

Annual Report 2004

Empowering Global Trade



COMPANY PROFILE

We are a PRC software company that enables enterprises and trade-related PRC government agencies to streamline the import/export process in China. Using our scalable enterprise software products, our clients have the ability to automate import/export processing over the Internet, which is a more cost-effective and efficient alternative to the traditional paper-based method.

Our American Depositary Shares are traded on The NASDAQ National Market under the symbol NINE. On May 31, 2005, there were 34,991,834 ordinary shares outstanding, where one ordinary share equals one ADS. For more information, please visit www.ninetowns.com/english.

We encourage you to visit www.sec.gov for a copy of our annual report on Form 20-F, as filed with the U.S. Securities and Exchange Commission on June 29, 2005.

FINANCIAL HIGHLIGHTS

(In US\$ thousands, except per share data)

Fiscal Year Ended December 31	2002⁽¹⁾	2003^(1,2)	2004⁽¹⁾
Total Net Revenue	\$13,053	\$ 16,058	\$ 24,351
Income from Operations	8,852	6,416	16,875
Net income	7,860	4,976	16,184
Diluted net income per share	0.36	0.22	0.57
<i>Operating margin</i>	<i>67.8%</i>	<i>40.0%</i>	<i>69.3%</i>
<i>Net margin</i>	<i>60.2%</i>	<i>31.0%</i>	<i>66.5%</i>
At December 31,			
Cash and short-term investments	9,001	28,175	102,446
Short-term unearned revenue	5,367	8,531	11,748
Total assets	16,104	39,143	147,667
Stockholders' equity	8,297	20,000	131,751
Number of registered licensees of iDeclare	24,560	51,860	95,000

- (1) The conversion of Renminbi into U.S. dollars in this Annual Report, made solely for the convenience of the reader, is based on the noon buying rate in The City of New York for cable transfers of Renminbi as certified for customs purposes by the Federal Reserve Bank of New York as of December 31, 2004, which was RMB8.2765 to US\$1.00. The percentages stated in this Annual Report are calculated based on Renminbi amounts.
- (2) We recorded a one-time compensation charge of US\$4.23 million in 2003.

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Dear Shareholders:

September 30, 2005

It is my great pleasure to present our first annual report following our successful listing on NASDAQ. In this letter, I would like to take the opportunity to highlight some of our achievements over the past year, as well as to discuss our growth initiatives and strategies. 2004 was another year of solid performance for our company as we gained more momentum from the strong market penetration of our flagship product, iDeclare. As a result, we achieved robust revenue growth and high margins.

Fiscal 2004 Financial Highlights

- Total net revenues were RMB201.5 million (US\$24.3 million), representing an increase of 51.6% from 2003.
- Sales from enterprise software were RMB188.7 million (US\$22.8 million), an increase of 65.8% from 2003.
- Gross profit margin was 97.8%, compared to 95.1% for 2003. The increase in gross profit margin for 2004 was primarily due to higher revenue contribution from the higher margin enterprise software business.
- Operating income and operating margin were RMB139.7 million (US\$16.9 million) and 69.3%, respectively, representing an increase of 163.0% in operating income from 2003.
- Net income and net profit margin were RMB134.0 million (US\$16.2 million) and 66.5%, respectively, representing an increase of 225.2% in net income from 2003.
- At the end of 2004, we had approximately RMB847.9 million (US\$102.4 million) in cash and short-term investments, with no outstanding debt.
- The short-term unearned revenue balance at the end of 2004 was RMB97.2 million (US\$11.7 million), representing an increase of 37.7% from 2003.

Fiscal 2004 Operational Highlights

We are rigorous in managing our products and services, and in order to fulfill the needs of our customers, we have developed a nationwide support network and a flexible and reliable software architecture. In 2004, we achieved the following:

- Sold approximately 43,000 iDeclare software licenses, compared to 27,300 licenses in 2003, resulting in an installed base of 95,000 users at the end of 2004.
- Renewed approximately 15,750 iDeclare maintenance contracts, more than doubling the 7,070 renewals we had in 2003.
- Signed various key contracts with the PRC government and government-related entities, resulting in a revenue contribution of approximately 6% for our software development services business in 2004.
- Gained significant success in the results of our sole franchisee, one of the indirect sales channels we established toward the end of 2003. In 2004, our franchisee contributed 14.3% of our total revenue.
- Developed a new potential flagship product called “iProcess”, which enables international trade enterprises and their suppliers to submit product quality-related data to the PRC government throughout the production process.
- Raised RMB531.4 million (US\$64.2 million) of net proceeds in a successful NASDAQ initial public offering.

Increased Market Penetration

We added approximately 43,000 new licensees in fiscal 2004, including globally-renowned companies such as Unilever, Emerson Motor (China), Yamaha Electronics (Suzhou), DHL-Sinotrans International Air Courier (Suzhou), Konica Minolta Camera (Guangdong), Dongfeng Honda Engine, Shanghai SVA NEC Liquid Crystal Display, Thomson Multimedia (Dongguan), Panasonic Putian Mobile Communications Beijing, as well as domestic well-known PRC brands such as Shenzhen Founder Cyber-Tech, LoLo Company, TCL Communication Equipment (Huizhou), Guangdong Bubugao Electronics and China Lucky Film Corp.

We were able to maintain our dominant market leadership position in 2004 with a market share of approximately 89% out of an estimated 107,000 electronic filers. Our achievements in 2004 were recognized by several independent parties including:

- In December 2004, we were selected as one of the winners of Deloitte's Technology Fast 500 Asia Pacific 2004 Program, which is a ranking of the 500 fastest-growing technology companies in Asia.
- In September 2004, we were ranked #14 in the "IT Top 100 China e-Government Enterprises" by the "China Internet Weekly" magazine.
- In August 2004, we achieved ISO 9001: 2000 Quality Management System Certification, which is a worldwide quality management system certification program.

Expanded Board and Executive Leadership

As we entered our next stage of growth and expansion into a global brand, we were pleased to add two more non-management board members to help us meet our goals to bring additional independent influences to our corporate governance processes. In 2004, we welcomed to our board of directors Mr. Mark Lee, Senior Vice President of Avocent, a publicly-listed US company and Mr. Xiaomin Sun, President of Sanjiu Enterprise Group, a publicly-listed PRC company. Mr. Lee brings with him several years of experience in the US software business and Mr. Xiaomin has extensive legal expertise.

Additionally, we added two more senior officers to our management team in 2004. We welcomed Mr. Eric Ho, Chief Strategy Officer, and Mr. John Wang, Senior Vice President of Business Development. Both officers have in-depth international business experience and are excellent additions to the original management team. I am glad to see that we have a management team with not only an extensive international business background but one with a strong understanding of the local PRC market as well.

Investing in Our Future

We continue to focus on building our brand reputation in order to maintain market leadership and to expand and retain our user base. As a testament to the strength of our brand, products and services, our user base has significantly increased and our maintenance renewal ratio has been notably improved. This indicates an increased awareness and acceptance of our products among users. At the same time, existing users are becoming more reliant on the efficiency and the convenience provided by our products.

We also continue to advance our software architecture and product functionalities in order to be more effective in fulfilling our clients' needs. We continue to enhance our services and support to better assist our clients in streamlining their import/export processing. We have also strengthened our comprehensive distribution network by expanding our indirect sales network and services through our sole franchisee using the "Ninetowns" brand name.

As encouraged as we are about our results to date, we are even more excited about our prospects. Our goal for 2005 is to enhance value for existing clients through broader product offerings and improved customer maintenance services. Specifically, our key focus will be on the market launch of our new enterprise software product, iProcess, as well as on the continued sale of iDeclare.

We are confident that we have what it takes for sustained leadership in international trade services. We believe our robust revenue and earnings growth, strong cash flow from operating activities, and solid growth in deferred revenue will continue to support our future momentum. These factors, coupled with the innovation, dedication and execution of our employees, will be important in enabling us to thrive in a challenging and evolving business environment. I am confident that with the strong performance of our core business operations and our many new opportunities for growth, we will continue to deliver value to all of our shareholders going forward.

Finally, I would like to thank our clients, suppliers and partners for their strong support over the year. I am especially grateful and energized by our shareholders for their confidence in us and by our board of directors for its

guidance. I look forward to earning your continued support and trust in the coming year as we execute on our growth plan.

Best wishes,

A handwritten signature in black ink, appearing to be 'Shuang Wang', with a long horizontal flourish extending to the right.

Shuang Wang
Chief Executive Officer



**NOTICE OF ANNUAL GENERAL MEETING OF SHAREHOLDERS
ON DECEMBER 2, 2005**

The Annual General Meeting of Shareholders of Ninetowns Digital World Trade Holdings Limited (the “Company”) will be held at 2:00 p.m. on December 2, 2005 at Plaza Conference Centre, 5/F, China Life Tower, No.16 Chaowai Street, Chaoyang District, Beijing for the following purposes:

1. to authorize the board of directors of the Company (the “Board”) to appoint, without further ratification, Deloitte Touche Tohmatsu as the Company’s independent auditors for the fiscal year ending December 31, 2005 and to fix the remuneration of Deloitte Touche Tohmatsu for such services;
2. to adopt the audited statement of accounts and report of the auditors for the fiscal year ended December 31, 2004;
3. to approve the Board’s compensation for the fiscal year ended December 31, 2004 and delegate authority to the compensation committee of the Board to fix the remuneration of the Board for the fiscal year ending December 31, 2005;
4. to approve and adopt amendments to the 2004 Share Option Plan;
5. to approve and adopt the 2006 Share Incentive Plan; and
6. to transact such other businesses as may be brought properly before the meeting.

In accordance with the articles of association of the Company, shareholders of record at the close of business on November 2, 2005 will be entitled to notice of, and to vote at, the meeting.

Please follow the instructions on the enclosed proxy card and kindly mark, sign and date the enclosed proxy card and return it promptly.

Copies of the Company’s annual report for the fiscal year ended December 31, 2004, the Amended and Restated 2004 Share Option Plan and the 2006 Share Incentive Plan may be viewed at our website at www.ninetowns.com/english.

NINETOWNS DIGITAL WORLD TRADE HOLDINGS LIMITED

**PROXY STATEMENT
FOR ANNUAL GENERAL MEETING OF SHAREHOLDERS
TO BE HELD ON DECEMBER 2, 2005**

This proxy statement is furnished by Ninetowns Digital World Trade Holdings Limited (the "Company"), in connection with the solicitation by the Company's board of directors (the "Board") of proxies to be voted at the annual general ordinary shareholders' meeting to be held on Friday, December 2, 2005 at 2:00 p.m., or any adjournment or postponement thereof (the "Annual General Meeting").

**PROPOSAL NUMBER ONE
APPOINTMENT OF AUDITORS**

The shareholders are requested to authorize the Board, without further ratification, to appoint Deloitte Touche Tohmatsu as the Company's independent auditors to audit the Company's financial statements for the fiscal year ending December 31, 2005 and to fix the remuneration of Deloitte Touche Tohmatsu for such services.

Vote Required and the Board's Recommendation

The affirmative vote of a majority of the ordinary shares present in person or by proxy at the Annual General Meeting and voting on the proposal is required for the approval of this proposal for the authorization of the Board to appoint, without further ratification, Deloitte Touche Tohmatsu as the Company's independent auditors for the fiscal year ending December 31, 2005.

**THE BOARD UNANIMOUSLY RECOMMENDS A VOTE "FOR" THE AUTHORIZATION OF THE
BOARD TO APPOINT, WITHOUT FURTHER RATIFICATION,
DELOITTE TOUCHE TOHMATSU AS THE COMPANY'S INDEPENDENT AUDITORS
FOR THE FISCAL YEAR ENDING DECEMBER 31, 2005.**

**PROPOSAL NUMBER TWO
ADOPTION OF AUDITED STATEMENT OF ACCOUNTS
AND REPORT OF THE AUDITORS**

The full text of the audited statement of accounts and the report of the auditors for the fiscal year ended December 31, 2004 has been presented to the shareholders. The Board recommends that the shareholders adopt the audited statement of accounts and the report of the auditors for the fiscal year ended December 31, 2004 as presented to the shareholders along with this proxy statement.

Vote Required and the Board's Recommendation

The affirmative vote of a majority of the ordinary shares present in person or by proxy at the Annual General Meeting and voting on the proposal is required for the adoption of the audited statement of accounts and report of the auditors for the fiscal year ended December 31, 2004.

**THE BOARD UNANIMOUSLY RECOMMENDS A VOTE "FOR" THE ADOPTION OF THE AUDITED
STATEMENT OF ACCOUNTS AND REPORT OF THE AUDITORS FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2004.**

**PROPOSAL NUMBER THREE
APPROVAL OF BOARD COMPENSATION**

The Board has recommended that the aggregate compensation for the Board for the fiscal year ended December 31, 2004 be RMB2,416,800 and to further delegate authority to the compensation committee of the Board to fix the remuneration of the Board for the fiscal year ending December 31, 2005.

Vote Required and the Board's Recommendation

The affirmative vote of a majority of the ordinary shares present in person or by proxy at the Annual General Meeting and voting on the proposal is required for the approval of the Board's compensation for the fiscal year ended December 31, 2004 and the delegation of authority to the compensation committee of the Board to fix the remuneration of the Board for the fiscal year ending December 31, 2005.

**THE BOARD UNANIMOUSLY RECOMMENDS A VOTE "FOR" THE APPROVAL OF THE
PROPOSED AGGREGATE COMPENSATION FOR THE BOARD FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2004 AND THE DELEGATION OF AUTHORITY TO THE COMPENSATION
COMMITTEE OF THE BOARD TO FIX THE REMUNERATION OF THE BOARD FOR THE FISCAL
YEAR ENDING DECEMBER 31, 2005.**

**PROPOSAL NUMBER FOUR
AMENDMENTS TO 2004 SHARE OPTION PLAN**

Our 2004 Share Option Plan (the “2004 Plan”) was adopted by the Board in October 2004. The 2004 Plan initially reserved an aggregate of 1,800,000 ordinary shares for issuance upon the exercise of options under the 2004 Plan. As of October 15, 2005, we have issued share options exercisable for 890,000 ordinary shares under the 2004 Plan.

We maintain our 2004 Plan to provide incentives to employees, directors, advisors and consultants of the Company to encourage proprietary interests in the Company, to encourage employees to remain in the employment of the Company and to encourage directors, advisors and consultants to remain in the service of the Company. We propose to amend the 2004 Plan to, among other things, increase the aggregate number of ordinary shares that may be issued under the 2004 Plan from 1,800,000 ordinary shares to 4,300,000 ordinary shares. Other proposed amendments to the 2004 Plan include the addition of an “ever-green” provision and the ability to grant share appreciation rights, restricted share awards and performance awards. The full text of the Amended and Restated 2004 Share Option Plan as proposed is set forth as Appendix A to this proxy statement.

Vote Required and the Board’s Recommendation

The affirmative vote of a majority of the ordinary shares present in person or by proxy at the Annual General Meeting and voting on the proposal is required for the approval of this proposal to approve and adopt the amendments to the 2004 Share Option Plan.

**THE BOARD RECOMMENDS THAT YOU VOTE “FOR”
THE APPROVAL OF THE AMENDMENTS TO THE 2004 SHARE OPTION PLAN.**

**PROPOSAL NUMBER FIVE
ADOPTION OF THE 2006 SHARE INCENTIVE PLAN**

Our proposed 2006 Share Incentive Plan (the “2006 Plan”) was adopted by the Board in October 2005. The 2006 Plan reserves an aggregate of 2,800,000 ordinary shares for issuance upon the exercise of options under the 2006 Plan.

The purpose of the 2006 Plan is to provide incentives to employees, directors, advisors and consultants of potential acquisition or merger targets of the Company to encourage proprietary interests in the Company. The full text of the 2006 Plan as proposed is set forth as Appendix B to this proxy statement.

Vote Required and the Board’s Recommendation

The affirmative vote of a majority of the ordinary shares present in person or by proxy at the Annual General Meeting and voting on the proposal is required for the approval of this proposal to approve and adopt the 2006 Share Incentive Plan.

**THE BOARD RECOMMENDS THAT YOU VOTE “FOR”
THE APPROVAL OF THE ADOPTION OF THE 2006 SHARE INCENTIVE PLAN.**

MANAGEMENT DISCUSSION AND ANALYSIS

* Overview

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

We generated total net revenues of RMB108.0 million, RMB132.9 million and RMB201.5 million (US\$24.4 million) in 2002, 2003 and 2004, respectively. The increase in our total net revenues was due to increased sales of our enterprise software, increased demand for our software development services and the overall growth of the import/export market in China. Our net income in 2002 was RMB65.1 million, decreasing to RMB41.2 million (US\$5.0 million) in 2003 due to a stock-based compensation expense of RMB35.0 million (US\$4.2 million) in 2003. Our net income in 2004 was RMB134.0 million (US\$16.2 million), representing a 225.2% increase from 2003. We believe there were approximately 24,560, 51,860 and 95,000 licensees of our enterprise software registered to effect electronic import/export processing with the State Administration for Quality Supervision and Inspection and Quarantine of the PRC ("PRC Inspections Administration"), as of December 31, 2002, 2003 and 2004, respectively.

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

Focus on sales of enterprise software and software development services

Our predecessor, Beijing Ninetowns Technology Group Limited ("Ninetowns Technology"), was formed in 1995 to focus on the research and development of software related to the declaration process, in addition to selling computer hardware and accessories. During the first several years of our operations, our net revenues from computer hardware sales constituted almost all of our total net revenues and provided the necessary funding for our development of software related to the declaration process. As we developed, we engaged in three main lines of business: (i) sales of enterprise software, (ii) provision of software development services, and (iii) sales of computer hardware and accessories. Since 2001, we have shifted our business focus from sales of computer hardware and accessories to sales of enterprise software and provision of software development services. Sales of computer hardware and accessories accounted for an insignificant percentage of our total net revenues in 2004 and are expected to be a negligible part of our business in the future. We intend to focus our resources on sales of enterprise software and provision of software development services in the future.

Growth of the import/export industry in China

Our financial results have been, and we expect them to continue to be, affected by the growth of the import/export industry in China. According to Global Insight, the total value of import/export transactions in China reached approximately US\$1.2 trillion in 2004, up from approximately US\$620.9 billion in 2002 and approximately US\$851.6 billion in 2003. As a result of China's accession into the WTO in 2001, tariffs imposed by China on all imported goods are expected to be reduced and PRC-imposed import quotas and permit requirements are expected to be gradually eliminated. We believe the combination of a rapidly growing PRC economy and China's accession to the WTO will accelerate the growth of the import/export industry in China, and as a result create additional demand for our products and services.

Increase in number of potential users

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

Expanding our user base through franchisees

We believe our user base has substantial growth potential due to the high number of international trade enterprises that possess import/export rights in China. According to the PRC Ministry of Commerce, there were approximately 470,000 foreign-invested companies registered to do business in China as of February 29, 2004. In addition, there are numerous PRC-based companies that possess import/export rights. A key component of our growth strategy is to secure new customers through the efforts of our distributors and franchisee. Currently, we have engaged two distributors and one franchisee to undertake marketing, distribution and service activities in provinces in China where we do not have any offices or where our sales network is insufficient to serve and support our existing users. We intend to engage additional franchisees to expand our marketing and distribution network in the near future.

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

We operate in three lines of business: (i) sales of enterprise software, (ii) software development services, and (iii) sales of computer hardware and accessories. Currently, our total net revenues are primarily derived from our sales of enterprise software. Our net revenues from sales of computer hardware and accessories constituted less than 1.0% of our total net revenues for 2004.

Total net revenues

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

We derived RMB13.6 million, RMB20.4 million and RMB51.7 million (US\$6.2 million), or 12.6%, 15.4% and 25.6% of our total net revenues in 2002, 2003 and 2004, respectively, from our related parties Beijing iTowNet Cyber Technology Ltd. (“iTowNet”) and Beijing Regard Technology Co. Ltd. (“Beijing Regard”), which are two of our major customers for software development services, and Shenzhen Ninetowns Enke Software Technology Co. Ltd. (“Ninetowns Enke”), which is our sole franchisee.

Our total net revenues are net of business tax and value-added tax (“VAT”), but include VAT refunds as discussed below. Our sales of enterprise software products and computer hardware and accessories are generally subject to a VAT of 17.0%. Our fees charged for software development services and customer maintenance service for enterprise software products are generally subject to a 5.0% business tax. Pursuant to the laws and regulations of the PRC, three of our subsidiaries in China are entitled to a refund of the 14.0% VAT for certain self-developed software products. We recognize the VAT refunds at the same time we recognize net revenues from sales of enterprise software. VAT refunds are included in our net revenues from sales of enterprise software. In 2004, we recognized RMB17.4 million (US\$2.1 million) in VAT refunds. We cannot predict how much our net revenues from sales of our enterprise software or software development services will increase in the future, or if they will increase at all.

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

In addition to direct sales, we also sell our enterprise software to our two distributors and one franchisee for further sale to users. Our per-unit license fee for iDeclare.CIQ charged to our distributors and franchisee is based on our negotiated sales arrangement with the distributor or franchisee, and is less than the RMB4,500 per-unit license fee we receive from direct sales. We also sell iDeclare.CIQ on a fee-per-declaration filing basis to a limited number of users, substantially all of whom are located in Dongguan, China. Our ability to grow our net revenues from sales of enterprise software will depend on (i) the rate of increase in the number of new users of such product, (ii) the

market's acceptance of our planned new software products, (iii) the success of our plans to engage additional franchisees, and (iv) our increased efforts in marketing our customer maintenance services to our users.

Notwithstanding that we intend to charge for such maintenance services, we believe our users and potential customers are not accustomed to being charged for this type of service and it is unclear to us how many of our users will pay for such maintenance services. In 2004, we collected customer maintenance service fees from approximately 15,700 users, representing approximately 30.4% of our users due to renew their maintenance service. We intend to continue to increase our marketing and collection efforts with respect to these customer maintenance service fees. We expect our profit margin from sales of enterprise software to decrease if the VAT refund is eliminated or reduced by the PRC tax authorities. We expect net revenues from per declaration filing fees to increase with our increased sales of enterprise software, but to remain stable as a percentage of our total net revenues.

Software development services. Our net revenues from software development services are derived primarily from contracts related to PRC government agency software development projects, such as our services for the PRC Inspections Administration and the data exchange platforms operated by iTowNet, which is our related party, and our services for Beijing Regard, which is also our related party. As we believe is consistent with the practice of other software development companies in China engaged in government-related work, we often commence work on software development projects based on oral commitments from our customer and sign the contract after the commencement of work. Once a contract has been signed, we begin recognizing net revenues from these projects based on the percentage-of-completion method, in which revenue recognition is based on the man-hours spent and the costs invested in the project. Billing is generally done periodically in accordance with predetermined milestones as established by the contract. We expect net revenues from software development services to increase as we are engaged by additional PRC government agencies, such as the Customs General Administration of the PRC ("PRC Customs"), to perform such services, but we cannot predict how much such revenues will grow in the future, or if they will grow at all. As of December 31, 2004, we had incurred RMB6.7 million (US\$814,700) of personnel costs and other costs in connection with software development services for which a contract had not been executed.

Computer hardware sales. Until 2002, we derived significant net revenues from sales of personal computers and computer accessories. We recognize net revenues from computer hardware sales when the equipment or accessories are delivered, title has passed to the customer and we have no further obligation to provide services related to the operation of such equipment or accessories. We have shifted our business focus to the sale of enterprise software and the provision of software development services. Although we derived significant net revenues from computer hardware sales in the past, we expect net revenues from this business to represent an insignificant portion of our total net revenues in the future.

Cost of revenues

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

Enterprise software. Our enterprise software consists of standardized software, the production of which involves minimal cost. We have a production arrangement with Beijing Zhongxinlian CD Co., Ltd. ("Zhongxinlian"), under which Zhongxinlian produces the compact discs that contain our software and charges us a fee for such services. We package such compact discs with compact disc holders and ship the packages from our Beijing headquarters to our branch offices, distributors and franchisee. As a result, the cost of revenues for sales of enterprise software consists mainly of outsourcing costs to Zhongxinlian and costs associated with packaging and shipping of software. We expect our cost of revenues from sales of enterprise software to increase as a percentage of our total net revenues because we will be required to recognize additional cost of revenues after we commercially introduce iMonitor.CGA, since the costs associated with iMonitor.CGA as a percentage of net revenues from sales of enterprise software are higher than the costs associated with iDeclare.CIQ.

Software development services. Our cost of software development services is comprised mainly of personnel expenses, office rental expenses and other expenses directly related to our provision of software development services. We record cost of revenues for software development services on a percentage-of-completion method by reference to the man-hours incurred and estimated total project hours. We expect our cost of revenues related to software development services to increase as a percentage of our net revenues from software development services

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

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

Gross profit margin

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

Operating expenses

Our operating expenses consist of (i) selling expenses, (ii) general and administrative expenses, (iii) research and development expenses, (iv) employee stock-based compensation expenses, and (v) allowance for doubtful debts. We do not allocate operating expenses to individual lines of business when making decisions about allocation of resources or assessing the performance of our lines of business.

Selling expenses. Selling expenses consist primarily of sales, marketing and personnel expenses, customer service expenses, associated rental expenses, marketing and advertising expenses and travel and entertainment expenses for our sales and marketing staff. We expense all selling expenses as they are incurred. We expect our selling expenses to increase as we (i) expand our marketing and advertising campaigns to strengthen brand recognition, (ii) establish seven additional sales, marketing and technical support offices across China by the end of 2005, (iii) increased the salaries of our sales and marketing staff by up to 15.0-20.0% in 2004, and (iv) gradually increased the number of our sales and marketing staff by up to 15.0-20.0% in 2004. However, we expect our selling expenses as a percentage of our total net revenues to decrease as we increase efficiency, achieve economies of scale in our sales efforts and engage additional franchisees in the future.

General and administrative expenses. General and administrative expenses consist primarily of personnel expenses, office rental expenses, general office expenses, travel and entertainment expenses and professional fees. We expense all general and administrative expenses as they are incurred. In 2004, we incurred substantially higher general and administrative expenses than in earlier years as a result of professional fees related to our capital-raising activities. We expect our general and administrative expenses to increase in 2005 as a result of the additional legal, accounting and other requirements applicable to us as a public company in the United States. However, given our high general and administrative expenses in 2004, we expect our general and administrative expenses to decrease as a percentage of our total net revenues in 2005.

Research and development expenses. Research and development expenses consist primarily of research and development personnel expenses and associated rental expenses. We expense research and development expenses as they are incurred. In addition, because technological feasibility for our software products ordinarily occurs right before such products are commercially launched and because costs incurred between technological feasibility and commercial launch are immaterial, such costs are expensed as incurred. We expect our research and development expenses to increase as a result of (i) our investment in the research and development of new enterprise software products, (ii) an increase in the number of research and development personnel, (iii) an expected increase in the salaries of our research and development personnel by a total of approximately 50.0%, and (iv) our investment in software licenses for development tools to increase the productivity of our research and development efforts.

Employee stock-based compensation expenses. On February 22, 2002, our principal shareholder, Jitter Bug Holdings Limited (“Jitter Bug”), transferred a 6.0% ownership interest in our company, which is currently equal to 1,320,000 ordinary shares, to one former and three current members of our senior management for an aggregate consideration of HK\$40. In accordance with Accounting Principles Board Opinion No. 25, “Accounting for Stock Issued to Employees,” or APB No. 25, we have accounted for this transaction as a contribution to capital by Jitter Bug with an offsetting charge to stock compensation expenses in an amount determined by the difference between the amount paid for, and the fair value of, the shares transferred. We were a shell company on the date of transfer and accordingly there was little or no value attributable to the interest transferred. On September 27, 2003, Jitter Bug transferred all of its interests in our current PRC operating subsidiaries, which were held by Ixworth Enterprises Limited (“Ixworth”), to us. Such transfers resulted in a new measurement date for the interests transferred and accordingly, we recorded a compensation charge of RMB35.0 million (US\$4.2 million) in 2003. Such compensation charge has been presented as a separate line-item in our consolidated statements of operations. We do not expect any significant stock-based compensation expenses under APB No. 25 in the foreseeable future.

Allowance for doubtful debts. Allowance for doubtful debts represents the expense we recognize on the estimated credit losses from our regular assessments of the collections and current credit information of our outstanding trade receivables. We expect our allowance for doubtful debts to increase in the future as a result of the increase in our trade receivables from the expected increase in sales of enterprise software and software development services.

As a result of the cumulative effect of the factors described above, we expect in the future our total operating expenses will increase, while our total operating expenses as a percentage of our total net revenues will decrease.

Taxation

Under the current laws of the Cayman Islands and the British Virgin Islands, neither our company nor Ixworth is subject to tax on its income or capital gains. In addition, payment of dividends by either company is not subject to withholding tax in those jurisdictions.

PRC enterprise income tax (“EIT”). Our PRC operating subsidiaries are subject to PRC EIT on their taxable income. Pursuant to PRC tax laws, EIT is generally assessed at the rate of 33.0% of taxable income. Beijing New Take Electronic Commerce Limited (“Beijing New Take”) and Beijing Ninetowns Times Electronic Commerce Limited (“Ninetowns Times”) are afforded favorable tax treatment and were exempt from EIT for the two years ended December 31, 2002, are only subject to a 7.5% EIT for the period from January 1, 2003 to December 31, 2005 and will be subject to a 15.0% EIT beginning January 1, 2006. Beijing Ninetowns Digital Technology Limited (“Beijing Digital”), Shanghai New Take Digital Technology Co., Ltd. (“Shanghai New Take”) and Beijing Ninetowns Ports Software and Technology Co., Ltd. (“Ninetowns Ports”) are also afforded favorable tax treatment. Beijing Digital was exempt from EIT for the three years ended July 31, 1998, subject to a 7.5% EIT from August 1, 1998 to July 31, 2001 and has been subject to a 15.0% EIT since August 1, 2001. Shanghai New Take is exempt from EIT from January 1, 2003 to December 31, 2004 and is subject to a 15.0% EIT from January 1, 2005 to December 31, 2007. Ninetowns Ports is exempt from EIT from August 1, 2003 to December 31, 2005. Tsingdao Fujin has not generated any profits and has not applied for tax exemptions or reductions.

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

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

Value-added tax. Our PRC operating subsidiaries are also generally subject to a 17.0% VAT on sales of computer hardware and accessories and our enterprise software products. Pursuant to PRC tax regulations, Ninetowns Times, Beijing Digital and Ninetowns Ports are entitled to a 14.0% VAT refund on sales of certain registered self-

developed software products. Our net revenues from sales of such enterprise software include VAT refunds in the amount of RMB9.0 million, RMB10.9 million and RMB17.4 million (US\$2.1 million) in 2002, 2003 and 2004, respectively.

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

Trade receivables

Our trade receivables from external customers and trade receivables from related parties consist primarily of amounts due from our distributors and franchisee for enterprise software delivered to them and amounts billed but not paid for our software development services. Our trade receivables balance due from related parties was RMB30.9 million (US\$3.7 million) in 2004. We expect our trade receivables from external customers and our trade receivables from related parties to continue to increase as we increase our sales of enterprise software through our distributors and franchisee.

*** Liquidity and capital resources**

Our primary sources of liquidity have been net cash provided by operating activities and the net proceeds from our equity offerings. We had no outstanding debt as of December 31, 2004. The following table sets forth the summary of our cash flows for the periods indicated:

	For the year ended December 31,									
	2001		2002		2003		2004			
					(in millions)					
Net cash provided by / (used in) operating activities ..	RMB	28.7	RMB	58.6	RMB	46.4	RMB	58.0	US\$	7.0
Net cash provided by / (used in) investing activities ..		(21.2)		16.0		1.2		(94.2)		(11.4)
Net cash provided by / (used in) financing activities ..		(5.6)		(30.5)		70.2		565.6		68.3
Net increase / (decrease) in cash and cash equivalents		1.9		44.1		117.8		529.5		64.0
Cash and cash equivalents, beginning of year/period		3.7		5.6		49.7		167.5		20.2
Cash and cash equivalents, end of year/period	RMB	5.6	RMB	49.7	RMB	167.5	RMB	697.0	US\$	84.2

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

Cash flow from operating activities

We generated cash from operating activities of RMB58.0 million (US\$7.0 million) in 2004. This was primarily attributable to our cash receipts from sales of enterprise software offset by our placement of RMB85.2 million (US\$10.3 million) in term deposits. We generated cash from operating activities of RMB46.4 million in 2003. This was primarily attributable to our cash receipts from sales of enterprise software offset by our placement of RMB40.8 million in term deposits. Our cash provided by operating activities was RMB58.6 million in 2002, which consisted primarily of cash receipts from sales of enterprise software.

Cash flow from investing activities

Investing activities used cash of RMB94.2 million (US\$11.4 million) in 2004. This was primarily attributable to our purchase of three floors and the naming rights of a building under construction in Beijing, computer equipment, furniture, fixtures and office equipment and the acquisition of minority interests in our subsidiaries, offset by the repayment of loans by Beijing Ninetowns Import & Export e-Commerce Co., Ltd. ("Import & Export"). Investing activities provided cash of RMB1.2 million in 2003. This was primarily attributable to our receipt of loan repayments from iTowNet and Import & Export offset by purchases of property, plant and equipment, which primarily consisted of computer equipment, fixtures and office furniture for our representative office in Hong Kong. Cash provided by investing activities was RMB16.0 million in 2002, which was primarily attributable to the repayment of unsecured interest-free loans in the amount of RMB9.0 million from Import & Export in 2002 and also our receipt of RMB7.7 million on the disposal of our interest in Import & Export to Shuang Wang.

Cash flow from financing activities

Financing activities provided cash of RMB565.6 million (US\$68.3 million) in 2004. This was comprised primarily of the net proceeds from our initial public offering in December 2004 of RMB531.4 million (US\$64.2 million) and approximately US\$3.0 million of escrowed net proceeds from our capital-raising activities in 2003, which we received from escrow in September 2004, offset by our repayment of loans to Jitter Bug. Financing activities provided cash of RMB70.2 million in 2003. This was comprised primarily of the net proceeds from our equity offerings in 2003. Our cash used in financing activities was RMB30.5 million in 2002, which was primarily comprised of our repayments of loans to Jitter Bug in the amount of RMB28.4 million.

Capital resources

Our primary source of liquidity is cash flow from operating activities and the net proceeds from our equity offerings. Our cash and cash equivalents primarily consist of cash on hand and bank deposits. As of December 31, 2004, we had RMB697.0 million (US\$84.2 million) in cash and cash equivalents. In addition, as of December 31, 2004, we had invested RMB150.9 million (US\$18.2 million) in term deposits, which are payable at varying maturities from 3 to 6 months.

We believe that our available cash and cash equivalents and cash provided by operating activities will be sufficient to meet our capital needs for at least the next 12 months. Except for our net cash provided by operating activities, we currently have no plans to seek additional sources of liquidity in the near future. However, we cannot assure you that our business or operations will not change in a manner that would consume our available capital resources more rapidly than anticipated, especially as we continue to evaluate other investment and acquisition opportunities. As of December 31, 2004, we had no lines of credit or other credit facilities.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Revenue recognition

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

As we believe is consistent with the practice of other software development companies in China engaged in government-related work, we often commence work on software development projects based on oral commitments from our customer and sign the contract after the commencement of work. Once a contract has been signed, we begin recognizing revenues from these projects based on the percentage-of-completion of the contracts, in which revenue recognition is based on the man-hours spent and the costs invested in the projects. Billing is generally done periodically in accordance with predetermined milestones as established by the contract. The determination of percentage-of-completion with reference to man-hours spent and the costs invested in the projects requires our judgment regarding such matters.

Research and development costs

We account for research and development costs in accordance with several accounting pronouncements, including SFAS 2, “Accounting for Research and Development Costs,” and SFAS 86, “Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed.” SFAS 86 specifies that costs incurred internally in creating a computer software product should be charged to expense when incurred as research and development until technological feasibility has been established for the product. Once technological feasibility is established, all software costs should be capitalized until the product is available for general release to customers. Judgment is required in determining when technological feasibility of a product is established. We have determined that technological feasibility for our products is reached shortly before the products are commercially launched. Costs incurred after technological feasibility is established are not material, and accordingly, we expense all research and development costs when incurred.

Stock-based compensation

Our 2003 Plan and our 2004 Plan allow the grant of share options to our employees and directors. We account for all employee stock-based compensation in accordance with APB No. 25, which requires us to record a compensation charge for the excess of the fair value for the stock at the grant date over the amount an employee must pay to acquire the stock. We determine the fair value of our ordinary shares underlying share options granted under our 2003 Plan based on several factors, including the price of our then-most-recent ordinary share placement.

In addition, our principal shareholder, Jitter Bug, transferred a 6.0% ownership interest in our company to one former and three current members of our senior management for an aggregate consideration of HK\$40 in 2002. In accordance with APB No. 25, we have accounted for this transaction as a contribution to capital by Jitter Bug with an offsetting charge to stock compensation expenses in an amount equal to the difference between the amount paid for, and the fair value of, the shares transferred. In September 2003, Jitter Bug transferred all of the interests in our

current operating subsidiaries in China, which it held through Ixworth, to us. This corporate restructuring resulted in a new measurement date for the 6.0% interest transferred by Jitter Bug in 2002. We therefore recorded a compensation charge of RMB35.0 million (US\$4.2 million) in 2003 for the difference between the amount paid by those executive officers for such 6.0% ownership interest and the fair value of the shares transferred.

We did not record a compensation charge for the options granted to our employees under our 2003 Plan because we determined that the exercise price of the options was not less than the fair value of our ordinary shares as of the grant date. Had different assumptions or criteria been used to determine the fair value of our ordinary shares, materially different amounts of stock-based compensation could have been reported. We similarly did not record a compensation charge for the options granted to our employees under our 2004 Plan because the exercise price of such options was set at the closing price of our ADSs on the Nasdaq National Market on the date of grant.

Trade receivables

We perform ongoing credit evaluations of our customers and adjust credit limits based on payment history and the customer's current credit-worthiness, as determined by our review of their current credit information. We extend three months of credit to our distributors and franchisee pursuant to our distribution and franchise agreements. However, it takes on average five to six months for our distributors and franchisee, who are also our major customers, to settle their debts to us. Therefore, in some fiscal periods, our trade receivables will increase to an amount which is approximately equal to our total net revenues for such period. We continuously monitor collections and payments from our customers and maintain a 5.0% provision on the period-end balance of the trade receivables for estimated credit losses from our non-government related customers, distributors and franchisee based upon our historical experience. We typically write-off trade receivables that are over 360 days outstanding. While such credit losses have historically been within our expectations and the provisions established, we cannot guarantee that we will continue to experience the same credit loss rates that we have had in the past. Since we have not experienced any significant payment problems from our government-related customers in the past, we do not maintain any provision for such customers. The trade receivables from iTowNet, which we believe is our only customer that is a PRC government entity or is controlled by a government entity, were approximately 11.6% of our total trade receivables as of December 31, 2004. The trade receivables from our non-government customers were approximately 88.4% of our total trade receivables as of December 31, 2004. Since our trade receivables are concentrated in a relatively small number of customers, a significant change in the liquidity or financial position of any one of these customers could have a material adverse impact on the collectibility of our trade receivables and our future operating results.

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Shareholders of Ninetowns Digital World Trade Holdings Limited:

We have audited the accompanying consolidated balance sheets of Ninetowns Digital World Trade Holdings Limited and its subsidiaries (the "Company") as of December 31, 2003 and 2004, and the related consolidated statements of operations, shareholders' equity and cash flows for the three years ended December 31, 2004, all expressed in Renminbi. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2003 and 2004 and the results of its operations and its cash flows for the three years ended December 31, 2004 in conformity with accounting principles generally accepted in the United States of America.

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

/s/ Deloitte Touche Tohmatsu

Hong Kong
May 20, 2005

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

	December 31,		
	<u>2003</u> RMB	<u>2004</u> RMB	<u>2004</u> US\$
ASSETS			
Current assets:			
Cash and cash equivalents	167,531	696,993	84,212
Inventories	458	8,123	981
Trade receivables from:			
- external customers, less allowance for doubtful accounts of RMB3,840 in 2003 and RMB4,540 in 2004.....	31,096	38,190	4,615
- related parties, less allowance for doubtful accounts of RMBNil in 2003 and 2004	31,885	30,940	3,738
Prepaid expenses and other current assets	15,020	37,686	4,553
Term deposits	65,664	150,913	18,234
Amount due from a related party	6,989	-	-
Total current assets	318,643	962,845	116,333
Goodwill	1,614	193,570	23,388
Intangible assets.....	-	10,856	1,312
Property, plant and equipment.....	3,718	5,259	635
Deposits paid for acquisition of properties	-	49,652	5,999
TOTAL ASSETS.....	323,975	1,222,182	147,667
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Accounts payable.....	5,264	19,061	2,303
Short-term unearned revenue.....	70,608	97,230	11,748
Amounts due to shareholders.....	3,085	5,360	648
Income taxes payable.....	4,932	5,465	660
Other taxes payable	10,345	4,014	485
Total current liabilities.....	94,234	131,130	15,844
Minority interests.....	17,274	600	72
Commitments (Note 13)			
Mezzanine equity:			
Redeemable ordinary shares, HK\$0.025 par value: 2,964,000 shares in 2003 and Nil in 2004 issued and outstanding (net of stock subscription receivables of RMB24,804 in 2003 and Nil in 2004) (Note 11).....	46,937	-	-
Shareholders' equity:			
Ordinary shares of par value HK\$0.025: 8,000,000,000 shares authorized; shares issued and outstanding, 22,780,000 shares in 2003 and 34,391,834 shares in 2004 (Note 11).....	604	911	110
Additional paid-in capital	55,066	845,730	102,183
Retained earnings	109,860	243,811	29,458

Total shareholders' equity	165,530	1,090,452	131,751
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>323,975</u>	<u>1,222,182</u>	<u>147,667</u>

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except share and per share data)

	Year ended December 31,			
	<u>2002</u> RMB	<u>2003</u> RMB	<u>2004</u> RMB	<u>2004</u> US\$
Net revenues:				
Enterprise software				
external customers	93,375	111,882	146,635	17,717
related parties (Note 10)	-	1,909	42,085	5,085
Software development services				
external customers	790	545	3,130	378
related parties (Note 10)	13,610	18,500	9,593	1,159
Computer hardware sales.....	258	72	104	12
Total net revenues.....	108,033	132,908	201,547	24,351
Cost of revenues:				
Enterprise software	(1,115)	(1,532)	(1,528)	(185)
Software development services	(3,534)	(4,939)	(2,970)	(358)
Computer hardware sales.....	(216)	(48)	(9)	(1)
Total cost of revenues.....	(4,865)	(6,519)	(4,507)	(544)
Gross profit.....	103,168	126,389	197,040	23,807
Selling expenses	(13,604)	(13,674)	(15,977)	(1,931)
General and administrative expenses.....	(10,671)	(20,395)	(35,872)	(4,334)
Research and development expenses	(4,108)	(2,691)	(4,819)	(582)
Employee stock-based compensation related to general and administrative expenses	-	(35,000)	-	-
Allowance for doubtful debts	(1,524)	(1,516)	(700)	(85)
Income from operations.....	73,261	53,113	139,672	16,875
Interest income	619	1,220	3,768	455
Other income	458	211	1,340	162
Income before income taxes	74,338	54,544	144,780	17,492
Income taxes	(2,061)	(4,116)	(1,823)	(220)
Income before minority interests	72,277	50,428	142,957	17,272
Minority interests.....	(7,299)	(9,239)	(9,006)	(1,088)
Equity in earnings of an affiliated company	79	-	-	-
Net income.....	65,057	41,189	133,951	16,184
Net income per share:				
Basic	RMB2.96	RMB1.82	RMB4.96	US\$0.60
Diluted	RMB2.96	RMB1.82	RMB4.74	US\$0.57
Shares used in computation:				
Basic	22,000,000	22,659,048	27,022,057	27,022,057
Diluted	22,000,000	22,659,048	28,279,061	28,279,061

See notes to consolidated financial statements.

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

	Ordinary Shares (Note 11)		Additional Paid-In Capital RMB	Retained Earnings RMB	Total RMB
	<u>Number</u>	<u>Amount RMB</u>			
Balance at January 1, 2002	22,000,000	-	-	3,614	3,614
Net income.....	-	-	-	65,057	65,057
Balance at December 31, 2002	22,000,000	-	-	68,671	68,671
Employee stock-based compensation	-	-	35,000	-	35,000
Transfer on reorganization.....	-	583	(583)	-	-
Issuance of shares	780,000	21	20,649	-	20,670
Net income.....	-	-	-	41,189	41,189
Balance at December 31, 2003	22,780,000	604	55,066	109,860	165,530
Issuance of shares on acquisition of 10% minority interest of subsidiaries.....	2,002,312	53	181,259	-	181,312
Issuance of shares upon the initial public offering, net of offering expenses	6,400,000	169	531,244	-	531,413
Transfer from mezzanine equity upon lapse of put option and issuance of 16 additional shares..	2,964,016	79	71,662	-	71,741
Exercise of share options	245,506	6	6,499	-	6,505
Net income.....	-	-	-	133,951	133,951
Balance at December 31, 2004	34,391,834	911	845,730	243,811	1,090,452
		US\$110	US\$102,183	US\$29,458	US\$131,751

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands except share and per share data)

	Year ended December 31,			
	<u>2002</u> RMB	<u>2003</u> RMB	<u>2004</u> RMB	<u>2004</u> US\$
Operating activities:				
Net income.....	65,057	41,189	133,951	16,184
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation of property, plant and equipment	1,126	874	1,315	159
Amortization of intangible assets	-	-	805	97
Loss on disposal of property, plant and equipment	32	-	-	-
Loss on disposal of an affiliated company.....	103	-	-	-
Allowance for doubtful debts	1,524	1,516	700	85
Minority interests in profit of subsidiaries.....	7,299	9,239	9,006	1,088
Equity in earnings of an affiliated company	(79)	-	-	-
Employee stock-based compensation	-	35,000	-	-
Changes in operating assets and liabilities:				
Inventories	(67)	(313)	(7,665)	(926)
Trade receivables from external customers	(11,105)	(4,433)	(7,794)	(942)
Trade receivables from related parties	(9,000)	(22,885)	945	114
Prepaid expenses and other current assets	(2,424)	(7,953)	(22,666)	(2,739)
Term deposits	(416)	(40,832)	(85,249)	(10,300)
Accounts payable.....	2,021	(476)	13,849	1,673
Short-term unearned revenue.....	3,404	26,188	26,622	3,217
Income taxes payable.....	1,823	2,181	533	64
Other taxes payables.....	(730)	7,117	(6,331)	(765)
Net cash provided by operating activities.....	<u>58,568</u>	<u>46,412</u>	<u>58,021</u>	<u>7,009</u>
Investing activities:				
Deposits paid for acquisition of properties	-	-	(49,652)	(5,999)
Acquisition of additional interest in subsidiaries.....	-	-	(48,637)	(5,876)
Purchase of property, plant and equipment.....	(1,346)	(2,208)	(2,856)	(345)
(Increase) decrease in amounts due from related parties ..	(228)	3,411	6,989	844
Decrease in amount due from an affiliated company	8,962	-	-	-
Proceeds from sales of an investment in an affiliated company	7,700	-	-	-
Decrease in amounts due from directors.....	941	-	-	-
Net cash provided by (used in) investing activities	<u>16,029</u>	<u>1,203</u>	<u>(94,156)</u>	<u>(11,376)</u>
Financing activities:				
Net proceeds on issue of shares	-	67,607	531,413	64,207
Collection of subscription receivables	-	-	24,804	2,997
Exercise of share options	-	-	6,505	786
Increase in amounts due to shareholders	-	-	5,360	648
Contribution from minority shareholder of a subsidiary ..	514	-	600	72
(Decrease) increase in cash advance from a shareholder..	(28,424)	2,643	(3,085)	(373)
Dividends paid to minority shareholders of a subsidiary..	(2,900)	-	-	-
Decrease in amount due to a director.....	(921)	-	-	-
Increase in amounts due to related parties	1,200	-	-	-
Net cash (used in) provided by financing activities.....	<u>(30,531)</u>	<u>70,250</u>	<u>565,597</u>	<u>68,337</u>

Net increase in cash and cash equivalents	44,066	117,865	529,462	63,970
Cash and cash equivalents at the beginning of the year	5,600	49,666	167,531	20,242
Cash and cash equivalents at the end of the year	<u>49,666</u>	<u>167,531</u>	<u>696,993</u>	<u>84,212</u>

CONSOLIDATED STATEMENTS OF CASH FLOWS - continued
(In thousands except share and per share data)

	Year ended December 31,			
	<u>2002</u> RMB	<u>2003</u> RMB	<u>2004</u> RMB	<u>2004</u> US\$
Non-cash investing activities:				
Consideration for sale of an affiliated company settled through the payable to a director	925	-	-	-
Consideration for acquisition of subsidiaries settled through issuance of shares	-	-	181,312	21,906
Non-cash financing activities:				
Issuance of shares to employees for services.....	-	35,000	-	-
Supplemental cash flow information:				
Cash paid during the year for income taxes.....	76	1,935	1,290	156

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2002, 2003 AND 2004
(In thousands, except share and per share data)

1. ORGANIZATION AND PRINCIPAL ACTIVITIES

Ninetowns Digital World Trade Holdings Limited (together with its subsidiaries "Ninetowns" or the "Company") was incorporated as an exempted company with limited liability in the Cayman Islands on February 8, 2002 under the Companies Law of the Cayman Islands. Ninetowns is principally engaged in the sale of enterprise software and the provision of related after-sales services, the provision of software development services and the sale of computer hardware and accessories, in the People's Republic of China (the "PRC").

At the time of its incorporation, all of the outstanding share capital of Ninetowns was held by Jitter Bug Holdings Limited ("Jitter Bug"). Substantially all of its business is conducted in the PRC through four subsidiaries in which the Company indirectly holds a 90% interest and a fifth subsidiary in which its effective interest is 81%, collectively the "operating subsidiaries". The Company holds its interests in the operating subsidiaries indirectly through Ixworth Enterprises Limited or "Ixworth", which is wholly owned by Ninetowns and is incorporated in the British Virgin Islands.

Prior to September 27, 2003, Jitter Bug held its interests in the operating subsidiaries through Ixworth. On September 27, 2003, Ninetowns issued 21,999,996 additional shares to Jitter Bug. Jitter Bug simultaneously transferred 100% of the equity interests in Ixworth to the Company. This transaction has been accounted for as a legal reorganization of entities under common control. The accompanying consolidated financial statements have been prepared to reflect the consolidated financial position, results of operations and cash flows of Ninetowns and its subsidiaries for all the years presented in a manner similar to the pooling-of-interests method. All significant intra-Company transactions and balances have been eliminated on consolidation.

During 2004, the Company acquired the 10% minority interest in the operating subsidiaries, making all of them wholly-owned subsidiaries of the Company. See note 3 for details.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2002, 2003 AND 2004
(In thousands, except share and per share data)

1. ORGANIZATION AND PRINCIPAL ACTIVITIES - continued

As of December 31, 2004, details of the Company's subsidiaries are as follows:

<u>Name of entity</u>	<u>Place of incorporation</u>	<u>Principal activities</u>
New Take Limited	Hong Kong	Investment holding
Shielder Limited	Hong Kong	Investment holding
Better Chance International Limited ("Better Chance")	British Virgin Islands ("BVI")	Investment holding
Asia Pacific Logistics Limited ("Asia Pacific")	BVI	Investment holding
Beijing New Take Electronic Commerce Limited ("Beijing New Take") (<i>note i</i>)	PRC	Sale of enterprise software and provision of related after-sales services, and sale of computer hardware and accessories
Beijing Ninetowns Times Electronic Commerce Limited ("Beijing Ninetowns Times") (<i>note i</i>)	PRC	Sale of enterprise software and provision of related after-sales services, and sale of computer hardware and accessories
Beijing Ninetowns Digital Technology Limited ("Beijing Ninetowns Digital Technology")	PRC	Sale of enterprise software and provision of related after-sales services, and sale of computer hardware and accessories and provision of software development services
Beijing Ninetowns Ports Software and Technology Co., Ltd. ("Beijing Ninetowns Ports")	PRC	Sale of enterprise software and provision of related after-sales services, and sale of computer hardware and accessories and provision of software development services

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2002, 2003 AND 2004
(In thousands, except share and per share data)

1. ORGANIZATION AND PRINCIPAL ACTIVITIES - continued

<u>Name of entity</u>	<u>Place of incorporation</u>	<u>Principal activities</u>
Shanghai New Take Digital Technology Limited ("Shanghai New Take") (note ii)	PRC	Sale of enterprise software and provision of related after-sales services, and sale of computer hardware and accessories and provision of software development services
Tsingdao Fujin Commerce and Finance Software Limited ("Tsingdao Fujin")	PRC	Not yet commenced operations

Notes:

- (i) These subsidiaries were incorporated as Sino-foreign joint venture limited companies for a term of 25 years.
- (ii) Shanghai New Take was incorporated for a term of 8 years commencing September 13, 2001. The Company initially held a 90% equity interest in Shanghai New Take and on June 30, 2004, the Company acquired the remaining 10% minority interest for a consideration of RMB50.

As of December 31, 2004, all of the subsidiaries are wholly-owned by the Company except Tsingdao Fujin in which the Company holds a 70% equity interest.

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

Basis of presentation - The consolidated financial statements of the Company have been prepared in accordance with the accounting principles generally accepted in the United States of America ("US GAAP").

Principle of consolidation - The consolidated financial statements include the financial statements of the Company and its majority-owned subsidiaries. All significant intercompany transactions and balances are eliminated on consolidation. An affiliated company over which the Company has the ability to exert significant influence, but does not have a controlling interest (generally 20% to 50% owned), is accounted for using the equity method. The Company's share of earnings of the affiliate is included in the accompanying consolidated statements of operations.

Use of Estimates - The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses in the financial statements and accompanying notes. Actual results could differ from those estimates.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2002, 2003 AND 2004
(In thousands, except share and per share data)

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES - continued

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

Term deposits - Term deposits consists of deposits placed with financial institutions with original maturity terms of greater than 3 months but less than 1 year.

Inventories - Inventories are stated at the lower of cost or market. Cost is determined by the weighted average method.

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

Leasehold improvements	shorter of lease term or 5 years
Furniture, fixtures and office equipment	5 years
Computer equipment	5 years
Motor vehicles	5 years

Acquired intangible assets - Acquired intangible assets, which consist primarily of software development contracts, customer lists and relationships and completed technology, are carried at cost, less accumulated amortization. Amortization is calculated on a straight-line basis over the expected useful life of the asset of 2 to 5 years.

Impairment of long-lived assets - Pursuant to Statement of Financial Accounting Standard ("SFAS") No. 144 "Accounting for the Impairment or Disposal of Long-lived Assets", the Company evaluates its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When these events occur, the Company measures impairment by comparing the carrying amount of the assets to future undiscounted net cash flows expected to result from the use of the assets and their eventual disposition. If the sum of the expected undiscounted cash flow is less than the carrying amount of the assets, the Company would recognize an impairment loss based on the fair value of the assets.

Goodwill - Beginning in fiscal 2002 with the adoption of SFAS No. 142, "Goodwill and Other Intangible Assets", goodwill is no longer amortized, but instead tested for impairment at least annually.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2002, 2003 AND 2004
(In thousands, except share and per share data)

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES – continued

Income taxes - Deferred income taxes are recognized for temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements, net operating loss carryforwards and credits by applying enacted statutory tax rates applicable to future years. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Current income taxes are provided for in accordance with the laws of the relevant taxing authorities.

Mezzanine equity - Ordinary shares issued with a put option, which permits the shareholders to sell back the shares to the Company, are classified as mezzanine equity. The initial amount recorded for these ordinary shares is not adjusted until the exercise of the put option is deemed probable.

Revenue recognition - Revenue from sales of enterprise software and related after sales and maintenance services is generally recognized upon delivery as short-term unearned revenue due to the presence of undelivered elements, including post-delivery repair and maintenance, training, telephone support and in certain instances the rights to receive unspecified enhancements of the software on a when-and-if-available basis. As the Company does not have vendor-specific objective evidence to establish the fair value of the undelivered elements, the Company recognizes revenue earned from such contracts, whether made through direct sales or received from its distributors and franchisee, on a straight-line basis over the contract period, which is typically 12 months. In addition, the Company would only recognize revenue if it has determined that collectibility is reasonably assured.

For certain customers, the Company installs the software at the customer's place of business and charges the customer a fixed price per use of the software and accordingly the Company recognizes the related revenue when the customer uses the software.

The Company generally recognizes contract revenues generated from the provision of software development services and the related costs on a percentage-of-completion method, and begins recognizing such revenues at the time the contract is signed. Percentage-of-completion is measured principally by the percentage of man-hours incurred to date for each contract to the estimated total hours to be incurred for each contract at completion.

Sales of computer equipment and accessories are recorded when the goods are delivered, title has passed to the customers and the Company has no further obligations to provide services related to the operation of such equipment.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2002, 2003 AND 2004
(In thousands, except share and per share data)

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES – continued

Pursuant to "Certain Policies to Encourage the Development of Software and Integrated Circuit Industries as New and High Technology Enterprises", Beijing Ninetowns Times, Beijing Ninetowns Digital Technology and Beijing Ninetowns Ports are entitled to a refund of value-added tax paid at a rate of 14% of the sales value for self-developed software products, which does not include revenues from maintenance services and upgrade rights sold separately. Revenues from sales of software products include the refund of such value-added tax and the refund was RMB8,985, RMB10,867 and RMB17,382 for the years ended December 31, 2002, 2003 and 2004, respectively.

The Company presents sales net of value added tax and business tax incurred, which amount to RMB14,311, RMB20,348 and RMB32,517 for the years ended December 31, 2002, 2003 and 2004, respectively.

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

Costs that can be directly associated with a specific anticipated contract to be accounted for under the percentage of completion method are deferred when the Company has evaluated that their recoverability from that contract is probable. Such costs are deferred and presented as work in process in the inventories until the contract is executed, at which point the deferred costs are included in the costs of that contract. Pre-contract costs relating to a specific contract that is subsequently rejected would be expensed immediately.

Research and Development - Research and development expenses include payroll, employee benefits and other headcount-related costs associated with product development. Technological feasibility for the Company's software products is reached shortly before the products are released to production. Costs incurred after technological feasibility is established are not material, and accordingly, the Company expenses all research and development costs when incurred.

Advertising expenses - Advertising expenses are charged to the consolidated statements of operations in the period incurred. The Company incurred advertising expenses amounting to RMB248, RMB353 and RMB591 for the years ended December 31, 2002, 2003 and 2004, respectively.

Government subsidies - Government subsidies are recognized when received and when all the conditions for their receipt have been met.

Foreign currency translation - The functional currency of the Company is the Renminbi ("RMB"). Transactions in other currencies are recorded in RMB at the rates of exchange prevailing when the transactions occur. Monetary assets and liabilities denominated in other currencies are translated into RMB at rates of exchange in effect at the balance sheet dates. Exchange gains and losses are recorded in the consolidated statements of operations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2002, 2003 AND 2004
(In thousands, except share and per share data)

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES - continued

Translation into United States Dollars - The financial statements of the Company are stated in RMB. The translation of RMB amounts at and for the year ended December 31, 2004 into United States dollar ("US\$") is included solely for the convenience of readers and has been made at the rate of RMB8.2765 to US\$1 at December 31, 2004. Such translations should not be construed as representations that RMB amounts could be converted into US\$ at that rate or any other rate.

Foreign currency risk - The RMB is not a freely convertible currency. The State Administration for Foreign Exchange, under the authority of the People's Bank of China, controls the conversion of Renminbi into foreign currencies. The value of the RMB is subject to changes in central government policies and to international economic and political developments affecting supply and demand in the China Foreign Exchange Trading System market. The cash and cash equivalents and term deposits of the Company included aggregate amounts of RMB103,971 and RMB65,024 at December 31, 2003 and RMB134,882 and RMB150,271 at December 31, 2004, respectively, which were denominated in RMB.

The PRC subsidiaries conduct their business substantially in the PRC, and their financial performance and position are measured in terms of RMB. Any devaluation of the RMB against the United States dollar would consequently have an adverse effect on the financial performance and asset values of the Company when measured in terms of United States dollars. The PRC subsidiaries' products and services are primarily sold and delivered in the PRC for RMB. Thus, their revenues and profits are predominantly denominated in RMB, and will have to be converted by the Company to pay dividends to the Company in Hong Kong or United States dollar. Should the RMB devalue against the Hong Kong or United States dollars, such devaluation could have a material adverse effect on the Company's profits and the foreign currency equivalent of such profits repatriated by the PRC entities to the Company.

Concentration of credit risk - Financial instruments that potentially expose the Company to concentrations of credit risk consist primarily of cash and cash equivalents, and accounts receivable. The Company places its cash and cash equivalents with financial institutions with high-credit ratings and quality.

The Company conducts credit evaluations of customers and generally does not require collateral or other security from its customers. The Company establishes an allowance for doubtful accounts primarily based upon the age of the receivables and factors surrounding the credit risk of specific customers.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2002, 2003 AND 2004
(In thousands, except share and per share data)

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES - continued

Stock-based compensation - The Company grants stock options to its employees and directors. The Company accounts for employee stock-based compensation in accordance with Accounting Principles Board Opinion No. 25 ("APB No. 25"), "Accounting for Stock Issued to Employees", and its related interpretations which require the Company to record a compensation charge for the excess of the fair value for the stock at the grant date over the amount an employee must pay to acquire the stock. The compensation expense is recognized over the applicable service period, which is usually the vesting period.

On February 22, 2002, prior to the legal reorganization of the entities under common control, Jitter Bug, the then ultimate holding company of the Company, transferred a 6% ownership interest in the Company to certain executive officers for a nominal sum. In accordance with APB No. 25 and its related interpretation, the Company has accounted for this transaction as a contribution to capital by Jitter Bug with the offsetting charge to stock compensation for an amount determined by the difference between the amount paid and the fair value of the shares transferred. On the date of grant, Ninetowns was a shell company and as such, there was no value attributable to the interest transferred. As discussed in Note 1, on September 27, 2003, Jitter Bug transferred all of its interests in the operating subsidiaries to Ninetowns. The equity restructuring of the entities under common control resulted in a new measurement date for the interest transferred to the executive officers and, as such, the Company recorded a compensation charge in the year ended December 31, 2003 of RMB35,000, which was based on the fair value of the equity interests transferred. The fair value was established based on the price of shares sold to independent third parties shortly after the restructuring. The compensation charge has been presented as a separate item in the consolidated statements of operations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2002, 2003 AND 2004
(In thousands, except share and per share data)

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES - continued

Had compensation cost for the options granted to employees in 2003 under the Company's employee share option scheme (the "Plan") (see Note 12) been determined based on the fair value at the grant date, as prescribed in SFAS No. 123, the Company's pro forma net income would have been as follows:

	Year ended December 31,	
	2003 RMB	2004 RMB
Net income as reported.....	41,189	133,951
Add: Stock compensation as reported	-	-
Less: Stock compensation determined using the fair value method	(88)	(484)
Pro forma net income	41,101	133,467
Shares used in computation		
Basic.....	22,659,048	27,022,057
Diluted.....	22,659,048	28,279,061
Net income per share:		
Basic, as reported	1.82	4.96
Basic - pro forma.....	1.81	4.94
Diluted, as reported	1.82	4.74
Diluted - pro forma.....	1.81	4.72

The fair value of each option granted and share granted is estimated on the date of grant using the minimum value method, as permitted for non-public companies, with the following assumptions used for grants during the applicable period.

<u>Option grants</u>	<u>2003</u>
Average risk-free rate of return	5%
Weighted average expected option life	9.875 years
Volatility rate.....	N/A
Dividend yield	0%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2002, 2003 AND 2004
(In thousands, except share and per share data)

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES - continued

Comprehensive income - the Company has adopted SFAS No. 130, "Reporting Comprehensive Income", which establishes standards for reporting and display of comprehensive income, its components and accumulated balances. Comprehensive income is defined to include all changes in equity except those resulting from investments by owners and distributions to owners. Among other disclosures, SFAS No. 130 requires that all items that are required to be recognized under current accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. During the years presented, the Company's comprehensive income represents its net income.

Net income per share - Basic net income per share is computed by dividing net income attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year. Diluted net income per ordinary share reflects the potential dilution that could occur if securities or other contracts to issue ordinary shares were exercised into ordinary shares. Ordinary share equivalents are excluded from the computation of the diluted net income per share in periods when their effect would be anti-dilutive. No options were outstanding as of December 31, 2002. Options to purchase 2,574,400 shares were outstanding as of December 31, 2003, but were not included in the computation of diluted net income per share because the exercise price of the options was greater than the estimated fair value of the ordinary shares, and therefore the effect would be anti-dilutive.

Recently Issued Accounting Pronouncements - In December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123 (revised 2004) ("SFAS No. 123-R"). "Share-Based Payment", which is a revision of SFAS No. 123, "Accounting for Stock-Based Compensation". SFAS No. 123-R supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees". Generally, the approach in SFAS No. 123-R is similar to the approach described in SFAS No. 123. However, SFAS No. 123-R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on the grant-date fair values. Pro forma disclosure previously permitted under SFAS No. 123 is no longer an alternative. The new standard, as recently amended, will be effective for the Company in the annual reporting period beginning after January 1, 2006. Under SFAS No. 123-R, the Company could elect the modified prospective or modified retroactive option for transition on the adoption of this new standard. Under the modified retroactive option, prior periods are adjusted on a basis consistent with the pro forma disclosures previously required for those periods by SFAS No. 123. Under the modified prospective option, compensation expense for all unvested stock options must be recognized on or after the required effective date based on the grant-date fair value of those stock options. The Company has not yet quantified the effect of the future adoption of SFAS No. 123-R on a going forward basis. Prior to the adoption of SFAS No. 123-R, the Company will continue to utilize the accounting method prescribed by APB Opinion No. 25 and has adopted the disclosure requirements of SFAS No. 148 as allowed by SFAS No. 123.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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(In thousands, except share and per share data)

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES - continued

In March 2004, the Emerging Issues Task Force ("EITF") reached a consensus on Issue No. 03-01, "The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments". EITF No. 03-01 provides guidance on recording other-than-temporary impairments of cost method investments and requires additional disclosures for those investments. The recognition and measurement guidance in EITF No. 03-01 should be applied to other-than-temporary impairment evaluations in reporting periods beginning after June 15, 2004. The disclosure requirements are effective for fiscal years ending after June 15, 2004 and are required only for annual periods. The adoption of this standard did not have a material impact on Company's financial positions or results of operations.

In November 2004, FASB issued SFAS No. 151, "Inventory Costs – an amendment of ARB No. 43, Chapter 4. "This statement amends the guidance in Accounting Research Board ("ARB") No. 43, Chapter 4, "Inventory Pricing" to clarify the accounting for abnormal amounts of idle facility expenses, freight, handling costs, and wasted material (spoilage). This Statement requires that those items be recognized as current period charges. In addition, this Statement requires that allocation of fixed production overheads to the cost of conversion be based on the normal capacity of the production facilities. This Statement is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The Company does not expect the adoption of this Statement will have a material effect on the Company's financial position, cash flows or results of operations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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3. ACQUISITION

In June of 2004, the Company entered into an agreement with Value Chain International Limited ("Value Chain"), a company beneficially owned by Mr. Wang Shuang and Ms. Dong Min, to acquire the 10% minority interest in the operating subsidiaries held by Value Chain, Better Chance and Asia Pacific. The aggregate purchase price of US\$27,806 was determined based on negotiations between the Company's Board of Directors and the holders of the minority interests. The purchase consideration consists of (i) US\$4,140 in cash, (ii) the assumption of loans payable to Value Chain of US\$1,736, and (iii) the issuance of 2,002,312 shares of the Company's common stock valued at US\$10.95 per share. In determining the fair value of the shares exchanged, the Company used a market-based approach. In September of 2004, the consideration was fully settled by cash payments of RMB48,637 for items (i) and (ii) and issuance of 2,002,312 shares to Value Chain.

The Company's purchase price allocation is as follows:

	RMB
Net tangible assets acquired	26,280
Intangible assets	11,661
Goodwill	191,956
 Total consideration.....	 <u>229,897</u> =====

Intangible assets related to this acquisition of the 10% minority interest in the operating subsidiaries consisted of RMB279 allocated to software development contracts, RMB6,131 to customer lists and relationships and RMB5,251 to completed technology. Acquired intangibles are amortized over a period of 2 years for software development contracts, 5 years for customer lists and relationships and 5 years for completed technology.

4. INVENTORIES

	<u>At December 31,</u>	
	<u>2003</u>	<u>2004</u>
	RMB	RMB
Inventories consist of the following:		
Computer accessories	296	1,332
Software products.....	135	21
Consumables	27	27
Work in progress	-	6,743
	<u>458</u>	<u>8,123</u>
	=====	=====

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2002, 2003 AND 2004
(In thousands, except share and per share data)

5. **PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment consist of the following:

	<u>At December 31,</u>	
	<u>2003</u> RMB	<u>2004</u> RMB
Leasehold improvements.....	2,454	2,690
Furniture, fixtures and office equipment.....	917	1,822
Computer equipment.....	2,306	4,020
Motor vehicles.....	1,101	1,102
	<hr/>	<hr/>
Total	6,778	9,634
Less: Accumulated depreciation and amortization.....	(3,060)	(4,375)
	<hr/>	<hr/>
Property, plant and equipment, net.....	3,718	5,259
	<hr/> <hr/>	<hr/> <hr/>

6. **INTANGIBLE ASSETS**

Acquired intangible assets consist of the following:

	<u>At December 31,</u>	
	<u>2003</u> RMB	<u>2004</u> RMB
Software development contracts.....	-	279
Customer lists and relationships.....	-	6,131
Completed technology.....	-	5,251
	<hr/>	<hr/>
Total	-	11,661
Less: Accumulated amortization	-	(805)
	<hr/>	<hr/>
	-	10,856
	<hr/> <hr/>	<hr/> <hr/>

7. **OTHER INCOME**

	<u>Year ended December 31,</u>		
	<u>2002</u> RMB	<u>2003</u> RMB	<u>2004</u> RMB
Government subsidies	-	-	1,000
Sale of scrapped materials.....	342	-	-
Others	116	211	340
	<hr/>	<hr/>	<hr/>
	458	211	1,340
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2002, 2003 AND 2004
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8. INCOME TAXES

The Company is a tax exempted company incorporated in the Cayman Islands.

No provision for Hong Kong Profits Tax has been made as the subsidiaries incorporated in Hong Kong had no assessable profits earned or derived from Hong Kong during the three years ended December 31, 2002, 2003 and 2004.

The subsidiaries incorporated in the PRC other than Hong Kong are governed by the Income Tax Law of PRC Concerning Foreign Investment and Foreign Enterprises and various local income tax laws (the "Income Tax Laws").

Beijing New Take and Beijing Ninetowns Times were awarded the certificate of "New and High Technology Enterprise" by Beijing Municipal Science and Technology Committee on March 30, 2001 and, as such, were exempted from the enterprise income tax for the two years ended December 31, 2002, followed by a 50% tax reduction for the three years ending December 31, 2005 at an income tax rate of 7.5%. Commencing from January 1, 2006, Beijing New Take and Beijing Ninetowns Times will be subject to an enterprise income tax rate of 15%.

Beijing Ninetowns Infrastructure Technology Development Centre, the predecessor of Beijing Ninetowns Digital Technology, was awarded the certificate of "New and High Technology Enterprise" on May 23, 1995 and was exempted from the enterprise income tax for the three years ended July 31, 1998 followed by a 50% tax reduction for the three years ended July 31, 2001 at an income tax rate of 7.5%. Such preferential tax treatment was inherited by Beijing Ninetowns Digital Technology, following its establishment on July 25, 2000. From August 1, 2001, Beijing Ninetowns Digital Technology was subject to an enterprise income tax rate of 15%.

Shanghai New Take was exempted from enterprise income tax for the two years ended December 31, 2004, followed by a 50% tax reduction for the three years ending December 31, 2007 at an income tax rate of 15%. Commencing from January 1, 2008, Shanghai New Take will be subject to an enterprise income tax rate of 33%.

Beijing Ninetowns Ports was awarded the certificate of "New and High Technology Enterprise" and is exempted from the enterprise income tax for the three years ending December 31, 2005.

No deferred taxes have been recorded as there were no taxable temporary differences during the tax exemption period of the PRC subsidiaries.

During the years ended December 31, 2002, 2003 and 2004, if the Company's subsidiaries in the PRC were neither in the tax holiday period nor had they been specifically allowed special tax concessions, they would have recorded additional income tax expense of RMB10,377, RMB12,988 and RMB23,558, respectively, the Company's net income would have been decreased by RMB9,337, RMB11,687 and RMB21,973, and basic and diluted net income per share would have been decreased to RMB2.53, RMB1.30 and RMB4.14, and RMB2.53, RMB1.30 and RMB3.96 for the years ended December 31, 2002, 2003 and 2004, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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(In thousands, except share and per share data)

8. INCOME TAXES - continued

A reconciliation between the provision for income tax computed by applying the PRC enterprise income rate of 15% to income before income taxes and the actual provision for income taxes is as follows:

	<u>Year ended December 31,</u>		
	<u>2002</u>	<u>2003</u>	<u>2004</u>
PRC enterprise income tax	15.0%	15.0%	15.0%
Expenses not deductible for tax purposes.....	0.8%	12.3%	3.4%
Income not subject to tax.....	(1.7%)	(4.9%)	(1.2%)
Tax exemption and tax relief granted			
to PRC subsidiaries	(12.7%)	(14.7%)	(16.7%)
Others	1.4%	(0.2%)	0.8%
	<u>2.8%</u>	<u>7.5%</u>	<u>1.3%</u>
	=====	=====	=====

9. OTHER TAXES PAYABLE

	<u>At December 31,</u>	
	<u>2003</u>	<u>2004</u>
	RMB	RMB
Individual income tax	119	165
Business tax payable	1,272	1,342
Value added taxes payable, net	8,954	2,507
	<u>10,345</u>	<u>4,014</u>
	=====	=====

The Company's subsidiaries in the PRC other than Hong Kong are subject to a 17% value added tax on revenues from sales of hardware to customers and, in addition, are subject to business tax and value added tax at the rates of 5% and 6%, respectively, on service revenues from software development and sales of software, respectively. Value added taxes payable on revenues is equal to an amount net of the value added tax paid on inventory purchases. The Company is also required to withhold PRC individual income tax on employees' payroll for remittance to the tax authorities.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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(In thousands, except share and per share data)

10. RELATED PARTY TRANSACTIONS AND BALANCES

Investment activities:

Ninetowns Import & Export e-Commerce Co., Ltd. ("Ninetowns Import & Export e-Commerce") was established in the PRC with limited liability and principally trades computer hardware products in the PRC. On March 13, 2002, the Company sold its entire interest of 27.82% in Ninetowns Import & Export e-Commerce, an equity-method affiliate of the Company, to Mr. Wang Shuang, Chief Executive Officer of the Company, for a consideration of RMB8,625, resulting in a loss on disposition of approximately RMB103, which was included in general and administrative expenses.

In September 2002, the Company set up Shenzhen Ninetowns Enke Software Technology Co., Ltd. (formerly known as Shenzhen Jinwangge Software Co., Ltd.) ("Ninetowns Enke") in the PRC, together with certain members of senior management of the Company and certain independent third parties. The Company contributed RMB4,080 for a 51% equity interest in Ninetowns Enke. In May 2003, the Company disposed of its entire interest in Ninetowns Enke, which had not yet begun operations, at cost to Beijing Yadi Yangguang Technology Development Co., Ltd. ("Beijing Yadi Yangguang"), a company wholly-owned by Mr. Wang Shuang and Ms. Dong Min, a member of the senior management of the Company and the spouse of Mr. Wang Shuang, for a consideration of RMB4,080. No gain or loss was recorded in relation to this disposition.

In June 2004, the Company entered into agreements for the acquisition of office premises for an aggregate consideration of RMB49,652. Certain of these properties are being acquired from Beijing Heng Fu Plaza Development Company Ltd., a company in which Mr. Ko Jin Heng is a director, for a consideration of RMB47,339. Mr. Ko Jin Heng is also a director of Jitter Bug. As of December 31, 2004, the Company had made payments of RMB49,652 with respect to these acquisitions. Since these acquisitions had not been completed and the risk and reward of the ownership of the properties concerned had not been transferred to the Company as of December 31, 2004, the payments of RMB49,652 were presented as deposits paid for acquisition of properties in the consolidated balance sheets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2002, 2003 AND 2004
(In thousands, except share and per share data)

10. RELATED PARTY TRANSACTIONS AND BALANCES - continued

Software development services:

During the years ended December 31, 2002, 2003 and 2004, the Company provided software development services, directly or indirectly, to Beijing iTowNet Cyber Technology Ltd. ("Beijing iTowNet") in which Mr. Wang Shuang and Ms. Dong Min have beneficial interests. Mr. Ren Xiaoguang, a member of the senior management of the Company, is a non-executive director of Beijing iTowNet. Mr. Wu Bolin, another member of the senior management of the Company, is the sole supervisor of Beijing iTowNet. In 2002, the Company provided software development services to Beijing iTowNet directly and recognized net revenues of RMB13,610 for such services. In 2003, the Company entered into various software development services contracts with Beijing Regard Technology Co., Ltd. ("Beijing Regard") to provide software development services to Beijing iTowNet as the ultimate user. Beijing Regard is a company established in the PRC by Beijing Yadi Yangguang and certain individuals. In March 2003, Beijing Yadi Yangguan disposed of its 73.75% interest in Beijing Regard to another individual. The Company recognized net revenues of RMB18,500 from such indirect services to Beijing iTowNet in 2003. For the year ended December 31, 2004, RMB3,593 was recognized from direct software development services provided to Beijing iTowNet. The Company also provided platform maintenance services to Beijing iTowNet directly in the year ended December 31, 2004 and recognized net revenues of RMB 6,000 for such services.

Sales of enterprises software:

In September 2003, the Company entered into a distribution agreement with Ninetowns Enke for the distribution of the Company's enterprise software in the southern region of the PRC. During the years ended December 31, 2003 and 2004, the Company recognized net revenues of RMB1,394 and RMB25,245, respectively, from sales of enterprise software to Ninetowns Enke.

In addition, the Company sold software products to Beijing iTowNet amounting to RMBNil, RMB515 and RMB16,840 in the years ended December 31, 2002, 2003 and 2004, respectively.

Other

In November 2004, the Company entered into an agreement with Mr. Wang Shuang, Ms. Dong Min and Ninetowns Import & Export e-Commerce to the effect that Ninetowns Import & Export e-Commerce would sell its 49% interest in Beijing iTowNet to the Company at the Company's request if, at any time while the Company's ordinary shares or ADSs are registered with the SEC, Ninetowns Import & Export e-Commerce is allowed to sell such interest to the Company under the relevant PRC law and the policies of the State Administration for Quality Supervision and Inspection and Quarantine of the PRC (the "PRC Inspections Administration"). The Company's right under the agreement is subject to the statutory right of first refusal of the PRC Inspections Administration to purchase such interest. The Company has agreed, if exercising its right under the agreement, to purchase the 49% interest in Beijing iTowNet at a purchase price of US\$25 million, plus a compounded interest rate of 5% per year for each year that Ninetowns Import & Export e-Commerce held the interest since August 23, 2001, but deducting any dividend or distribution that Ninetowns Import & Export e-Commerce has received or in the future receives from Beijing iTowNet.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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(In thousands, except share and per share data)

10. RELATED PARTY TRANSACTIONS AND BALANCES - continued

Related party balances:

As of December 31, 2003, the amount due from a related party of RMB6,989 represented cash advances to Ninetowns Import & Export e-Commerce in which Mr. Wang Shuang and Ms. Dong Min have beneficial interests. The amount due from a related party was unsecured, interest free and was fully repaid during the year ended December 31, 2004.

As of December 31, 2003, the amount due to the Company's shareholder represented cash advances from Jitter Bug and was fully repaid during the year ended December 31, 2004.

As of December 31, 2004, the amounts due to shareholders represented the net proceeds to certain selling shareholders that had been collected by the Company on behalf of such selling shareholders and remained outstanding.

In addition, trade receivables included amounts of RMB6,955 and RMB16,250 at December 31, 2003 and RMB8,015 and RMBNil at December 31, 2004 receivable from Beijing iTowNet and Beijing Regard, respectively. These receivables relate to revenues generated from the provision of the software development services disclosed above. Trade receivables also included an amount of RMB8,680 and RMB22,925 at December 31, 2003 and 2004 from Ninetowns Enke with respect to the sale of enterprise software disclosed above.

11. CAPITAL STRUCTURE

The Company has a simple capital structure with one class of ordinary shares.

On February 8, 2002, the Company issued 4 shares for par value of HK\$0.025 on incorporation. On September 27, 2003, in connection with a legal reorganization, the Company issued 21,999,996 shares on a pro-rata basis to the shareholders of the Company. The Company has accounted for the issuance of shares in connection with this reorganization as a legal reorganization of entities under common control in a manner similar to a pooling-of-interests and accordingly all shares and per share data have been restated to give retroactive effect to this transaction.

In October 2003, the Company raised capital through the issuance of 780,000 shares in a private placement at a price of HK\$25 per share for a total consideration of RMB20,670.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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(In thousands, except share and per share data)

11. CAPITAL STRUCTURE - continued

In October and December of 2003, the Company raised additional capital through the issuance of 2,964,000 shares in a private placement at a price of HK\$25 per share for a total consideration of RMB71,741 (net of share issue expenses of RMB6,805). In connection with their subscription of ordinary shares, the investors received a put option, which permits them to sell back the shares at the subscription price plus a rate of return of 10% per annum, if the Company does not successfully register its shares by December 31, 2004, in a "qualified initial public offering". A qualified initial public offering is defined as one in which the price per share will generate an absolute return of at least 35%, if the initial public offering occurs within October 9, 2004, or an internal rate of return of at least 35% per annum from October 9, 2003 (the contract date). The put option period is from January 1, 2005 to June 30, 2005. Stock subscription proceeds of RMB24,804 were outstanding as of December 31, 2003. The amount was fully settled in 2004 and 16 additional ordinary shares were issued in accordance with the terms of the placement. Upon the listing of the Company's American Depositary Shares ("ADSs"), each representing one ordinary share of the Company, on the Nasdaq National Market in December 2004, the put option lapsed and the mezzanine equity was reclassified to the Company's shareholders' equity.

In October and November of 2004, Mr. Wang Shuang and Ms. Dong Min exercised 174,914 and 70,592 stock options, respectively, at an exercise price of HK\$25 each.

On November 9, 2004, the Company's shareholders approved a four-for-one share split. All share and per share data have been restated to give retroactive effect to this stock split.

In December of 2004, the Company offered 6,400,000 ADSs, representing 6,400,000 ordinary shares, at US\$11 each to the public, raising proceeds of RMB531,413, net of offering expenses. The Company's ADSs are quoted on the Nasdaq National Market.

12. SHARE OPTION PLANS

Under the Plan adopted in November of 2003, the Company may grant options to purchase up to 2,574,400 ordinary shares to employees and directors at prices as determined by the Company's Board of Directors. The Plan will remain in effect for 10 years starting from the date of adoption.

On November 18, 2003, the Company granted 2,574,400 options to purchase 2,574,400 ordinary shares to certain employees and directors at an exercise price of HK\$25 per share, which was determined by the Board of Directors by reference to the subscription price of HK\$25 per share for shares issued to independent investors in October and December of 2003. 25% of the options vested and became exercisable on May 18, 2004 while the remaining 75% vest over a three-year period with one-third of such options vesting each year beginning on November 18, 2004. All the options granted, which have not been exercised, will expire on November 17, 2013.

As of December 31, 2004, options to purchase 2,328,894 ordinary shares were outstanding. As of December 31, 2004, no option to purchase ordinary shares was available under the Plan for future grants.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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(In thousands, except share and per share data)

12. SHARE OPTION PLANS - continued

A summary of the stock option activity is as follows:

	<u>Ordinary shares</u>	
	<u>Number of options</u>	<u>Weighted average exercise price HK\$</u>
Granted and outstanding at December 31, 2003.....	2,574,400	25
Exercised.....	245,506	25
Outstanding at December 31, 2004	2,328,894	25

The weighted average per share fair value of the options as of the date of grant was HK\$25.

Additional information on options outstanding at December 31, 2004 is as follows:

	<u>Options outstanding as at December 31, 2004</u>		
<u>Range of exercise price</u>	<u>Number outstanding</u>	<u>Weighted average remaining contractual life (years)</u>	<u>Weighted average exercise price HK\$</u>
HK\$25.....	2,328,894	8.875	25

In October of 2004, the Company approved another incentive share option plan for its employees (the "2004 Plan"). The 2004 Plan will remain effective until 2014 unless terminated earlier by the Company.

The maximum number of ordinary shares which may be issued or delivered and as to which awards may be granted under the 2004 Plan is 1,800,000 ordinary shares. The exercise price for a share option must at least be equal to 100% of the fair market value of the Company's ordinary shares on the date of grant. The term of an incentive share option may not exceed ten years from the grant date, except that with respect to any participant who owns 10% or more of the voting power of all classes of the Company's outstanding stock, the term must not exceed five years from the grant date and the exercise price must equal at least 110% of the fair market value on the grant date.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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13. **COMMITMENTS**

The Company has operating lease agreements principally for its office properties in the PRC. Such leases have remaining terms ranging from 12 to 36 months and are renewable subject to negotiation. Rental expense was RMB3,668, RMB3,714 and RMB4,439 for the years ended 31 December 31, 2002, 2003 and 2004, respectively.

Future minimum lease payments under non-cancelable operating lease agreements at December 31, 2004 were as follows:

	RMB
Fiscal year	
2005.....	2,126
2006.....	1,136
2007.....	26
Total	3,288
	3,288

14. **SEGMENT INFORMATION**

Description of the Types of Products and Services from which each Reportable Segment Derives its Revenues - As of December 31, 2004, the Company has three reportable segments: the enterprise software segment, the software development services segment and the computer hardware sales segment. The enterprise software segment is engaged in the development, distribution and sale of software products, the provision of customer maintenance services to the end-users and all of the research and development of new enterprise software. The software development services segment is responsible for the development and integration of software in accordance with the customers' specifications and requirements and subsequent maintenance services. The computer hardware sales segment is engaged in the sales of computer hardware and accessories.

Measurement of Segment Profit and Loss and Segment Assets - The accounting policies underlying the financial information provided for the segments are based on the accounting principles and the relevant financial regulations applicable to enterprises with foreign investment as established by the Ministry of Finance of the PRC ("PRC GAAP"). The principal measurement differences between PRC GAAP and U.S. GAAP as they relate to the Company are the result of differences in the accounting for (i) revenue recognition from sales of enterprise software, and (ii) reclassification of PRC value added tax refund.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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14. SEGMENT INFORMATION - continued

Factors Management Used to Identify the Company's Reportable Segments - The Company's reportable segments offer different products and services. Each reportable segment is the responsibility of a member of the senior management of the Company who has knowledge of product and service specific operational risks and opportunities. None of the operating segments of the Company have been combined for presentational purposes.

Analysis of Reportable Segments (Management Information - PRC GAAP basis)

	Year ended December 31, 2002			
	Enterprise <u>software</u> RMB	Software development <u>services</u> RMB	Computer <u>hardware sales</u> RMB	<u>Total</u> RMB
Net revenues from external customers	87,090	790	258	88,138
Net revenues from related parties.....	-	13,610	-	13,610
Segment profit.....	85,975	10,866	42	96,883
	Year ended December 31, 2003			
	Enterprise <u>software</u> RMB	Software development <u>services</u> RMB	Computer <u>hardware sales</u> RMB	<u>Total</u> RMB
Net revenues from external customers	108,767	545	72	109,384
Net revenues from related parties.....	7,739	18,500	-	26,239
Segment profit.....	114,974	14,106	24	129,104
	Year ended December 31, 2004			
	Enterprise <u>software</u> RMB	Software development <u>services</u> RMB	Computer <u>hardware sales</u> RMB	<u>Total</u> RMB
Net revenues from external customers	135,885	3,130	104	139,119
Net revenues from related parties.....	52,277	9,593	-	61,870
Segment profit.....	186,634	9,753	95	196,482

The Company does not allocate operating expenses to individual segments when making decisions about resources to be allocated to the segment and assessing its performance.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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14. SEGMENT INFORMATION - continued

Reconciliations of Reportable Segment Totals to Consolidated Totals - The amounts presented for reportable segments reconcile to the consolidated totals as follows:

	<u>2002</u>	<u>Year ended December 31,</u>	<u>2004</u>
	RMB	2003	RMB
		RMB	RMB
Net revenues from external customers	88,138	109,384	139,119
U.S. GAAP adjustments:			
Unearned income for enterprise software.....	(2,700)	(7,557)	(1,838)
Reclassification of PRC value added			
tax refund	8,985	10,672	12,588
Total net revenues from external customers.....	<u>94,423</u>	<u>112,499</u>	<u>149,869</u>
	=====	=====	=====
Net revenues from related parties.....	13,610	26,239	61,870
U.S. GAAP adjustments:			
Unearned income for enterprise software.....	-	(6,025)	(14,986)
Reclassification of PRC value added			
tax refund	-	195	4,794
Total net revenues from related parties	<u>13,610</u>	<u>20,409</u>	<u>51,678</u>
	=====	=====	=====
Segment profit.....	96,883	129,104	196,482
U.S. GAAP adjustments:			
Unearned income for enterprise software.....	(2,700)	(13,582)	(16,824)
Reclassification of PRC value added			
tax refund	8,985	10,867	17,382
Gross profit.....	<u>103,168</u>	<u>126,389</u>	<u>197,040</u>
Operating expenses	(29,907)	(73,276)	(57,368)
Income from operations.....	<u>73,261</u>	<u>53,113</u>	<u>139,672</u>
Interest income	619	1,220	3,768
Other income	458	211	1,340
Income before income taxes.....	<u>74,338</u>	<u>54,544</u>	<u>144,780</u>
	=====	=====	=====

Geographical Disclosures -

The Company operates in the PRC. All the identifiable assets of the Company are located in the PRC and the Company does not allocate such assets to individual segments.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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15. MAJOR CUSTOMERS

Details of the customers accounting for 10% or more of total sales are as follows:

	<u>2002</u>	<u>Year ended December 31,</u>	<u>2004</u>
	RMB	<u>2003</u>	RMB
		RMB	
Guangzhou Panyu Chengchang Trade Development Co., Ltd.	16%	21%	20%
Beijing Regard.....	-	14%	-
Shanghai Xianghua Shipping Consulting Company	18%	14%	1%
Beijing iTowNet.....	13%	1%	12%
Ninetowns Enke	-	1%	14%
Shanghai Tomorrow Technology Development Co., Ltd.	-	2%	15%

The accounts receivable from the 2 customers with the largest receivable balances represents 26% and 33% of the balance of the accounts at December 31, 2003 and 2004, respectively.

16. EMPLOYEE BENEFIT PLANS

Employees of the Company located in the PRC other than Hong Kong are covered by the retirement schemes defined by local practice and regulations, which are essentially defined contribution schemes. The calculation of contributions for these eligible employees is based on 20% of the applicable payroll cost. Certain employees of the Company who are located in Hong Kong have joined the Mandatory Provident Fund ("MPF") Scheme which is also a defined contribution scheme. The contribution to the MPF Scheme is calculated based on the rules set out in the MPF Ordinance in Hong Kong which is 5% on the relevant income of the employee with a specific ceiling. The expenses paid by the Company to these defined contribution schemes were RMB378, RMB436 and RMB863 for the years ended December 31, 2002, 2003 and 2004, respectively.

In addition, the Company is required by law to contribute approximately 10% and 0.3% of applicable salaries of certain employees for medical and unemployment benefits and workers compensation, respectively. The PRC government is directly responsible for the payments of the benefits to these employees. The amounts contributed were RMB158, RMB240 and RMB487 for the years ended December 31, 2002, 2003 and 2004, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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17. **DISTRIBUTION OF PROFITS**

As stipulated by the relevant laws and regulations applicable to China's foreign investment enterprises, the Company's subsidiaries in the PRC other than Hong Kong are required to make appropriations from net income as determined under PRC GAAP to non-distributable reserves which include a general reserve, an enterprise expansion reserve and a staff welfare and bonus reserve. Wholly-owned PRC subsidiaries are not required to make appropriations to the enterprise expansion reserve but appropriations to the general reserve are required to be made at not less than 10% of the profit after tax as determined under PRC GAAP. The staff welfare and bonus reserve is determined by the board of directors.

The general reserve is used to offset future extraordinary losses. The subsidiaries may, upon a resolution passed by the stockholders, convert the general reserve into capital. The staff welfare and bonus reserve is used for the collective welfare of the employees of the subsidiaries. The enterprise expansion reserve is used for the expansion of the subsidiaries' operations and can be converted to capital subject to approval by the relevant authorities. These reserves represent appropriations of retained earnings determined according to Chinese law and may not be distributed. There were no appropriations to reserves by the Company's subsidiaries in the PRC other than Hong Kong during any of the periods presented. However, as a result of these laws, approximately RMB15,997 and RMB40,950 are not available for distribution as of December 31, 2003 and 2004, respectively.

18. **SUBSEQUENT EVENTS**

In February 2005, the Company granted 890,000 options under the 2004 Plan to purchase 890,000 shares to certain employees and directors at an exercise price of US\$8.60 per share, which was determined by the Board of Directors by reference to the closing price of the Company's ADSs as reported by the Nasdaq Stock Market on the date of grant. The options will vest proportionately over a four-year period starting from the date of grant.

Subsequent to December 31, 2004, the Company entered into agreements for the acquisition of office premises for an aggregate consideration of approximately RMB35 million.

* * * * *

OTHER CORPORATE INFORMATION

Directors and Executive Officers

DIRECTORS

Lee, Tat Man
Chairman of the Board

Wai, Gerry Ka Cheung
Director

Lee, Mark Ming Hsun
Independent Director

Wang, Shuang
Director

Ng, Kin Fai
Director

Sun, Xiaomin
Independent Director

Tsuei, Stephen Jung
Director

Zhang, Dachun
Independent Director

Chen, Fushan
Independent Director

CORPORATE GOVERNANCE

Audit Committee
Nominating Committee
Compensation Committee

Lee, Mark Ming Hsun
Sun, Xiaomin
Zhang, Dachun

EXECUTIVE OFFICERS

Wang, Shuang
Chief Executive Officer

Wu, Bolin
Chief Technology Officer

Wang, John
Senior Vice President
Business Development

Ren, Xiaoguang
President

Ho, Eric
Chief Strategy Officer

Dong, Min
Senior Vice President
Legal Affairs and Human Resources

Fork, Tommy
Chief Financial Officer

OTHER CORPORATE INFORMATION

Corporate Information

Corporate Headquarter

Ninetowns Digital World Trade Holdings Limited
5th Floor, Union Plaza
20 Chaowai Street
Chaoyang District
Beijing, PRC 100020

Stock Exchange Listing

Ninetowns American Depositary Receipt
(one ADS = one ordinary share)
trades on the Nasdaq National Market
under the symbol NINE

Independent Auditor

Deloitte Touche Tohmatsu
26/F, Wing On Centre
111 Connaught Road
Central, Hong Kong

ADR Depository Bank

JPMorgan Chase Bank
P.O. Box 43013
Providence, Rhode Island 02940-3013
(800) 990-1135
Email: adr@jpmorgan.com
Website: www.adr.com

Investor Relations

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Beijing, PRC 100020
Telephone: 86-10-6588-2256
Fax: 86-10-6588-2290
Email: ir@ninetowns.com
Website: www.ninetowns.com/english

Annual General Meeting

The annual meeting of
shareholders will be held
on Friday, December 2, 2005 at 2:00pm at:
Plaza Conference Centre
5/F, China Life Tower
No.16 Chaowai Street
Chaoyang District, Beijing

Extensive Sales & Marketing Network to Support Growth



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- Branch Offices



www.ninetowns.com

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