

2010 Annual Report

Ninetowns Internet Technology Group Company Limited



Smarter Life
Intelligence
Technology

COMPANY PROFILE

We are a leading provider of online solutions for international trade, with key services in automating import/export e-filings.

Our American Depositary Shares are traded on the NASDAQ Global Market under the symbol NINE. On June 30, 2011, there were 38,791,834 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 Exchanges Commission on June 30, 2011.

FINANCIAL HIGHLIGHTS

(in US\$ thousands, except per share data and the percentages)

For the year ended December 31	2006	2007	2008	2009	2010 ⁽¹⁾
Total Net Revenue	\$19,637	\$14,183	\$15,686	\$13,735	\$11,954
Income (loss) from Operations	3,544	(40,272)	(30,475)	(8,605)	(9,490)
Net Income (loss)	5,885	(31,602)	(24,861)	179	1,866
Diluted Net Income (loss) per Share	0.17	(0.90)	(0.71)	0.01	0.05
<i>Operating Margin</i>	18.0%				
<i>Net Margin</i>	30.0%				
As of December 31,					
Deferred Revenue	3,381	4,452	3,136	1,531	1,621
Total Assets	174,945	160,555	139,732	143,511	149,936
Stockholders' Equity	167,217	147,082	131,942	135,136	143,761
Number of Registered Licenses of iDeclare	130,000	8,400	2,900	142,300	143,500

(1) For the convenience of the reader, the RMB amounts are expressed in U.S. dollars at the rate of RMB6.6000 to US\$1.00, the noon buying rate in effect on December 31, 2010 as quoted by the Federal Reserve Bank of New York. The percentages stated in this Annual Report are calculated based on Renminbi amounts.

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Dear Shareholders:

We continued to face a challenging environment for our core B2G business throughout 2010, as the number of small- to medium-sized export enterprises continued to decline as a result of the slowdown in China's economy resulting from the global economic crisis.

Nevertheless, we continued generating the majority of our revenue from our B2G segment, while also making strides in our newer business initiatives including our e-Grocery business and our Smarter City property development which we began to develop in early 2011.

We will continue to invest both time and resources to further develop these new initiatives in an effort to develop additional revenue streams, while also focusing on cost control and operational enhancements in our B2G business.

Core B2G Business Overview

In the face of a challenging market environment in 2010, we continued deriving the majority of our revenue from our core import/export enterprise software solutions business segment. For the full year, we sold 1,140 iDeclare packages and 16,670 iDeclare service contracts, which was a decline from the full year 2009, mainly due to the decline in international trade and the associated impact on small- and medium-sized enterprises noted earlier.

For the full year 2010, we also sold 510 maintenance service contracts to users of the free software offered by the PRC Inspections Administration. The average service contract value remained at about US\$250 per year, in line with 2009, and the services include installation, training, technical support, automatic updates and user training. While there was a decline in service contracts sold in 2010 compared to 2009, we intend to further promote this offering, although we expect to face headwinds in this segment moving forward.

Admittedly, the ongoing pressure on our core business resulted in decreases in our financial results for the year. For the full year 2010, we reported total net revenue of US\$12.0 million, a 2% decrease from US\$11.7 million for 2009. Our total operating expenses increased by 4% year-over-year. Operating loss for the full year was US\$9.5 million; however we recorded net income of US\$1.9 million, compared to net income of US\$0.2 million for 2009. However, we closed the year with a relatively solid financial position, with zero debt on the balance sheet and cash and cash equivalents of US\$77.1 million. We believe this stable financial base will enable us to further executing on our growth strategy.

e-Grocery Business Overview

Throughout 2010, we saw steady progress on our e-Grocery initiative. We began offering our e-Grocery services via our web portal www.tootoo.cn in April 2010. Our grocery offering is a convenient and high-quality platform for consumers primarily in the Beijing metropolitan area to purchase organic and other fresh and natural food products for delivery to their homes, providing customers with a farm-to-table food buying option. Our offering is made possible by our "Unbroken Cold Chain Logistics" model, which guarantees delivery of fresh produce and products from our warehouse directly to customers using carefully planned delivery routes and state-of-the-art refrigeration equipment and specially equipped vehicles.

In the second half of 2010, we successfully completed a second phase of testing, which included the expansion of our product offering and a focus on customers primarily in higher income, white collar neighborhoods in Beijing's Central Business District and Central Villa area. As a result of our continued efforts at developing this new initiative, net revenues for the full year 2010 from our e-Grocery business reached US\$0.8 million, or 7% of our total revenue. We are pleased with the results from this segment to date, and we expect to develop and fine-tune the offering in an effort to increase its contributions over time.

Business Outlook

As we look ahead, in light of the limited long-term growth prospects for our B2G segment, we are focusing our efforts on the development of our two new business segments to capitalize on new growth areas in China and to develop new potential revenue streams.

For our e-Grocery business, we believe we have established a successful business model in the greater

Beijing metro area, and we plan to further improve the customer experience. More specifically, we are ready to roll out additional central processing units and service and delivery centers to increase our customer coverage in Beijing. Our efforts have resulted in increasing revenue contribution in 2011. Further testing will be conducted to ascertain whether this segment will continue to grow and develop into a significant revenue contributor over the mid- to long-term.

In early 2011, we launched our Smarter City property development initiative. Given the healthy macroeconomic environment in China and the long-term growth opportunities due to increasing urbanization, we believe our new property development initiative provides us with a potential opportunity to develop a new long-term revenue stream.

A newly emerging niche in the market is bringing about demands on integrating the Internet of Things and cloud computing related technology to enhance community life and urban development to build up Smarter Cities. With over 10 years of experience in technology and the IT industry, we believe we are well positioned to capture this new opportunity.

We have thus far made 3 property purchases in China, in Yizhuang, Beijing, Huainan, Anhui Province, and Dalian in Liaoning Province. Together, these three investments represent our first steps towards implementing our new Smarter City property development initiative. We believe that the underlying drivers of the real estate market and the urbanization momentum of third and fourth tier cities and our extensive IT industry experience provide us with a new and unique growth opportunity.

Moving forward, our business should be viewed in the context of three complementary business segments which leverage our core competency and experience in the technology field. It is still early days in terms of our newer initiatives, and we expect to continue to generate the bulk of our revenue in the near- to mid-term from our core B2G business segment. Nevertheless, we believe we are establishing a multi-faceted platform that will help us to build long-term shareholder value.

In conclusion, I would like to thank our shareholders, customers, supplies, partners and employees for the support and understanding you have extended us throughout the year.

Best wishes,



Shuang Wang
Chief Executive Officer



**NOTICE OF ANNUAL GENERAL MEETING OF SHAREHOLDERS
ON DECEMBER 2, 2011**

The Annual General Meeting of Shareholders of Ninetowns Internet Technology Group Company Limited (the “Company”) will be held at 11:00 a.m. on December 2, 2011 at 22nd Floor, Building No.1, Capital A Partners, No.20 Gong Ti East Road, Chaoyang District, Beijing 100020, The People’s Republic of China for the following purposes:

1. to authorize the board of directors of the Company (the “Board”) to appoint, without further ratification, GHP Horwath, P.C. as the Company’s independent auditors for the fiscal year ending December 31, 2011 and to fix the remuneration of GHP Horwath, P.C. for such services;
2. to adopt the audited statement of accounts and report of the auditors for the fiscal year ended December 31, 2010;
3. to approve the Board’s compensation for the fiscal year ended December 31, 2010 and delegate authority to the compensation committee of the Board to fix the remuneration of the Board for the fiscal year ending December 31, 2011; and
4. 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 1, 2011 (US Eastern Time) 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 of the fiscal year ended December 31, 2010 may be viewed at our website at www.ninetowns.com/english.

NINETOWNS INTERNET TECHNOLOGY GROUP COMPANY LIMITED

**PROXY STATEMENT
FOR ANNUAL GENERAL MEETING OF SHAREHOLDERS TO
BE HELD ON DECEMBER 2, 2011**

This proxy statement is furnished by Ninetowns Internet Technology Group Company 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, 2011 at 11:00 a.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 GHP Horwath, P.C. as the Company's independent auditors to audit the Company's financial statements for the fiscal year ending December 31, 2011 and to fix the remuneration of GHP Horwath, P.C. 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, GHP Horwath, P.C. as the Company's independent auditors for the fiscal year ending December 31, 2011 and to fix the remuneration of GHP Horwath, P.C. for such services.

**THE BOARD UNANIMOUSLY RECOMMENDS A VOTE "FOR" THE AUTHORIZATION
OF THE BOARD TO APPOINT, WITHOUT FURTHER RATIFICATION,
GHP HORWATH, P.C. AS THE COMPANY'S INDEPENDENT AUDITORS
FOR THE FISCAL YEAR ENDING DECEMBER 31, 2011 AND TO FIX THE
REMUNERATION OF GHP HORWATH, P.C. FOR SUCH SERVICES.**

**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, 2010 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, 2010 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, 2010.

**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, 2010.**

**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, 2010 be RMB 2,595,000 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, 2011.

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, 2010 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, 2011.

**THE BOARD UNANIMOUSLY RECOMMENDS A VOTE "FOR" THE APPROVAL OF THE
PROPOSED AGGREGATE COMPENSATION FOR THE BOARD FOR THE FISCAL YEAR
ENDED DECEMBER 31, 2010 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, 2011.**

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

We are a leading provider of online solutions for international trade, with our key services in automating import/export e-filings. We achieve this by leveraging our international trade expertise and our insight into the needs and procedures of certain trade-related PRC government agencies. To date, we have focused on providing enterprise software and related customer maintenance services for the completion over the Internet of the declaration process. In order to secure our market position, we assisted in designing and building, and continue to maintain and upgrade, the electronic systems of the PRC Inspections Administration, that enable our enterprise software to process electronic declarations over the Internet.

From 2006 to 2008, we focused on developing our business-to-business, or B2B, business and strategy. We launched our new B2B vertical search platform, tootoo.com in May 2007 through which we offered our B2B business and services. In 2009, we announced our decision to wind down our B2B business in light of the recent major changes in the global economic environment. We expanded our research and development initiatives to focus on the development of our business-to-consumer, or B2C, e-commerce platform.

In 2010, we began offering our B2C e-commerce food and household products platform through our web portal, www.tootoo.cn, on a trial basis in the Beijing metropolitan area. In addition, we focused on guaranteeing delivery of fresh produce from our warehouses directly to our customers located in a particular residential community in Beijing. We sold a portion of our equity holdings in Global Market, and all of our equity holdings in GCL Silicon Technology Holdings Inc., or GCL. In 2010, we recognized approximately RMB18.3 million (US\$2.8 million) of gains from such investments.

We periodically invest our excess cash in highly liquid equity securities. In addition, from time to time we write call and put options through listed exchange as part of our investment strategy. Our investment committee approves the investment policy covering the investment parameters to be followed with the primary goals being the safety of principal and maintaining the liquidity of funds. As of December 31, 2010, we held equity securities with a total value of approximately RMB43.3 million (US\$6.5 million), which we purchased from China's A-Share stock market. We also made investments in the U.S. capital markets through investments in equity securities and call and put options. As of December 31, 2010, we held equity securities with a total value of approximately RMB188.6 million (US\$28.6 million) that we purchased from the securities markets in the United States. In 2010, we recognized approximately RMB46.9 million (US\$7.1 million) gain from our equity securities investment activities. We also engage in the sales of B2C organic food and other household products through our web portal, www.tootoo.cn. We intend to expand our business to invest in real estate development. We acquired land use rights for undeveloped land in Huainan and Dalian, China, to develop mixed-use real estate projects. Our B2C and real estate development businesses are under development.

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

Focus on sales of enterprise software and related customer maintenance services

In 2010, we engaged in three main lines of business: (i) sales of enterprise software and related customer maintenance services, (ii) provision of software development services, and (iii) B2C food related business. We intend to continue deploying our resources on sales of enterprise software and related customer maintenance services and on our B2C food related business. In addition, we also intend to leverage our existing expertise in quality control and e-service solutions to explore and develop other business opportunities.

Expansion to New Business and Continuance of Investment Activities

In April 2011, we expanded our business to focus on a new strategic initiative to invest in real estate development. We also expect to continue our investment activities in China's A-Share stock market and U.S. capital markets.

Status of the import/export industry in China

Our financial results have been, and we expect them to continue to be, affected by the import/export industry in China. In 2010, China's total import and export volume increased by 34.7%; however, the number of small and medium size enterprises, who are our targeted potential users, continued to decrease. We believe that a number of factors have contributed to such decrease, including macroeconomic measures and monetary policies adopted by the PRC government and the global financial crisis.

Change in number of potential users

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

Although the number of users of our enterprise software has increased significantly since we first launched our iDeclare.CIQ software products in August 2000, the growth in the number of potential users has declined significantly in recent years. The initial increase was partially attributable to the increasing number of PRC international trade enterprises and partially attributable to the increasing demand from such enterprises for more efficient import/export processing methods. The recent decrease was due to the PRC Inspections Administration's distribution of its free software. We expect an increase in the number of PRC international trade enterprises as the PRC economy continues to expand over time, but such increase may have been slowed significantly by the 2008 global financial crisis. We believe the long term growth of the import/export market will increase demand for our enterprise software and related customer maintenance services and software development services, as international trade enterprises seek an efficient means of completing the declaration process.

While the growth rate of our user base has decreased continuously, we believe that we have continued to make sales of our iDeclare.CIQ software packages and related customer maintenance services due to certain benefits offered to our paid customers that are not offered to users of the free software. The PRC Inspections Administration's distribution of free software products, while in the long run will likely increase the number of e-filers and hence increase demand for our enterprise software services, has had a significant adverse effect on our total net revenue, our results of operations and profitability in the short-term. Since 2008, we believe that the PRC Inspections Administration decreased its efforts to promote its free software and we believe there is uncertainty surrounding the PRC Inspections Administration's future promotional plans for its free software. Our sales of iDeclare.CIQ declined significantly from 2008 to 2010, and we expect such sales to remain generally the same in 2011.

Expanding our user base through franchisees

We believe our user base has substantial growth potential due to the high number of international trade enterprises that possess import/export rights in China. According to the PRC Ministry of Commerce, approximately 719,052 foreign-invested companies were approved to do business in China as of April 30, 2011. In addition, there are numerous PRC-based companies that possess import/export rights. A key component of our growth strategy is to secure new customers through the efforts of our franchisees and we intend to engage additional franchisees to expand our marketing and distribution network. Currently, we have engaged four franchisees to undertake marketing, distribution and service activities in China.

Description of revenues, cost items and trade receivables

At December 31, 2010, we primarily operate in three business segments: (i) enterprise software and related customer maintenance services, (ii) software development services and (iii) B2C food related business. Currently, our total net revenues are primarily derived from our sales of enterprise software and related customer maintenance services.

Total net revenues

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

Except for VAT rebates from the Chinese tax authorities as part of the PRC government's policy of encouraging software development in the PRC, we report total net revenue net of business tax. 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, two of our subsidiaries in China are entitled to a 14.0% VAT rebate for certain self-developed software products. We recognize the VAT rebates at the same time we recognize net revenues from sales of enterprise software. VAT rebates are included in our net revenues from sales of enterprise software. In 2010, we recognized RMB0.5 million (US\$80,000) in VAT rebates. We cannot predict how much our net revenues from sales of our enterprise software and related customer maintenance services or software development services will increase in the future, or if they will increase at all.

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

We currently sell our enterprise software and provide related customer maintenance services through four franchisees. Our per-unit license fee for enterprise software products charged to our franchisees is based on our negotiated sales arrangement with the franchisee, and is less than the RMB4,500 per-unit license fee we receive from direct sales. We also sell iDeclare.CIQ products on a Pay-Per-Transaction basis to various users. Our ability to grow our net revenues from sales of enterprise software and related customer maintenance services will depend on (i) the rate of increase in the number of new users of such product, (ii) the market's acceptance of our planned new software products, (iii) the success of our plans to engage additional franchisees, and (iv) our increased efforts in marketing our customer maintenance services to our users. The distribution of free enterprise software by the PRC Inspections Administration has adversely affected our ability to grow our net revenues from sales of enterprise software and related customer maintenance services.

Notwithstanding that we charge for such maintenance services, we believe our users and potential customers are not accustomed to being charged for this type of service and it is uncertain how many of our users will pay for such maintenance services. In 2010, we collected customer maintenance service fees from approximately 16,700 users, representing approximately 12% of our users due to the renewal of their maintenance service agreements. We intend to continue to increase our marketing and collection efforts with respect to these customer maintenance service fees.

Software development services: Our net revenues from software development services are derived primarily from contracts related to PRC government agency software development projects, such as our services for the PRC Inspections Administration. As we believe is consistent with the practice of other software development companies in China engaged in government-related work, we often commence work on software development projects based on oral commitments from our customer and sign the contract after the commencement of work. Once a contract has been signed, we begin recognizing net revenues from these projects based on the percentage-of-completion method, in which revenue recognition is based on the percentage of actual hours incurred to date for each contract to the estimated total hours to be incurred for each contract at completion. Compared to 2009, more sales from contracts entered into in previous years with respect to software development services that also includes hardware procurement were completed and accepted by customer in 2010. As we recognize such sales as revenue when all components under the contracts are delivered and the project is complete upon the receipt of a written acceptance by customer, the revenue recognized in 2010 is significantly higher than 2009.

B2C food related business: During the first half of 2009, we launched a portal site, www.tootoo.cn, to serve as an e-grocery platform targeting Chinese consumers primarily in Beijing metropolitan areas. This platform is designed as an online grocery store, with offerings of organic products and other fresh and natural products, as well as delivery services direct from farm to table. We established partnerships with two local Beijing organic farms, Beijing Qingpuyuan Farm Land and Huaixiang Organic Farm Land, to assist us with upholding and maintaining quality control standards for product sourcing. In addition, in order to attract potential customers to this e-grocery platform as well as to promote the tootoo.cn branding, we organized and participated in various events such as mother and baby health seminars, organic farm field trips, and various food-related events. Throughout the second half of 2009 and in the early part of 2010, we made significant progress on our online grocery retail initiative. In April 2010, the online

retail platform www.tootoo.cn underwent a complete upgrade, with the addition of new features including a convenient online payment service and a more diverse offering of organic products, fresh vegetables, fruits, and household goods and consumer products. tootoo.cn currently carries over 3,000 products in 16 different categories. Furthermore, we established our first warehouse with approximately 4,300 square meters, functionally divided into an ordinary temperature warehouse, refrigerated / frozen warehouse, processing workshop, office and other functional facilities.

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

Cost of revenues

Our cost of revenues consists principally of costs related to (i) sales of our enterprise software and related customer maintenance services, (ii) our provision of software development services, and (iii) our provision of B2C food related business.

Enterprise software and related customer maintenance services: We distribute our software directly to end-users to distributing them through our franchisee network via the Internet. As such, the costs of revenues for our enterprise software are minimal because of low production costs, packaging costs and shipment costs. Additionally the franchisees have been providing a majority of our software maintenance services to customers for us. We therefore incurred declining direct costs to provide software maintenance services to customers.

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

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

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

Gross profit margin

Our gross profit margin is primarily affected by our net revenues from sales of enterprise software and related customer maintenance services, the cost of revenues for our software development services and B2C food related business. We expect our enterprise software and related customer maintenance services gross profit margin and our software development services gross profit margin to remain stable.

Operating expenses

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

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

General and administrative expenses: General and administrative expenses consist primarily of personnel expenses, office rental expenses, general office expenses, travel and entertainment expenses and professional fees. We expense all general and administrative expenses as they are incurred. In 2010, we incurred higher general and administrative expenses than in earlier years as a result of the increase of salaries, bonuses and the stock compensation cost related to the share options and non-vested shares granted in 2010.

Research and development expenses: Research and development expenses consist primarily of research and development personnel expenses and associated rental expenses. We expense research and development expenses as they are incurred. In addition, because technological feasibility for our software products ordinarily occurs right before such products are commercially launched and because costs incurred between technological feasibility and commercial launch are immaterial, such costs are expensed as incurred. We generally expect our research and development expenses to increase as a result of (i) our investment in the research and development of new enterprise platform products, (ii) an increase in the number of research and development personnel, (iii) an expected increase in our potential new business ventures and (iv) our investment in software licenses for development tools to increase the productivity of our overall research and development efforts. However, research and development expenses decreased in 2010. This decrease was mainly attributable to a reduction in consultancy fee and traveling expenses. For 2011, we expect to incur additional research and development expenses as we shift our focus to B2C food related business and expand our research and development initiatives to include other service offerings. Specifically, we are exploring the potential expansion of our business by leveraging our experience in B2G quality control and e-service solutions. We have focused our research and development initiatives to include our B2C offerings through our e-commerce platform, tootoo.cn. As our B2C food related business is still under development, we may not successfully introduce it as one of our primary businesses.

Provision for doubtful accounts: In 2008, we wrote off these trade receivables against the allowance for doubtful accounts. In addition, in 2008 we made a further provision of RMB2.9 million based on aging analysis of trade receivables, customers' credit-worthiness, past collection history, and changes in a customer's payment terms. In 2009, a RMB26.3 million (US\$3.8 million) provision for bad debts were made in light of the significant increase of the risk of collection such receivables. In 2010, we made further provision of RMB2.6 million (US\$0.4 million) in accordance with our bad debts provision policy.

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

Taxation

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

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

Ninetowns Ports was subject to a 25% EIT in 2008, 15% EIT in 2009 and 15% EIT in 2010. Guangdong Ninetowns Technology was subject to 7.5% EIT in 2008, 15% EIT in 2009 and 15% EIT in 2010. Ninetowns Suitable Estate was subject to a 25% EIT in 2008, 2009 and 2010.

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

Ronghe Tongshang, Ninetowns Software, Dongguan Software, Beijing Sky and Shanghai Tootoo were subject to a 25.0% EIT in 2009 and 2010.

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

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

Value-added tax: Our PRC operating subsidiaries are also generally subject to a VAT of 17.0% on sales of enterprise software products. Pursuant to PRC tax regulations, Ninetowns Suitable Estate and Ninetowns Ports are entitled to a 14.0% VAT rebate on sales of certain registered self-developed software products. Our net revenues from sales of such enterprise software include VAT rebates in the amount of RMB2.9 million, RMB0.9 million, and RMB0.5 million (US\$80,000) in 2008, 2009 and 2010, respectively. Except for products harvested from our own farms, which are exempted from VAT, sales of goods and other products through our B2C food related business are generally subject to VAT at 13% and 17%.

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

Trade receivables

We perform ongoing credit evaluations of our customers and adjust credit limits based on payment history and the customer's current credit-worthiness, as determined by our review of their current credit information. In some fiscal periods, our trade receivables increased, and may increase in the future. We continuously monitor collections and payments from our customers and maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make the required payments and use the specific identification method to record such allowances. We write off such trade receivables and specific allowances in one year if circumstances are not improved. While such credit losses have historically been within our expectations and the provisions established, we cannot guarantee that we will continue to experience the same credit loss rates that we have had in the past. As of December 31, 2010, all of our billed receivables were from our customers and franchisees. Since our billed receivables are concentrated in a relatively small number of customers, a significant change in the liquidity or financial position of any one of these customers could have a material adverse impact on the collectability of our billed receivables and our future operating results.

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

- We waived certain due and unpaid receivables from Ninetowns Zhi Fang in the amount of RMB8.77 million (US\$1.32 million). Ninetowns Zhi Fang agreed to pay certain other due and unpaid receivables in the amount of RMB3.4 million (US\$515,000) to us by December 31, 2012, with 50% of such amount due by December 31, 2011 and the remaining 50% due by December 31, 2012.
- We waived certain due and unpaid receivables from Ninetowns Xin He in the amount of RMB6.46 million (US\$979,000). Ninetowns Xin He agreed to pay certain other outstanding due and unpaid receivable in the amount of RMB3.6 million (US\$545,000) to us by December 31, 2012, with 50% of such amount due by December 31, 2011 and the remaining 50% due by December 31, 2012.
- We waived certain due and unpaid receivables from Ninetowns Wang Li in the amount of RMB7.55 million (US\$1.14 million). Ninetowns Wang Li agreed to pay certain other outstanding due and unpaid receivable in the amount of RMB2.5 million (US\$379,000) to us by December 31, 2012, with 50% of such amount due by December 31, 2011 and the remaining 50% due by December 31, 2012.

The receivables we waived pursuant to the Debt Repayment Agreements had been fully provided in our bad debt allowance in our financial statements.

2010 compared to 2009

Total net revenues

We generated total net revenues of approximately RMB78.9 million (US\$12.0 million) in 2010, which is generally the same as our total net revenues of approximately RMB79.6 million in 2009. Total net revenues remained the same because the increased sales from software development services were offset by decreased sales from the iDeclare.CIQ series and related customer maintenance services.

Enterprise software and related customer maintenance services. Net revenues from sales of our enterprise software and related customer maintenance services decreased by approximately 15% to RMB49.7 million (US\$7.5 million) in 2010 from RMB58.4 million in 2009, primarily due to decreased sales of our iDeclare.CIQ software package and iQM product series. In 2010, we signed customer maintenance service contracts with approximately 16,700 users whose customer maintenance service contracts were due for renewal in 2010. We recognized net revenues of RMB4.7 million (US\$0.7 million) from sales of our enterprise software in 2010. We recognized net revenues of RMB45.0 million (US\$6.8 million) from provision of customer maintenance services in 2010, including fees collected from Pay-Per-Transaction users. Of our net revenues from sales of enterprise software and related customer maintenance services, RMB0.6 million and RMB0.1 million (US\$15,152) were from sales of the iQM product series and related software maintenance services in 2009 and 2010, respectively, representing a year-on-year decrease of 83.3%. In addition, RMB28.7 million and RMB30.9 million (US\$4.7 million) were from the Pay-Per Transaction filing fees in 2009 and 2010, respectively, representing a year-on-year increase of 7.7% from 2009 to 2010. Therefore, in 2010, 62.2% of our revenue generated from sales of enterprise software and related customer maintenance services were from Pay-Per Transaction users. We sold approximately 1,140 software packages of iDeclare.CIQ in 2010, which is lower than the approximately 1,500 software packages of iDeclare.CIQ sold in 2009, representing a year-on-year decrease of 24.0%.

Software development services. Net revenues from our software development services increased by 37.1% from RMB17.4 million in 2009 to RMB23.8 million (US\$3.6 million) in 2010. Compared to 2009, more sales from contracts entered into in previous years with respect to software development services that also included hardware procurement were completed and accepted by customers in 2010. As we recognize such sales when all components under the contracts are delivered and the project is complete upon the receipt of a written acceptance by customer, the revenue recognized in 2010 is significantly higher than in 2009.

Food sales and services. Net revenues from our B2C food sales and services increased by 38.5% from RMB3.9 million in 2009 to RMB5.4 million (US\$0.8 million) in 2010 due to additional marketing efforts and development of this business.

Cost of revenues

Enterprise software and related customer maintenance services. The cost of revenues consists mainly of direct costs associated with the delivery of customer maintenance services, including salaries, employee benefits and overhead costs associated with employees providing related services. Since iDeclare is now generally distributed through the Internet, we incurred minimal outsourcing costs to outside contractors and costs associated with packaging and shipping of software. The franchisees provide a majority of our software maintenance services to our customers for us. Cost of revenues from enterprise software and related customer maintenance services were insignificant in 2009 and 2010.

Software development services. Cost of revenues from software development services decreased to RMB10.1 million (US\$1.5 million) in 2010 from RMB11.6 million in 2009. As of December 31, 2010, we did not have any capitalized costs related to such projects.

Food sales and services. Cost of revenues for our B2C food sales and services was RMB6.9 million (US\$1.0 million) in 2010, which is generally the same as RMB6.3 million in 2009.

Gross profit margin

Enterprise software and related customer maintenance services. Gross profit margin for sales of enterprise software and related customer maintenance services was close to 100% in 2008, 2009 and 2010 mainly because iDeclare has been generally distributed through the Internet since 2006 and we incurred minimal outsourcing costs to outside contractors and costs associated with packaging and shipping of software. Additionally, the franchisees have been providing most of the software maintenance services to customers and we incurred minimal direct costs associated with the delivery of customer maintenance services.

Software development services. Gross profit margin for software development services increased to 57.4% in 2010 compared to 33.5% in 2009, for the reasons stated above.

Food sales and services. We incurred negative margin of 26.8% for our B2C food sales and services in 2010 compared to a negative margin of 62.2% in 2009. Although B2C food sales and services were still not profitable in 2010, there were fewer sales promotions that resulted in negative margins in 2010 compared to in 2009.

Operating expenses

Operating expenses increased to RMB124.5 million (US\$18.9 million) in 2010 from RMB119.4 million in 2009, primarily due to the increase in salaries, bonus and the share-based compensation cost related to the share options and non-vested shares granted in 2010, partially offset by the decrease in the provision for doubtful accounts.

Selling expenses

Selling expenses increased to RMB16.7 million (US\$2.5 million) in 2010 from RMB13.8 million in 2009, primarily due to the increase in (i) salaries and bonus of sales and marketing staff, and (ii) rental expense and transportation expense in the organic food business in 2010.

General and administrative expenses

General and administrative expenses increased by 44.3% to RMB89.5 million (US\$13.6 million) in 2010 from RMB62.0 million in 2009, primarily due to increases in (i) salaries and bonus of management and administrative staff and (ii) share-based compensation charges relating to the share options and non-vested shares granted to our director, executive officers and certain employees in 2010.

Research and development expenses

Research and development expenses decreased by 9.7% to RMB15.7 million (US\$2.4 million) in 2010 from RMB17.4 million in 2009, primarily due to the reduction in consultancy fees and travel expenses as a result of a decrease in outsourcing projects in 2010.

Provision for doubtful accounts

Provision for doubtful accounts decreased to RMB2.6 million (US\$0.4 million) in 2010 from RMB26.2 million in 2009, primarily due to the large reserves taken in 2009 coupled with the Company's effort to collect all current period sales.

Interest income

Interest income decreased to RMB3.7 million (US\$0.6 million) in 2010 from RMB4.3 million in 2009, primarily due to a decrease in the average balances of our term deposits.

Gain on sales of short-term investments

Gain on sales of short-term investments increased to RMB65.1 million (US\$9.9 million) in 2010 from RMB35.5 million in 2009 due to increased investments in marketable securities and the positive performance of our investments in 2010.

Change in fair value of marketable options

The decrease in the fair value of marketable options was RMB18.2 million (US\$2.8 million) in 2010 compared to an increase of RMB27.7 million in 2009. We held different portfolios of marketable options in 2009 and 2010.

Gain from disposal of investment under the cost method

Gain from disposal of investment under the cost method was RMB18.3 million (US\$2.8 million) in 2010, which is primarily due to the sale of a portion of our investment in Global Market, as well as the sale of our entire investment in GCL. There was no disposal in 2009.

Income taxes

Income tax expense in 2010 decreased to RMB0.9 million (US\$0.1 million) in 2010 from RMB4.1 million in 2009 due to a provision for withholding tax on dividends paid by our Chinese subsidiaries to our overseas holding companies in 2009. There was no provision for withholding tax in 2010.

Income from continuing operations

Income from continuing operations in 2010 was RMB12.8 million (US\$1.9 million), compared to RMB9.6 million in 2009, as a result of the cumulative effect of the factors described above.

Loss from discontinued operations

Loss from discontinued operations in 2010 was RMB0.4 million (US\$0.1 million), compared to a loss of RMB8.4 million in 2009. In 2009, we wound down our B2B business, and in 2010 we sold our catering business.

Net income attributable to the Company

We recognized net income attributable to the Company of RMB12.3 million (US\$1.9 million) in 2010 compared to a net loss attributable to the Company of RMB1.3 million in 2009, as a result of the cumulative effect of the factors described above.

2009 compared to 2008

Total net revenues

We generated total net revenues of RMB79.6 million (US\$11.7 million) in 2009, a decrease of 23.8% over our total net revenues of RMB104.5 million in 2008. This revenue decrease was principally due to decreased sales from the iDeclare.CIQ series.

Enterprise software and related customer maintenance services. Net revenues from sales of our enterprise software and related customer maintenance services decreased by 31.3% to RMB58.4 million (US\$8.6 million) in 2009 from RMB85.0 million in 2008, primarily due to decreased sales from our iDeclare.CIQ software package and iQM product series. In 2009, we signed customer maintenance service contracts with approximately 18,300 users whose customer maintenance service contracts were due for renewal in 2009. We recognized net revenues of RMB7.0 million (US\$1.0 million) from sales of our enterprise software in 2009. We recognized net revenues of RMB51.4 million (US\$7.5 million) from provision of customer maintenance services in 2009, including fees collected from Pay-Per-Transaction users. Of our net revenues from sales of enterprise software and related customer maintenance services of, RMB5.5 million and RMB0.6 million (US\$81,733) were from sales of the iQM product series and related software maintenance services in 2008 and 2009, respectively, representing a year-on-year decrease of 89.1%. In addition, RMB27.0 million and RMB28.7 million (US\$4.2 million) were from the Pay-Per Transaction filing fees in 2008 and 2009, respectively, representing a year-on-year increase of 6.3% from 2008 to 2009. We sold approximately 1,500 software packages of iDeclare.CIQ in 2009, which is significantly lower than the approximately 2,900 software packages of iDeclare.CIQ sold in 2008, representing a year-on-year decrease of 48.3%.

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

Food sales and services. Net revenues from our B2C food sales and services was RMB3.9 million (US\$0.6 million) in 2009 compared to nil in 2008. This is a new business.

Cost of revenues

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

Cost of revenues from enterprise software and related customer maintenance services were insignificant in 2008 and 2009.

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

Food sales and services. Cost of revenues from our B2C food sales and services was RMB6.3 million (US\$0.9 million) in 2009 compared to nil in 2008. This is a new business.

Gross profit margin

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

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

Food sales and services. B2C food sales and services were commenced in 2009. Since the B2C food related business was in trial stage, it was not profitable and had a negative gross margin of 62.2%.

Operating expenses

Operating expenses increased to RMB119.4 million (US\$17.5 million) in 2009 from RMB118.9 million in 2008, primarily due to the increase in provision for doubtful accounts.

Selling expenses

Selling expenses decreased to RMB13.8 million (US\$2.0 million) in 2009 from RMB21.9 million in 2008, primarily due to the reduction in our headcount, entertainment and travel expenses as a result of our “cost reduction” program implemented in 2009.

General and administrative expenses

General and administrative expenses decreased by 17.9% to RMB62.0 million (US\$9.1 million) in 2009 from RMB75.5 million in 2008, primarily due to decrease in (i) legal and professional fees, (ii) share based compensation charges, and (iii) office expenses as a result of our “cost reduction” program implemented in 2009.

Research and development expenses

Research and development expenses decreased by 6.4% to RMB17.4 million (US\$2.5 million) in 2009 from RMB18.6 million in 2008, primarily due to the reduction in headcount, depreciation expenses associated with disposal of fixed assets, as well as expense declines in rental, utilities, communication and travel expenses.

Provision for doubtful accounts

Provision for doubtful accounts increased to RMB26.2 million (US\$3.8 million) in 2009 from RMB2.9 million in 2008, primarily due to the increased collection risk arising from the significant increase in the aging of our accounts receivable balances as a result of the longer repayment period by our customers.

Interest income

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

Gain on sales of short-term investments

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

Change in fair value of marketable options

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

Income taxes

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

Net income from continuing operations

Income from continuing operations in 2009 was RMB9.6 million (US\$1.4 million), compared to a loss of RMB8.3 million in 2008, as a result of the cumulative effect of the factors described above.

Net loss from discontinued operations

Loss from discontinued operations in 2009 was RMB8.4 million (US\$1.2 million), compared to a loss of RMB166.8 million in 2008. The decrease in loss from discontinued operations was primarily due to the impairment of long-lived assets and goodwill in 2008.

Net income attributable to the Company

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

Inflation

Inflation and deflation in China did not have a material impact on our results of operations in the past three years. According to the National Bureau of Statistics of China, China's overall national inflation rate, as represented by the change in the Consumer Price Index in China, was 5.9%, -0.7% and 3.3% in 2008, 2009, and 2010, respectively.

Foreign currency risk

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

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

Financial Reporting

We do not expect to release quarterly earnings information on a quarterly basis in the future. The Securities and

Exchange Commission's rules and regulations do not require us, as a foreign private issuer, to report quarterly earnings information on a quarterly basis. Additionally, the Nasdaq Marketplace Rules also do not require companies with securities listed on its exchange to report quarterly earnings information on a quarterly basis. The Nasdaq Marketplace Rules require us, as a foreign private issuer, to file an interim balance sheet and income statement as of and for the end of our second quarter no later than six months following the end of our second quarter. We expect to comply with such requirement.

Liquidity and capital resources

Our primary sources of liquidity are from our cash account. We had no outstanding debt as of December 31, 2010. The following table sets forth the summary of our cash flows for the periods indicated:

	For the years ended December 31,		
	2008	2009	2010
	RMB	RMB	RMB
	(in millions)		
Net cash (used in) provided by operating activities	(33.9)	(26.5)	8.9
Net cash (used in) provided by investing activities	(37.4)	(76.8)	21.8
Net cash provided by financing activities	—	—	—
Effect of exchange rate changes	(2.0)	0.1	(3.5)
Net (decrease) increase in cash and cash equivalents	(73.3)	(103.2)	27.2
Cash and cash equivalents, beginning of year	<u>649.9</u>	<u>576.6</u>	<u>473.4</u>
Cash and cash equivalents, end of year	576.6	473.4	500.6

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

Cash flow from operating activities

Cash provided by operating activities was RMB8.9 million (US\$1.3 million) in 2010. This was primarily attributable to improved collections of accounts receivable and longer payment cycle to vendors, offset by the decrease in advance received from customers and by the increase in other receivable from outstanding balances related to the disposal of our e-catering business. Cash used in operating activities was RMB33.9 million and RMB26.5 million in 2008 and 2009, respectively.

Cash flow from investing activities

Cash provided by investing activities was RMB21.8 million (US\$3.3 million) in 2010. This was primarily attributable to proceeds from the sale of available-for-sale securities, short sales of options, as well as proceeds from the disposal of investments under cost method.

Cash used in investing activities was RMB76.8 million in 2009. This was primarily attributable to purchases of marketable securities.

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

Cash flow from financing activities

We did not generate cash from financing activities in 2010, 2009 and 2008.

Capital resources

To better manage our assets for long-term growth, we periodically invest our excess cash in highly liquid equity securities. In addition, from time to time we write call and put options through listed exchange as part of our investment strategy. Our investment committee approves the investment policy covering the investment parameters to be followed with the primary goals being the safety of principal and maintaining the liquidity of funds. Short-term investments are comprised of marketable equity securities, which are classified as trading and available-for-sale. Marketable securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities and are reported at fair value, with realized gains and losses recognized in earnings. Short-term investments classified as available for sale are stated at fair values. Unrealized gains or losses on available-for-sale securities from the changes in fair value are recorded in equity as other comprehensive income (loss). Realized gains or losses, based upon the specific identification method, on the disposal of available-for-sale securities are recorded in the consolidated statement of operations. Liabilities for certain call options of RMB2.1 million (US\$0.3 million) and put option of RMB2.5 million (US\$0.4 million) were included in liabilities at December 31, 2010.

Our primary source of liquidity is cash flow from operating activities. Our cash and cash equivalents primarily consist of cash on hand and bank deposits. As of December 31, 2010, we had RMB500.6 million (US\$75.9 million) in cash and cash equivalents. In addition, as of December 31, 2010, we had invested RMB8.2 million (US\$1.2 million) in term deposits, which are payable at varying maturities from six months to one year.

We believe that our available cash and cash equivalents will be sufficient to meet our capital needs for at least the next 12 months. Except for our net cash provided by operating activities, we may seek additional sources of liquidity in the near future for our businesses, especially our real estate development business. We have not entered into any definitive agreement for such financing. 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, 2010, we had no lines of credit or other credit facilities.

Capital expenditures

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

Research and development, patents and licenses, etc.

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

- *Business development department* — our business development department is responsible for business strategies and research to identify users’ needs in order to formulate new product designs.
- *Systems development department* — our systems development department is responsible for product development in accordance with the designs proposed by the business development department, as well as software testing and quality control.
- *Project management department* — our project management department is responsible for the allocation of staff and resources, employee training, product analysis and the registration of new software products with the relevant PRC government authorities.

In the past, we have developed products and services both independently and through cooperation with a variety of database providers, enterprise resource planners, decision support statistical consultants, software integration providers and others. Although we intend to continue to work closely with outside third parties in product development efforts, we expect the core technology and know-how for future enhancements to our existing and new products will be developed internally and may be supplemented by technology licensed from third parties. See Item 3 of this annual report, “Key Information — Risk factors — Risks related to our business — We may not be able to

adequately protect our intellectual property rights and others may claim that we have infringed on their intellectual property rights, which could cause us to be less competitive, may expose us to litigation and may negatively impact our business, results of operations and financial condition.” We have not granted any ownership interest in any of our products to any party that has worked with us in our product development efforts.

As of December 31, 2010, we had 215 employees dedicated to research and development, 28 of whom have master’s degrees and one of whom has a Ph.D. degree. Most of our research and development efforts are located in our principal executive offices in Beijing.

Our expenses for research and development activities totaled RMB18.6 million in 2008, RMB17.4 million in 2009 and RMB15.7 million (US\$2.4 million) in 2010.

We believe that timely development of new and enhanced products and services is necessary for us to remain competitive in the marketplace. Accordingly, we intend to continue recruiting and hiring research and development personnel and to make other investments in research and development. In 2007, we established a research and development center in the southern region of China. We are in the process of establishing an additional research and development center in the eastern region of China.

Of our 215 employees dedicated to research and development, 9 employees concentrate their efforts on the research and development of our new B2C food related business.

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

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

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

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

Revenues from software development services requiring significant production, modification, or customization of the software are recognized over the installation and customization period based on the percentage of completion method. Percentage-of-completion is measured principally by the percentage of actual hours incurred to date for each contract to the estimated total hours to be incurred for each contract at completion.

Certain revenue from software development services also includes hardware procurement by customer's request. Since we do not have vendor-specific objective evidence to allow for separating various components of such software development service contracts, we recognize such revenues when all components under the contracts are delivered and the project is completed upon the receipt of a written acceptance from the customer.

In general, B2C revenues from food sales are generally recognized upon delivery. Through September 2010, revenues from catering services were generally recognized when the catering services were provided.

Trade receivables

We perform ongoing credit evaluations of our customers and adjust credit limits based on payment history and the customer's current credit-worthiness, as determined by our review of their current credit information. In some fiscal periods, our trade receivables increased, and may increase in the future. We continuously monitor collections and payments from our customers and maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make the required payments and use the specific identification method to record such allowances. We write off such trade receivables and specific allowances in one year if circumstances are not improved. While such credit losses have historically been within our expectations and the provisions established, we cannot guarantee that we will continue to experience the same credit loss rates that we have had in the past. As of December 31, 2010, all of our billed receivables were from our customers and franchisees. Since our billed receivables are concentrated in a relatively small number of customers, a significant change in the liquidity or financial position of any one of these customers could have a material adverse impact on the collectability of our billed receivables and our future operating results.

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

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

31, 2011 and the remaining 50% due by December 31, 2012.

- We waived certain due and unpaid receivables from Ninetowns Xin He in the amount of RMB6.46 million (US\$979,000). Ninetowns Xin He agreed to pay certain other outstanding due and unpaid receivable in the amount of RMB3.6 million (US\$545,000) to us by December 31, 2012, with 50% of such amount due by December 31, 2011 and the remaining 50% due by December 31, 2012.
- We waived certain due and unpaid receivables from Ninetowns Wang Li in the amount of RMB7.55 million (US\$1.14 million). Ninetowns Wang Li agreed to pay certain other outstanding due and unpaid receivable in the amount of RMB2.5 million (US\$379,000) to us by December 31, 2012, with 50% of such amount due by December 31, 2011 and the remaining 50% due by December 31, 2012.

The receivables we waived pursuant to the Debt Repayment Agreements had been fully provided in our bad debt allowance in our financial statements.

Useful Life of Intangible Assets

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

Share-based Compensation

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

Income Taxes

As part of the process of preparing our consolidated financial statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves us estimating our actual current tax exposure together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within our consolidated balance sheet. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income and, to the extent we believe that recovery is not likely, we must establish a valuation allowance. To the extent we establish a valuation allowance or increase this allowance in a certain period, we must include an expense within the tax provision in the statement of operations.

Significant management judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities and any valuation allowance recorded against our net deferred tax assets. The valuation allowance is based on our estimates of taxable income by jurisdiction in which we operate and the period over which our deferred tax assets will be recoverable. In the event that actual results differ from these estimates or we adjust these estimates in future periods, we may need to establish an additional valuation allowance, which could materially impact our financial position and results of operations.

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
Ninetowns Internet Technology Group Company Limited

We have audited the accompanying consolidated balance sheets of Ninetowns Internet Technology Group Company Limited and subsidiaries (the "Company") as of December 31, 2010 and 2009, and the related consolidated statements of operations, comprehensive income, changes in equity, and cash flows and the financial statement schedule for each of the three years in the period ended December 31, 2010. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and the financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2010 and 2009, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2010 in conformity with accounting principles generally accepted in the United States of America. In our opinion, the related financial statement schedule, when considered in relation to the basic financial statement taken as a whole, presents fairly in all material respects, the information set forth therein.

GHP HORWATH, P.C.
Denver, Colorado
June 30, 2011

NINETOWNS INTERNET TECHNOLOGY GROUP COMPANY LIMITED

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

	As of December 31,		
	<u>2009</u>	<u>2010</u>	<u>2010</u>
	RMB	RMB	US\$
ASSETS	-		
Current assets:			
Cash and cash equivalents	-	473,448	500,618
Restricted cash	-	790	245
Short-term investments:			
Trading securities		917	523
Available-for-sale securities		170,309	231,339
Term deposits	-	25,000	8,154
Trade receivables:			
Billed, less allowance for doubtful accounts of RMB31,416 in 2009 and RMB34,001 in 2010		17,413	1,488
Unbilled		708	554
Inventories	-	2,403	2,161
Prepaid expenses and other current assets		6,046	7,503
Deferred tax assets	-	1,008	794
Total current assets	-	698,042	753,379
			114,147
Property and equipment, net		204,788	188,481
Investments under cost method	-	40,237	15,481
Acquired intangible assets, net		35,709	31,666
Other non-current assets		815	577
TOTAL ASSETS	-	979,591	989,584
			149,936

(continued)

NINETOWNS INTERNET TECHNOLOGY GROUP COMPANY LIMITED

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

	As of December 31,		
	<u>2009</u>	<u>2010</u>	<u>2010</u>
	RMB	RMB	US\$
LIABILITIES AND EQUITY			
Current liabilities:			
Option liabilities	11,854	4,560	690
Accounts payable and accrued expenses	11,369	12,552	1,902
Advance from customers	10,476	5,919	897
Deferred revenue	10,453	10,699	1,621
Income taxes payable	6,577	316	48
Other taxes payable	672	984	149
Unrecognized tax liabilities	375	621	94
Total current liabilities	51,776	35,651	5,401
Non-current liabilities:			
Deferred tax liabilities	713	342	52
Unrecognized tax liabilities	4,766	4,766	722
Total liabilities	57,255	40,759	6,175
Equity:			
Shareholder's equity of the Company			
Ordinary shares, par value RMB0.027(HK\$0.025) per share: 8,000,000,000 shares authorized; 35,118,556 shares issued and outstanding in 2009 and 36,742,832 shares issued and outstanding in 2010, respectively	929	965	146
Additional paid-in capital	885,045	916,719	138,897
Accumulated deficit	(33,163)	(23,414)	(3,548)
Statutory reserve	75,059	77,635	11,763
Accumulated other comprehensive loss	(5,445)	(23,080)	(3,497)
Total equity of the Company	922,425	948,825	143,761
Non-controlling interest	(89)	-	-
Total equity	922,336	948,825	143,761
TOTAL LIABILITIES AND EQUITY	979,591	989,584	149,936

See notes to consolidated financial statements.

NINETOWNS INTERNET TECHNOLOGY GROUP COMPANY LIMITED

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

	Years Ended December 31,			
	<u>2008</u> RMB	<u>2009</u> RMB	<u>2010</u> RMB	<u>2010</u> US\$
Net revenues:				
Enterprise software and related maintenance services	84,965	58,387	49,650	7,522
Software development services	19,458	17,363	23,809	3,607
Food sales and services	94	3,889	5,448	825
Total net revenues	104,517	79,639	78,907	11,954
Cost of revenues:				
Enterprise software and related maintenance services	-	-	-	-
Software development services (including share-based compensation expense of RMB287 in 2008, RMB51 in 2009 and RMB8 in 2010)	(12,423)	(11,552)	(10,144)	(1,537)
Food sales and services	(76)	(6,308)	(6,910)	(1,047)
Total cost of revenues	(12,499)	(17,860)	(17,054)	(2,584)
Gross profit	92,018	61,779	61,853	9,370
Operating expenses:				
Selling and marketing (including share-based compensation expense of RMB1,633 in 2008, RMB787 in 2009 and RMB607 in 2010)	(21,942)	(13,771)	(16,663)	(2,525)
General and administrative (including share-based compensation expense of RMB3,789 in 2008, RMB3,297 in 2009 and RMB26,741 in 2010)	(75,523)	(62,030)	(89,531)	(13,565)
Research and development (including share-based compensation expense of RMB1,162 in 2008, RMB332 in 2009 and RMB4,354 in 2010)	(18,566)	(17,373)	(15,695)	(2,378)
Allowance for doubtful accounts, net	(2,881)	(26,204)	(2,585)	(392)
Total operating expenses	(118,912)	(119,378)	(124,474)	(18,860)

(continued)

NINETOWNS INTERNET TECHNOLOGY GROUP COMPANY LIMITED

CONSOLIDATED STATEMENTS OF OPERATIONS (continued)

(In thousands, except share and per share data)

	Years Ended December 31,			
	<u>2008</u> RMB	<u>2009</u> RMB	<u>2010</u> RMB	<u>2010</u> US\$
Loss from operations	(26,894)	(57,599)	(62,621)	(9,490)
Interest income	7,026	4,274	3,686	558
Gain on sales of short-term investments	9,866	35,474	65,146	9,871
Change in fair value of marketable options	-	27,684	(18,211)	(2,759)
Gain on disposal of investments under cost method	2,187	-	18,317	2,775
Other income	358	3,911	7,284	1,104
(Loss) income before income tax and non-controlling interest	(7,457)	13,744	13,601	2,059
Income tax expense	(836)	(4,100)	(878)	(133)
(Loss) income from continuing operations before non-controlling interest	(8,293)	9,644	12,723	1,926
Discontinued operations:				
Loss from discontinued operations, including loss on disposal of discontinued operations of RMB nil in 2008, RMB nil in 2009 and RMB 1,808 in 2010	(181,020)	(8,401)	(398)	(60)
Income tax	14,218	-	-	-
Loss from discontinued operations, net of tax	(166,802)	(8,401)	(398)	(60)
Net (loss) income	(175,095)	1,243	12,325	1,866
Attributable to non-controlling interest -discontinued operations	5,483	89	-	-
Attributable to the Company	(169,612)	1,332	12,325	1,866

(continued)

NINETOWNS INTERNET TECHNOLOGY GROUP COMPANY LIMITED

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

	Years Ended December 31,			
	<u>2008</u> RMB	<u>2009</u> RMB	<u>2010</u> RMB	<u>2010</u> US\$
(Loss) income from continuing operations per share:				
Basic	(0.24)	0.28	0.35	0.05
Diluted	(0.24)	0.28	0.34	0.05
Loss from discontinued operations per share:				
Basic	(4.61)	(0.24)	(0.01)	*
Diluted	(4.61)	(0.24)	(0.01)	*
(Loss) income attributable to the Company per share:				
Basic	(4.85)	0.04	0.34	0.05
Diluted	(4.85)	0.04	0.33	0.05
Weighted average shares used in computation:				
Basic	34,997,505	35,100,194	35,800,428	35,800,428
Diluted	34,997,505	35,100,194	37,291,534	37,291,534

* less than \$0.01

See notes to consolidated financial statements.

NINETOWNS INTERNET TECHNOLOGY GROUP COMPANY LIMITED

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In thousands, except share and per share data)

	Years Ended December 31,			
	<u>2008</u> RMB	<u>2009</u> RMB	<u>2010</u> RMB	<u>2010</u> US\$
Net (loss) income	(175,095)	1,243	12,325	1,866
Foreign currency translation loss	(4,126)	(5)	(10,572)	(1,602)
Unrealized (loss) gain on available-for-sale securities	(5,999)	16,451	(7,063)	(1,070)
Comprehensive (loss) income	(185,220)	17,689	(5,310)	(806)
Less: comprehensive income attributable to the non-controlling interest	5,483	89	-	-
Comprehensive (loss) income attributable to the Company	(179,737)	17,778	(5,310)	(806)

See notes to consolidated financial statements.

NINETOWNS INTERNET TECHNOLOGY GROUP COMPANY LIMITED

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(In thousands, except share and per share data)

	Ordinary Shares		Additional Paid-in Capital RMB	Retained Earnings (Accumulated Deficit) RMB	Statutory Reserve RMB	Accumulated Other Comprehensive (Loss) Income RMB	Non- Controlling Interest RMB	Total RMB
	Shares	Amount RMB						
Balance as of January 1, 2008	34,991,834	926	873,568	145,345	64,831	(11,766)	5,483	1,078,387
Issuance of ADR shares for the exercises of employee share options	6,186	-	142	-	-	-	-	142
Provision for statutory reserve	-	-	-	(905)	905	-	-	-
Net loss	-	-	-	(169,612)	-	-	(5,483)	(175,095)
Foreign currency translation adjustments	-	-	-	-	-	(4,126)	-	(4,126)
Employee share options compensation	-	-	6,871	-	-	-	-	6,871
Unrealized loss on available-for-sale securities	-	-	-	-	-	(5,999)	-	(5,999)
Balance as of December 31, 2008	34,998,020	926	880,581	(25,172)	65,736	(21,891)	-	900,180
Issuance of ADR shares for the exercises of employee share options	120,536	3	(3)	-	-	-	-	-
Provision for statutory reserve	-	-	-	(9,323)	9,323	-	-	-
Net income (loss)	-	-	-	1,332	-	-	(89)	1,243
Foreign currency translation adjustments	-	-	-	-	-	(5)	-	(5)
Employee share options compensation	-	-	4,467	-	-	-	-	4,467
Unrealized gain on available-for-sale securities	-	-	-	-	-	16,451	-	16,451
Balance as of December 31, 2009	35,118,556	929	885,045	(33,163)	75,059	(5,445)	(89)	922,336
Issuance of ADR shares for employee stock compensation	1,624,276	36	(36)	-	-	-	-	-
Provision for statutory reserve	-	-	-	(2,576)	2,576	-	-	-
Sale of non-controlling interest	-	-	-	-	-	-	89	89
Net income	-	-	-	12,325	-	-	-	12,325
Foreign currency translation adjustments	-	-	-	-	-	(10,572)	-	(10,572)
Employee share options compensation	-	-	31,710	-	-	-	-	31,710
Unrealized loss on available-for-sale securities	-	-	-	-	-	(7,063)	-	(7,063)
Balance as of December 31, 2010	36,742,832	965	916,719	(23,414)	77,635	(23,080)	=	948,825
		<u>US\$146</u>	<u>US\$138,897</u>	<u>(US\$3,548)</u>	<u>US\$11,763</u>	<u>(US\$3,497)</u>	<u>=</u>	<u>US\$143,761</u>

See notes to consolidated financial statements.

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

	Years Ended December 31,			
	2008 RMB	2009 RMB	2010 RMB	2010 US\$
Cash flows from operating activities:				
Net (loss) income	(175,095)	1,243	12,325	1,866
Adjustments to reconcile (loss) income to net cash (used in) provided by operating activities:				
Loss on disposal of property and equipment	2,406	1,291	1,055	160
Depreciation of property and equipment	17,922	16,916	17,321	2,624
Amortization of other non-current assets	103	116	102	15
Amortization of acquired intangible assets	18,991	5,560	4,043	613
Gain on sale of trading securities	(9,866)	(6,881)	(4,012)	(608)
(Gain) loss on sale of available-for-sale securities	-	(14,461)	1,656	251
Gain on disposal of investments under cost method	(2,187)	-	(18,317)	(2,775)
Gain on sales of property	-	(633)	(24)	(4)
Allowance for doubtful accounts	2,881	27,020	2,585	392
Goodwill impairment	78,081	-	-	-
Property and equipment impairment	4,339	-	-	-
Intangible assets impairment	43,747	-	-	-
Loss on disposal of subsidiary	-	-	2,028	307
Employee share-based compensation	6,871	4,467	31,710	4,805
Gain from short sale of stock options	-	(41,810)	(45,988)	(6,968)
Changes in operating assets and liabilities:				
Trade receivables	623	(10,438)	7,251	1,099
Inventories	5,644	(1,036)	124	19
Prepaid expenses and other current assets	9,739	821	52	8
Accounts payable and accrued expenses	(6,794)	(2,180)	6,325	958
Advance from customers	(6,150)	2,166	(4,309)	(653)
Deferred revenue	(11,080)	(10,939)	650	99
Income taxes payable	(868)	5,232	(6,015)	(911)
Other taxes payable	47	(963)	450	68
Deferred taxes, net	(13,235)	(1,969)	(158)	(24)
Net cash (used in) provided by operating activities	(33,881)	(26,478)	8,854	1,341
Cash flows from investing activities:				
Decrease (increase) in restricted cash	183	(120)	545	82
(Increase) decrease of term deposits	(2,000)	3,000	16,846	2,552
Cash paid for investments under cost method	(7,085)	-	-	-
Proceeds from sales of trading securities	27,516	20,126	38,490	5,833
Purchase of trading securities	(17,650)	(14,162)	(34,083)	(5,164)
Purchases of available-for-sale securities	(5,061)	(306,648)	(248,058)	(37,585)
Proceeds from sale of available-for-sale securities	-	177,179	173,693	26,317
Proceeds from short sale of options	-	73,508	37,594	5,696
Cover short or assignment of option liabilities	-	(19,835)	(931)	(141)
Purchase of property and equipment	(13,397)	(5,976)	(2,798)	(424)
Proceeds from sale of property	-	872	77	12
Purchase of intangible assets	(30,156)	-	-	-
Deposits paid for acquisition of property and equipment	-	(4,802)	(2,098)	(318)
Dividends received on investment	-	-	6,134	930
Proceeds from disposal of investments under cost method	7,714	-	36,301	5,500
Proceeds from liquidation of an affiliate	2,450	-	-	-
Proceeds from disposal of subsidiaries	-	-	2,699	409
Cash disposed of on sale of subsidiaries	-	-	(2,650)	(401)
Return of deposit for acquisition of property and equipment	120	-	-	-
Net cash (used in) provided by investing activities	(37,366)	(76,858)	21,761	3,298

(continued)

NINETOWNS INTERNET TECHNOLOGY GROUP COMPANY LIMITED

CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

(In thousands, except share and per share data)

	Years Ended December 31,			
	2008 RMB	2009 RMB	2010 RMB	2010 US\$
Net cash provided by financing activities	-	-	-	-
Effect of exchange rate changes on cash	(1,974)	142	(3,445)	(522)
Net (decrease) increase in cash and cash equivalents	(73,221)	(103,194)	27,170	4,117
Cash and cash equivalents at the beginning of the year	649,863	576,642	473,448	71,734
Cash and cash equivalents at the end of the year	576,642	473,448	500,618	75,851
Supplemental disclosure of non-cash investing activities:				
Other receivable for sale of property and equipment	-	642	-	-
Supplemental cash flow information:				
Cash paid during the year for income taxes	780	881	1,820	276

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND PRINCIPAL ACTIVITIES

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

As of December 31, 2010, a summary of the subsidiaries and VIE of Ninetowns was as follows:

Name of entity	Place of incorporation/ establishment	Effective ownership interest	Principal activities
Subsidiaries:			
Ixworth Enterprises Limited	British Virgin Islands (“BVI”)	100%	Investment holding
Asia Pacific Logistics Limited	BVI	100%	Investment holding
Better Chance International Limited	BVI	100%	Investment holding
Beprecise Investments Limited	BVI	100%	Investment holding
Ample Spring Holdings Limited	BVI	70%	Inactive
New Take Limited	Hong Kong	100%	Investment holding
Shielder Limited	Hong Kong	100%	Investment holding
Ninetowns Land Group Limited (“Ninetowns Land”) (i)	BVI	100%	Inactive
China Genotown Development Holding Limited (“Genotown”) (ii)	BVI	100%	Inactive
Ninetowns Organic Agricultural Holdings Limited	BVI	100%	Inactive
Beijing New Take Electronic Commerce Limited (“Beijing New Take”)	PRC	100%	Inactive
Beijing Ninetowns Times Electronic Commerce Limited (“Beijing Ninetowns Times”)	PRC	100%	Inactive
Beijing Ninetowns Ports Software and Technology Co., Ltd (“Beijing Ninetowns Ports”)	PRC	100%	Sale of enterprise software and provision of the related after-sales services, and provision of software development services

1. ORGANIZATION AND PRINCIPAL ACTIVITIES-continued

Name of entity	Place of Incorporation/ Establishment	Effective ownership interest	Principal activities
Beijing Ninetowns Suitable Estate Co., Limited (“Ninetowns Suitable Estate”) (iii)	PRC	100%	Sale of enterprise software and provision of the related after-sales services, and provision of technique consulting services
Guangdong Ninetowns Technology Co., Ltd. (“Guangdong Ninetowns”)	PRC	100%	Sale of enterprise software and provision of the related after-sales services, and provision of software development services
Beijing Ninetowns Software Co., Ltd. (“Beijing Software”)	PRC	100%	Inactive
Dongguan Ninetowns Software Co., Ltd. (“Dongguan Software”)	PRC	100%	Provision of enterprise software services
VIE and its subsidiaries:			
Beijing Ronghe Tongshang Network Technology Limited (“Ronghe Tongshang”)	PRC	100%	Investment holding
Beijing Ninetowns Sky Eco-agriculture Co., Ltd. (“Beijing Sky”) (a wholly-owned subsidiary of Ronghe Tongshang)	PRC	100%	Sale of dietary products, daily necessities, home appliances and crop cultivation
Shanghai Tootoo Eco-agriculture Co., Ltd. (“Shanghai Tootoo”) (a wholly-owned subsidiary of Beijing Sky)	PRC	100%	Cultivation and sales of crops and technical consultation and services related to agricultural sales

- (i) Ninetowns Land, formerly known as Nine Masters (China) E-Catering Services Holdings Company Limited, changed its name on February 5, 2010.
- (ii) Genotown, a wholly-owned subsidiary of the Company, was incorporated on January 5, 2010.
- (iii) Ninetowns Suitable Estate, formerly known as Beijing Ninetowns Network and Software Co., Ltd., changed its name on April 21, 2010.
- (iv) Beijing Ninetowns Digital Technology Limited, a wholly-owned subsidiary of the Company, was dissolved on November 15, 2010.
- (v) Guangdong Nine Masters E-Catering Management Co., Ltd., a wholly-owned subsidiary of the Company, was dissolved on September 9, 2010.
- (vi) Shanghai Nine Masters Meihuilong Catering Management Co., Ltd. (“Shanghai Meihuilong”), a wholly-owned subsidiary of the Company, was sold on September 27, 2010 (Note 3).
- (vii) Beijing Baichuan Tongda Science and Technology Development Co., Ltd. (“Baichuan Tongda”), a former VIE of the Company, was terminated on August 3, 2010.

1. ORGANIZATION AND PRINCIPAL ACTIVITIES-continued

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

- The Company has the sole discretion to determine the amount of the fees it will receive and it intends to transfer substantially all of the economic benefits of Ronghe Tongshang to the Company;
- The Company provides guarantees on the execution of all business contracts entered by Ronghe Tongshang in its business operation. Ronghe Tongshang pledges its assets to the Company as collateral for such guarantees. Through December 31, 2009, Ronghe Tongshang has not yet entered into any business contracts that would require guarantees from the Company;
- The Company may dispose of the collateralized registered capital at its sole discretion without limitation or restriction. The Company has the right and sole discretion to purchase all or part of the registered capital from equity owners when such purchase becomes legally allowable;
- The equity owners may not dispose of or enter into any other agreements involving the common shares without prior agreement by the Company.

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

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

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

Through March, 2009, the Company conducted its B2B business through Ronghe Tongshang and Baichuan Tongda, also a VIE of the Company. In conjunction with the Company’s overall strategy to exit the B2B business, the underlying contractual relationship with Baichuan Tongda was terminated in August 2010 (Note 3).

1. ORGANIZATION AND PRINCIPAL ACTIVITIES-continued

Financial positions and operating results for VIE are summarized below:

	As of December 31,	
	<u>2009</u>	<u>2010</u>
	RMB	RMB
Total assets	57,202	37,098
Total liabilities (consisting primarily of other current liabilities)	(2,776)	(2,668)

	Years Ended December 31,		
	<u>2008</u>	<u>2009</u>	<u>2010</u>
	RMB	RMB	RMB
Total net revenues	1,100	4,136	5,448
Total net loss	(16,803)	(9,038)	(14,542)

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

Basis of presentation - The consolidated financial statements of the Company have been prepared in accordance with the accounting principles generally accepted in the United States of America (“US GAAP”). All amounts in the accompanying consolidated financial statements and the related notes are expressed in Renminbi (“RMB”). The amounts expressed in United States dollars (“US\$”) are presented solely for the convenience of the readers and are translated at a rate of RMB6.60 to US\$1, the approximate rate of exchange at December 31, 2010. Such translations should not be construed to be the amounts that would have been reported under US GAAP.

Certain amounts in the 2008 and 2009 financial statements and the related notes have been retrospectively adjusted to reflect the effect of discontinued operations as described in Note 3.

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

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

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

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES-continued

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

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

Short-term investments – To enable the Company to better manage its assets for long-term growth, the Company periodically invests its excess cash in highly liquid equity securities. In addition, from time to time the Company may write call and put options through listed exchanges as part of its investment strategy. The Company's investment committee approves the investment policy covering the investment parameters to be followed with the primary goals being the safety of principal and maintaining the liquidity of funds. Short-term investments are comprised of marketable equity securities, which are classified as trading and available-for-sale. Marketable securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities and are reported at fair value, with realized and unrealized gains and losses recognized in earnings. Short-term investments classified as available for sale are stated at fair values. Unrealized gains or losses on available-for-sale securities from the changes in fair value are recorded in equity as other comprehensive income (loss). Realized gains or losses, based upon the specific identification method, on the disposal of available-for-sale securities are recorded in earnings.

The Company reviews investments in available-for-sale securities as of each balance sheet date for other-than-temporary declines in fair value. If the Company determines that a decline in fair value is other-than-temporary (OTTI), accumulated unrealized loss is accounted for as realized loss and included in earnings. The Company recorded an OTTI loss of RMB1,683 in 2009. No OTTI losses were recorded during the years ended December 31, 2008 and 2010.

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

Inventories – Inventories, consisting of computer accessories, food products and related consumables, are stated at the lower of cost or market price. Cost is determined by the first in first out method. Provision for diminution in value on inventories is made using the specific identification method. No inventory provisions were made in 2008, 2009 and 2010.

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

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES-continued

Changes in the allowance for doubtful accounts were as follows for the years ended December 31, 2008, 2009 and 2010:

	<u>2008</u>	<u>2009</u>	<u>2010</u>
	RMB	RMB	RMB
Balance at January 1,	23,299	5,293	31,416
Provision for allowance for doubtful debts	3,702	26,385	2,585
Recovery	(821)	-	-
Write offs	(20,887)	(262)	-
Balance at December 31,	<u>5,293</u>	<u>31,416</u>	<u>34,001</u>

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

Buildings	20 years
Agricultural equipment	10 years
Leasehold improvements	shorter of lease term or 5 years
Furniture, fixtures and office equipment	5 years
Computer equipment	5 years
Motor vehicles	5 years

Acquired intangible assets - Acquired intangible assets, which consist primarily of customer relationships, buyer database, completed technology, purchased software for internal use and land use right, are carried at cost, less accumulated amortization and provision for impairment loss.

Amortization is calculated on a straight-line basis over the expected useful life of the assets of five years, except for the land use right which is amortized over fifty years. Amortization expenses for the years ended December 31, 2008, 2009 and 2010 were RMB18,991, RMB5,560 and RMB4,043, respectively.

Impairment of long-lived assets - The Company evaluates its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When these events occur, the Company measures impairment by comparing the carrying amount of the assets to future undiscounted net cash flows expected to result from the use of the assets and their eventual disposition. If the sum of the expected undiscounted cash flow is less than the carrying amount of the assets, the Company adjusts the carrying value of the asset based on the fair value and recognizes an impairment loss. Fair value is estimated using expected discounted future cash flows. Impairment losses recognized in the years ended December 31, 2008, 2009 and 2010 were RMB48,086, RMB nil and RMB nil, respectively. The impairment charge of RMB48,086 in 2008 is related to the Company's discontinued B2B services segment.

Investments under cost method - For investment in an investee over which the Company does not have significant influence, the Company carries the investment at cost adjusted for other-than-temporary declines in fair value, and recognizes income when receiving dividends from distributions of the investee's earnings. The Company reviews its investments under cost method for impairment whenever events or changes in circumstances indicate that the carrying value may no longer be recoverable. An impairment loss is recognized in earnings equal to the difference between the investment cost and its fair value at the balance

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES-continued

sheet date of the reporting period for which the assessment is made. No impairment charge was recorded for the years ended December 31, 2008, 2009 and 2010.

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

The Company recognizes the impact of an uncertain income tax position on the income tax return at the largest amount that is more likely-than-not to be sustained upon audit by the relevant tax authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. The Company recognizes interest and penalties related to uncertain tax benefits as a component of income tax expense. The Company's tax years from 2003 to 2010 are subject to examination by the tax authorities.

Revenue recognition - The Company's revenue is derived from three primary sources: (i) sale of enterprise software and related customer maintenance services; (ii) software development services; (iii) food sales and, through September 2010, catering services.

Revenue from the sale of enterprise software and related customer maintenance service is recognized when there is evidence of an arrangement, the delivery or service has occurred, the fee is fixed or determinable, and collectability is probable. As the Company does not have vendor-specific objective evidence to establish the fair values of the undelivered elements, the Company recognizes revenue from sales of enterprise software and maintenance service on a straight-line basis over the service period which is typically no more than 12 months.

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

Revenues from software development services requiring significant production, modification, or customization of the software are recognized over the installation and customization period based on the percentage of completion method, which is measured principally by the percentage of actual hours incurred to date for each contract to the estimated total hours to be incurred for each contract at completion.

Certain revenue from software development services also includes hardware procurement under customer's request. Since the Company does not have vendor-specific objective evidence to allow for separating various components of such software development service contracts, the Company recognizes such revenues when all components under the contracts are delivered and the project is completed upon the receipt of a written acceptance from the customer.

Revenues from food sales are generally recognized upon delivery and through September, 2010, revenues from catering services were generally recognized when the catering services were provided.

With the exception of rebates of value added tax on sales of software and related maintenance services ("VAT rebate") received from the Chinese tax authorities as part of the PRC government's policy of

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES-continued

encouraging software development in the PRC, the Company reports revenue net of business tax. The VAT rebate was RMB2,910, RMB853 and RMB482 during 2008, 2009 and 2010, respectively. Pursuant to certain PRC rules relating to value-added tax, Beijing Ninetowns Ports and Beijing Ninetowns Suitable Estate are entitled to a rebate of value-added tax paid, at a rate of 14% of the sales value for self-developed software products, excluding revenues from maintenance services and upgrade rights that are sold separately.

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

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

Advertising costs - Advertising costs are expensed in the period incurred. The Company incurred advertising costs totaling RMB8,298, RMB1,580 and RMB1,886 during the years ended December 31, 2008, 2009 and 2010, respectively.

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

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

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

Fair value measurement - Short-term investments and option liabilities are stated at fair value. The carrying value of all other financial instruments approximates their fair value due to the short-term nature of these instruments.

Accounting Standards Codification ("ASC") 820 defines fair value, establishes a framework for measuring fair value, and provides disclosure requirements about fair value measurements. It also establishes a fair value hierarchy which prioritizes the inputs to valuation techniques used to measure fair value into three broad levels.

Level 1 Inputs

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES-continued

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

Level 2 Inputs

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

Level 3 Inputs

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

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

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

Recently issued accounting pronouncements - In October 2009, the Financial Accounting Standards Board issued amendments to address the accounting for multiple-deliverable arrangements to enable vendors to account for products or services (deliverables) separately rather than as a combined unit. Vendors often provide multiple products or services to their customers. Those deliverables often are provided at different points in time or over different time periods. ASC 605-25, *Revenue Recognition—Multiple-Element Arrangements*, establishes the accounting and reporting guidance for arrangements under which the vendor will perform multiple revenue-generating activities. Specifically, it addresses how to separate deliverables and how to measure and allocate arrangement consideration to one or more units of accounting. These amendments are not expected to have a material impact on the Company's financial condition or results of operations. The amendments are effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010.

3. DISCONTINUED OPERATIONS

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

In August 2010, the Company sold Shanghai Meihuilong, its wholly-owned subsidiary, that provided catering services to institutional customers. Management believes that the sale allows the Company to optimize its food related segment resources to focus on the development of the e-grocery food business, which targets individual consumers.

In August 2010, the Company terminated its contractual relationships with Baichuan Tongda, its former VIE, and in connection therewith, received cash of approximately RMB1,500 (US\$227).

3. DISCONTINUED OPERATIONS-continued

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

	<u>Years Ended December 31,</u>		
	<u>2008</u> RMB	<u>2009</u> RMB	<u>2010</u> RMB
Net revenues	2,496	14,995	19,271
(Loss) income before income taxes	(181,020)	(8,401)	1,410
Loss from disposal of the discontinued component	-	-	(1,808)
Income tax benefit	14,218	-	-
Loss from discontinued operations, net of tax	(166,802)	(8,401)	(398)
Non-controlling interest in discontinued operations	5,483	89	-
Loss from discontinued operations	(161,319)	(8,312)	(398)
Loss per share from discontinued operations -basic	(4.61)	(0.24)	(0.01)
Loss per share from discontinued operations -diluted	(4.61)	(0.24)	(0.01)

4. SHORT-TERM INVESTMENTS

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

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

Trading securities:

	<u>December 31, 2009 (RMB)</u>				<u>December 31, 2010 (RMB)</u>			
	Gross realized Cost	Gross realized gains	Gross realized losses	Fair value	Gross realized Cost	Gross realized gains	Gross realized losses	Fair value
Trading securities	917	-	-	917	523	-	-	523
Total	917	-	-	917	523	-	-	523

Available-for-sale securities:

	<u>December 31, 2009 (RMB)</u>					<u>December 31, 2010 (RMB)</u>				
	Gross unrealized Cost	Gross unrealized gains	Gross unrealized losses	Other- than -tempo- rary impair- ment value	Fair value	Gross unrealized Cost	Gross unrealized gains	Gross unrealized losses	Other-than -temporary impairment value	Fair value
Available-for-sale securities	158,674	13,488	(171)	(1,682)	170,309	226,452	6,372	(1,485)	-	231,339
Total	158,674	13,488	(171)	(1,682)	170,309	226,452	6,372	(1,485)	-	231,339

4. SHORT-TERM INVESTMENTS-continued

Proceeds, gross realized gains and gross realized losses on securities classified as available for sale for the years ended December 31, 2008, 2009 and 2010 are as follows:

	<u>Years Ended December 31,</u>		
	<u>2008</u>	<u>2009</u>	<u>2010</u>
	RMB	RMB	RMB
Proceeds	-	177,179	173,693
Gross realized gains	-	27,823	1,866
Gross realized losses	-	(13,362)	(3,522)

The summary of trading and available-for-sale securities measured and recorded at fair value on a recurring basis as of December 31, 2010 is as follows:

Description	December 31, 2010	<u>Fair Value Measurements at Reporting Date Using</u>		
		<u>Quoted Prices in</u>	<u>Significant Other</u>	<u>Significant</u>
		<u>Active Markets</u>	<u>Observable</u>	<u>Unobservable</u>
	(RMB)	for Identical	Inputs	Inputs
		Assets (Level 1)	(Level 2)	(Level 3)
		(RMB)	(RMB)	(RMB)
Available-for-sale securities	231,339	231,339	-	-
Trading securities	523	523	-	-
Total	<u>231,862</u>	<u>231,862</u>	<u>-</u>	<u>-</u>

5. INVENTORIES

Inventories consisted of the following:

	<u>December 31,</u>	
	<u>2009</u>	<u>2010</u>
	RMB	RMB
Computer accessories	1,107	1,411
Food products and related consumables	1,296	750
	<u>2,403</u>	<u>2,161</u>

6. PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets consisted of the following:

	<u>December 31,</u>	
	<u>2009</u>	<u>2010</u>
	RMB	RMB
Advances to employees	1,242	785
Prepaid expenses	2,089	1,333
Deposits for office rental, utilities	1,094	1,011
Interest receivable for term deposits	242	30
Value added tax recoverable	268	164
Other receivables	1,111	4,180
	<u>6,046</u>	<u>7,503</u>

7. PROPERTY AND EQUIPMENT, NET

Property and equipment, net consisted of the following:

	<u>December 31,</u>	
	<u>2009</u>	<u>2010</u>
	RMB	RMB
Buildings	197,452	196,409
Leasehold improvements	7,885	6,926
Furniture, fixtures and office equipment	5,774	4,278
Computer equipment	30,600	30,227
Motor vehicles	7,859	7,586
Agricultural equipment	-	3,678
Total	<u>249,570</u>	<u>249,104</u>
Less: accumulated depreciation and amortization	(44,782)	(60,623)
Property and equipment, net	<u>204,788</u>	<u>188,481</u>

Depreciation and amortization expenses for the years ended December 31, 2008, 2009 and 2010 were RMB17,922, RMB16,916, and RMB17,316, respectively.

8. INVESTMENTS UNDER COST METHOD

	<u>December 31,</u>	
	<u>2009</u>	<u>2010</u>
	RMB	RMB
Global Market	28,663	10,981
Tophere	4,500	4,500
GCL	7,074	-
	<u>40,237</u>	<u>15,481</u>

In September 2006, the Company entered into a subscription agreement with Global Market Group Limited (“Global Market”) to acquire 1,940,000 Series A preferred shares, which represented 16.25% of the equity interest in Global Market on an as-converted basis for cash consideration of RMB38,929 (US\$5,000).

8. INVESTMENTS UNDER COST METHOD-continued

Because the Company cannot exercise significant influence over Global Market, the investment is accounted for under the cost method.

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

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

In 2008, the Company entered into a share repurchase agreement with Global Market, under which Global Market repurchased 309,468 Series A preferred shares from the Company for a cash consideration of RMB7,725 (US\$1,112) and the Company's equity interest in Global Market was further reduced to 9.03%. The Company recognized a gain of RMB2,187 (US\$321) upon the disposal of the Series A preferred shares in 2008.

In 2009, Global Market completed a stock split whereby each share of US\$0.001 in the share capital was subdivided into twenty-five shares of US\$0.00004 each. After the split, the Company's equity interest continued to be 9.03%.

In June 2010, Global Market declared a cash payment of special dividends to the holders of its ordinary shares, Series A preferred shares and Series B preferred shares. The Company received dividends of RMB6,164 (US\$903), which is included in the gain on disposal of investments under cost method in the statement of operations.

In June 2010, the Company entered into a share purchase agreement with Global Market, under which Global Market and Shanghai International Growth Investment Limited purchased 24,714,225 Series A preferred shares from the Company for a cash consideration of RMB26,448 (US\$3,875). The Company recognized a gain of RMB9,186 (US\$1,327) on the disposal of the series A preferred shares in 2010. The Company's equity interest in Global Market was further reduced to 3.55%.

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

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

In May 2010, the Company sold part of the investment in GCL, and received RMB7,626 (US\$1,117). In September 2010, the Company sold the rest of the investment in GCL, and received RMB2,306 (US\$349). The Company recorded a gain of approximately RMB2,967 (US\$437) on the disposal.

9. ACQUIRED INTANGIBLE ASSETS, NET

Acquired intangible assets, net consisted of the following:

	<u>December 31,</u>	
	<u>2009</u>	<u>2010</u>
	RMB	RMB
Customer lists and relationships	6,131	6,131
Completed technology	5,251	5,251
Purchased software for internal use	17,200	17,200
Land use right	30,156	30,156
Total	<u>58,738</u>	<u>58,738</u>
Less: Accumulated amortization	(23,029)	(27,072)
Acquired intangible assets, net	<u><u>35,709</u></u>	<u><u>31,666</u></u>

In October 2008, the Company acquired a land use right from Yizhuang Substation of the PRC Country Resources Bureau for RMB30,156. The land use right has a contractual useful life of 50 years.

Amortization expenses for the years ended December 31, 2008, 2009, and 2010 were RMB18,991, RMB5,560, and RMB4,043, respectively.

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

<u>For the Year Ending December 31</u>	<u>Estimated Amortization Expense</u>
	RMB
2011	3,470
2012	603
2013	603
2014	603
2015	603
	<u><u>5,882</u></u>

10. OPTION LIABILITIES

The Company writes call and put options through listed exchanges. When the Company writes an option, an amount equal to the premium received by the Company is recorded as a liability and is subsequently adjusted to the current fair value of the option written. Premiums received from writing options that expired are treated by the Company on the expiration date as realized gains from investments. If a call option is exercised, the premium is added to the proceeds from the sale of the underlying security in determining whether the Company has realized a gain or loss. If a put option is exercised, the premium is deducted from the total purchase price in determining the cost of the underlying security. The Company, as the option writer of an option, bears the market risk of an unfavorable change in the price of the security underlying the written options. At December 31, 2010, option liabilities included liabilities for call options of RMB2,104 and put options of RMB2,456.

11. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following:

	<u>December 31,</u>	
	<u>2009</u>	<u>2010</u>
	RMB	RMB
Accounts payable and other payables	5,565	4,602
Salary and wages	2,449	4,064
Professional fees	87	982
Office expenses payable	1,088	1,045
Accrued expenses	2,180	1,859
	<u>11,369</u>	<u>12,552</u>

12. INCOME TAXES

Ninetowns is a tax exempted company incorporated in the Cayman Islands. No provision for Hong Kong Profits Tax has been made as the subsidiaries incorporated in Hong Kong had no assessable profits earned or derived from Hong Kong during the years ended December 31, 2008, 2009 and 2010. The subsidiaries incorporated in the PRC other than Hong Kong are governed by the Income Tax Law of the PRC Concerning Foreign Investment and Foreign Enterprises and various local income tax laws (the "Income Tax Laws").

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

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

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

12. INCOME TAXES-continued

In 2008, 2009 and 2010, Beijing New Take, Beijing Ninetowns Times, Ninetowns Suitable Estate, Ronghe Tongshang, Beijing Software, Beijing Sky, Shanghai Tootoo and Dongguan Software were subject to an enterprise income tax rate of 25%.

Beijing Ninetowns Ports was awarded the certificate of “New and High Technology Enterprise” and was taxed at an income tax rate of 15% for the years ended December 31, 2009 and 2010. In 2008, Beijing Ninetowns Ports was taxed at an income tax rate of 25%.

Guangdong Ninetowns was awarded the certificate of “New and High Technology Enterprise” and was taxed at an income tax rate of 15% for the years ended December 31, 2009 and 2010. In 2008, Guangdong Ninetowns was under the grandfather treatment and enjoyed its unexpired tax holiday with a rate of 7.5%.

During the years ended December 31, 2008, 2009 and 2010, if the Company’s subsidiaries in the PRC had not been awarded tax holidays or had special tax concessions, they would have recorded an additional provision for income taxes totaling RMB nil, RMB501 and RMB838, respectively. Basic net income (loss) per share would have been changed to RMB(4.85), RMB0.02 and RMB0.32, and diluted net income (loss) per share would have been changed to RMB(4.85), RMB0.02 and RMB0.31 for the years ended December 31, 2008, 2009, and 2010, respectively.

Income tax expense consisted of the following:

	<u>Years Ended December 31</u>		
	<u>2008</u>	<u>2009</u>	<u>2010</u>
	RMB	RMB	RMB
Current tax	(147)	6,070	1,036
Deferred tax	983	(1,970)	(158)
	<u>836</u>	<u>4,100</u>	<u>878</u>

As of December 31, 2009 and 2010, significant temporary differences between the tax basis and financial statement basis of accounting for assets and liabilities that gave rise to deferred taxes were principally related to the following:

	<u>December 31</u>	
	<u>2009</u>	<u>2010</u>
	RMB	RMB
Current deferred tax assets (liabilities)		
Short-term deferred revenue (B2G)	1,463	1,879
Less: valuation allowances	(455)	(1,085)
Current deferred tax assets	<u>1,008</u>	<u>794</u>
Non-current deferred tax assets		
Net operating loss carry forwards	8,105	8,767
Less: valuation allowances	(8,105)	(8,767)
Non-current deferred tax assets	<u>-</u>	<u>-</u>
Non-current deferred tax liabilities		
Accelerated depreciation of property and equipment	(713)	(342)
Non-current deferred tax liabilities	<u>(713)</u>	<u>(342)</u>

12. INCOME TAXES-continued

The Company has operating loss carry forwards totaling RMB32,825 and RMB35,787 as of December 31, 2009 and 2010, respectively, all of which were from PRC subsidiaries and will expire on December 31, 2014 and December 31, 2015.

As of December 31, 2009 and 2010, a valuation allowance was provided against deferred tax assets arising from net operating loss carry-forwards, and short-term deferred revenue of certain PRC subsidiaries and VIE due to the uncertainty of realization. Adjustment will be made to the valuation allowance if events occur in the future that indicate changes in the amount of deferred tax assets that may be realized.

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

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

Aggregate undistributed earnings of the Company's subsidiaries and its VIE's located in the PRC that are available for distribution to the Company of approximately RMB550,000 and RMB552,883 at December 31, 2009 and 2010 are considered to be indefinitely reinvested, and accordingly, no provision has been made for the Chinese dividend withholding taxes that would be payable upon the distribution of those amounts to the Company. The Chinese tax authorities have clarified that distributions made out of pre-January 1, 2008 retained earnings will not be subject to the withholding tax.

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

	<u>2008</u>	<u>Years Ended December 31,</u>	
		<u>2009</u>	<u>2010</u>
PRC statutory income tax	(25.0%)	25.0%	25.0%
Expenses not deductible for tax purposes	18.2%	20.2%	18.1%
Provision for withholding tax on inter-company distributions	-	34.6%	-
Permanent differences	12.0%	(30.1%)	(32.1%)
Tax exemption and tax relief granted to PRC subsidiaries	(9.7%)	(5.7%)	(1.0%)
Effect on deferred taxes due to changes in tax rates under the new law for certain subsidiaries	(6.7%)	(14.3%)	(3.5%)
	<u>(11.2%)</u>	<u>29.8%</u>	<u>6.5%</u>

12. INCOME TAXES-continued

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

	<u>RMB</u>
Balance at January 1, 2009.....	295
Additions based on tax positions related to the current year.....	4,989
Reversal based on tax positions related to the current year.....	<u>(143)</u>
Balance at December 31, 2009.....	5,141
Additions based on tax position related to the current year.....	246
Reversal based on tax positions related to the current year.....	<u>-</u>
Balance at December 31, 2010.....	<u>5,387</u>

The Company does not anticipate any significant change within 12 months of this reporting date to its uncertain tax positions. Interest and penalties recognized in the statement of operations and current liabilities were not significant in 2008, 2009 and 2010.

13. OTHER TAXES PAYABLE

	<u>December 31,</u>	
	<u>2009</u>	<u>2010</u>
	RMB	RMB
Individual income tax withholding	144	127
Business tax payable	1,231	1,540
Value added taxes payable (recoverable), net	(703)	(708)
Property tax	-	25
	<u>672</u>	<u>984</u>

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

14. NET (LOSS) INCOME PER SHARE

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

	<u>Years Ended December 31,</u>		
	<u>2008</u>	<u>2009</u>	<u>2010</u>
	RMB	RMB	RMB
Numerator used in basic (loss) income			
per share:			
(Loss) income from continuing operations before non-controlling interest	(8,293)	9,644	12,723
Loss from discontinued operations attributable to the Company	(161,319)	(8,312)	(398)
Net (loss) income attributable to the Company	<u>(169,612)</u>	<u>1,332</u>	<u>12,325</u>
Shares (denominator):			
Weighted average ordinary shares outstanding	34,997,505	35,100,194	35,800,428
Plus: incremental shares from assumed conversion of stock options			1,491,106
	-	-	
Weighted average ordinary shares outstanding used in computing diluted (loss) income per ordinary share	<u>34,997,505</u>	<u>35,100,194</u>	<u>37,291,534</u>
(Loss) income from continuing operations per share - basic	<u>(0.24)</u>	<u>0.28</u>	<u>0.35</u>
(Loss) income from continuing operations per share - diluted	<u>(0.24)</u>	<u>0.28</u>	<u>0.34</u>
Loss from discontinued operations per share - basic	<u>(4.61)</u>	<u>(0.24)</u>	<u>(0.01)</u>
Loss from discontinued operations per share -diluted	<u>(4.61)</u>	<u>(0.24)</u>	<u>(0.01)</u>
Net (loss) income attributable to the Company per share - basic	<u>(4.85)</u>	<u>0.04</u>	<u>0.34</u>
Net (loss) income attributable to the Company per share - diluted	<u>(4.85)</u>	<u>0.04</u>	<u>0.33</u>

American Depository Receipts held by the Company to facilitate cashless exercises of vested employee stock options and non-vested shares for 673,278 ordinary shares have been excluded from shares issued and outstanding as of December 31, 2009. There were no such shares excluded as of December 31, 2010.

The Company had 2,185,830, 3,320,311 and 5,595,664 ordinary share equivalents outstanding, that could potentially dilute basic income (loss) per share in the future, which were excluded in the computation of diluted (loss) income per share in 2008, 2009 and 2010, respectively, as their effect would have been anti-dilutive.

15. RELATED PARTY TRANSACTIONS AND BALANCES

Sales of enterprise software and related customer maintenance service:

The Company has an agreement with Shenzhen Ninetowns Enke Software Technology Co., Ltd. ("Ninetowns Enke"), a company owned by the Company's former employee, for the distribution of the Company's enterprise software in the southern region of the PRC. During the years ended December 31, 2008, 2009 and 2010, the Company recognized net revenues of RMB2,475, RMB2,268 and RMB1,491, respectively, from the sales of enterprise software and related customer maintenance service to Ninetowns Enke.

The Company signed an agreement with Guangzhou Wangli Software Co., Ltd. ("Guangzhou Wangli"), a company owned by a minority shareholder of Baichuan Tongda, the Company's former VIE, for the distribution of the Company's enterprise software in the PRC. During the years ended December 31, 2008, 2009 and 2010, the Company recognized net revenues of RMB11,976, RMB9,273 and RMB7,557, respectively, from the sales of enterprise software and related customer maintenance services to Guangzhou Wangli.

Revenue generated from Ninetowns Enke and Guangzhou Wangli was previously classified as related party revenue. As the owner of Ninetowns Enke has not been employed by the Company since July 2003, and as the VIE relationship with Baichuan Tongda was terminated, these transactions have been reclassified to third party revenues.

In 2009, the Company provided software development services of RMB350 to Beijing iTowNet Cyber Technology Ltd. ("Beijing iTowNet") in which two members of the Company's senior management serve as director and supervisor, directly and indirectly. The Company did not sell software products to Beijing iTowNet in 2008 and 2010.

Other:

In November 2004, the Company entered into an option agreement to acquire a 49% ownership interest in Beijing iTowNet, exercisable at the Company's option. In the event the purchase becomes permissible under the relevant laws of the PRC and the Company exercises its option, the purchase price will be RMB206,915 (US\$25 million) plus an amount calculated at 5% per year compounded annually for the years the selling company held an ownership interest in Beijing iTowNet less any dividends or distributions the selling company received during its ownership of Beijing iTowNet.

16. SHARE OPTION PLANS

The 2003 Plan

The Company's 2003 Plan (the "2003 Plan") allows the Company to issue options to employees and directors to acquire 2,574,400 of the Company's ordinary shares. The 2003 Plan will remain in effect for ten years starting from the date of adoption.

As of December 31, 2009 and 2010, options to purchase 1,276,449 and 1,229,010 ordinary shares were outstanding, respectively, under the 2003 Plan. As of December 31, 2009 and 2010, there were 446,259 and 493,698 options, respectively, available under the 2003 Plan for future grants.

16. SHARE OPTION PLANS-continued

The 2004 Plan (as amended)

Under the Amended and Restated 2004 Plan (the “2004 Plan, as amended”), the Company may grant options to its employees that are exercisable for up to 4.3 million ordinary shares at prices to be determined by the Company’s Board of Directors. The 2004 Plan, as amended, also permits the Company to grant share appreciation rights, restricted share awards, and performance awards. The 2004 Plan, as amended, will automatically terminate in ten years from grant date unless the Company terminates it earlier.

On February 5, 2008, Ninetowns granted options to certain employees to purchase 374,769 ordinary shares at an exercise price of RMB22 (US\$3.03) per ordinary share, which was the closing fair market value of the Company’s ordinary shares on the day before the grant date. The options will vest over four years at 25% per year from the grant date. Any options granted but not exercised will expire on February 4, 2018.

On July 16, 2009, Ninetowns granted options to certain employees to purchase 1,369,800 ordinary shares at an exercise price of RMB10 (US\$1.4) per ordinary share, which was the average closing fair market value of the Company’s ordinary shares for the month before the grant date. The options will vest over four years at 25% per year from the grant date. Any options granted but not exercised will expire on July 15, 2019.

On February 10, 2010, Ninetowns granted options to certain employees to purchase 976,500 ordinary shares at an exercise price of RMB11 (US\$1.6) per ordinary share, which was the average closing fair market value of the Company’s ordinary shares for the month before the grant date. The options will vest over four years at 25% per year from the grant date. Any options granted but not exercised will expire on February 10, 2020.

As of December 31, 2009 and 2010, options to purchase 2,043,862 and 2,895,462 ordinary shares were outstanding, respectively.

The fair value of the option awards is estimated on the respective dates of grant using a dividend adjusted Black - Scholes pricing model that uses the assumptions noted in the following table.

Options grants	2008 Grant	2009 Grant	2010 Grant
Weighted average risk-free rate of return	3.89%	2.90%	3.15%
Weighted average expected option life	6.25 years	6.25 years	6.25 years
Weighted average volatility rate	53%	61%	63%
Weighted average dividend yield	0%	0%	0%

The risk-free rate of interest is based on the market yield of China Sovereign Bond Denominated in USD with maturity nearest to the expected term as of the valuation date. No dividend is expected to be paid in the future. The expected life of the option is derived using the mid-point method, which is calculated as the period between the grant date and the expected exercise date.

On February 5, 2008, Ninetowns granted 401,685 nonvested shares to certain employees. The nonvested shares will vest over four years at 25% per year from the grant date.

16. SHARE OPTION PLANS-continued

On July 16, 2009, Ninetowns granted 58,698 nonvested shares to certain employees, 25% of which vested on the grant date and the remaining will vest over three years at 25% per year from the grant date.

On February 10, 2010, Ninetowns granted 585,771 nonvested shares to certain employees. that will vest over one year at 25% per three month period from the grant date. As of December 31, 2009 and 2010, 298,256 and 340,302 nonvested shares were outstanding.

As of December 31, 2009 and 2010, 1,837,346 and 402,361 share-based instruments were available under the 2004 Plan, as amended, for future grants.

The 2006 Plan

In December 2005, the Company's shareholders approved the 2006 stock incentive plan (the "2006 Plan") which allows the Company to offer a variety of share-based awards to employees and employees of the Company's affiliates and subsidiaries including share options, restricted shares, and other similar awards. The exercise price must be at least equal to 100% of the fair market value of the ordinary shares on the grant date. The 2006 Plan will be automatically terminated in 2015.

On February 10, 2010, Ninetowns granted 2,213,824 nonvested shares to certain employees. 1,443,912 nonvested shares will vest over one year at 25% per three month period from the grant date, and 769,912 nonvested shares will vest over four years at 25% per year from the grant date.

As of December 31, 2009 and 2010, nil and 1,130,890 nonvested shares were outstanding.

A summary of the share options and nonvested shares activities is as follows:

	<u>Years Ended December 31,</u>					
	<u>2008</u>		<u>2009</u>		<u>2010</u>	
<u>Share options</u>	<u>Number of options</u>	<u>Weighted Average Exercise price RMB</u>	<u>Number of options</u>	<u>Weighted average exercise price RMB</u>	<u>Number of options</u>	<u>Weighted average exercise price RMB</u>
Outstanding at beginning of year	2,030,973	40	2,113,149	36	3,320,311	25
Granted	374,769	22	1,369,800	22	976,500	11
Exercised	(6,186)	26	-	-	-	-
Cancelled	(286,407)	50	(162,638)	34	(172,339)	18
Outstanding at end of year	<u>2,113,149</u>	<u>36</u>	<u>3,320,311</u>	<u>25</u>	<u>4,124,472</u>	<u>22</u>
Exercisable at end of year	<u>1,711,666</u>	<u>36</u>	<u>1,790,239</u>	<u>37</u>	<u>2,125,918</u>	<u>33</u>

16. SHARE OPTION PLANS-continued

<u>Nonvested Shares</u>	<u>Shares</u>	Weighted-average grant-date fair value <u>RMB</u>
Nonvested at January 1, 2010	298,256	19
Granted	2,799,595	11
Vested	(1,624,276)	12
Forfeited	(2,383)	21
Nonvested at December 31, 2010	<u>1,471,192</u>	<u>12</u>

The total intrinsic value of options exercised during each of the years ended December 31, 2008, 2009, and 2010 was RMB nil. As of December 31, 2010, the aggregate intrinsic value of both options outstanding and options exercisable was RMB2.

The outstanding options as of December 31, 2010 have the following characteristics:

<u>Options outstanding</u>			<u>Options exercisable</u>		
<u>Number outstanding</u>	<u>Weighted average remaining contractual life</u>	<u>Fair value per share at grant date</u>	<u>Weighted average exercise price (RMB)</u>	<u>Number exercisable</u>	<u>Weighted average exercise price (RMB)</u>
1,229,010	2.875	RMB0.297 (HK\$0.286)	26	1,229,010	26
453,936	4.167	RMB40.42 (US\$4.896)	71	453,936	71
211,326	7.099	RMB11.63 (US\$1.619)	22	106,522	22
1,345,800	8.496	RMB6.49 (US\$0.947)	10	336,450	10
884,400	10.083	RMB6.72 (US\$0.991)	11	-	-
<u>4,124,472</u>	<u>7</u>		<u>22</u>	<u>2,125,918</u>	<u>33</u>

As of December 31, 2010, the unrecognized share-based compensation cost related to options was approximately RMB4,742 and is expected to be recognized over a weighted average vesting period of 2.8 years. As of December 31, 2010, the unrecognized share-based compensation cost related to nonvested share-based compensation arrangements was approximately RMB5,402 and is expected to be recognized over a weighted-average vesting period of 2.6 years.

The amounts of share-based compensation attributable to cost of revenues, sales and marketing, general and administrative expenses, and research and development included in those line items in the consolidated statements of operations are as follows:

16. SHARE OPTION PLANS-continued

	<u>Year Ended</u> <u>December 31,</u>		
	<u>2008</u> RMB	<u>2009</u> RMB	<u>2010</u> RMB
Cost of revenues	287	51	8
Sales and marketing	1,633	787	607
General and administrative	3,789	3,297	26,741
Research and development	1,162	332	4,354
Total share-based compensation expense	<u>6,871</u>	<u>4,467</u>	<u>31,710</u>

17. COMMITMENTS

The Company has operating lease agreements principally for its office properties in the PRC. The leases have remaining terms ranging from 12 to 24 months and are renewable subject to negotiation. Rental expense was RMB7,955, RMB7,056 and RMB3,867, for the years ended December 31, 2008, 2009 and 2010, respectively.

Future minimum lease payments under non-cancellable operating lease agreements at December 31, 2010 are as follows:

<u>Year ending December 31,</u>	<u>RMB</u>
2011	2,379
2012	<u>953</u>
Total	<u><u>3,332</u></u>

The Company has entered into franchise agreements to undertake marketing, distribution and service activities. Under these agreements, the Company is obligated to provide advertising, training and telephone support associated with its software licenses and products. The Company did not have any significant outstanding obligations or commitments at December 31, 2010.

18. SEGMENT INFORMATION

The Company has three operating segments: enterprise software and related maintenance services segment, software development services segment, and food related business. The enterprise software and related maintenance services segment is engaged in the development, distribution and sale of software products, the provision of customer maintenance services to end-users, and the research and development of new enterprise software. The software development services segment is responsible for the development and integration of software in accordance with the customers' specifications and requirements. The food related business consists of food sales and services and targets Chinese consumers.

For financial reporting purposes, operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance. The Company's chief operating decision maker is the Chief Executive Officer. Segment information provided to the chief operating decision maker is prepared using the accounting principles and the relevant financial regulations applicable to enterprises with foreign investment as established by the Ministry of Finance in

18. SEGMENT INFORMATION-continued

the PRC (“PRC GAAP”). The principal differences between the PRC GAAP and US GAAP as they relate to the Company are primarily (i) revenue recognition from the sale of enterprise software, (ii) the classification of the PRC value added tax refund, and (iii) the recognition of share-based compensation expenses.

The Company’s reportable segments offer different products and services. Each reportable segment is assigned a member of senior management who has knowledge about the products and services, specific operational risks, and opportunities associated with the segment.

The following is a summary of financial information relating to each segment expressed under PRC GAAP:

	Year Ended December 31, 2008			
	Enterprise software and related customer <u>maintenance services</u>	Software development <u>services</u>	Food related <u>business</u>	<u>Total</u>
	RMB	RMB	RMB	RMB
Net revenues	81,702	19,458	94	101,254
Gross profit	82,024	7,035	18	89,077

	Year Ended December 31, 2009			
	Enterprise software and related customer <u>maintenance services</u>	Software development <u>services</u>	Food related <u>business</u>	<u>Total</u>
	RMB	RMB	RMB	RMB
Net revenues	47,954	17,363	3,889	69,206
Gross profit (loss)	48,005	5,811	(2,419)	51,397

	Year Ended December 31, 2010			
	Enterprise software and related customer <u>maintenance services</u>	Software development <u>services</u>	Food related <u>business</u>	<u>Total</u>
	RMB	RMB	RMB	RMB
Net revenues	45,448	23,809	5,448	74,705
Gross profit (loss)	45,448	13,673	(1,462)	57,659

The Company does not allocate operating expenses to individual segments when making decisions about allocating resources to the segments and assessing their performance.

The following is a reconciliation of the amounts presented for reportable segments under PRC GAAP to the consolidated totals reported under US GAAP:

18. SEGMENT INFORMATION-continued

	<u>Years Ended December 31,</u>		
	<u>2008</u> RMB	<u>2009</u> RMB	<u>2010</u> RMB
Net revenues under PRC GAAP	101,254	69,206	75,442
U.S. GAAP adjustments:			
Differences in the timing of revenue recognition	353	9,580	2,983
PRC value added tax refund	2,910	853	482
Total net revenues under US GAAP	104,517	79,639	78,907
Gross profit under PRC GAAP	89,042	51,397	57,659
U.S. GAAP adjustments:			
Differences in the timing of revenue recognition	353	9,580	2,983
PRC value added tax refund	2,910	853	1,219
Share-based compensation expenses	(287)	(51)	(8)
Gross profit under US GAAP	92,018	61,779	61,853
Operating expenses	(118,912)	(119,378)	(124,474)
Loss from operations	(26,894)	(57,599)	(62,621)
Interest income	7,026	4,274	3,686
Gain on sales of marketable equity securities	9,866	35,474	65,146
Gain on fair value change of stock option short sales	-	27,684	(18,211)
Gains from disposal of investment under cost method	2,187	-	18,317
Other income	358	3,911	7,284
(Loss) income before income tax expense	(7,457)	13,744	13,601

The Company does not allocate assets to individual segments when making decisions about allocating resources to the segments and assessing their performance.

19. CONCENTRATIONS AND RISKS

Customers Concentrations

Details of customers accounting for 10% or more of net revenues are as follows:

Customer	Years Ended December 31,		
	2008	2009	2010
A	18%	21%	21%
B	20%	22%	12%

Foreign currency risk - RMB is not a freely convertible currency. The State Administration for Foreign Exchange, under the authority of the People's Bank of China, controls the conversion of the RMB into foreign currencies. The value of the RMB is subject to changes in PRC government policies and to international economic and political developments affecting supply and demand in the China Foreign Exchange Trading System market. RMB balances in cash and cash equivalents and term deposits of the Company included RMB356,977 at December 31, 2009 and RMB377,924 at December 31, 2010.

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

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

20. EMPLOYEE BENEFIT PLANS

Employees of the Company located in the PRC other than Hong Kong are covered by the retirement plans defined by local practice and regulations, which are essentially defined contribution schemes. The calculation of contributions for the eligible employees is based on 20% of the applicable payroll costs. Certain employees of the Company who are located in Hong Kong have joined the Mandatory Provident Fund ("MPF") Scheme which is also a defined contribution scheme. The contribution to the MPF Scheme is calculated based on the rules set out in the MPF Ordinance in Hong Kong which is 5% of the relevant income of the employee with a specific ceiling. The expenses recorded by the Company related to these defined contribution schemes were RMB4,884, RMB3,549, and RMB3,249 for the years ended December 31, 2008, 2009, and 2010, respectively.

In addition, the Company is required by law to contribute approximately 10%, 1%, and 1.1% of applicable salaries of certain employees for medical, unemployment benefits, and workers compensation, respectively. The PRC government is directly responsible for the payments of the benefits to these employees. The amounts contributed were RMB3,299, RMB2,075, and RMB1,797 for the years ended December 31, 2008, 2009 and 2010, respectively.

21. CHINA CONTRIBUTION PLAN AND PROFIT APPROPRIATION

As stipulated by the relevant laws and regulations in the PRC, the Company's subsidiaries and VIE in the PRC are required to maintain a non-distributable statutory reserve. Appropriations to the statutory reserve are required to be made at not less than 10% of profit after taxes as reported in these entities' statutory financial statements prepared under PRC GAAP. Once appropriated, these amounts are not available for future distribution to owners or shareholders. Once the statutory reserve is accumulated to 50% of these entities registered capital, these entities can choose not to provide additional reserves. The statutory reserve may be applied against prior year losses, if any, and may be used for general business expansion and production and an increase in the registered capital of these entities. Amounts contributed to the statutory reserve were RMB75,059 and RMB77,635 as of December 31, 2009 and 2010, respectively.

RMB9,323 and RMB2,576 were appropriated from net income to statutory reserves by Ninetown's subsidiaries in the PRC for the years ended December 31, 2009 and 2010, respectively.

Relevant PRC Statutory laws and regulations permit payments of dividends by Ninetown's PRC subsidiaries and VIE only from their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. In addition, the statutory reserve requires annual appropriations of 10% of after-tax profit to be set aside prior to the payment of dividends. As a result of these PRC laws and regulations, the Company's PRC subsidiaries and VIE are restricted in their abilities to transfer funds to the Company in the form of dividends, loans or advances. Total restricted net assets of the Company's consolidated PRC subsidiaries and VIE were RMB550,307 and RMB552,883 as of December 31, 2009 and 2010, respectively.

22. SUBSEQUENT EVENTS

On February 24, 2011, Beijing Ninetowns Ports acquired 70% of the equity interests in Dalian Aviation Changzheng Technology Development Co., Ltd. ("Dalian Changzheng"), a limited liability company originally established by Aviation Wanyuan Industry Co., Ltd. ("Aviation Wanyuan") in China for RMB117,000 (US\$18,000). Dalian Changzheng will be included in the consolidated financial statements of the Company in the year 2011.

On April 11, 2011, Dalian Changzheng acquired the land use right for 20,973 square meters of undeveloped land in Dalian High and New Technology Industry Park from the Dalian Land Resource Bureau for RMB280,000 (US\$43,000), of which Ninetowns Ports contributed approximately RMB153,000 (\$23,500) and Aviation Wanyuan contributed approximately RMB127,000 (US\$19,500).

On March 10, 2011, Shanghai Tootoo was dissolved.

On March 16, 2011, Huainan Ninetowns Suitable Estate Co., Ltd. ("Huainan Suitable Estate"), a PRC company with a registered capital of RMB10,000, was established. Huainan Suitable Estate is wholly-owned by Beijing Ninetowns Ports.

On March 30, 2011, Huainan Huacheng Estate Co., Ltd., ("Huainan Huacheng"), a PRC company with a registered capital of RMB8,000, was established. Huainan Huacheng is wholly-owned by Huainan Suitable Estate.

On April 7, 2011, Huainan Huacheng acquired the land use right, 141,000 square meters of undeveloped land in Huainan, Anhui Province, China, from the Huainan Land Resource Bureau. The total consideration was approximately RMB258,000 (US\$39,000), of which approximately RMB129,000 (US\$19,500) had been paid.

22. SUBSEQUENT EVENTS-continued

On April 22, 2011, Beijing Ronghe Zhihui Network Software Services Co., Ltd. (“Beijing Ronghe Zhihui”), a PRC company with a registered capital of RMB50,000 was established. Beijing Ronghe Zhihui is wholly-owned by Ninetowns Suitable Estate.

In June 2011, we entered into receivable settlement agreements with certain customers. The agreements provide for the waiver of approximately RMB23 million of unpaid receivables, for the repayment of approximately RMB4.75 million of unpaid receivables by December 31, 2011, and the repayment of approximately RMB4.75 million of unpaid receivables by December 31, 2012. 100% of these balances are included in the Company’s allowance for doubtful accounts as of December 31, 2010.

OTHER CORPORATE INFORMATION

Directors and Executive Officers

DIRECTORS

Ng, Kin Fai
Director

Wang, Shuang
Director

Martin Cheung
Independent Director

Lee, Mark Ming Hsun
Independent Director

Zhang, Dachun
Independent Director

Chen, Fushan
Independent Director

CORPORATE GOVERNANCE

Audit Committee

Lee, Mark Ming Hsun
Zhang, Dachun
Martin Cheung

Nominating Committee

Lee, Mark Ming Hsun
Zhang, Dachun
Chen Fushan

Compensation Committee

Lee, Mark Ming Hsun
Zhang, Dachun
Chen Fushan

EXECUTIVE OFFICERS

Wang, Shuang
Chief Executive Officer

Fork, Tommy
Chief Financial Officer

Wu, Bolin
Chief Technology Officer

Ren, Xiaoguang
President

Dong, Min
Senior Vice President
Legal Affairs and Human Resources

CORPORATE INFORMATION

Corporate Information

Corporate Headquarter

Ninetowns Internet Technology Group Company
Limited
22/F, Building #1, Capital A Partners,
No. 20 Gongti East Road,
Chaoyang District, Beijing 100020

Independent Auditor

GHP Horwath, P.C.
1670 Broadway, Suite 3000
Denver, CO 80202, USA

Investor Relations

Investor inquiries maybe directed to:

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Website: www.ninetowns.com/english

Stock Exchange Listing

Ninetowns American Depositary Receipt
(one ADS = one ordinary share)
trades on the NASDAQ Global Market
under the symbol “NNE”

ADR Depository Bank

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

Annual General Meeting

The annual meeting of shareholders will be held on
Friday, December 2, 2011 at 11:00am at:
Ninetowns Conference Room
23/F, Building #1, Capital A Partners,
No. 20 Gongti East Road,
Chaoyang District, Beijing 100020