report, Information on the Company Business overview Regulation for a discussion of the laws and regulations that apply to our company. We cannot accurately predict the circumstances that would cause the PRC government to implement, interpret or revise its policies in such a manner. Nevertheless, the PRC government could adopt measures to more closely regulate the use of the Internet or the software industry in China in order to enhance the government's control over the Internet or over the content of software being distributed in China.

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

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

The PRC real estate market is volatile as it continues to evolve. We operate subject to the risks associated with the PRC real estate industry. We cannot guarantee that our real estate development business will generate significant total net revenues or be profitable.

The real estate market in the PRC is subject to social, political, economic, legal and other factors as it continues to evolve. The lack of a mature and active secondary market for private properties and the limited amount of mortgage loans available to individuals are examples of factors that inhibit demand for residential properties. We believe that the real estate development business depends on the growth of the urban middle and upper middle classes in the PRC. A significant downturn in the PRC economy could adversely affect such demand, as well as the demand for the retail, office and residential properties we plan to develop.

The PRC property market is volatile and may experience undersupply or oversupply and property price fluctuations. The central and local governments frequently adjust monetary and other economic policies to prevent and curtail the overheating of the economy. Such policies may lead to changes in market conditions, including price instability and imbalance of supply and demand in respect of office, residential, retail, entertainment and cultural properties.

The process of acquiring development and land use rights and developing land involves significant risks as we may be required to commit material financial and managerial resources in acquiring such rights and in constructing the property development infrastructure, which generally takes several years, before the property development project generates any revenue. Similarly, we may pre-sell or sell developed properties at below expected sales prices and may experience delays in selling developed properties due to, among other things, the supply and demand of comparable properties and the cyclical nature of the property industry in the PRC. We may need to delay or change the structure of property developments after we have begun to explore them and may lose deposits paid to participate in the land tender process or fail to recover expenses and construction costs already incurred. We may even be required to pay penalties and/or compensation to the government authorities and purchasers as a result.

Table of Contents

Furthermore, any of our anticipated development projects may become unprofitable if we incur additional construction and other development costs due to increases in interest rates or material, labor or other costs over and above the market price at which we are able to sell our property projects and pass on such cost increases to our customers. We may fail to complete the construction of a property on schedule or at all, due to a variety of factors including shortages of materials, equipments, technical skills and labor, adverse weather conditions, natural disasters, labor disputes, disputes with contractors, accidents, changes in the PRC government's policies, changes in market conditions and delays in obtaining the requisite licenses, permits and approvals from the relevant authorities, which may adversely affect our ability to generate total net revenues or the profitability of our real estate development business.

There is fierce competition among real estate developers for land and property. If we fail to compete effectively against our competitors, our future business and financial position may be adversely affected. A large number of property developers including overseas and leading Hong Kong property developers have been undertaking property development and investment projects in the PRC for many years. As we grow our business lines to include real estate development business, we may compete with large real estate developers for the acquisition of land and property investment opportunities.

In April 2004, the PRC Government imposed a six-month moratorium on conversion of agricultural land into construction land for non-agricultural purposes to help reduce land supply and thereby prevent overheating of the PRC property market. In June 2004, the PRC Government issued further policies with the objective of reducing the number of property projects that involve redevelopment or relocation of existing residents. In March 2005, the PRC Government issued a regulation to help stabilize housing prices and to reinforce the administration of land supply. In November 2009, the PRC Government circulated a supplement to the Catalogue of Construction Project Restricted and Prohibited of 2006 version, which sets forth a ceiling for the size of land that may be granted by a local government. In March 2010, the PRC government carried out policies to reinforce the control and supervision over the land supply and in September of the same year, the PRC government issued another policy to propel the enforcement of the policy of March 2010. These policies contributed to an increase in competition for land among real estate developers.

Competition among property developers may result in increased costs for acquiring land for development, increased costs for raw materials, shortages of skilled contractors, oversupply of properties, decrease in property prices in certain parts of the PRC, a slowdown in the rate at which new property developments will be approved and/or reviewed by the relevant government authorities and increases in administrative costs for hiring or retaining qualified personnel, any of which may adversely affect our business and financial position. Our competitors will likely have greater financial resources than are available to us, as well as greater economies of scale and broader brand recognition and may therefore be in a better position than us in acquiring land. If we fail to compete effectively as our competitors, our future business and financial position may be adversely affected.

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

Table of Contents

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

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

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

Table of Contents

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

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

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

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

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

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

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

The shareholders of our VIE may breach, or cause our VIE to breach, the contracts for a number of reasons. For example, their interests as shareholders of our VIE and the interests of our company may conflict and we may fail to resolve such conflicts; the shareholders may believe that breaching the contracts will lead to greater economic

Table of Contents

benefit for them; or the shareholders may otherwise act in bad faith. If any of the foregoing were to happen, we may have to rely on legal or arbitral proceedings to enforce our contractual rights, including specific performance or injunctive relief, and claiming damages. Such arbitral and legal proceedings may cost us substantial financial and other resources, and result in disruption of our business, and we cannot assure you that the outcome will be in our favor.

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

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

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

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

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

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

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

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

In early 2003, several economies in Asia, including Hong Kong and China, were affected by the outbreak of Severe Acute Respiratory Syndrome, or SARS. Several confirmed or suspected SARS cases were reported in early 2004 in Beijing and Anhui Province in China. In addition, lethal outbreaks of avian influenza infection among poultry were reported by several countries in Asia, including China in 2005. In March 2007, February 2008, and early 2009, several fatal cases of avian influenza were reported in various provinces across China. In April 2009, lethal outbreaks of swine flu were reported by several economies around the world, including Hong Kong and various provinces across China. In early June 2009, the World Health Organization declared the outbreak to be a pandemic,

Table of Contents

while noting that most of the illnesses were of moderate severity. The PRC Ministry of Health has reported several hundred deaths caused by the swine flu. If there is a recurrence of an outbreak of SARS, avian influenza or swine flu, it may adversely affect our total net revenues, growth and profits. For instance, a recurrence of SARS, avian influenza, swine flu or any other epidemic may reduce the level of economic activity in affected areas and negatively impact international trade activities involving China, which could have a negative impact on our business. In addition, health or other government regulations may require temporary closure of our offices, government offices or the offices of our customers, which will severely disrupt our business operations and have a material adverse effect on our total net revenues, growth and profits.

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 VIE 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 are traded in U.S. dollars.

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

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

Table of Contents

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

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

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

In December 2006, the PBOC promulgated the Administrative Measures for Individual Foreign Exchange, which set forth the requirements for foreign exchange transactions by PRC individuals under either current accounts or capital accounts. In January 2007, SAFE issued the Implementation Rules of the Administrative Measures for Individual Foreign Exchange, which, among other things, specified approval requirements for certain capital account transactions such as a PRC citizen's participation in the employee stock ownership plans or stock option plans of an overseas publicly listed company. On March 28, 2007, SAFE promulgated the Processing Guidance on Foreign Exchange Administration for Domestic Individuals Participating in Employee Stock Ownership Plans or Stock Option Plans of Overseas-Listed Companies Hui Zong Fa [2007] No. 78, Circular 78. On 20 February 2012, SAFE issued a new Circular on Domestic Individuals' Participation in Share-based Incentive Plans of overseas Listed Companies (Hui Fa [2012] No. 7), or Circular 7, to replace Circular 78. Under Circular 7, PRC citizens who participate in share-based incentive plans of an overseas publicly listed company are required, through a qualified PRC domestic agent or PRC subsidiary of such overseas publicly listed company, to register with the SAFE and complete certain other procedures. We believe that the registration and approval requirements contemplated in Circular 7 will be burdensome and time consuming.

If it is determined that our equity compensation plans are subject to Circular 7, failure to comply with such provisions may subject us and the participants of our equity compensation plans who are PRC citizens to fines and legal sanctions and prevent us from being able to grant equity compensation to our personnel, which is currently a significant component of the compensation of many of our PRC employees. In that case, our business operations may be materially adversely affected.

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.

Table of Contents

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

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

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

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

actual or anticipated fluctuations in our quarterly or semi-annual operating results;

actual or anticipated fluctuations in the market price of Internet and PRC-related companies;

announcements of new products or services by us or our competitors;

conditions in the international trade industry; and

announcements by us or our competitors of significant acquisitions, strategic partnerships, joint ventures or capital commitments. In particular, the performance and fluctuation of the market prices of other PRC technology companies that have listed their securities in the United States may affect the trading and price volatility of our ADSs. In recent years, a number of PRC companies have listed their securities, or are preparing to list their securities, in the United States. Some of these securities have experienced significant volatility, including significant price declines in connection with or in the periods following their initial public offerings. The trading performances of these companies securities may affect the investor sentiment towa