

NINETOWNS INTERNET TECHNOLOGY GROUP CO LTD
Form 20-F
May 15, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 20-F

(Mark One)

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

OR

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

For the fiscal year ended December 31, 2013

OR

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

OR

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

Date of event requiring this shell company report

For the transition period from _____ to _____

Commission file number: 000-51025

Ninetowns Internet Technology Group Company Limited

(Exact name of Registrant as specified in its charter)

Not Applicable

(Translation of Registrant's name into English)

Cayman Islands

(Jurisdiction of incorporation or organization)

22nd Floor, Building No.1

Capital A Partners, No. 20 Gong Ti East Road

Chaoyang District Beijing 100020

The People's Republic of China

(Address of principal executive offices)

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

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

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

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

* Not for trading, but only in connection with the listing on the Nasdaq Global Market of the American Depositary Shares.

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

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

None

(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report. 38,791,834 ordinary shares, par value HK\$0.025 per share as of December 31, 2013

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

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

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

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

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

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

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

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

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Introduction

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

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

References to China or the PRC are to the People's Republic of China, excluding Taiwan, Hong Kong and Macau. Facts and statistics in this annual report relating to the enterprise software, B2C and real estate markets, the PRC import/export industry and economic data are derived from various government and research publications.

Cautionary Note Regarding Forward-looking Statements

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

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

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

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

our ability to adjust to technological change; and

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

These forward-looking statements involve various risks and uncertainties. Although we believe that our expectations expressed in these forward-looking statements are reasonable, our expectations may turn out to be incorrect. Our actual results could be materially different from our expectations. Important risks and factors that could cause our actual results to be materially different from our expectations are generally set forth in Item 3.D Key Information Risk Factors beginning on page 5 of this annual report and other sections in this annual report.

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

PART I

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

Not applicable.

Item 2. Offer Statistics and Expected Timetable.

Not applicable.

Item 3. Key Information.

A. Selected financial data

The following table shows selected consolidated financial information and other data for our business. You should read the following information in conjunction with our financial statements and the accompanying notes and Item 5 Operating and Financial Review and Prospects of this annual report. The selected statement of operations data and cash flow data for the years ended December 31, 2011, 2012 and 2013 and the selected balance sheet data as of December 31, 2012 and 2013 are derived from our audited consolidated financial statements, which are included in this annual report beginning on page F-1. These audited consolidated financial statements and the related notes thereto have been prepared in accordance with accounting principles generally accepted in the United States, or U.S. generally accepted accounting principles, or U.S. GAAP.

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The selected statement of operations data for 2009 and 2010 and the selected balance sheet data as of December 31, 2009, 2010 and 2011 are derived from our audited consolidated financial statements which have not been included in this annual report.

In thousands, except per share and per ADS data	For the years ended December 31,					
	2009 RMB	2010 RMB	2011 RMB	2012 RMB	2013 RMB	2013 ⁽¹⁾ US\$
Selected statement of operations data:						
Total net revenues:						
Enterprise software and related customer maintenance services	58,387	49,650	61,014	59,794	56,567	9,344
Software development services	17,363	23,809	5,963	7,481	6,004	992
B2C e-commerce	3,889	5,448	8,239	23,112	45,276	7,479
	79,639	78,907	75,216	90,387	107,847	17,815
Cost of revenues:						
Enterprise software and related customer maintenance services						
Software development services	(11,552)	(10,144)	(2,281)	(2,365)	(2,696)	(445)
B2C e-commerce	(6,308)	(6,910)	(8,452)	(18,363)	(37,527)	(6,199)
	(17,860)	(17,054)	(10,733)	(20,728)	(40,223)	(6,644)
Gross profit	61,779	61,853	64,483	69,659	67,624	11,171
Operating expenses:						
Selling and marketing	(13,771)	(16,663)	(22,493)	(21,647)	(25,721)	(4,249)
General and administrative	(62,030)	(89,531)	(79,354)	(77,841)	(68,896)	(11,381)
Research and development	(17,373)	(15,695)	(11,042)	(14,872)	(16,659)	(2,752)
(Allowance for) recovery of doubtful accounts, net	(26,204)	(2,585)	6,841	3,807	4,296	710

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In thousands, except per share and per ADS data	For the years ended December 31,					
	2009 RMB	2010 RMB	2011 RMB	2012 RMB	2013 RMB	2013 ⁽ⁱ⁾ US\$
Total operating expenses	(119,378)	(124,474)	(106,048)	(110,553)	(106,980)	(17,672)
Loss from operations	(57,599)	(62,621)	(41,565)	(40,894)	(39,356)	(6,501)
Interest income	4,274	3,686	1,922	5,718	5,602	925
Gain on sales of short-term investments	35,474	65,146	32,689	113,644	6,526	1,078
Change in fair value of marketable options	27,684	(18,211)	7,252	(16,094)	853	141
Gain (loss) on investments under cost method		12,153	(3,373)			
Income (loss) from equity method of investments			1,639	(857)	(463)	(76)
Other income	3,911	13,448	5,994	7,706	13,496	2,229
Income (loss) before income tax and non-controlling interest	13,744	13,601	4,558	69,223	(13,342)	(2,204)
Income tax expense	(4,100)	(878)	(1,048)	(671)	(424)	(70)
Income (loss) from continuing operations before non-controlling interest	9,644	12,723	3,510	68,552	(13,766)	(2,274)
Loss from discontinued operations, net of tax	(8,401)	(398)				
Net income (loss)	1,243	12,325	3,510	68,552	(13,766)	(2,274)
Attributable to non-controlling interest	89		15	(3)	(116)	(19)
Attributable to the Company	1,332	12,325	3,525	68,549	(13,882)	(2,293)
Income (loss) from continuing operations per share and ADS:						
Basic	0.28	0.35	0.09	1.81	(0.37)	(0.06)
Diluted	0.28	0.34	0.09	1.67	(0.37)	(0.06)
Loss from discontinued operations per share and ADS:						
Basic	(0.24)	(0.01)				
Diluted	(0.24)	(0.01)				
Income (loss) per share and ADS:						
Basic	0.04	0.34	0.09	1.81	(0.37)	(0.06)
Diluted	0.04	0.33	0.09	1.67	(0.37)	(0.06)
Selected cash flow data:						
Net cash (used in) provided by operating activities	(26,478)	8,854	(62,994)	(24,800)	(5,554)	(917)
Net cash (used in) provided by investing activities	(76,858)	21,761	(224,784)	18,109	267,342	44,163
Net cash provided by (used in) financing activities			49,523	(29)		

In thousands, except share, per share and per ADS data	As of December 31,					
	2009 RMB	2010 RMB	2011 RMB	2012 RMB	2013 RMB	2013 ⁽ⁱ⁾ US\$
Selected balance sheet data:						
Cash and cash equivalents	473,448	500,618	257,345	249,912	416,163	68,745
Restricted cash	790	245	88	84	84	14
Short-term investments:						
Trading securities	917	523	708	518	519	86
Available-for-sale securities	170,309	231,339	245,090	289,995	20,971	3,464
Trade receivables, net of allowance for doubtful accounts	18,121	2,042	3,921	2,327	8,520	1,407

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Term deposits	25,000	8,154	5,088	5,266	5,437	898
Assets held for sale, current					95,591	15,791
Real estate property under development			305,469	527,702	199,966	33,032
Investments under equity method			230,579	84,923	84,460	13,952
Assets held for sale, non-current					357,340	59,028
Total assets	979,591	989,584	1,282,124	1,396,056	1,370,391	226,373
Deferred revenue	10,453	10,699	14,332	13,472	10,872	1,796
Liabilities held for sale					277,070	45,769
Deferred subsidies			240,240	276,200		
Total liabilities	57,255	40,759	296,720	357,060	342,354	56,553
Net assets	922,336	948,825	985,404	1,038,996	1,028,037	169,820
Total equity of the Company	922,336	948,825	985,404	1,038,996	1,028,037	169,820
Number of ordinary shares outstanding(ii)	35,791,834	35,791,834	38,791,834	38,791,834	38,791,834	38,791,834

(i) For the convenience of the reader, RMB amounts are expressed in U.S. dollars at the rate of RMB6.0537 to US\$1.00, representing the rate as certified by the H.10 weekly statistical release of the Federal Reserve Board on December 31, 2013.

(ii) Number of ordinary shares outstanding included reserved shares and repurchased shares.

In 2012, the Company repurchased 3,900 ADSs. 192,478 previously non-vested shares became vested in 2013.

Exchange Rate Information

Our business is primarily conducted in China and a substantial majority of our revenues are denominated in Renminbi. The exchange rate refers to the exchange rate as set forth in the H.10 weekly statistical release of the Federal Reserve Board. Unless otherwise indicated, conversions of RMB into U.S. dollars in this annual report are based on the exchange rate, as of December 31, 2013, which was RMB6.0537 to US\$1.00. We make no representation that any Renminbi or U.S. dollar amounts could have been, or could be, converted into U.S. dollars or Renminbi, as the case may be, at any particular rate, the rates stated below, or at all. The PRC government imposes controls over its foreign currency reserves in part through direct regulation of the conversion of Renminbi into foreign exchange and through restrictions on foreign trade. The following table sets forth information concerning exchange rates between the Renminbi and the U.S. dollar for the periods indicated.

	Period End	Noon Buying Rate		
		Average ⁽¹⁾	Low	High
(RMB per US\$1.00)				
2009	6.8259	6.8295	6.8470	6.8176
2010	6.6000	6.7603	6.8330	6.6000
2011	6.2939	6.4475	6.6364	6.2939

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2012	6.2301	6.3088	6.3879	6.2221
2013	6.0537	6.1412	6.0537	6.2438
Most recent Six Months				
November 2013	6.0922	6.0929	6.0993	6.0903
December 2013	6.0537	6.0738	6.0927	6.0537
January 2014	6.0590	6.0509	6.0600	6.0402
February 2014	6.1448	6.0816	6.1448	6.0591
March 2014	6.2164	6.1729	6.2273	6.1183
April 2014	6.2591	6.2246	6.2591	6.1966
May 2014 (through May 2, 2014)	6.2591	6.2591	6.2591	6.2591

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

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On May 2, 2014, the exchange rate set forth in the H.10 statistical release of the Federal Reserve Board was RMB6.2591 to US\$1.00.

B. Capitalization and indebtedness

Not applicable.

C. Reasons for the offer and use of proceeds

Not applicable.

D. Risk factors

Risks Related to Our Business

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

Sales of our enterprise software and related customer maintenance services and software development services that are either used by the State Administration for Quality Supervision and Inspection and Quarantine of the PRC, or the PRC Inspections Administration, or by regional PRC inspection and quarantine bureaus, have accounted for a substantial portion of our total net revenues. In the near future, we expect to generate a substantial portion of our total net revenues through (i) sales of enterprise software and related customer maintenance services and (ii) B2C e-commerce business. Net revenues from sales of enterprise software and related customer maintenance services for PRC Inspections Administration filings accounted for 81.1%, 66.2% and 52.5% of our total net revenues in 2011, 2012 and 2013, respectively.

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

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

substantially all of our revenues from that business.

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

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

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

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

We generated a significant portion of our total net revenues from the sales of our enterprise software and related customer maintenance services and B2C e-commerce business in 2013. Currently, we are in the process of expanding our business focus from the development of software products and the provision of software development services to other potential business ventures, such as real estate. We anticipate that a material portion of our net revenue in the future will be derived from businesses that are not directly related to sales of our enterprise software and related customer maintenance services or the provision of software development services.

In April 2010, we began offering our B2C e-commerce food and household products through our web portal. In April 2011, we began investing in real estate development.

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

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

As of May 14, 2014, Shuang Wang, our Chief Executive Officer and a director of our company, or Mr. Wang, and Min Dong, our Senior Vice President of Legal Affairs, Administration and Human Resources and the spouse of Mr. Wang, or Ms. Dong, beneficially own 17.6% of our ordinary shares. Mr. Wang and Ms. Dong have substantial influence over the management and policies of our company and the outcome of most corporate actions. In addition, Mr. Yong Ping Duan, or Mr. Duan, and Technology Pioneer Corp., or Technology Pioneer, beneficially own 18.5% and 8.0% of our ordinary shares, respectively. As a result, Mr. Wang, Ms. Dong, Mr. Duan and Technology Pioneer have the power to take corporate actions which other shareholders may not believe are in their best interests or in the best interests of our company. There can be no assurance that Mr. Wang, Ms. Dong, Mr. Duan and Technology Pioneer will not cause our company to take such corporate actions.

Mr. Wang and Ms. Dong beneficially own 100.0% of Ninetowns Import & Export e-Commerce Co., Ltd., or Import & Export, which in turn owns a 49.0% equity interest in iTowNet, the operator of the PRC Inspections Administration's data exchange platforms and electronic processing system. iTowNet is 51.0% owned by the PRC Inspections Administration and operates the data exchange platforms that interface between international trade enterprises using our enterprise software and the PRC Inspections Administration's internal electronic processing systems. iTowNet receives a fee of RMB5.0 from the end-users for each submission made over its data exchange platforms. Mr. Wang is a non-executive director and the vice-chairman of the board of directors of iTowNet. Due to their ownership interest in iTowNet and Mr. Wang's position as a director of iTowNet, the interests of Mr. Wang and Ms. Dong may also differ from those of our other shareholders. Mr. Xiaoguang Ren, who is our President, or Mr. Ren, is also a non-executive director of iTowNet. Mr. Bolin Wu, who is our General Manager, Research and Development and Chief Technology Officer, or Mr. Wu, is the sole supervisor of iTowNet. As the supervisor of iTowNet, Mr. Wu is responsible for overseeing the financial operations of iTowNet, the actions of its board of directors and senior management and their compliance with relevant laws and iTowNet's charter documents.

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

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

As of May 14, 2014, we have franchise agreements with our four franchisees including (i) Beijing Ninetowns Zhi Fang Software Technology Co., Ltd., or Ninetowns Zhi Fang, (ii) Beijing Ninetowns Xin He Software Technology Co., Ltd., or Ninetowns Xin He, (iii) Guangzhou Ninetowns Wang Li Software Co., Ltd., or Ninetowns Wang Li and (iv) Shenzhen Ninetowns Enke Software Technology Co., Ltd., or Ninetowns Enke, who as a result of their purchases of enterprise software and related customer maintenance services for distribution to end-users, are also four of our largest customers. We currently do not have any distributor.

Our net revenues from sales of our enterprise software and related customer maintenance services from Ninetowns Zhi Fang were approximately RMB25.3 million, RMB22.2 million and RMB22.0 million (US\$3.6 million), which represented 33.7%, 24.5% and 20.4% of our total net revenues for 2011, 2012 and 2013, respectively.

Our net revenues from sales of our enterprise software and related customer maintenance services from Ninetowns Xin He were approximately RMB12.3 million, RMB16.0 million and RMB16.3 million (US\$2.7 million), which represented 16.4%, 17.7% and 15.1% of our total net revenues for 2011, 2012 and 2013, respectively.

Our net revenues from sales of our enterprise software and related customer maintenance services from Ninetowns Wang Li were approximately RMB8.6 million, RMB8.9 million and RMB8.5 million (US\$1.4 million), which represented 11.4%, 9.8% and 7.9% of our total net revenues for 2011, 2012 and 2013, respectively.

Our net revenues from sales of our enterprise software and related customer maintenance services from Ninetowns Enke were approximately RMB1.7 million, RMB1.9 million and RMB2.0 million (US\$0.3 million), which represented 2.2% , 2.1% and 1.9% of our total net revenues in 2011, 2012 and 2013, respectively.

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

In the event one or more of our customers discussed above discontinues their businesses or their dealings with us, and we are unable to find an adequate replacement for such customer in a timely manner, we would suffer a decline in total net revenues and in turn would need to significantly increase our sales and marketing expenditures.

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

Our executive officers, directors and shareholders with 5.0% or more shareholding of our company and their affiliates beneficially own approximately 57.0% of our outstanding ordinary shares. Such concentration of ownership might have the effect of delaying or preventing a change in control of our company which could in turn reduce the market price of our ADSs and the voting and other rights of our other shareholders.

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

We offer one year of customer maintenance services with our iDeclare.CIQ basic package, and charge a fee of RMB1,500 per licensee for customer maintenance services each year thereafter. In 2013, we renewed annual maintenance service contracts with approximately 18,105 users whose contracts were due for renewal in 2013, representing approximately 12.4% of our users whose annual maintenance service contracts were due for renewal in 2013. Not all of our users and potential users were accustomed to being charged for this type of service. In 2013, we recognized approximately RMB53.0 million (US\$8.8 million) from the provision of customer maintenance services (including the fees we collected from the pay-per-transaction users) which represents 49% of our total net revenue.

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

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

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

Sales of iDeclare.CIQ and related customer maintenance services accounted for approximately 81.1%, 66.2% and 52.5% of our total net revenues in 2011, 2012 and 2013, respectively. Any of the following events could materially reduce our total net revenues.

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

any significant shift in our marketing efforts,

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

any other adverse development specific to iDeclare.CIQ or

a significant slowdown of China's economy.

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

We received a substantial amount of income from our investment activities in 2013, including investment in publicly-listed securities in China's A-Share stock markets and equity securities and call and put options in the U.S. securities markets. We generated approximately RMB32.7 million, RMB113.6 million and RMB6.5 million (US\$1.1 million) of gains on sales of short term investments in 2011, 2012 and 2013, respectively. We do not have professional investment expertise or employ professional investment personnel. The success of our investments depends on factors that are not entirely within our control, including the performances and volatility of stock markets in China and U.S. Therefore, we cannot guarantee the sustainability of our gains on sales of short term investments. Should we lose money in our investment activities, our financial condition may be significantly and adversely affected.

Competition could reduce our profit margins and revenues.

We compete with companies that have expertise in marketing and providing government-related software products and services. There are companies that provide software products and services similar to ours. In addition, there are companies in China that provide such products and services to PRC government agencies other than the PRC Inspections Administration. In particular, there are regional software providers in China implementing systems for provincial branches of government agencies such as the Customs General Administration of the PRC, or PRC Customs. Furthermore, we are aware of one other software provider in China, Fujian Rongji Software Development

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

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

In April 2010, we began offering our B2C e-commerce food and household products through our web portal, www.tootoo.cn.

In 2011, we commenced our PRC real estate development activities by acquiring land use rights and majority interests in companies engaging in the real estate development business. If we are presented with additional opportunities, we may acquire additional complementary companies, products or technologies, or invest in new businesses. Future acquisitions and investments and the subsequent integration of new companies, assets or business ventures would require significant time and attention from our management. The diversion of our management's attention to integrate such acquisitions or investments and any difficulties encountered in any integration process could have a material adverse effect on our ability to manage our business and expose us to potential risks, including risks associated with the integration of new operations, technologies and personnel, unforeseen or hidden liabilities, the diversion of resources from our existing businesses and technologies, the inability to generate sufficient revenues to offset the costs and expenses of acquisitions and investments, and potential loss of, or harm to, our relationships with employees, customers and suppliers.

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

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

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

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

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

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

We have the 2004 Plan (as amended) and the 2006 Share Incentive Plan, or collectively, the Plans. As of December 31, 2013, we granted options under the Plans with the right to purchase a total of 6,185,469 ordinary shares and we granted 3,259,979 non-vested shares, of which 2,843,503 unexercised options and 53,852 unvested shares had been returned to the pool of our share-based awards as a result of resignation from employment by former employees.

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

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

As we believe is consistent with the practice of other software development companies in China engaged in government-related work, we often commence software development projects based on oral commitments from our

customers. As a result, we may need to incur substantial expenses without assurance that we will be paid for our software development services. Furthermore, we may not recognize any revenue from software development projects in any given period because we recognize revenue from such services only when a contract has been signed. If our customers do not pay us, or delay paying us, for our software development services, our working capital requirements and expenses may increase without a corresponding increase in net revenues, which would adversely affect our profitability.

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

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

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

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

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

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

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

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

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

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

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

Additionally, under the New EIT Law, enterprises established under the laws of foreign countries or regions whose de facto management bodies are located within the PRC are considered resident enterprises and are generally subject to the enterprise income tax, or EIT, at the rate of 25.0% on its global income. However, the New Income Tax Law does not define the term de facto management bodies. Under the implementation rules to the Enterprise Income Tax Law, a de facto management body is defined as a body that has material and overall management and control over the manufacturing and business operations, personnel and human resources, finances and other assets of an enterprise. In addition, the tax circular mentioned above details that certain Chinese-invested enterprises will be classified as resident enterprises if the following are located or resident in China: senior management personnel and departments

that are responsible for daily production, operation and management; financial and personnel decision making bodies; key properties, accounting books, company seal, and minutes of board meetings and shareholders meetings; and half or more of the senior management or directors having voting rights. Certain members of our board of directors and our management are currently located in the PRC and if they remain located in the PRC after the effective date of the New EIT Law, we may be considered to be a resident enterprise and therefore may be subject to the EIT at the rate of 25.0% on our global income in the PRC.

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

Pursuant to SAT Circular No. 698, except for the purchase and sale of equity through a public securities market, where a non-resident enterprise transfers the equity interests in a PRC resident enterprise indirectly by disposition of the equity interests in an overseas holding company, or an Indirect Transfer, and the overseas holding company is located in a tax jurisdiction that has an effective tax rate less than 12.5% or does not tax foreign income of its residents, the non-resident enterprise, being the transferor, must report this Indirect Transfer to the appropriate tax authority of the PRC resident enterprise. Using a substance over form approach, the PRC tax authority may disregard the existence of the overseas holding company if it lacks a reasonable commercial purpose and was established for the purpose of reducing, avoiding or deferring PRC tax. As a result, gains derived from such as Indirect Transfer may be subject to PRC tax at a rate of up to 10%. SAT Circular No. 698 also provides that, where a non-PRC resident enterprise transfers its equity interests in a PRC resident enterprise to its related parties at a price lower than the fair market value, the relevant tax authority has the power to make a reasonable adjustment to the taxable income of the transaction.

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

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

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

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

It is likely that we are considered a passive foreign investment company for 2013, which could lead to additional taxes for U.S. holders of ADSs.

Special U.S. federal income tax rules apply to U.S. holders of shares of a non-U.S. corporation that is classified as a passive foreign investment company, or PFIC, for U.S. federal income tax purposes. The determination of our PFIC status principally depends upon the composition of our assets, including goodwill, and the amount and nature of our income, from time to time. The amount of goodwill depends in part on the market value of our ADSs or ordinary shares, which may be especially volatile in a technology-related enterprise. We have limited control over these variables. Accordingly, there can be no assurance that we would not be considered a PFIC for any taxable year.

It is likely that we are classified as a PFIC for 2013. As a result, U.S. holders of shares may be subject to United States federal income tax consequences that are less favorable than those that would apply if we were not a PFIC.

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

The success of our B2C e-commerce business depends on our ability to identify and respond to constantly changing consumer preferences.

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

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

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

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

Before commencing, and during the course of, the development of a project, we also need to apply for various licenses, permits, certificates and approvals, including land use rights certificates, construction site planning permits, construction work planning permits, construction permits, pre-sale permits and completion acceptance certificates. We need to satisfy various requirements to obtain these certificates and permits. We have obtained the land use rights certificate and construction site planning permit for Yizhuang. To date, we are still in the process of applying for other certificates and permits, and we cannot guarantee that we will not encounter serious delays or difficulties in this process. In the event that we fail to obtain the necessary certificates and permits for any of our projects, or a serious delay occurs, we may not be able to maintain our development schedule and our future business and cash flows may be adversely affected. We may also be forced to forfeit land to the government if we fail to comply with statutory development deadlines imposed under land grants or the terms of the land use rights grant contracts.

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

In 2011 and 2012, we formed several joint ventures with our partners and we may continue to pursue joint venture opportunities for our real estate business. Any joint venture that we pursue may be accompanied by a number of risks. We may not be in a position to exercise sole decision-making authority regarding the joint ventures. We may not be able to control the quality of products produced by the joint venture. Depending on the terms of the joint venture agreement, we may need the consent of our joint venture partner(s) for the joint venture to take certain actions, such as the payment of distributions. In addition, our joint venture partners and the joint venture themselves may hold different views or have different interests from ours, and therefore may compete in the same market with us, in which case our interest and future development may be materially adversely affected.

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We rely on third-party contractors.

Substantially all of our real estate project construction and related work are outsourced to third-party contractors. We are exposed to risks that the performance of our contractors may not meet our standards or specifications. Negligence or poor work quality by contractors may result in defects in our buildings or residential units, which could in turn cause us to suffer financial losses, harm our reputation or expose us to third-party claims. We work with multiple contractors on different projects and we cannot guarantee that we can effectively monitor their work at all times. Although our construction and other contracts contain provisions designed to protect us, we may be unable to successfully enforce these rights and, even if we are able to successfully enforce these rights, the third-party contractor may not have sufficient financial resources to compensate us. Moreover, the contractors may undertake projects from other property developers, engage in risky undertakings or encounter financial or other difficulties, such as supply shortages, labor disputes or work accidents, which may cause delays in the completion of our property projects or increase our costs.

We do not maintain business liability or disruption insurance and any business disruption or litigation we experience might result in our incurring substantial costs and diversion of resources.

We do not maintain business liability insurance which we believe is in line with the market practice in China. While business disruption insurance is available, we have determined that the risks of disruption and the cost of insurance are such that we do not require it at this time. Any business disruption, litigation or natural disaster might therefore result in substantial costs and diversion of our resources which would have an adverse effect on our business, financial condition and results of operations.

Risks related to our industry

The software industry is subject to rapid changes in technology and our failure to develop and introduce new enterprise software could reduce our market competitiveness and ability to generate revenues.

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

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

Such consequences would have a negative impact on our business, results of operations and financial condition.

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

The software industry in China and the regulatory environment has been and continues to be subject to uncertainty. Although the PRC government adopted policies to encourage the development of the PRC electronic government, or e-government, industry through the Three Digitizations Project, there can be no assurance that policies and the government's standards, rules and regulations relating to the e-government software industry, such as the Regulations for the Protection of Computer Software, will not be implemented, interpreted or revised in a manner that may force us to implement changes to our existing enterprise software or change how we provide products and services to our customers, which could increase our expenses and decrease our profitability. See Item 4 of this annual report,

Information on the Company Business overview Regulation for a discussion of the laws and regulations that apply to our company. We cannot accurately predict the circumstances that would cause the PRC government to implement, interpret or revise its policies in such a manner. Nevertheless, the PRC government could adopt measures to more closely regulate the use of the Internet or the software industry in China in order to enhance the government's control over the Internet or over the content of software being distributed in China.

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

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

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

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

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

The process of acquiring development and land use rights and developing land involves significant risks as we may be required to commit material financial and managerial resources in acquiring such rights and in constructing the property development infrastructure, which generally takes several years, before the property development project generates any revenue. We may need to delay or change the structure of property developments after we have begun to explore them and may lose deposits paid to participate in the land tender process or fail to recover expenses and construction costs already incurred. We may even be required to pay penalties and/or compensation to the government authorities and purchasers as a result.

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

may adversely affect our ability to generate total net revenues or the profitability of our real estate development business.

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

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

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Risks related to doing business in China

Adverse economic, political, social or legal developments or a decrease in domestic demand in China could result in a reduction in international trade activities involving China, which could in turn reduce the demand for our products and services.

All of our total net revenues have been, and are for the foreseeable future expected to be, derived from the PRC market and substantially all of our operating assets are located in China. Accordingly, our operating results and financial condition are largely subject to economic, political, social and legal developments in China as well as changes in the demand for our enterprise software and software development services by international trade enterprises and PRC government agencies in China. There can be no assurance that such developments will not adversely affect our performance and profitability.

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

economic structure;

level of government involvement in the economy;

level of development;

level of capital reinvestment;

control of foreign exchange;

methods of allocating resources; and

balance of payments position.

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

In addition, there can be no assurance that any growth in the PRC economy will be steady or that any slowdown will not have a negative effect on our business; that deflation will not reoccur in the PRC economy in the foreseeable future; or that the level of international trade to and from China will not cease to grow at historical rates or even decrease, which could negatively impact demand for our enterprise software. Finally, our results of operations and

financial condition could be negatively affected by adverse changes in government monetary policies, import/export policies and regulations, tax regulations or policies and regulations affecting the software industry. In August 2013, 1,507 categories of items that were originally contained in the Catalogue of Import and Export Commodities Subject to Inspection and Quarantine by the Entry-Exit Inspection and Quarantine Authorities, or the Catalogue, were no longer subject to quality inspection prior to export. In addition, in recent years, the PRC government implemented a number of measures, such as raising bank reserves against deposit rates, to place additional limitations on the ability of commercial banks to make loans, in order to slow growth in certain segments of the PRC economy it believed to be overheating. These actions, as well as future actions and policies of the PRC government, could result in a reduction in international trade activities involving China, which could in turn reduce the demand for our products and services.

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

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

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

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

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

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

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

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

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

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

Contractual arrangements may not be as effective in providing us with control over our VIE as direct ownership. If we had direct ownership of our VIE, we would be able to exercise our rights as a shareholder to effect changes in the board of directors of our VIE, which in turn could effect changes, subject to any applicable fiduciary obligations, at the management level. Due to our VIE structure, we have to rely on contractual rights to effect control and

management of our VIE, which exposes us to the risk of potential breach of contract by the shareholders of our VIE. In addition, as our VIE is jointly owned by its shareholders, it may be difficult for us to change our corporate structure if such shareholders refuse to cooperate with us.

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

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

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

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

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

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

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

In early 2003, several economies in Asia, including Hong Kong and China, were affected by the outbreak of Severe Acute Respiratory Syndrome, or SARS. Several confirmed or suspected SARS cases were reported in early 2004 in Beijing and Anhui Province in China. In addition, lethal outbreaks of avian influenza infection among poultry were reported by several countries in Asia, including China in 2005. In March 2007, February 2008, and early 2009, several fatal cases of avian influenza were reported in various provinces across China. In April 2009, lethal outbreaks of swine flu were reported by several economies around the world, including Hong Kong and various provinces across China. In early June 2009, the World Health Organization declared the outbreak to be a pandemic, while noting that most of the illnesses were of moderate severity. The PRC Ministry of Health has reported several hundred deaths caused by the swine flu. There have been recent reports of outbreaks of an avian flu caused by the H7N9 virus, including confirmed human cases, in China. If there is a recurrence of an outbreak of SARS, avian influenza or swine flu, it may adversely affect our total net revenues, growth and profits. For instance, a recurrence of SARS, avian influenza, swine flu or any other epidemic may reduce the level of economic activity in affected areas and negatively impact international trade activities involving China, which could have a negative impact on our business. In addition, health or other government regulations may require temporary closure of our offices, government offices or the offices of our customers, which will severely disrupt our business operations and have a material adverse effect on our total net revenues, growth and profits.

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

Because most of our future revenues are expected to be in the form of Renminbi, any future restrictions on currency exchanges may limit our ability to use revenues generated in Renminbi to fund future business activities outside China or to make dividend or other payments in U.S. dollars. There are significant restrictions on the convertibility of the

Renminbi, including the restriction that foreign-invested enterprises may only buy, sell and/or remit foreign currencies after providing valid commercial documents at banks authorized to conduct foreign exchange business. In addition, conversion of Renminbi for capital account items, including direct investment and loans, is subject to approval of the State Administration of Foreign Exchange of the PRC, or SAFE, and companies are required to open and maintain separate foreign exchange accounts for capital account items. We cannot be certain that the PRC regulatory authorities will not impose more stringent restrictions on the convertibility of the Renminbi, especially with respect to foreign exchange transactions.

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

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

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

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

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

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

Because of uncertainty over how Notice 75 will be interpreted and implemented, we cannot predict how it will affect our business operations or future strategies. For example, our present and prospective PRC subsidiaries or VIE's ability to conduct foreign exchange activities, such as remitting dividends and foreign-currency denominated borrowings, may be subject to compliance with Notice 75 requirements by our PRC resident shareholders. Despite our efforts to fully comply with the SAFE regulations, we cannot assure you that we will obtain, or receive waivers from, any necessary approvals or not be found in violation of the SAFE regulations or any other related foreign exchange regulations. In particular, we cannot assure you that we will be able to cause all our present or prospective PRC

resident shareholders to comply with all SAFE regulations. Any failure by our PRC resident shareholders to comply with Notice 75 or our inability to secure required approvals or registrations may subject us to fines or legal sanctions, limit our subsidiaries' ability to make distributions or pay dividends, restrict our overseas or cross-border investment activities or affect our ownership structure, any of which could materially affect our business and prospects.

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

In December 2006, the PBOC promulgated the Administrative Measures for Individual Foreign Exchange, which set forth the requirements for foreign exchange transactions by PRC individuals under either current accounts or capital accounts. In January 2007, SAFE issued the Implementation Rules of the Administrative Measures for Individual

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Foreign Exchange, which, among other things, specified approval requirements for certain capital account transactions such as a PRC citizen's participation in the employee stock ownership plans or stock option plans of an overseas publicly listed company. On March 28, 2007, SAFE promulgated the Processing Guidance on Foreign Exchange Administration for Domestic Individuals Participating in Employee Stock Ownership Plans or Stock Option Plans of Overseas-Listed Companies Hui Zong Fa [2007] No. 78, Circular 78. On 15 February 2012, SAFE issued a new Circular on Domestic Individuals' Participation in Share-based Incentive Plans of overseas Listed Companies (Hui Fa [2012] No. 7), or Circular 7, to replace Circular 78. Under Circular 7, PRC citizens who participate in share-based incentive plans of an overseas publicly listed company are required, through a qualified PRC domestic agent or PRC subsidiary of such overseas publicly listed company, to register with the SAFE and complete certain other procedures. We believe that the registration and approval requirements contemplated in Circular 7 will be burdensome and time consuming.

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

Risks related to our ADSs and ordinary shares

Your ability to participate in any future rights offerings may be limited, which may cause dilution to your holdings.

We may from time to time distribute rights to our shareholders, including rights to acquire our securities. Under the deposit agreement, the depository will not offer you those rights unless the distribution to ADS holders of both the rights and any related securities are either registered under the U.S. Securities Act of 1933, as amended, or the Securities Act, or exempt from registration under the Securities Act. We are under no obligation to file a registration statement with respect to any such rights or securities or to cause such a registration statement to be declared effective. Moreover, we may not be able to establish an exemption from registration under the Securities Act. Accordingly, you may be unable to participate in our rights offerings and may experience dilution in your holdings.

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

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

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

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

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

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

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

conditions in the international trade industry; and

announcements by us or our competitors of significant acquisitions, strategic partnerships, joint ventures or capital commitments.

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

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

The SEC generally exempts foreign private issuers such as our company from its proxy solicitation requirements. As a holder of ADSs, you may instruct the depositary of our ADSs to vote the ordinary shares underlying your ADSs, but only if we ask the depositary to ask for your instructions. Otherwise, you will not be able to exercise your right to vote unless you withdraw the ordinary shares. However, you may not know about the meeting enough in advance to withdraw the shares. If we ask for your instructions, the depositary will notify you of the upcoming vote and arrange to deliver our voting materials to you. We cannot assure you that you will

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receive the voting materials in time to ensure that you can instruct the depositary to vote your ordinary shares. In addition, the depositary and its agents are not responsible for failing to carry out voting instructions or for the manner of carrying out voting instructions. This means that you may not be able to exercise your right to vote and there may be nothing you can do if the ordinary shares underlying your ADSs are not voted as you request.

We and the depositary may amend the deposit agreement at any time without your consent, and by doing so may change your rights thereunder in a manner with which you disagree.

We may agree with the depositary to amend the deposit agreement without your consent for any reason. If you continue to hold your ADRs after being notified of such amendment, you will be deemed to have agreed to such amendment. In the event you disagree with any such amendment, your only recourse may be to sell your ADSs.

You may not receive distributions on ordinary shares or any value for them if it is illegal or impractical to make them available to you and these restrictions may reduce the value of your ADSs.

The depositary of our ADSs has agreed to pay to you the cash dividends or other distributions it or the custodian receives on our ordinary shares or other deposited securities after deducting its fees and expenses. However, the depositary is not required to do so if it decides that it is unlawful or impractical to make a distribution available to any holders of ADSs. We have no obligation to register ADSs, ordinary shares, rights or other securities under U.S. securities laws. We also have no obligation to take any other action to permit the distribution of ADSs, ordinary shares, rights or anything else to holders of ADSs. This means that you may not receive the distributions we make on our ordinary shares or any value for them if it is illegal or impractical for us to make them available to you. These restrictions may reduce the value of your ADSs.

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

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

We have not adopted any policy regarding the closing of our books relating to our ADSs, nor is there any provision under Cayman Islands law or New York law, or the deposit agreement, that would prevent the transferability of ADSs. Under the deposit agreement, however, the depositary may close its books for our ADR facility from time to time at its discretion, which may prevent you from transferring your ADSs when you wish to do so.

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

We are a holding company, and we rely on dividends from our Chinese subsidiaries and servicing, licensing and other fees paid to our Chinese subsidiaries by our Chinese affiliated entities and their subsidiaries, including servicing any debt we may incur. If our subsidiaries incur debts on their own behalf in the future, the instruments governing the debts may restrict their ability to pay dividends or make other distributions to us, which in turn would limit our ability to pay dividends on our ordinary shares. PRC regulations permit payment of dividends only out of accumulated profits as determined in accordance with PRC accounting standards and regulations. Our subsidiaries in China are also required to set aside a portion of their after-tax profits according to PRC accounting standards and regulations to fund

certain reserve funds that are not distributable as cash dividends.

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

Relevant PRC laws and regulations permit payments of dividends by our PRC subsidiaries only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. In addition, the statutory general reserve fund, which requires annual appropriations of 10% of net after-tax income should be set aside prior to payment of any dividends until the cumulative amount of such reserves reaches 50% of its registered capital. As a result of these and other restrictions under PRC laws and regulations, our PRC subsidiaries and affiliates are restricted in their ability to transfer a portion of their net assets to us either in the form of dividends, loans or advances. The restricted portion amounted to approximately 56.8% of our total consolidated net assets as of December 31, 2013.

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

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

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

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

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

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

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

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

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

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

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

We are incorporated in the Cayman Islands, and we conduct substantially all of our operations through our operating subsidiaries and VIE in China. Most of our directors and officers reside outside of the United States and substantially all of the assets of those persons are located outside of the United States. As a result, it may be difficult or impossible for you to bring an action against us or against these individuals in the United States in the event that you believe that your rights have been infringed under the U.S. securities laws or otherwise. Even if you are successful in bringing an action of this kind, the laws of the Cayman Islands and of China may render you unable to enforce a judgment against our assets or the assets of our directors and officers.

We may be at risk of securities class action litigation.

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

We are required to implement additional controls and procedures in finance and accounting systems to satisfy U.S. reporting requirements. Failure to complete the required assessment as to the adequacy of our internal control over financial reporting could result in the loss of confidence in the reliability of such controls, which may adversely affect the trading price of our ADSs.

As a public reporting company, we are required to comply with the Sarbanes-Oxley Act of 2002 and the related rules and regulations of the Securities and Exchange Commission, including expanded disclosures and accelerated reporting requirements. Compliance with

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Section 404 of the Sarbanes-Oxley Act of 2002 and other requirements may increase our costs and require additional management resources. We have been continuously upgrading and implementing additional controls and procedures in our finance and accounting systems and will need to continue to do so as we grow our business and organization and to satisfy new reporting requirements. If we are unable to complete the required assessment as to the adequacy of our internal control over financial reporting, investors could lose confidence in the reliability of our internal controls over financial reporting, which could adversely affect the trading price of our ADSs.

Our management has determined that our internal control over financial reporting as at December 31, 2013 was effective. However, it is possible that we or our independent registered public accounting firm may identify other significant deficiencies or material weakness in future periods. Such results could cause our investors to lose confidence in the reliability of our internal controls over financial reporting, which could adversely affect the trading price of our ADSs. Furthermore, we anticipate that we will continue to incur increased costs and devote significant management resources to comply with Section 404 of the Sarbanes-Oxley Act of 2002.

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

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

Item 4. Information on the Company.

A. History and development of the Company

We are a Cayman Islands holding company and conduct substantially all of our business through our operating subsidiaries and VIE in China.

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

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

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

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

In December 2010, Beijing Ninetowns Investment acquired a 29.7% equity interest in Shouchuang Caifu Gengyin (Tianjin) Equity Investment Fund Limited Partnership, or Shouchuang Gengyin.

On February 24, 2011, Ninetowns Ports acquired a 70% equity interest in Dalian Changzheng, a PRC limited liability company originally established by Aviation Wanyuan Industry Co., Ltd., or Aviation Wanyuan, for RMB117.0 million. Following the acquisition of this equity interest, we began including the results of operation and other financial data of Dalian Changzheng in the consolidated financial statements of the Company beginning with the fiscal year ended December 31, 2012.

On March 10, 2011, we dissolved Shanghai Tootoo.

On March 16, 2011, Huainan Ninetowns Suitable Estate Co., Ltd., or Huainan Suitable Estate, a PRC company with registered capital of RMB10.0 million was established by Ninetowns Ports. On June 28, 2011, Zhongcheng Trust Co., Ltd., or Zhongcheng, entered into a capital increase agreement with Ninetowns Ports and Huainan Suitable Estate to inject the funds raised under the 2011 Zhongcheng Trust Huainan Investment Trust Plan, or the Investment Trust Plan into Huainan Suitable Estate. Zhongcheng and Ninetowns Ports agreed to increase the registered capital of Huainan Suitable Estate by RMB90.0 million to RMB100.0 million. After the capital increase in July 2011, 10% of Huainan Suitable Estate's total registered capital was held by Ninetowns Ports and 90% was held by Zhongcheng.

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The Investment Trust Plan was subsequently terminated in February 2012 due to a delay in the development of the Smarter Town project. As a result of the termination of the Investment Trust Plan, Zhongcheng transferred its 90% equity interest in Huainan Suitable Estate to Ninetowns Ports and Huainan Suitable Estate became a wholly owned subsidiary of Ninetowns Ports.

On March 30, 2011, Huainan Huacheng, a PRC company with registered capital of RMB8.0 million, was established by Huainan Suitable Estate as Huainan Suitable Estate's wholly owned subsidiary. In September 2011, we increased the registered capital of Huainan Huacheng from RMB8.0 million to RMB20.0 million. In November 2011, Huainan Huacheng transferred RMB80.0 million from additional paid in capital to registered capital, thereby increasing its registered capital from RMB20.0 million to RMB100.0 million.

On April 7, 2011, Huainan Huacheng acquired the land use rights for approximately 141,000 square meters of undeveloped land in Huainan, Anhui Province, China from the Huainan Land Resource Bureau. The total consideration was approximately RMB258.0 million. We plan to develop a mixed-use real estate project tentatively named Smarter Town on this land.

On April 11, 2011, Dalian Changzheng acquired the land use rights for approximately 20,970 square meters of undeveloped land in the Dalian High and New Technology Industry Park from the Dalian Land Resource Bureau for RMB280.0 million, of which Ninetowns Ports contributed approximately RMB153.0 million and Aviation Wanyuan contributed approximately RMB127.0 million. On December 30, 2013, the Company entered into a share transfer agreement with Aviation Wanyuan to sell its 70% of the equity interest in Dalian Changzheng at a price of RMB156 million (US\$26 million). On April 22, 2014, the Company received payment of half of the sale price from Aviation Wanyuan, and expects to receive the remaining payment in accordance with the terms of the share transfer agreement.

On April 22, 2011, Beijing Ronghe Zhihui Network Software Services Co., Ltd., or Beijing Ronghe Zhihui, a PRC company with registered capital of RMB50.0 million was established. Beijing Ronghe Zhihui is wholly owned by Beijing Ninetowns Investment.

On August 5, 2011, Beijing Ronghe Tongshang Electronic Business Co., Ltd., or Ronghe Tongshang Electronic, a PRC company with registered capital of RMB10.0 million was established. Ronghe Tongshang Electronic is wholly owned by Ronghe Tongshang.

On August 30, 2011, Beijing Sky acquired all the equity interests in Beijing Huaixiang Modern Agriculture Technology Co., Ltd., or Huaixiang Modern Agriculture, a limited liability company originally established on November 8, 2004 in China with registered capital of RMB1.0 million, for RMB2.2 million.

On September 29, 2011, we established Shouchuang Caifu Ninetowns (Tianjin) Equity Investment Fund Partnership (Limited Partnership), or Shouchuang Caifu Ninetowns, a PRC limited partnership, with Shouchuang Huaxia (Tianjin) Equity Investment Fund Management Co., Ltd., or Shouchuang Huaxia, and Shouchuang Gengyin. We are a limited partner and committed to contribute RMB80.0 million to Shouchuang Caifu Ninetowns pursuant to the partnership agreements. As of May 14, 2014, Beijing Ronghe Zhihui has contributed approximately RMB65.0 million for a 68.42% equity interest in Shouchuang Caifu Ninetowns.

On December 20, 2011, Shouchuang Caifu Ninetowns acquired 99% of the equity interests in Binzhou Ruichen, a PRC limited liability company originally established on September 8, 2009, with registered capital of RMB10.0 million, for RMB9.9 million. On December 30, 2013, Shouchuang Caifu Ninetowns, Lei Yu, Guomin Liu, Binzhou Ruichen and Beijing Ronghe Zhihui entered an agreement to allow Lei Yu to purchase back a 100% interest in Binzhou Ruichen, the project company, from Shouchuang Caifu Ninetowns with the consideration of approximately

RMB152 million (US\$25 million) on or before April 5, 2014. Upon receipt of RMB100 million from Lei Yu, Beijing Ronghe Zhihui agreed to offer a two-year loan, of which is limited to RMB50 million, to Binzhou Ruichen. As of May 15, 2014, Binzhou Ruichen has paid RMB65 million (US\$11 million) to Shouchuang Caifu Ninetowns. The parties are in the process of finalizing Lei Yu's purchase back of Binzhou Ruichen.

On June 15, 2012, Beijing Ninetowns Investment acquired a 35% equity interest in Beijing Shouchuang Huaxia Ninetowns Real Estate Development Co., Ltd., or Ninetowns Real Estate, for RMB3.5 million (US\$0.6 million). We had paid RMB0.7 million (US\$0.1 million) as of May 14, 2014. An additional contribution of RMB2.8 million (US\$0.5 million) is expected to be paid on June 13, 2014.

On July 16, 2012, Beijing Ninetowns Investment acquired a 22% equity interest in Beijing Juxin Fugao Investment Management Center Limited Partnership, or Beijing Juxin Fugao, for RMB0.1 million (US\$21,000).

In October 2012, Beijing Ninetowns Investment contributed RMB13.96 million (US\$2.0 million) to Shouchuang Gengyin and increased its total commitment from RMB29.7 million (US\$4.8 million) to RMB49.5 million (US\$8.0 million).

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In November 2012, Shouchuang Gengyin contributed an addition of RMB10.0 million (US\$2.0 million) to Shouchuang Caifu Ninetowns and thus increased its investment in Shouchuang Ninetowns to RMB20.0 million (US\$3.0 million).

In December 2012, upon the withdrawal from the partnership of one of the limited partners, Beijing Ninetowns Investment's interest in Shouchuang Gengyin increased to 49.5%.

We conduct our business in China through our PRC subsidiaries and the VIE. As of May 15, 2014, our wholly owned or majority owned PRC subsidiaries include Ninetowns Ports, Guangdong Ninetowns, Beijing Ninetowns Investment, Dongguan Ninetowns, Dalian Changzheng, Beijing Ronghe Zhihui, Huainan Suitable Estate and Huainan Huacheng and several wholly owned subsidiaries which are currently inactive. We also have equity investments in two limited partnerships Shouchuang Caifu Gengyin and Shouchuang Caifu Ninetowns and minority equity interests in Ninetowns Real Estate and Beijing Juxin Fugao. Please refer to Item 4 of this annual report, Information on the Company Organizational structure on page 46 for the full names of our subsidiaries and VIE, their country of incorporation and the proportion of our ownership of each as of May 14, 2014.

Our capital expenditures (excluding those incurred in connection with our real estate projects) totaled approximately RMB6.5 million, RMB8.5 million and RMB2.1 million (US\$0.3 million) in 2011, 2012 and 2013, respectively, consisting primarily of payments associated with purchases of property and equipment and other fixed assets. We expect to incur capital expenditures of approximately RMB0.9 million (US\$0.1 million) in 2014 to purchase equipment and software products to support our new software development projects and B2C e-commerce business. We believe that our available cash and cash equivalents will be sufficient to meet our capital needs for our B2C e-commerce and sales of software and related maintenance services and software development businesses for at least the next 12 months.

In 2011, 2012 and 2013, we incurred RMB305.5 million, RMB33.7 million and RMB29.8 million (US\$4.9 million) in capital expenditure for our real estate projects. We may seek external financing, for example, bank loans, from time to time to fund our capital expenditures for our real estate projects.

Our principal executive offices are located at 22nd Floor, Building No. 1, Capital A Partners, No. 20 Gongti East Road, Chaoyang District Beijing 100020, People's Republic of China. Our telephone number in China is (86 10) 6589-9922. We have appointed CT Corporation System, 111 Eighth Avenue, New York, NY 10011, as our agent for service of process in the United States.

Going private transaction

We entered into an agreement and plan of merger, dated January 29, 2014, or the Merger Agreement, with Ninetowns Holdings Limited, an exempted company with limited liability incorporated under the laws of the Cayman Islands, and Ninetowns Merger Sub Limited, an exempted company with limited liability incorporated under the laws of the Cayman Islands wholly-owned by Ninetowns Holdings Limited, pursuant to which Ninetowns Holdings Limited agreed to acquire the Company for US\$1.80 per ordinary share. The Merger Agreement is subject to the approval of shareholders at an extraordinary general meeting of shareholders to be held on May 29, 2014. Ninetowns Holdings Limited is jointly owned by Mr. Shuang Wang, our director and chief executive officer, Ms. Min Dong, our senior vice president of legal affairs, administration and human resources, Value Chain International Limited, a company incorporated under the laws of the British Virgin Islands and wholly owned by Mr. Shuang and Ms. Min Dong, Mr. Xiaoguang Ren, our president, Mr. Kin Fai Ng, a director and senior vice president and our company secretary, Oriental Plan Developments Limited, a company incorporated under the laws of the British Virgin Islands and wholly owned by Mr. Kin Fai Ng, Mr. Bolin Wu, our chief technology officer, Mr. Zhonghai Xu, our general manager for research and development, and Mr. Tommy Siu Lun Fork, our chief financial officer. The transactions contemplated

by the Merger Agreement involve a going private transaction with affiliates of the Company.

B. Business overview

Enterprise software and related maintenance services and software development

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

- (i) electronic application to the PRC Inspections Administration for an Origin Certificate;
- (ii) electronic application to the PRC Inspections Administration for goods inspection;

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

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

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

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

In August 2005, the PRC Inspections Administration selected our company as the winning bidder in connection with the PRC Inspections Administration's request for proposals for the development of a software product that has certain basic functionalities similar to those of iDeclare.CIQ and iProcess.CIQ. The PRC Inspections Administration paid a one-time fee of RMB3.3 million to purchase the ownership of the software product that we developed. The development of such software product was completed in December 2005 and the PRC Inspections Administration commenced to distribute such software products free-of-charge to end-users in February 2006. The distribution of free software products has had and may continue to have a significant adverse effect on our business, our results of operations and profitability.

In May 2007, the PRC Inspections Administration selected our company as one of the winning bidders in connection with the PRC Inspections Administration's request for proposals for servicing the free import/export e-filing software provided by the PRC Inspections Administration. We believe that the PRC Inspections Administration decreased its efforts to promote its free software starting since 2008 and there is uncertainty surrounding the PRC Inspections Administration's future promotional plans for its free software. Our financial outlook from maintenance servicing of the free software products were negatively impacted for the reasons stated above.

On August 1, 2013, the General Administration of Quality Supervision, Inspection and Quarantine of the PRC announced certain changes to the Catalogue. Beginning on August 15, 2013, 1,507 categories of items that were originally contained in the Catalogue are no longer subject to quality inspection prior to export, although 87 categories will still be subject to animal and plant quarantine inspection prior to export after the change to the Catalogue. Our results of operations in 2013 were adversely affected by those changes.

We believe there were approximately 145,100, 146,300 and 148,000 licensees of our enterprise software as of December 31, 2011, 2012 and 2013, respectively. We generated net revenues from sales of our enterprise software and related customer maintenance services of RMB61.0 million, RMB59.8 million and RMB56.6 million (US\$9.3 million) in 2011, 2012 and 2013, respectively, which represents 81.3%, 66.2% and 52.5% of our total net revenues in 2011, 2012 and 2013, respectively. We generated net revenues of RMB6.0 million, RMB7.5 million and RMB6.0 million (US\$1.0 million) from software development services in 2011, 2012 and 2013, respectively, which represents 7.9%, 8.2% and 5.6% of our total net revenues in 2011, 2012 and 2013, respectively.

We intend to increase our revenues from sales of enterprise software and related customer maintenance services, and software development services primarily by leveraging and strengthening our market reputation, enhancing value for our clients through broader product offerings and improved customer services, expanding our client base through increased marketing, maintaining our leadership in technical and industry knowledge and pursuing selective strategic acquisitions, collaborations and investments. However, given the uncertain impact on our business resulting from the distribution and promotion of free software products by the PRC Inspections Administration to end-users and the fluctuating recovery from the 2008 financial crisis, we cannot predict the growth in our revenues, if there are any at all.

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B2C e-commerce

In 2009, we expanded our research and development initiatives to the development of our B2C e-commerce platform. In April 2010, we began offering organic food and household products through our web portal, www.tootoo.cn. Throughout the second half of 2009 and in the early part of 2010, we made significant progress on our B2C e-commerce 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 and fruits, and household goods. Furthermore, we established our first warehouse with a total area of approximately 4,300 square meters, functionally divided into an ordinary temperature warehouse, refrigerated / frozen warehouse, processing workshop, office and other functional facilities in 2010. In 2012, we further improved the layout and functionality of our website to provide a better user experience and help our customers search and find information more efficiently. In 2013, we strengthened our efforts in marketing activities, resulting in an increased volume of orders and an improved website so as to provide a better online food shopping experience.

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 optimistic about the future prospects of this market in China.

We deliver fresh produce from our warehouses directly to our customers located in a number of residential communities in Beijing. We utilize carefully planned delivery routes and various state-of-the-art refrigeration equipment and specially equipped vehicles to achieve *Unbroken Cold Chain Logistics* for our fresh food delivery service. We are able to efficiently control product storage and movement at a low cost through the use of our proprietary product tracking system, warehouse management system and delivery data management system, all of which are supported by our advanced information technology. Our industry, which includes organic and natural foods and dietary supplements, has had significant growth over the last several years, driven in large part by increased public interest in health and nutrition. In 2013, we achieved an increase in revenue and number of orders, which we believe further affirms the market potential for our organic food and household products. We expect to continue our efforts to expand our B2C e-commerce business by leveraging our existing quality control related expertise and experience to expand our product offerings as future opportunities present themselves. Specifically, we believe our *Unbroken Cold Chain Logistics* could give us an advantage in the e-commerce and service industries due to the guaranteed delivery of fresh produce.

We recognized net revenue of RMB8.2 million, RMB23.1 million and RMB45.3 million (US\$7.5 million) from our B2C e-commerce business in 2011, 2012 and 2013, respectively, which represents 11.0%, 25.6% and 42.0% of our total net revenues in 2011, 2012 and 2013, respectively.

Real estate development

We began our real estate development activities in April 2011.

Yizhuang Project

In October 2008, we acquired land use rights for a plot of undeveloped land of approximately 58,530 square meters located in Lu Dong District, Beijing Economic Technological Development Area, or Yizhuang, from the Yizhuang Substation of the PRC Country Resources Bureau for RMB30.2 million. The land use rights have a contractual useful life of 50 years. This land was originally approved for self-use. In January 2012, we received approval to change

Yizhuang to a mixed-use real estate project. We have also received the construction work planning permit. As of May 14, 2014, the Yizhuang Project is still in the planning stage and we do not expect to commence construction in 2014.

Huainan Project

In April 2011, we entered into an agreement to purchase a plot of undeveloped land located in Huainan, Anhui province of China, which consists of approximately 141,000 square meters. The purchase price was RMB1,830 per square meter, or approximately RMB258.0 million in total, of which RMB129.0 million had not been paid as of May 14, 2014 due to a delay by the local government in relocating the residents living on that land. We do not have any land use right certificate for that land yet but expect to obtain them after the purchase price is fully paid. We intend to develop a mixed-use real estate project tentatively named Smarter Town on this land. We also intend to (i) design, develop, construct, market and sell certain retail and residential units, (ii) design and construct an Internet of Things exhibition park and (iii) design and construct a community hospital on this land.

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In June 2011, in order to finance the costs and expenses related to the Smarter Town project, Zhongcheng organized and offered the Investment Trust Plan. Pursuant to the terms of the Investment Trust Plan, Zhongcheng issued (i) 150,000,000 preferred trust units for RMB150.0 million to certain investors and (ii) 160,000,000 ordinary trust units to Ninetowns Ports, a wholly owned indirect subsidiary of the Company, in exchange for the assignment of certain creditor's rights for RMB160.0 million in Huainan Huacheng. To inject the funds raised under the Investment Trust Plan into Huainan Huacheng, the project company of the Smarter Town project, Zhongcheng and Ninetowns Ports entered into a capital increase agreement pursuant to which Zhongcheng made a capital investment of RMB150.0 million to Huainan Suitable Estate, a wholly owned subsidiary of Ninetowns Ports and the sole shareholder of Huainan Huacheng. As a result of such investment, Zhongcheng obtained a 90% equity interest in Huainan Suitable Estate. The funds injected into Huainan Suitable Estate were later injected into Huainan Huacheng by way of a capital increase by Huainan Suitable Estate.

In February 2012, the Investment Trust Plan was terminated due to a delay in the development of the Smarter Town project. As a result of the termination, Zhongcheng transferred the equity interest that it held in Huainan Suitable Estate to Ninetowns Ports and in exchange Huainan Huacheng repaid the debt of RMB160.0 million plus interest of approximately RMB13.0 million to Zhongcheng. We plan to continue the development of the Smarter Town project and may seek other financing alternatives in the future. As of May 15, 2014, Huainan Project is still in the planning stage and we do not expect to commence construction in 2014.

On March 6, 2013, a third party filed a lawsuit against Mr. Shuang Wang and three of our subsidiaries claiming, among other things, a 25% equity interest in Huainan Huacheng. The plaintiff withdrew the original claim but instituted separate proceedings for the same claim in May 2013. The court dismissed these proceedings on the basis that the plaintiff did not have standing to make this claim. Please refer to Item 8. Financial Information A. Consolidated statements and other financial information Legal Proceedings for more information regarding this lawsuit.

Dalian Project

In April 2011, we acquired land use rights for two plots of undeveloped land located in Dalian, Liaoning province of China through Dalian Changzheng, our 70%-owned subsidiary. The two plots consist of approximately 20,790 square meters. The purchase price was RMB13,350 per square meter, or approximately RMB280.0 million in total, all of which has been fully paid. The two plots of land are permitted for commercial and residential use. Phase I of our Dalian project involves land of approximately 14,810 square meters with a gross floor area, or GFA, of approximately 76,390 square meters, on which we plan to construct office buildings and residential buildings. The construction of Phase I commenced in December 2011. On December 30, 2013, we entered into a share transfer agreement with Aviation Wanyuan to sell to them our 70% equity ownership interest in Dalian Changzheng at a price of RMB156 million (US\$25.8 million), which became effective upon receiving the relevant regulatory approvals in April 2014. On April 22, 2014, the Company received payment of half of the sale price from Aviation Wanyuan, and expects to receive the remaining payment in accordance with the terms of the share transfer agreement.

Binzhou Project

In 2011, we acquired a limited partnership interest in a partnership with Shouchuang Huaxia and Shouchuang Gengyin to invest in the development of a residential real estate project located in Binzhou, Shandong Province, China. As of May 14, 2014, Beijing Ninetowns Investment holds a 49.5% interest in Shouchuang Gengyin. On December 20, 2011, Shouchuang Caifu Ninetowns acquired a 99% equity interest in Binzhou Ruichen, a PRC limited liability company originally established on September 8, 2009 with a registered capital of RMB10.0 million, for RMB9.9 million. The land use rights will expire in 70 years. Binzhou Ruichen expects to fund the Binzhou project

through commercial bank loans and loans from shareholders. Shouchuang Caifu Ninetowns and Beijing Wanglian Jiye Software Technology Co., Ltd. entered into an entrustment loan arrangement in December 2011 pursuant to which Shouchuang Caifu Ninetowns entrusted a commercial bank to lend to Beijing Wanglian Jiye Software Technology Co., Ltd. up to RMB75.0 million. Beijing Wanglian Jiye Software Technology Co., Ltd. will then lend the same amount to Binzhou Ruichen. Shouchuang Caifu Ninetowns owns 99% of the equity interests in Binzhou Ruichen. We are a limited partner of, and hold a 68% equity interest in, Shouchuang Caifu Ninetowns.

On December 30, 2013, Shouchuang Caifu Ninetowns, Lei Yu, GuoMin Liu, Binzhou Ruichen and Beijing Ronghe Zhihui entered an agreement to allow Lei Yu to purchase back a 100% interest in Binzhou Ruichen, the project company, from Shouchuang Caifu Ninetowns with the consideration of approximately RMB152 million (US\$25 million) on or before April 5, 2014. Upon receipt of RMB100 million from Lei Yu, Beijing Ronghe Zhihui agreed to offer a two-year loan, of which is limited to RMB50 million, to Binzhou Ruichen.

As of May 15, 2014, Binzhou Ruichen has paid RMB65 million (US\$11 million) to Shouchuang Caifu Ninetowns. The parties are in the process of finalizing Lei Yu's purchase back of Binzhou Ruichen.

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We intend to participate in real estate development projects that involve three product models (i) intelligent residential communities, (ii) smarter senior living communities and (iii) e-commerce bio-system industrial parks, primarily in third-tier and fourth-tier cities in China. We expect to focus on the development projects that we have acquired and also explore other real estate related opportunities, for instance, by cooperating with local governments and real estate investment funds.

Products and services

In 2011, 2012 and 2013, we derived 81.3%, 66.2% and 52.5% of our total net revenues from sales of enterprise software and related customer maintenance services, 7.9%, 8.2% and 5.6% of our total net revenues from the provision of software development services, and 11.0%, 25.6% and 42.0% of our total net revenues from our B2C e-commerce business. We did not generate any revenue from real estate development because all of our projects are currently in the planning stage or under construction, and we have not pre-sold any units.

The products and services we offered during the last three financial years included the following:

Enterprise software

Our sales of the iDeclare.CIQ basic packages and related customer maintenance services (including those sold on a per-transaction fee basis) represented more than 99% of our net revenues from sales of enterprise software and related customer maintenance services in each of 2011, 2012 and 2013. In addition to iDeclare.CIQ series, we also sell iProcess.CIQ and iQM series products. However, the revenues from the sales of those two series products were insignificant in each of 2011, 2012 and 2013.

iDeclare.CIQ series

Commercially introduced in August 2000, the iDeclare.CIQ series of products enables international trade enterprises to complete the declaration process electronically over the Internet. The iDeclare.CIQ basic package includes six separate software functions and one year of basic customer maintenance services. We charge a one-time license fee of RMB4,500 and RMB1,500 for each additional year of customer maintenance services, which includes a number of value-added services in addition to the basic maintenance services, such as site visits to carry out maintenance procedures and automatic software updates. In 2011, 2012 and 2013, we generated RMB61.0 million, RMB59.8 million and RMB56.5 million (US\$9.3 million), respectively, from sales of the iDeclare.CIQ basic packages and related customer maintenance services (including those sold on a per-transaction fee basis). We sold 1,801 iDeclare.CIQ software packages and 18,105 iDeclare annual maintenance service contracts in 2013 compared to 1,139 iDeclare.CIQ software packages and 20,824 iDeclare annual maintenance service contracts sold in 2012.

We sold 107 annual maintenance contracts in 2013 to users who are currently using the free software offered by the PRC Inspection Administration, which represents a decrease from 379 maintenance service contracts sold in 2012 to users who were at that time using the free software offered by the PRC Inspection Administration.

We also provide a pay-per-transaction option to our customers. We generated RMB38.8 million, RMB35.1 million and RMB33.2 million (US\$5.5 million) from such pay-per-transaction filing fees, which represents 63.6%, 58.7% and 58.7% of our net revenues for sales of enterprise software and related customer services in 2011, 2012 and 2013, respectively.

We offer trial versions of our new software functions to existing users until we commercially launch these software functions. Once commercially launched, these new software functions will not offered as part of the iDeclare.CIQ

basic package and a user must pay additional fees in order to use the new software functions.

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

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

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

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

The registration and permit processing application allows users to register goods to be imported or exported and to apply for a permit for such import/export transaction. This application is currently used when animals, plants or related products are imported or exported. The registration and permit processing application is a new function and is only available in a trial version; we expect to charge our users a fee to use this function when it is launched commercially.

Our iDeclare.CIQ product series transmits all user submissions to the PRC Inspections Administration electronically in an encrypted format over the data exchange platforms operated by iTowNet. iTowNet receives a fee for each submission made over its platforms. Once received by the PRC Inspections Administration, such transmissions are examined and electronically approved or returned to the user for revision.

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

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

Software development services

We provide software development services to PRC government agencies, their related entities and their third party service providers in order to enhance their electronic data exchange, processing and monitoring capabilities. Our software development services consist of the design, development and maintenance of, and enhancement to: (i) the internal software systems used by PRC government agencies and their related entities to process electronic filings made with our enterprise software, and (ii) the data exchange platforms which serve as the interface between these systems and users of our enterprise software. We generated net revenues of RMB6.0 million, RMB7.5 million and RMB6.0 million (US\$1.0 million) from software development services in 2011, 2012 and 2013, respectively, which represents 7.9%, 8.2% and 5.6% of our total net revenues in 2011, 2012 and 2013, respectively.

B2C e-commerce

In April 2010, we began offering food and household products through our web portal, www.tootoo.cn, which currently carries over 3,000 products in 16 different categories, including fresh fruits and vegetables, seafood, snacks, drinks, fresh and frozen meat, nutritional supplement and household supplies. Our B2C e-commerce delivered steady

growth in 2013 as we continued to promote the service and optimize the product offering and customer experience. We focus on our guaranteed fresh delivery service through which we deliver fresh produce from farms or warehouses directly to customers located in a number of residential communities in Beijing. We believe we can efficiently control product storage and movement at a low cost through the use of our product tracking system, a warehouse management system and a delivery date management system, all of which are supported by its information technology. We generated net revenues of RMB8.2 million, RMB23.1 million and RMB45.3 million (US\$7.5 million) from B2C e-commerce in 2011, 2012 and 2013, respectively, which represents 11.0%, 25.6% and 42.0% of our total net revenues in 2011, 2012 and 2013, respectively.

Real estate development

We currently have development projects located in China under planning or construction. Please refer to Item 4 Information on the Company B. Business Overview Real Estate Development for more information regarding these real estate projects.

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Seasonality

There is no particular seasonal fluctuation in our sales except that net revenues from sales of our enterprise software and related customer maintenance services (including those sold on a per-transaction fee basis) in the first quarter are typically lower than in other quarters. This is primarily due to decreased business activities throughout China before, during and after the Chinese New Year holidays, which occur in January or February each year.

Suppliers and quality

Software development and customer maintenance services

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

On August 3, 2004, our wholly owned subsidiary Beijing Ninetowns Ports was awarded the ISO 9001:2000 Quality Management System Recognition Certificate. ISO 9001:2000 is a worldwide quality management system certification program regarding management system standards administered by the International Organization for Standardization. The certificate is renewable every three years and our current certificate is valid until Dec 28, 2016. In addition, our enterprise software iDeclare.CIQ has been endorsed by the PRC Inspections Administration for electronic customs declaration.

B2C e-commerce

We endeavor to ensure the quality of the products we sell. We source most of our fresh products, for example, fruits, vegetables and poultry, directly from ultimate suppliers, including organic farms. We also lease approximately 703,200 square meters of land in Beijing on which we farm fruit and vegetables and raise swine and poultry. We have a comprehensive and strict supplier qualification system to ensure that their products meet our specifications and standards. We have 23 employees in our products purchasing department. We select our suppliers based on a range of factors, including product quality, price, reliability, reputation, ability to meet our delivery timeline and ability to increase their production capacity along with the increase in our business. We communicate actively with our suppliers to clarify our requirements, conduct onsite inspections and examine every delivery thoroughly when they arrive at our warehouses. Many of our organic products suppliers are inspected and certified by China Organic Food Certification Center, or ECOCERT SA. China Organic Food Certification Center is a professional organization under the Ministry of Agriculture of China responsible for organic food certification and management. ECOCERT SA is an organic certification organization based in Europe and one of the largest organic certification organizations in the world. We have established a supply network that is characterized by on-demand procurement which enables us to enhance our purchasing power and control costs.

Real estate development

We emphasize quality control to ensure that our construction projects meet our quality requirements. We select only experienced design and construction companies. To ensure construction quality, our construction contracts contain quality warranties and penalty provisions for poor work quality. In the event of delays or poor work quality, the contractor may be required to pay pre-agreed damages under our construction contracts.

We require examination of contractors' materials and supplies, on-site inspection and progress reports during construction. We also require our contractors to comply with relevant PRC laws and regulations. Our project

construction management team consists of 21 employees, all of whom are professionally qualified civil engineers or surveyors. In addition, the construction of real estate projects is regularly inspected and supervised by PRC governmental authorities.

Sales and marketing

Sale of software and related customer maintenance services and software development

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

Direct sales and marketing

As of May 14, 2014, we had a small sales and marketing force consisting of seven people, serving mainly the southern regions of China. Our sales and marketing representatives also perform customer maintenance services.

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

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Sales by our franchisees

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

Our franchise relationship with Ninetowns Enke began in February 2004. Ninetowns Enke is also our sales agent for after sales maintenance services for our enterprise software. In January 2014, we entered into a new franchise agreement with Ninetowns Enke for our software product, iQs under the iProcess.CIQ series. Our franchise agreement with Ninetowns Enke for iQs expires on December 31, 2014 and does not contain any minimum sales commitment. In January 2014, we also entered into a new franchise agreement with Ninetowns Enke for our software product, iDeclare.CIQ basic package. Our franchise agreement with Ninetowns Enke for iDeclare.CIQ expires on December 31, 2014 and does not contain any minimum sales commitment.

Our relationship with Ninetowns Zhi Fang began in 2005. In January 2014, we entered into new franchise agreements with Ninetowns Zhi Fang and its affiliate, Beijing Ninetowns Zhi Fang Software Technology Co., Ltd. Shanghai Branch, or Ninetowns Zhi Fang Shanghai Branch, for our software product, iQs under the iProcess.CIQ series. Our franchise agreements with Ninetowns Zhi Fang and Ninetowns Zhi Fang Shanghai Branch for iQs expire on December 31, 2014 and do not contain any minimum sales commitment. In January 2014, we also entered into new franchise agreements with Ninetowns Zhi Fang and Ninetowns Zhi Fang Shanghai Branch, for our software product, iDeclare.CIQ basic package. Our franchise agreements with Ninetowns Zhi Fang and Ninetowns Zhi Fang Shanghai Branch for iDeclare.CIQ expire on December 31, 2014 and do not contain any minimum sales commitment.

Our relationship with Ninetowns Xin He began in 2006. In January 2014, we entered into a new franchise agreement with Ninetowns Xin He for our software product, iQs under the iProcess.CIQ series. Our franchise agreement with Ninetowns Xin He for iQs expires on December 31, 2014 and does not contain any minimum sales commitment. In January 2014, we also entered into a new franchise agreement with Ninetowns Xin He for our software product, iDeclare.CIQ basic package. Our franchise agreement with Ninetowns Xin He for iDeclare.CIQ expires on December 31, 2014 and does not contain any minimum sales commitment.

Our relationship with Ninetowns Wang Li began in 2006. In January 2014, we entered into a new franchise agreement with Ninetowns Wang Li for our software product, iQs under the iProcess.CIQ series. Our franchise agreement with Ninetowns Wang Li for iQs expires on December 31, 2014 and does not contain any minimum sales commitment. In January 2014, also we entered into a new franchise agreement with Ninetowns Wang Li for our software product, iDeclare.CIQ basic package. Our franchise agreement with Ninetowns Wang Li for iDeclare.CIQ expires on December 31, 2014 and does not contain any minimum sales commitment.

Our franchisees also provide customer maintenance services to our enterprise software users. We intend to focus on establishing new franchisee arrangements in the future. For 2011, 2012 and 2013, net revenues from the sale of enterprise software and related customer maintenance services generated by our franchisees amounted to

approximately RMB47.9 million, RMB49.0 million and RMB48.9 million (US\$8.1 million), respectively, representing 78.5%, 82.0% and 86.4% of our total net revenues from the sale of enterprise software and related customer maintenance services in 2011, 2012 and 2013, respectively.

B2C e-commerce

We plan to focus our sales force more on developing corporate clients and corporate group purchases. We also intend to continue to enhance the shopping experience of our retail customers to drive repeat customers. Our sales strategy is focused on employing precision marketing techniques to determine the most effective allocation of our sales and marketing resources. We also display advertising on major search engines like Baidu.com and online shopping stores like Jingdong as well as public transportation vehicles. In addition, in order to attract potential customers to our B2C e-commerce 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.

Customers

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

In 2013, the customers of our enterprise software and related customer maintenance business included our four franchisees and international trade enterprises that we sell our software to directly. In 2011, 2012 and 2013, our four largest enterprise software customers, which consisted of our franchisees, accounted for approximately 78.5%, 82.0% and 86.4%, respectively, of our net revenues from sales of enterprise software and related customer maintenance services.

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Our customers for software development services include the PRC Inspections Administration and other third party customers.

Most of our customers for our B2C e-commerce business are individuals and a small number of B2C e-commerce customers are companies.

Customer maintenance services for enterprise software

We believe our ability to provide customer maintenance services is one of the key factors to building user loyalty. We offer one year of free customer maintenance services to users who purchased our iDeclare.CIQ basic package, and charge a fee of RMB1,500 for customer maintenance services each year thereafter.

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

after-sales software maintenance;

help-desk via telephone; and

non-specific enhancement of the software on a when-and-if-available basis.

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

site visits to carry out maintenance procedures;

support via facsimile and email;

updates and enhancement to the software through the Internet and our website;

automatic updates of software relating to changes in codes associated with goods, countries and regions and changes to import/export software; and

training for new updates to our enterprise software.

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

We and our four franchisees jointly service the users of our enterprise software through three technical support centers operated and maintained by us and 49 technical support centers operated and maintained by our four franchisees. Among the three technical support centers operated and maintained by us, one is located in Beijing and two are located in Guangzhou. The technical support centers operated and maintained by our four franchisees are all located in

major import/export cities in China. Each of our technical support centers functions as a call center that responds to calls from customers located in the surrounding areas. As of May 14, 2014, we together with our four franchisees had 95 customer service and technical support personnel, respectively.

Customer service for B2C

We have implemented refund and exchange policies that are specific to each of our product categories. If the product is returned for quality issues, we generally provide a full refund or exchange at a customer's request. We also have a team of customer service representatives to address customer inquiries, complaints and suggestions by phones or emails. As of May 14, 2014, we had a total of 22 customer service representatives.

Competition

Enterprise software and related maintenance services and software development

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

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

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

reputation in the market;

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

the quality of our products and services;

responsiveness to the needs of users;

installed base of international trade enterprise customers;

cost-effectiveness; and

distribution network.

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

Advantages of our enterprise software products

Our enterprise software primarily facilitates declaration processing in a cost-efficient and user-friendly manner over the Internet, utilizing PRC Inspections Administration's data exchange platforms that we helped build. The key advantages of our products are:

Ease of deployment

Our enterprise software consists of standardized programs that can be easily installed onto most computers from a CD-ROM or through the Internet and be fully operational in less than 30 minutes. Our enterprise software is broadly applicable to all international trade enterprises seeking to complete the declaration process electronically and does not require customization. We helped build the PRC Inspections Administration's internal electronic processing systems and the data exchange platforms within the PRC Inspections Administration offices. We have leveraged our experience and expertise with these data exchange platforms, which interface between international trade enterprises and the PRC Inspections Administration's own internal electronic processing systems, to design enterprise software with optimal compatibility with the PRC Inspections Administration's systems and internal requirements. We intend to continue to help maintain and upgrade the data exchange platforms of the PRC Inspections Administration. Given our knowledge of these data exchange platforms and our role in continuing to maintain and upgrade these systems, we believe we are in a unique position to provide enterprise software that is easy to deploy, fully integrated and optimally compatible with the PRC Inspections Administration's systems and internal requirements.

Fast, efficient and accurate transfers

Our enterprise software eliminates the need for the manual preparation and submission of paperwork in the declaration process and can reduce the time required to complete the declaration process from approximately two or more days to as little as one hour. Our enterprise software enables nearly immediate submission of electronic filings and notice of most submission errors, allowing for fast and accurate submissions. In addition, demands on staff time are reduced and the risk of delayed responses from the PRC Inspections Administration due to delivery failures is minimized because transmissions to and feedback from the PRC Inspections Administration are delivered electronically. Furthermore, because information is submitted in electronic format, there is reduced risk of error and delay related to the PRC Inspections Administration's inability to read or accurately copy required data. The electronic forms contained in our enterprise software are regularly updated, ensuring that all required information is submitted to the PRC Inspections Administration.

Reduction of costs associated with declaration filings

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

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Convenience of filing anytime and from anywhere over the Internet

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

User-friendly software

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

B2C e-commerce

We believe we are a first mover in offering organic food online and guaranteed fresh delivery services. We have been facing increasing competition in last few years from new entrants. The market for products sold on our websites is intensely competitive. Consumers have many choices online and offline, including global, regional and local retailers. Major competitors of our B2C e-commerce business in Beijing include www.yiquo.com, www.stbest.com and Tony's farm. We believe our Unbroken Cold Chain Logistics and the guaranteed delivery of fresh produce could give us an advantage in competing with our competitors. We are able to efficiently control product storage and movement at a low cost through the use of our product tracking system, warehouse management system and delivery data management system, all of which are supported by our information technology. We plan to continue our efforts to improve customer services and delivery services and improve sourcing efficiency by working closely with our selected high-quality suppliers and expand our online and offline marketing efforts to increase our brand awareness.

Real estate development

The real estate industry in China is highly competitive. We intend to participate in real estate development projects that involve three product models (i) intelligent residential communities, (ii) smarter senior living communities and (iii) e-commerce bio-system industrial parks, primarily in third-tier and fourth-tier cities in China. In the third-tier and fourth-tier cities, the markets are relatively more fragmented than first and second cities. We compete primarily with local and regional property developers, but an increasing number of large national property developers have also started to enter these markets. Competitive factors include the geographical location of the projects, brand recognition, price, design and quality.

Intellectual property rights

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

As of December 31, 2013, we had 46 registered software copyrights and 22 registered trademarks in China and one registered trademark for our name Ninetowns in the United States.

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

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

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

Environmental matters

As a real estate developer in the PRC, we are subject to various environmental laws and regulations set by the PRC national, provincial and municipal governments. These include regulations on air pollution, noise emissions, as well as water and waste discharge. In the past we have never been required to pay any penalties associated with the breach of any such laws and regulations. Compliance with existing environmental laws and regulations has not had a material adverse effect on our financial condition and results of operations, and we do not believe it will have such an impact in the future.

Our projects are normally required to undergo an environmental impact assessment by government-appointed third parties, and a report of such assessment needs to be submitted to the relevant environmental authorities in order to obtain their approval before commencing construction. Upon completion of each project, the relevant environmental authorities inspect the site to ensure the applicable environmental standards have been complied with, and the resulting report is presented together with other specified documents to the relevant construction administration authorities for their approval and record. Approval from the environmental authorities of such report is required before we can deliver our completed work to our customers.

Regulation

Regulation relating to food safety

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

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

Regulation relating to road transport

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

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

Regulation relating to the internet information service

On September 25, 2000, the State Council promulgated the Regulation on Internet Information Services of the People's Republic of China, or the Regulation, as amended on January 8, 2011. According to the regulation, Internet information service is divided into two categories: profitable Internet information service and non-profitable Internet information service, and the State established a licensing system for profitable Internet information service and a filing system for non-profitable Internet information service. Under the Regulation, any organization or individual engaged in profitable Internet information service shall obtain a license for value-added telecommunication services, or the Service License (ICP license).

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

Regulation relating to the animal epidemic prevention

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

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

Regulation relating to the real estate industry

Establishment of a real estate development enterprise

Pursuant to the PRC Urban Real Estate Law, or the Urban Real Estate Law, promulgated by the Standing Committee of NPC, which became effective on January 1, 1995 and was revised on August 30, 2007 and August 27, 2009, a real estate developer refers to an enterprise which engages in the development and sale of real estate for profit-making purposes. Under the Regulations on Administration of Development of Urban Real Estate, or the Development Regulations, promulgated by the State Council on July 20, 1998, an enterprise engaging in real estate development must satisfy the following requirements in addition to other enterprise establishment conditions provided in the relevant laws and administrative regulations:

its registered capital must be RMB1.0 million or more; and

it must have four or more full-time professional real estate/construction technicians and two or more full-time accounting officers, each of whom must hold the relevant qualification certificate. The authorities at provincial level, autonomous region level or municipalities under the direct administration of central PRC governments may impose more stringent requirements regarding the registered capital and professional qualifications of real estate enterprises.

To establish a real estate development enterprise, the developer must apply for registration with the department of industry and commerce administration of the PRC Government at or above the county level, which should, in examining the application for the registration, seek the views of the real estate development authority at the relevant level. The developer must also report its establishment to the department of real estate development in the location of its registration within 30 days of receipt of its business license.

A foreign investor intending to engage in real estate development may establish an equity joint venture, a contractual cooperative joint venture or a wholly foreign owned enterprise in accordance with the PRC laws and regulations regarding foreign-invested enterprises. However, a foreign investor is only allowed to establish an equity joint venture or contractual cooperative joint venture for the development of a whole land lot.

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On May 25, 2009, the State Council issued the Notice on Adjusting Capital Ratio of Fixed Asset Investment Projects, which sets out the minimum capital ratio for ordinary residential property development projects and social security housing development projects as 20%, and the minimum capital ratio for other property development projects as 30%.

Qualification of a real estate developer

Under the Provisions on Administration of Qualifications of Real Estate Developers, or the Provisions on Administration of Qualifications, promulgated by the Ministry of Construction on March 29, 2000, a real estate developer must apply for registration of its qualifications. An enterprise may not engage in property development without a qualification classification certificate for real estate development. The Ministry of Construction is in charge of monitoring the qualifications of all real estate developers within the PRC, and local real estate development authorities at or above the county level are in charge of monitoring the qualifications of local real estate developers. Under the Provisions on Administration of Qualifications, real estate developers are divided into four classes:

Class 1 qualification is subject to preliminary examination by the construction authorities at the provincial level and the final approval of the Ministry of Construction. A Class 1 real estate developer is not restricted as to the scale of its real estate projects and may undertake a real estate development anywhere in the country.

Class 2, 3 or 4 qualifications and provisional qualifications are regulated by the construction authorities at the provincial level and may be subject to delegation to lower level governmental authorities. A real estate developer of the Class 2 qualification or lower may undertake a project with a GFA of less than 250,000 square meters, detailed business scope of the developer of the Class 2 qualification or lower is determined by the construction authorities at the provincial level.

Under the Provisions on Administration of Qualifications, the real estate development authorities will examine applications for registration of qualifications submitted by real estate developers by mainly considering their registered capital and financial condition, the length of time they have conducted real estate development business, the professional personnel they employ, the performance and operating results from their past real estate operations and their quality control systems. A real estate developer that passes the qualification examination will be issued a qualification certificate of the relevant class by the qualification examination authority. A developer of any qualification classification may only engage in the development and sale of real estate within its approved scope of business and may not engage in business which is limited to another higher classification. The real estate development authorities perform annual inspections of qualified developers. Developers who fail to meet the qualification requirements or which operate in breach of the requirements may have their qualification classification certificates degraded or revoked.

For a newly established real estate developer, which passes the qualification examination, the real estate development authority will issue a provisional qualification certificate within 30 days of receipt by the authority of the relevant application for filing. The provisional qualification certificate will be effective for one year from its date of issuance and may be extended for not more than two additional years with the approval of the real estate development authority. The real estate developer must apply to the real estate development authority within one month before the expiration of its provisional qualification certificate for a formal qualification classification certificate. Any failure to obtain the required provisional or formal qualification certificate may result in a fine ranging from RMB50,000 to RMB100,000 and, if such failure is not rectified, the developer's qualification certificate or business license will be revoked.

Acquisition of land use rights

Under the Foreign Investment Catalog, foreign investments are restricted in the development of a whole land lot, construction, operation or transacting in the secondary real estate market, or acting as real estate intermediaries or agents of high-quality hotels, houses, premium office buildings, international conference centers and large theme parks in China; and foreign investments are permitted in other real estate developments. According to the Interim Provision on Approving Foreign Investment Project promulgated by NDRC in October 2004, approval of NDRC is required for foreign investment projects with total investment of US\$100.0 million or more within the category of encouraged or permitted foreign investments and those with total investment of US\$50.0 million or more within the category of foreign investments subject to restrictions. Other foreign investments in China will require only local approval. Specifically, the local authorities may examine and approve foreign investment projects with total investment less than US\$100.0 million within the category of encouraged or permitted foreign investments and those with total investment less than US\$50.0 million within the category of foreign investment subject to restrictions.

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Under the Interim Regulations of the People's Republic of China on Grant and Assignment of the Use Right of State-owned Urban Land, or the Interim Regulations on Grant and Assignment, promulgated by the State Council in May 1990, China adopted a system to grant and assign the rights to use state-owned land. A land user must pay a land premium to the state as consideration for the grant of the right to use a land site within a specified period of time, and the land user may assign, lease out, mortgage or otherwise commercially exploit the land use rights within the terms of use. Under the Urban Real Estate Law and the Interim Regulations on Grant and Assignment, the land administration authority at the city or county level may enter into a land grant contract with the land user to provide for the grant of land use rights. The land user must pay the land premium as provided by the land grant contract. After payment in full of the land premium, the land user may register the land use rights for a site intended for real estate development. Land use rights may be obtained through grant, except for land intended for purposes subject to premium-free allocation by the PRC government pursuant to the PRC laws and regulations. Government-allocated land is not allowed to be transferred unless the transfer is approved by the relevant PRC Government authorities and the land premium as determined by the relevant PRC Government authorities has been paid.

When carrying out the feasibility study for a property project, the construction entity or the developer must make a preliminary application for construction on the relevant site to the relevant land administration authorities in accordance with the Measures for Administration of Examination and Approval for Construction Land promulgated by the Ministry of Land and Resources in March 1999 and the Measures for Administration of Preliminary Examination of Construction Project Land promulgated by the Ministry of Land and Resources in July 2001, as amended in October 2004 and November 2008. After receiving the preliminary application, the land administration authorities will carry out preliminary examinations of various aspects of the construction project in compliance with the overall zoning plans and land supply policy of the government, and will issue a preliminary approval in respect of the project site if its examination proves satisfactory. The land administration authorities at the relevant city or county will sign a land grant contract with the land user and issue an approval to the construction entity or the developer.

Under the Urban Real Estate Law, those who have obtained the land use rights by assignment must develop the land in accordance with the use and period of commencement as prescribed by the contract for the land-use right assignment. According to the Measures on the Disposal of Idle Land promulgated by the Ministry of Land and Resources on April 28, 1999, as amended on May 22, 2012, a parcel of land can be defined as idle land under any of the following circumstances:

the user of state-owned construction land fails to commence the construction within one year as of the construction commencement date as agreed on and specified in the Land Grant Contract or the Land Allocation Decision; or

the development and construction of the land has begun, but the area developed and constructed is less than one third of the total area to be developed and the invested amount is less than 25% of the total amount of investment, and development and construction has been continuously suspended for one year without approval; or

With respect to any land ascertained as idle land, the idle land may be disposed as follows:

- (i) In the event that the construction has not commenced for one year, the departments of land and resources at the municipal or county level shall, upon approval of the local people's governments at the same level, issue the

Decision on the Collection of the Charges for Idle Land to users of state-owned construction land, and shall collect the charges for idle land at 20% of cost of land transfer or land allocation. The charges for idle land shall not be listed into the production cost.

- (ii) In the event that the construction has not commenced for two years, the departments of land and resources at the municipal or county level shall, upon approval of people's governments with approval rights, issue the Decision on Recovering the Right to Use state-owned Construction Land to users of state-owned construction land, and recover the right to use the state-owned construction land without compensation in accordance with Article 37 of the Land Administration Law and Article 26 of the Law of the People's Republic of China on the Administration of the Urban Real Estate. Where idle land is under mortgage, copies of the Decision shall be sent to the relevant mortgagees.

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On September 8, 2007, the MLR promulgated the Notice on Strengthening the Handling of Idle Land. This Notice provides the principles of dealing with idle land. The Grant of State-owned Land Use Right can only be transferred after the payment of compensation for land, settlement and completion of the land development at an earlier stage. The notice also prescribes that the State-owned Land Use Right Certificate shall not be issued before the land grant premium for acquisition of land has been paid in full, nor be issued separately according to the ratio of payment of land grant premium.

On January 3, 2008, the State Council issued a Notice on Promoting the Economic Use of Land with respect to the collection of additional land premium, establishment of a land utilization priority planning scheme and the formulation of a system for assessing the optimal use of land and other measures. The notice calls for the full and effective use of existing construction land and the preservation of farm land. The notice also emphasized the enforcement of the current rules on assessing idle land fees at a rate equal to 20% of the land premium for any land left idle for over one year but less than two years. The notice also establishes an additional land premium surcharges on idle land and authorizes the Ministry of Land and Resources to formulate regulations to implement such surcharges. The notice further urges financial institutions to exercise caution when they process loan applications from property developers that have failed to commence construction, to complete development of at least one-third of the land area or to invest at least 25% of the total investment within one year of the construction date provided in the land grant contract. The notice indicated that the relevant governmental authorities will formulate and issue additional rules and regulations on these matters.

The Ministry of Land and Resources issued a Notice on Restricting the Administration of Construction Land and Promoting the Use of Approved Land in August 2009, which reiterates the above rules on idle land.

Political, legal, economic and social considerations in China

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

Foreign investment policies

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

New regulation relating to the administration of an office

In April 2006, State Administration of Industry and Commerce, Ministry of Commerce, State General Custom and SAFE jointly promulgated Implementation Opinion on Certain Issues about Application of Laws on Administration of Approval and Registration for Companies with Foreign Investment, or the Opinion. According to the Opinion, the registration requirements for companies with foreign investment apply to companies registered under the PRC

Company Law, as amended on October 27, 2005 and effective on January 1, 2006, and the Regulations on Administration of Companies, amended on December 18, 2005, except otherwise stipulated by the laws and regulations specifically governing companies with foreign investment. According to the Opinion, the registration of offices established by companies with foreign investment is required to cease. The Opinion also provides that the procedures of variation or renewal for the offices that have been registered will not be carried out. Once the operating term of an office expires, the procedure of cancellation of registration will be implemented. If necessary, such company can choose to establish a branch office.

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

Regulation of the software industry

Software copyright

The State Council of the PRC, or the State Council, promulgated the Regulations for the Protection of Computer Software, or the Software Protection Regulations, on December 20, 2001, and such regulations became effective on January 1, 2002 as amended on January 8, 2011. The Software Protection Regulations were promulgated, among other things, to protect the copyright of computer software in China. According to the Software Protection Regulations, computer software that is independently developed and exists in a physical form will be protected. However, such protection does not apply to any ideas, mathematical concepts, processing and operation methods used in the development of software products.

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

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

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

Software copyright registration

Pursuant to the Copyright Law of the PRC, or the Copyright Law, which was adopted at the 15th Meeting of the Standing Committee of the Seventh National People's Congress on September 7, 1990 and effective from June 1, 1991 as amended on February 26, 2010, works including computer software developed by PRC citizens, legal persons or other entities without legal personality, whether published or not, are protected under the Copyright Law. On February 20, 2002, the State Copyright Administration of the PRC promulgated the Measures Concerning Registration of Computer Software Copyright Procedures, or the Registration Procedures, to implement the Regulations for the Protection of Computer Software and to promote the development of China's software industry.

The Registration Procedures apply to the registration of software copyrights and software copyright exclusive licensing contracts and assignment contracts. The registrant of a software copyright will be the copyright owner and the natural person, legal person or other organization in whom the software copyright becomes vested through succession, assignment or inheritance.

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

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

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

Software products registration

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

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

Policies to encourage the development of software and integrated circuit industries

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

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

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

- (iii) providing government support, such as government funding in the development of software technology;
- (iv) providing preferential treatment, such as credit facilities with low interest rates to enterprises that export software products;
- (v) taking various strategies to ensure the software industry has sufficient expertise; and
- (vi) implementing measures to enhance intellectual property protection in China.

Regulation of foreign exchange and dividend distribution

Foreign exchange

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

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

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

Dividend distribution

The principal PRC regulations governing the distribution of dividends by our wholly foreign-owned enterprises are (i) The Wholly Foreign-Owned Enterprise Law (1986), as amended in 2000; and (ii) Implementation Regulations under the Wholly Foreign-Owned Enterprise Law (2001); and (iii) the Company Law (1993), as amended in 2005.

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

Restricted net assets

Relevant PRC laws and regulations permit payments of dividends by our PRC subsidiaries only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. In addition, the statutory general reserve fund, which requires annual appropriations of 10% of net after-tax income should be set aside prior to payment of any dividends. As a result of these and other restrictions under PRC laws and regulations, our PRC subsidiaries and affiliates are restricted in their ability to transfer a portion of their net assets to us either in the form of dividends, loans or advances. The restricted portion of their net assets amounted to approximately RMB555.2 million (US\$91.7 million), or 56.8% of our total consolidated net assets as of December 31, 2013.

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

Regulation of the import/export industry

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

In April 2001, the PRC Inspections Administration was established by combining the former State Import and Export Commodity Inspection Quarantine Bureau of the PRC and the State Quality and Technique Supervision Bureau of the PRC, which oversees the inspection work of import and export commodities for the PRC in accordance with the

institutional reform plan of the State Council. The PRC Inspections Administration, which is primarily an administrative and law enforcement institution governing, among others, the health quarantine of imported and exported animals and plants, the inspection, appraisal, certification and supervision of imported and exported commodities, has the following responsibilities, among others:

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

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

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

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

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

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

Customs General Administration of the PRC

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

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

supervising the entering into and departing from the PRC of transportation tools, goods, luggage, postal items and other articles;

collecting customs duties and other taxes and fees;

investigating and suppressing smuggling; and

preparing customs statistics and conducting other customs affairs.

Import/Export license system

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

cooperation after consulting other relevant State Council departments. Restricted exports are further divided into quota-controlled exports and license-controlled exports. Export quotas are distributed annually and may be distributed through direct allocation, invitation of bids or other methods. Export licenses are issued on a case-by-case basis. Under certain circumstances, the relevant State Council departments may take certain temporary measures to restrict or prohibit certain imports.

Administrative provisions on the origin certificate

All exporters may apply for origin certificates in respect of the products to be exported out of China. In compliance with the Regulations of the People's Republic of China on Origin of Imported and Exported Goods issued on September 3, 2004, which became effective on January 1, 2005, and the Provisions for the Issuance of the Origin Certificate for Export Goods of the PRC (Trial Implementation), which became effective on January 1, 1996, and to strengthen the administration of the issuance of Origin Certificates, the Ministry of Foreign Trade and Economic Cooperation, currently known as the Ministry of Commerce, promulgated the Administrative Provisions of the PRC on Origin Certificate on March 8, 1996, or the Administrative Provisions. The Administrative Provisions are aimed at facilitating the implementation of a national EDI project by the Ministry of Commerce. The Ministry of Commerce made use of the recommended standard form of the Origin Certificate issued by the then State

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Technology Supervision Administration of the PRC on July 1, 1996, to standardize and regulate the administration, subscription, printing, transportation, record-keeping, issuance, calculation and examination of the Origin Certificate, thus minimizing or eliminating the occurrence of forged or fake Origin Certificates. The new standard form of the Origin Certificate bears a uniform serial number.

Commodity quality inspection and quarantine inspection

Commodity quality inspection

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

Quarantine inspection

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

Regulation on stock incentive plan

On December 25, 2006, the People's Bank of China promulgated the Administrative Measures for Individual Foreign Exchange. On January 5, 2007, SAFE issued the Implementation Rules of the Administrative Measures for Individual Foreign Exchange, or the Individual Foreign Exchange Rule, which, among other things, specifies approval requirements for a PRC citizen's participation in employee stock ownership plans or stock option plans of an overseas publicly-listed company. On February 15, 2012, SAFE issued the Notices on Issues concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plan of Overseas Publicly-Listed Company, or the Stock Incentive Plan Rules, which terminated the Processing Guidance on Foreign Exchange Administration of Domestic Individuals Participating in the Employee Stock Ownership Plans or Stock Option Plans of Overseas-Listed Companies issued by SAFE on March 28, 2007. According to the Stock Incentive Plan Rules, if domestic individuals (both PRC residents and non-PRC residents who reside in the PRC for a continuous period of not less than one year, excluding foreign diplomatic personnel and representatives of international organizations) participate in any stock incentive plan of an overseas listed company, a qualified PRC domestic agent, which could be a PRC subsidiary of such overseas listed company, or a domestic agent selected by a PRC subsidiary, shall, among other things, file, on behalf of such individual, an application with SAFE to register such stock incentive plan, and obtain approval for an annual allowance with respect to the purchase of foreign exchange in connection with the stock purchase or stock option exercise. Such PRC individuals' foreign exchange income received from the sale of stocks and dividends distributed by the overseas listed company and any other income shall be fully remitted into a collective foreign currency account in the PRC opened and managed by the PRC domestic agent before distribution to such individuals.

C. Organizational structure

We conduct substantially all of our business through our PRC subsidiaries and VIE in China. The following diagram illustrates our subsidiaries and VIE, their country of incorporation and the proportion of our ownership of each as of May 14, 2014.

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We effectively control our VIE, Ronghe Tongshang, through a series of contractual agreements entered into in 2006, 2007 and 2009. Various regulations in China currently restrict or prevent foreign-invested entities from engaging in the telecommunications services, including Internet-related businesses such as B2C e-commerce. Due to these restrictions, our B2C e-commerce business in the PRC has been conducted through our VIE, Beijing Ronghe, which is a PRC company that is controlled by our subsidiary, Beijing Ninetowns Investment Co., Ltd., through a series of contractual arrangements with Ronghe Tongshang. A summary of the major terms of the agreements are as follows:

We provide exclusive technical consulting and management services to Ronghe Tongshang;

We have the sole discretion to determine the amount of fees we will receive;

We provide guarantees on the execution of all business contracts entered into by Ronghe Tongshang in its business operations. Ronghe Tongshang pledges its assets to us as collateral for such guarantees;

We may dispose of the collateralized registered capital at our sole discretion without limitation or restriction;

We have the right and sole discretion to purchase all or part of the registered capital from equity owners of Ronghe Tongshang when such purchase is allowed under PRC law; and

The equity owners of Ronghe Tongshang may not dispose of or enter into any other agreements involving such equity without our prior consent.

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D. Property, plant and equipment

Our principal executive offices occupy a total of approximately 7,992 square meters on the 19th to 23rd and 25th floors of Building No.1, Capital A Partners, No. 20 Gongti East Road, Chaoyang District, Beijing 100020, PRC, or the Principal Office. We have not obtained the ownership certificates for our principal executive offices yet. We filed a lawsuit against the developer in April 2013 claiming that the developer breached its obligations under the real estate sales contracts and failed to assist us in obtaining the ownership certificates. We also own an office building located at No. 38, Huicai Road, Tianhe District, Guangdong, PRC with a total of approximately 3,095 square meters.

We occupy a leased representative office of approximately 10 square meters at Unit 1505, 15/F, Fullerton Centre, 19 Hung To Road, Kwun Tong, Kowloon, Hong Kong.

We lease premises with a total area of approximately 4,300 square meters in Beijing to serve as our warehouse for our B2C e-commerce business. The lease will expire on February 29, 2015.

We also lease approximately 703,200 square meters of land in Beijing on which we farm some products for our B2C e-commerce business. The lease will expire on September 15, 2022.

We and our four franchisees currently jointly service users of our enterprise software through three technical support centers operated and maintained by us and 49 technical support centers operated and maintained by our four franchisees. Among the three technical support centers operated and maintained by us, one is located in Beijing and two are located in Guangzhou. The technical support centers operated and maintained by our four franchisees are all located in major import/export cities in China.

Please refer to Item 4- Information on the Company B. Business Overview Real Estate Development beginning on page 27 for information regarding our real estate projects.

Insurance

We do not maintain business liability insurance, which we believe is in line with our industry practice. We do maintain vehicle liability insurance. While business disruption insurance is available, we have determined that the risks of disruption and the cost of insurance are such that we do not require it at this time. Any business disruption, litigation or natural disaster might therefore result in substantial costs and diversion of our resources.

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

Item 4A. Unresolved Staff Comments.

Not applicable.

Item 5. Operating and Financial Review and Prospects.

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our consolidated financial statements and the related notes included elsewhere in this annual report on Form 20-F. This discussion may contain forward-looking statements based upon current expectations that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under Item 3. Key Information D. Risk Factors

Edgar Filing: NINETOWNS INTERNET TECHNOLOGY GROUP CO LTD - Form 20-F
beginning on page 5 or in other parts of this annual report on Form 20-F.

Table of Contents***A. Operating Results*****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 customs declaration process in connection with international trade. 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, which enable our enterprise software to process electronic declarations over the Internet. We believe there were approximately 145,100, 146,300 and 148,000 licensees of our enterprise software registered to effect electronic import/export processing with the PRC Inspections Administration as of December 31, 2011, 2012 and 2013, respectively. We also engage in B2C e-commerce through our web portal, www.tootoo.cn, and real estate development in Yizhuang and Huainan, China. Our B2C e-commerce and real estate development businesses have limited operating histories.

We generated total net revenue of approximately RMB75.2 million, RMB90.4 million and RMB107.8 million (US\$17.8 million) in 2011, 2012 and 2013, respectively. Our total net revenue in 2013 increased compared to 2012 mainly because of the increase in net revenue from our B2C e-commerce business during 2013. Our net income attributable to the Company in 2011 and 2012 was RMB3.5 million and RMB68.5 million, respectively, and our net loss attributable to the Company in 2013 was RMB13.9 million (US\$2.3 million). The net loss attributable to the Company in 2013 was mainly due to the decrease in gains on sales of short-term investments.

We periodically invest our excess cash in exchange-traded equity securities. In addition, from time to time we write call and put options through listed exchanges 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, 2013, we held equity securities with a total value of approximately RMB21.5 million (US\$3.6 million) which we purchased from China's A-Share stock market. We also made investments in the U.S. securities markets through investments in equity securities and call and put options. As of December 31, 2013, we have sold all of the equity securities that we purchased in the U.S. securities markets. In 2013, we recognized approximately RMB7.4 million (US\$1.2 million) of net gains from these investment activities compared to RMB97.6 million in 2012.

Factors affecting our results of operations and financial condition:*Focus on sales of enterprise software and related customer maintenance services*

In 2013, we engaged in four main lines of business: (i) sales of enterprise software and related customer maintenance services, (ii) provision of software development services, (iii) B2C e-commerce and (iv) real estate development. We intend to continue deploying our resources on sales of enterprise software and related customer maintenance services and on our B2C e-commerce and real estate development businesses.

Expansion to new businesses and continuance of investment activities

Due to the fact that our B2C e-commerce and real estate development businesses have limited operating histories, we may not successfully develop either of them into one of our primary businesses. In April 2010, we began offering our B2C e-commerce food and household products through our web portal. In April 2011, we began our real estate development activities. We do not have a significant operating history with respect to either B2C e-commerce or real

estate development and we cannot assure you that we will be able to efficiently or effectively manage or grow these businesses. Any failure to do so may limit our future growth and materially and adversely affect our business, financial condition and results of operations.

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Status of the import/export industry in China

Our financial results have been, and we expect will continue to be, affected by the import/export industry in China. The import/export industry in China has been affected by the recent global financial crisis which began in the second half of 2008, as some of the countries to which China exports its products experienced an economic slowdown. International sales improved in 2012 as a result of a gradual recovery of the global economy, but ongoing economic difficulties in various markets limited the growth of such sales in 2013. China's total import and export volume in 2013 increased by 7.6% compared to 2012 and we believe the number of the import and export transactions consummated was generally the same as in 2012. According to the Report on Chinese Foreign Trade Development released by MOFCOM, the environment for China's foreign trade development in 2014 both home and abroad may be slightly better than that for 2013, but difficulties and risks still exist. International market demand is weak, industrial competition among countries is intense and trade friction remains severe. On this basis, we believe China's import and export businesses still face continued challenges in 2014. The operating environment in our core enterprise software segment remains challenging.

Change in number of potential users

In February 2006, the PRC Inspections Administration commenced the distribution of certain software products that our company developed free-of-charge to end-users. As some of the 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 had and may continue to have 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 mainly 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 since 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. We believe that the PRC Inspections Administration decreased its efforts to promote its free software starting in 2008, and there is uncertainty surrounding the PRC Inspections Administration's future promotional plans for its free software.

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. 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 statements of operations items

As of December 31, 2013, we operated primarily in four business segments: (i) enterprise software and related customer maintenance services, (ii) software development services, (iii) B2C e-commerce and (iv) real estate development.

Total net revenues

Currently, we generate total net revenues primarily from (i) sales of enterprise software and related customer maintenance services, (ii) fees from software development services and (iii) sales of products through our B2C e-commerce portal.

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Our total net revenues are gross revenues net of PRC business taxes plus VAT rebates. We receive VAT rebates from the Chinese tax authorities as part of the PRC government's policy of encouraging software development in the PRC. Our sales of enterprise software products are generally subject to VAT of 17.0%, except that one of our subsidiaries in China is 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 and VAT rebates are included in our net revenues from sales of enterprise software. In 2013, we recognized RMB0.4 million (US\$72,000) in VAT rebates. The fees we charged for software development and customer maintenance services for enterprise software products were generally subject to a 5.0% business tax and a 3.0% VAT prior to September 2012. Since September 1, 2012, our service revenues from software development and customer maintenance services have been subject to VAT of 6.0%.

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 for our iDeclare.CIQ products, 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 jointly with our four franchisees. For 2011, 2012 and 2013, net revenues from sales of enterprise software and related customer maintenance services generated by our franchisees amounted to approximately RMB47.9 million, RMB49.0 million and RMB48.9 million (US\$8.1 million), respectively, representing 78.5%, 82.0% and 86.4% of our net revenues from the sale of enterprise software and related customer maintenance services in 2011, 2012 and 2013, respectively. 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 license fee that we receive from direct sales, which is RMB4,500 per-unit. 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 number of the export/import transactions consummated by our pay-per-transaction users, (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 services of this type and it is uncertain how many of our users will pay for such maintenance services. In 2013, we renewed customer maintenance service contracts with approximately 18,105 users whose customer maintenance service contracts were due for renewal in 2013, representing approximately 12.4% of our users whose maintenance service agreements were due for renewal in 2013, compared to 20,800 in 2012 representing approximately 14.3% of our users whose customer maintenance service contracts were due for renewal in 2012. 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 projects with the PRC Inspections Administration. As our belief 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 verbal commitments from our customers and sign a 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 in relation to the estimated total hours to be incurred for each contract at completion. Compared to 2012, fewer contracts with respect to software development services were completed and accepted by customers in 2013.

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B2C e-commerce

In April 2010, we began offering organic food and other household products through our web portal, www.tootoo.cn. Our revenues from our B2C e-commerce business are generally recognized upon delivery.

Real estate development

Our real estate projects are either in the planning stage or under construction and we have not pre-sold any units. To date we have not generated any revenue from our real estate development business.

Cost of revenues

Cost of revenue includes costs associated with the delivery of maintenance and software development services as well as direct costs related to food and other products sold on www.tootoo.cn, including salaries, employee benefits and overhead costs associated with employees providing such services.

Enterprise software and related customer maintenance services

We distribute our software directly to end-users through our franchisee network via the Internet. The costs of revenues for our enterprise software are minimal because we only incur minimal production, packaging and shipment costs. Additionally, as our franchisees provide most of the software maintenance services to customers, we incur minimal direct costs associated with the delivery of customer maintenance services.

As a result of the above factors, cost of revenues for enterprise software and related customer maintenance services was immaterial in 2011, 2012 and 2013.

Software development services

Our cost of software development services consists mainly of personnel expenses, office rental expenses and other expenses directly related to the 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. Certain software development services also include costs for hardware procurement made at a customer's request. We recognize such costs when all components under the relevant contract are delivered and the project is complete upon the receipt of written acceptance by the customer.

B2C e-commerce

Our cost of B2C e-commerce consists primarily of procurement costs for products sold and direct costs associated with sales and delivery, 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, as well as the cost of revenues for our software development services and B2C e-commerce.

Operating expenses

Our operating expenses consist of selling and marketing expenses, general and administrative expenses, research and development expenses and allowance for 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 costs on a straight-line basis over the requisite service period, which is the vesting period.

Selling and marketing expenses

Selling and marketing 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 record all selling and marketing expenses as they are incurred. We expect to expand our marketing and advertising campaigns to promote our new B2C e-commerce business.

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 record all general and administrative expenses as they are incurred. In 2013, we incurred lower general and administrative expenses than in 2012 as a result of decreases in salaries and office expenses, fixed assets depreciation expense, amortization of intangible assets, legal and professional fees and share-based compensation expenses relating to share options and restricted shares granted to our directors, executive officers and certain employees in prior years.

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Research and development expenses

Research and development expenses consist primarily of research and development personnel expenses. We record 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. Research and development expenses increased in 2013 due to an increase in the total amount of compensation for our research and development personnel as a result of the increase in headcount and average compensation per person.

Allowance for doubtful accounts

In 2011, we entered into certain debt repayment agreements with three of our franchisees pursuant to which approximately RMB22.8 million of accounts receivable were written off. In 2011, we reduced our bad debt provision by RMB6.8 million, which represented payments received in respect of accounts receivables that had previously been included in our bad debts provision. In 2012 and 2013, we recovered an additional RMB3.8 million and RMB4.3 million (US\$0.7 million) of accounts receivable that had previously been included in our bad debt provision.

We expect that our total operating expenses will remain stable in the near future.

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.

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

Ninetowns Ports and Guangdong Ninetowns were both subject to 15.0% EIT in each of 2011, 2012 and 2013.

Ninetowns Ports and Guangdong Ninetowns 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, Ninetowns Ports and Guangdong Ninetowns have been subject to a 15.0% EIT.

Beijing Ninetowns Investment, Ronghe Tongshang, Ninetowns Software, Dongguan Software, Beijing Sky, Ronghe Zhihui, Ronghe Dianzi, Huainan Ninetowns and Huainan Huacheng were subject to a 25.0% EIT in 2011, 2012 and 2013.

Huaixiang Modern Agriculture was subject to a 25.0% EIT in 2011 based on a deemed income equal to 4.0% of its annual total income of such year as determined by the tax authority. In 2012 and 2013, Huaixiang Modern Agriculture was subject to a 25.0% EIT based on its total net income.

Our PRC operating subsidiaries were also subject to PRC business tax. We paid business tax on our net revenues generated from software development services and customer maintenance services. Our PRC operating subsidiaries and VIE generally paid a 5.0% business tax and a 3.0% VAT on our net revenues derived from software development services and customer maintenance services prior to September 1, 2012. Since September 1, 2012, the Company's service revenues from software development and sales of software have been subject to a 6.0% VAT and is no longer subject to business tax.

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Our sales of enterprise software products is subject to VAT of 17.0%. Pursuant to PRC tax regulations, Ninetowns Ports is 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 RMB0.6 million, RMB0.6 million and RMB0.4 million (US\$72,000) in 2011, 2012 and 2013, respectively. Except for products harvested from our own farms, which are exempted from VAT, sales of goods and other products on Tootoo.cn are generally subject to VAT at 13.0% and 17.0%.

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

Deferred subsidies

During the years ended December 31, 2011 and 2012, Dalian Changzheng received grants of RMB240.2 million and RMB36.0 million (US\$5.8 million), respectively, from Dalian government. These grants were initially deferred when received and were to be used for research and development related to certain software and systems development projects approved by the Dalian government. Upon the completion of these projects, the government grant would be recognized as either other income or as an offset to relevant research and development expenses. There were no grants received in 2013. The entire amount of deferred subsidies is included in liabilities held for sale due to the entering into of a share transfer agreement with Aviation Wanyuan to sell the company's 70% equity interest in Dalian Changzheng on December 30, 2013.

Critical accounting policies

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

Revenue recognition

Currently, our revenues are mainly derived from the following sources: (i) sales of enterprise software and related customer maintenance services; (ii) fees from software development services; and (iii) sales of products through our B2C e-commerce portal.

Revenue from the sale of enterprise software and related customer maintenance services 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 no more than 12 months.

For certain customers, we install 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, 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.

Revenue from software development services also includes fees for hardware procurement at a 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.

Revenues from our B2C e-commerce business are generally recognized upon delivery of the products purchased.

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We receive rebates of value added tax on sales of software and related maintenance services, or VAT rebate, from the Chinese tax authorities as part of the PRC government's policy of encouraging software development in the PRC. Our total net revenues are gross revenues net of business tax plus VAT rebates. Pursuant to certain PRC rules relating to value-added tax, Ninetowns Ports is 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. Our VAT rebates were RMB0.6 million, RMB0.6 million and RMB0.4 million (US\$72,000) in 2011, 2012 and 2013, respectively.

Acquired intangible assets

Acquired intangible assets, which consist primarily of customer lists and relationships, completed technology, purchased software for internal use and land use rights, 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 land use rights which are amortized over 50 years. Amortization expenses for the years ended December 31, 2011, 2012 and 2013 were RMB3.5 million, RMB0.1 million and RMB0.1 million (US\$16,000), respectively.

Short-term investments

Short-term investments consist 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 value. 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.

We review investments in available-for-sale securities as of each balance sheet date for other-than-temporary declines in fair value. If we determine that a decline in fair value is other-than-temporary (OTTI), accumulated unrealized loss is accounted for as realized loss and included in earnings. No OTTI losses were recorded during the years ended December 31, 2011, 2012 and 2013.

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.

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

Real estate property under development

We capitalize the acquisition, planning, entitlement, construction, development and interest costs associated with our real estate development projects. Costs that are not capitalized are expensed as incurred. A real estate development project is substantially complete upon the cessation of construction and development activities.

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.

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Trade receivables and allowance for doubtful accounts

Trade receivables mainly represent amounts earned and collectible from customers. We perform ongoing credit evaluations of our customers and adjust credit limits based on payment history and the customer's current credit-worthiness, as determined by our review of their current credit information. We 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 provide an allowance for doubtful accounts based on our aging analysis of trade receivables, customer's credit-worthiness, past collection history, and changes in customer's payment terms. We also provide a specific allowance if there is strong evidence that indicates the trade receivables are uncollectible, and write 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.

As of December 31, 2013, our total net trade receivables amounted to approximately RMB8.5 million (US\$1.4 million), which represented approximately 1.5% of our total current assets. As of December 31, 2013, we had an allowance for doubtful debts of approximately RMB1.3 million (US\$0.2 million). As of December 31, 2013, 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. If any of our franchisees or any of our other customers fails to pay, or delays payment on, all or part of these receivables, we would be required to make additional allowances for doubtful debts and our profitability and financial position could be affected.

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 judgment is required in this process. Interests and penalties as a result of income tax filings are classified as part of our income taxes.

Consolidation of affiliated entities

PRC law currently restricts foreign ownership of telecommunications services, including Internet-related businesses such as B2C e-commerce in China. To comply with these legal requirements, we conduct our B2C e-commerce operations in the PRC through our VIE, Ronghe Tongshang, which is a PRC company that is effectively controlled by our subsidiary, Beijing Ninetowns Investment, through a series of contractual arrangements. As a result of these contractual arrangements, we believe that we have the ability to effectively control Ronghe Tongshang. As we are deemed to have the power to direct the economic activities that are most significant to Ronghe Tongshang and the right to obtain substantially all of the economic benefits and obligation to fund substantially all of the losses, we are considered to be the primary beneficiary of our VIE, and therefore we consolidate the results in our consolidated financial statements under U.S. GAAP. Any changes in or otherwise interpretation of PRC laws and regulations that affect our ability to control Ronghe Tongshang might preclude us from consolidating such results in the future.

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We review new accounting standards as issued. Although some of the accounting standards issued are effective after the end of our previous fiscal years, and therefore may be applicable to us, we have not identified any standards that we believe will have a significant impact on our consolidated financial statements.

A. Operating results

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

	Years ended December 31,		
	2011	2012	2013
Total net revenues:			
Enterprise software and related customer maintenance services	81.1%	66.2%	52.5%
Software development services	7.9%	8.2%	5.5%
Food sales and services	11.0%	25.6%	42.0%
Cost of revenues:			
Enterprise software and related customer maintenance services			
Software development services	-3.0%	-2.6%	-2.5%
Food sales and services	-11.2%	-20.3%	-34.8%
Gross profit	85.7%	77.1%	62.7%
Operating expenses:			
Selling and marketing	-29.9%	-23.9%	-23.8%
General and administrative	-105.5%	-86.1%	-63.9%
Research and development	-14.7%	-16.5%	-15.4%
Allowance for doubtful accounts	9.1%	4.2%	4.0%
Loss from operations	-55.3%	-45.2%	-36.4%
Interest income	2.6%	6.3%	5.2%
Gain on sales of short-term investments	43.5%	125.7%	6.1%
Change in fair value of marketable options	9.6%	-17.8%	0.8%
Loss on investment under cost method	-4.5%		
Income (loss) from equity method investments	2.2%	-0.9%	-0.4%
Other income	8.0%	8.5%	12.5%
Income (loss) before income tax and non-controlling interests	6.1%	76.6%	-12.2%
Income tax expense	-1.4%	-0.7%	-0.4%
Income (loss) before non-controlling interest	4.7%	75.8%	-12.6%
Net loss (income) attributable to non-controlling interest	0.0%	0.0%	-0.1%
Net income (loss) attributable to the Company	4.7%	75.8%	-12.7%

2013 compared to 2012***Total net revenues***

We generated total net revenues of approximately RMB107.8 million (US\$17.8 million) in 2013, which represents an increase of 19.3% from RMB90.4 million in 2012. This net revenue increase was principally due to the increased net revenue generated from our B2C e-commerce business in 2013, which increase was partially offset by the decrease in net revenues from other businesses.

Enterprise software and related customer maintenance services

Net revenues from sales of our enterprise software and related customer maintenance services decreased by approximately 5.4% to RMB56.6 million (US\$9.3 million) in 2013 from RMB59.8 million in 2012, primarily due to decreased sales of our iDeclare.CIQ software package and the decreased volume of the services we provided to our pay-per-transaction users.

Our revenue from sales of the iDeclare.CIQ software packages and related maintenance services represented more than 99% of our net revenue from sales of enterprise software and related customer maintenance services in each of 2012 and 2013. The revenue we generated from sales of the iQM product and iProcess.ICQ series and related software maintenance services were immaterial in both 2012 and 2013.

We recognized net revenues of RMB3.6 million (US\$0.6 million) from sales of our enterprise software in 2013 compared to RMB4.5 million in 2012. We sold 1,801 iDeclare.CIQ software packages in 2013 compared to 1,139 iDeclare.CIQ software packages in 2012. Our net revenue from customer maintenance services, which consists of annual maintenance services revenue and pay-per-transaction filing fees, decreased from RMB55.0 million in 2012 to RMB53.0 million (US\$8.8 million) in 2013, representing a 3.6% decrease. We sold 18,105 iDeclare annual maintenance service contracts in 2013 compared to 20,824 iDeclare annual maintenance service contracts sold in 2012. Sales of iDeclare software and annual maintenance service contracts in 2013 were impact by the lower level of import/export transactions as a result of slower overall economic growth in China and adversely affected by the changes to the

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Catalogue. In 2013, we renewed annual customer maintenance service contracts with approximately 18,105 users whose customer maintenance service contracts were due for renewal in 2013 compared to 20,800 in 2012. The net revenue from pay-per-transaction filing fees decreased from RMB35.1 million in 2012 to RMB33.2 million (US\$5.5 million) in 2013, representing a decrease of 5.4% from 2012 to 2013. 58.7% and 58.7% of our revenue generated from sales of enterprise software and related customer maintenance services were from pay-per-transaction filing fees in 2012 and 2013, respectively.

Software development services

Net revenues from our software development services decreased by 19.7% from RMB7.5 million in 2012 to RMB6.0 million (US\$1.0 million) in 2013. Compared to 2012, fewer software development contracts with respect to software development services were entered into, completed and accepted by customers in 2013.

B2C e-commerce

Net revenues from our B2C e-commerce business increased by 95.9% from RMB23.1 million in 2012 to RMB45.3 million (US\$7.5 million) in 2013 due to an increase in the volume of orders placed by customers. Our B2C e-commerce business has benefited from growing consumer demand for fresh and healthy foods and household products coupled with consumers' preference for the speed and convenience that online shopping offers.

Cost of revenues

Enterprise software and related customer maintenance services

Our 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 the relevant services. Since iDeclare.CIQ is now generally distributed through the Internet, we incurred minimal outsourcing costs to outside contractors and costs associated with packaging and shipping of software. Our franchisees provide most of the software maintenance services to customers and we incurred minimal direct costs associated with the delivery of customer maintenance services. Cost of revenues from enterprise software and related customer maintenance services were insignificant in 2012 and 2013.

Software development services

Cost of revenues from software development services increased to RMB2.7 million (US\$0.4 million) in 2013 from RMB2.4 million in 2012 as we incurred more costs for the contracts that were completed and accepted in 2013. As of December 31, 2013, we did not have any capitalized costs related to such projects.

B2C e-commerce

Cost of revenues for our B2C e-commerce business was RMB37.5 million (US\$6.2 million) in 2013 compared to RMB18.4 million in 2012 due to the increased volume and selection of products sold through our web portal, www.tootoo.cn.

Gross profit

Gross profit was RMB67.6 million (US\$11.2 million) for 2013, compared to RMB69.7 million for 2012.

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 2011, 2012 and 2013 mainly because iDeclare.CIQ was generally distributed through the Internet and we incurred minimal outsourcing costs to outside contractors and costs associated with packaging and shipping of software. Additionally, our franchisees have been providing most of the software maintenance services to customers on our behalf, so 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 55.1% in 2013 compared to 68.4% in 2012, mainly because the average costs we incurred for each project were higher in 2013.

B2C e-commerce

Gross profit margin was 17.1% for our B2C e-commerce business in 2013 compared to a gross profit margin of 20.5% in 2012. The slight decrease was primarily due to promotional activities held for increasing sales volume.

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Operating expenses

Operating expenses decreased to RMB107.0 million (US\$17.7 million) in 2013 from RMB110.6 million in 2012, primarily due to the decreases in fixed assets depreciation expenses, amortization of intangible assets, legal and professional fees and share-based compensation expenses, which was partially offset by increases in advertising and exhibition expenses in B2C e-commerce business in 2013.

Selling and marketing expenses

Selling and marketing expenses increased to RMB25.7 million (US\$4.2 million) in 2013 from RMB21.6 million in 2012, primarily due to the increases in advertising and exhibition expenses in our B2C e-commerce business in 2013.

General and administrative expenses

General and administrative expenses decreased by 11.5% to RMB68.9 million (US\$11.4 million) in 2013 from RMB77.8 million in 2012, primarily due to decreases in fixed asset depreciation expenses, amortization of intangible assets, legal and professional fees and share-based compensation expenses relating to share options and restricted shares granted to our directors, executive officers and certain employees in prior years, partially offset by increases in salaries and office expenses of our general and administrative department.

Research and development expenses

Research and development expenses increased by 12.0% to RMB16.7 million (US\$2.8 million) in 2013 from RMB14.9 million in 2012, primarily due to an increase in the total amount of compensation for our research and development personnel as a result of the increase in headcount and average compensation per person.

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Allowance for doubtful accounts

The allowance for doubtful accounts was credited with RMB4.3 million (US\$0.7 million) in 2013 compared to RMB3.8 million in 2012 due to collections of accounts receivable that has been previously included in our bad debt provision.

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

we waived certain due and unpaid receivables from Ninetowns Zhi Fang in the amount of RMB8.8 million (US\$1.3 million). Ninetowns Zhi Fang agreed to pay off 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 RMB6.5 million (US\$979,000). Ninetowns Xin He agreed to pay off certain other outstanding due and unpaid receivables in the amount of RMB3.6 million (US\$545,000) to us by December 31, 2012, with 50% of such amount due by December 31, 2011 and the remaining 50% due by December 31, 2012.

we waived certain due and unpaid receivables from Ninetowns Wang Li in the amount of RMB7.6 million (US\$1.1 million). Ninetowns Wang Li agreed to pay off certain other outstanding due and unpaid receivables in the amount of RMB2.5 million (US\$379,000) to us by December 31, 2012, with 50% of such amount due by December 31, 2011 and the remaining 50% due by December 31, 2012.

All the receivables under the Debt Repayment Agreements have been fully collected.

Interest income

Interest income decreased slightly to RMB5.6 million (US\$0.9 million) in 2013 from RMB5.7 million in 2012, primarily due to a decrease in the investment in short-term financial products.

Gain on sales of short-term investments

Gain on sales of short-term investments decreased to RMB6.5 million (US\$1.1 million) in 2013 from RMB113.6 million in 2012 as a result of a decrease in gains on sales of short-term investments in 2013 compared to 2012 and exit from the security market in the United States.

Change in fair value of marketable options

In 2013, we had a gain in the fair value of marketable options was RMB0.9 million (US\$0.1 million), compared to a loss of RMB16.1 million in 2012, primarily due to the decrease of the fair market value of the portfolio of marketable options we held in 2013. We held different portfolios of marketable options in 2013 compared to 2012.

Gain (loss) on investments under the cost method

There was no gain or loss realized on investments under the cost method in 2012 and 2013.

Loss from equity method investments

Loss from equity method investments was RMB0.5 million (US\$0.07 million) in 2013, compared to a loss of RMB0.9 million in 2012, primarily due to the decreased loss from our investments in Shouchuang Caifu Ninetowns and Shouchuang Caifu Gengyin.

Income taxes

Income tax expense in 2013 decreased to RMB0.4 million (US\$0.07 million) from RMB0.7 million in 2012 primarily due to the increase of deferred income tax assets as a result of timing differences between the accounting and tax treatment of deferred service revenues.

Income (loss) before non-controlling interest

Loss from before non-controlling interest in 2013 was RMB13.8 million (US\$2.3 million) compared to an income of RMB68.6 million in 2012, as a result of the cumulative effect of the factors described above.

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Net income (loss) attributable to the Company

We recognized net loss attributable to the Company of RMB13.9 million (US\$2.3 million) in 2013 compared to net income attributable to the Company of RMB68.5 million in 2012, as a result of the cumulative effect of the factors described above.

2012 compared to 2011

Total net revenues

We generated total net revenues of approximately RMB90.4 million in 2012, which represents an increase of 20.2% from RMB75.2 million in 2011. This net revenue increase was principally due to the increased net revenue generated from our B2C e-commerce business in 2012, which increase was partially offset by the decrease in net revenues from other businesses.

Enterprise software and related customer maintenance services

Net revenues from sales of our enterprise software and related customer maintenance services decreased by approximately 2.0% to RMB59.8 million in 2012 from RMB61.0 million in 2011, primarily due to decreased sales of our iDeclare.CIQ software package and the decreased volume of the services we provided to our pay-per-transaction users.

Our revenue from sales of the iDeclare.CIQ software packages and related maintenance services represented more than 99% of our net revenue from sales of enterprise software and related customer maintenance services in each of 2011 and 2012. The revenue we generated from sales of the iQM product and iProcess.ICQ series and related software maintenance services were immaterial in both 2011 and 2012.

We recognized net revenues of RMB4.8 million from sales of our enterprise software in 2012 compared to RMB5.0 million in 2011. We sold 1,139 iDeclare.CIQ software packages in 2012 compared to 1,641 iDeclare.CIQ software packages in 2011. In 2012, sales of iDeclare software packages were impacted by the lower level of import/export transactions as a result of slower overall economic growth in China.

Our net revenue from customer maintenance services, which consists of annual maintenance services revenue and pay-per-transaction filing fees, decreased from RMB56.0 million in 2011 to RMB55.0 million in 2012, representing a 1.8% decrease. We sold 20,824 iDeclare annual maintenance service contracts in 2012 compared to 18,734 iDeclare annual maintenance service contracts sold in 2011. Sales of iDeclare annual maintenance service contracts increased year-over-year in 2012 in light of the large base of customers who required maintenance services. In 2012, we renewed annual customer maintenance service contracts with approximately 20,800 users whose customer maintenance service contracts were due for renewal in 2012 compared to 18,700 in 2011. The net revenue from pay-per-transaction filing fees decreased from RMB38.8 million in 2011 to RMB35.1 million in 2012, representing a decrease of 9.6% from 2011 to 2012. 63.6% and 58.7% of our revenue generated from sales of enterprise software and related customer maintenance services were from pay-per-transaction filing fees in 2011 and 2012, respectively.

Software development services

Net revenues from our software development services increased by 25.5% from RMB6.0 million in 2011 to RMB7.5 million in 2012. Compared to 2011, more software development contracts with respect to software development services were entered into, completed and accepted by customers in 2012.

B2C e-commerce

Net revenues from our B2C e-commerce business increased by 181.7% from RMB8.2 million in 2011 to RMB23.1 million in 2012 due to an increase in the volume of orders placed by customers. Our B2C e-commerce business has benefited from growing consumer demand for fresh and healthy foods and household products coupled with consumers' preference for the speed and convenience that online shopping offers.

Cost of revenues

Enterprise software and related customer maintenance services

Our 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 the relevant services. Since iDeclare.CIQ is now generally distributed through the Internet, we incurred minimal outsourcing costs to outside contractors and costs associated with packaging and shipping of software. Our franchisees provide most of the software maintenance services to customers and we incurred minimal direct costs associated with the delivery of customer maintenance services. Cost of revenues from enterprise software and related customer maintenance services were insignificant in 2011 and 2012.

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Software development services

Cost of revenues from software development services increased to RMB2.4 million in 2012 from RMB2.3 million in 2011 because more software development projects were completed and accepted in 2012. As of December 31, 2012, we did not have any capitalized costs related to such projects.

B2C e-commerce

Cost of revenues for our B2C e-commerce business was RMB18.4 million in 2012 compared to RMB8.5 million in 2011 due to the increased volume and selection of products sold through our web portal, www.tootoo.cn.

Gross profit

Gross profit was RMB69.7 million for 2012, compared to RMB64.5 million for 2011.

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 2010, 2011 and 2012 mainly because iDeclare.CIQ was generally distributed through the Internet and we incurred minimal outsourcing costs to outside contractors and costs associated with packaging and shipping of software. Additionally, our franchisees have been providing most of the software maintenance services to customers on our behalf, so 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 68.4% in 2012 compared to 61.7% in 2011, mainly because the average costs we incurred for each project were lower in 2012.

B2C e-commerce

Gross profit margin was 20.5% for our B2C e-commerce business in 2012 compared to a gross loss margin of 2.6% in 2011. Lower purchase costs and the introduction of new products with higher profit margins resulted in the margin improvement in 2012.

Operating expenses

Operating expenses increased to RMB110.6 million in 2012 from RMB106.0 million in 2011, primarily due to the increase in employee salaries and bonuses, which was partially offset by collections that reduced our allowance for doubtful accounts.

Selling and marketing expenses

Selling and marketing expenses decreased to RMB21.6 million in 2012 from RMB22.5 million in 2011, primarily due to the decrease in office expenses and travelling and transportation expenses, which decrease was partially offset by an increase in advertising and exhibition expenses for our B2C e-commerce business in 2012.

General and administrative expenses

General and administrative expenses decreased by 1.9% to RMB77.8 million in 2012 from RMB79.4 million in 2011, primarily due to decreases in fixed asset depreciation expenses, amortization of intangible assets, legal and professional fees and share-based compensation expenses relating to share options and restricted shares granted to our directors, executive officers and certain employees in prior years, which decreases were partially offset by increases in salaries and office expenses.

Research and development expenses

Research and development expenses increased by 34.7% to RMB14.9 million in 2012 from RMB11.0 million in 2011, primarily due to an increase in the total amount of compensation for our research and development personnel as a result of the increase in headcount and average compensation per person.

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Allowance for doubtful accounts

The allowance for doubtful accounts was credited with RMB3.8 million in 2012 compared to RMB6.8 million in 2011 due to collections of accounts receivable that has been previously included in our bad debt provision.

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

We waived certain due and unpaid receivables from Ninetowns Zhi Fang in the amount of RMB8.8 million. Ninetowns Zhi Fang agreed to pay off certain other due and unpaid receivables in the amount of RMB3.4 million 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 RMB6.5 million. Ninetowns Xin He agreed to pay off certain other outstanding due and unpaid receivables in the amount of RMB3.6 million 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 RMB7.6 million. Ninetowns Wang Li agreed to pay off certain other outstanding due and unpaid receivables in the amount of RMB2.5 million 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.

All the receivables under the Debt Repayment Agreements have been fully collected.

Interest income

Interest income increased to RMB5.7 million in 2012 from RMB1.9 million in 2011, primarily due to an increase in the investment in short-term financial products.

Gain on sales of short-term investments

Gain on sales of short-term investments increased to RMB113.6 million in 2012 from RMB32.7 million in 2011 as a result of the improved performance of our investments in securities in 2012 compared to 2011.

Change in fair value of marketable options

In 2012, the loss in the fair value of marketable options was RMB16.1 million, compared to a gain of RMB7.3 million in 2011, which is primarily due to the decrease of the fair market value of the portfolio of marketable options we held in 2012. We held different portfolios of marketable options in 2011 compared to 2012.

Gain (loss) on investments under the cost method

There was no gain or loss realized on investments under the cost method in 2012. In 2011, an impairment loss of RMB3.4 million was recognized due to losses reported by Hangzhou Tophere Info-Tech Inc., a Chinese B2B food and

beverage trade facilitator headquartered in Hangzhou. Since 2007, we have held a 19.8% equity interest in Hangzhou Tophere Info-Tech Inc. through Ronghe Tongshang.

Income (loss) from equity method investments

Loss from equity method investments was RMB0.9 million in 2012 primarily due to the accumulated loss from our investments in Shouchuang Caifu Ninetowns, Shouchuang Caifu Gengyin and Ninetowns Real Estate. Income from equity method investments was RMB1.6 million in 2011, which resulted from the inclusion of net income of Huainan Huacheng and Huainan Suitable Estate.

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Income taxes

Income tax expense in 2012 decreased to RMB0.7 million from RMB1.0 million in 2011 primarily due to deferred tax benefits resulting from timing differences between the accounting and tax treatment of deferred service revenues.

Income before non-controlling interest

Income before non-controlling interest in 2012 was RMB68.5 million compared to RMB3.5 million in 2011, as a result of the cumulative effect of the factors described above.

Net income attributable to the Company

We recognized net income attributable to the Company of RMB68.5 million in 2012 compared to net income attributable to the Company of RMB3.5 million in 2011, as a result of the cumulative effect of the factors described above.

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Our primary sources of liquidity are from our cash account. We had no outstanding debt as of December 31, 2013. The following table sets forth the summary of our cash flows for the periods indicated:

	For the years ended December 31,		
	2011	2012	2013
	RMB	RMB	RMB
	(in millions)		
Net cash used in operating activities	(63.0)	(24.8)	(5.5)
Net cash (used in) provided by investing activities	(224.8)	18.1	267.3
Net cash provided by (used in) financing activities	49.5		
Effect of exchange rate changes	(5.0)	(0.7)	(8.3)
Cash held for sale			(87.2)
Net (decrease) increase in cash and cash equivalents	(243.3)	(7.4)	166.3
Cash and cash equivalents, beginning of year	500.6	257.3	249.9
Cash and cash equivalents, end of year	257.3	249.9	416.2

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

Cash flow from operating activities

Cash used in operating activities was RMB5.5 million (US\$0.9 million) in 2013 primarily attributable to payments associated with the construction of our real estate projects. Cash used in operating activities was RMB24.8 million in 2012 and cash used in operating activities was RMB63.0 million in 2011.

Cash flow from investing activities

Cash provided by investing activities was RMB267.3 million (US\$44.2 million) in 2013 mainly consisting of proceeds from sales of available-for-sale securities of RMB628.9 million (US\$103.9 million) which was partially offset by purchases of available-for-sale securities of RMB325.1 million (US\$53.7 million).

Cash provided by investing activities was RMB18.1 million in 2012 mainly consisting of proceeds from sales of trading securities and available-for-sale securities of RMB706.3 million and sales of options of RMB98.5 million which were partially offset by purchases of available-for-sale securities of RMB767.6 million and payment for equity investments of RMB26.8 million.

Cash used in investing activities was RMB224.5 million in 2011 mainly consisting of investments in our real estate development business through investments in our equity method investees and purchase of available-for-sale securities. Please refer to note 10 Investment under Equity Method to the financial statements attached to this annual report for more information regarding our investment under equity method.

Cash flow from financing activities

Cash flow from financing activities was nil in 2013 and not significant in 2012. Cash flows from financing activities of RMB49.5 million in 2011 was attributable to the cash contribution of RMB49.5 million to Dalian Changzheng by its non-controlling shareholder, Aviation Wanyuan.

Capital resources

To better manage our assets for long-term growth, we periodically invest our excess cash in exchange-traded 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 and put option were nil at December 31, 2013.

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Our primary source of liquidity is cash flow from investing activities. Our cash and cash equivalents primarily consist of cash on hand and bank deposits. As of December 31, 2013, we had RMB416.2 million (US\$68.7 million) in cash and cash equivalents. In addition, as of December 31, 2013, we had invested RMB5.4 million (US\$0.9 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 our businesses, except for our real estate development business, for at least the next 12 months. 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. We currently have no lines of credit or other credit facilities. We may seek additional external financing for our businesses, especially our real estate development business.

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*.

Restrictions on cash transfers to us

To fund any cash requirements we may have from time to time, we may need to rely on dividends, loans or advances made to us by our PRC subsidiaries. We conduct our B2C e-commerce business in the PRC through Ronghe Tongshang, which is a PRC company that is controlled by our subsidiary, Beijing Ninetowns Investment, through a series of contractual arrangements. As Ronghe Tongshang is not owned by Beijing Ninetowns Investment, it is not able to make dividend payments to Beijing Ninetowns Investment. Instead, Beijing Ninetowns Investment has entered into contractual arrangements with Ronghe Tongshang to provide services to Ronghe Tongshang in return for cash payments. In order for us to receive any dividends, loans or advances from our PRC subsidiaries, or to distribute any dividends to our shareholders and ADS holders, we will need to rely on these payments made from Ronghe Tongshang to Beijing Ninetowns Investment. Depending on the nature of services provided by Beijing Ninetowns Investment to Ronghe Tongshang certain of these payments are subject to PRC taxes, including business taxes and value-added tax, which effectively reduce the amount that Beijing Ninetowns Investment receives from Ronghe Tongshang. In addition, the PRC government could impose restrictions on such payments or change the tax rates applicable to such payments.

Regulations in the PRC currently permit payment of dividends of a PRC company, such as our PRC subsidiaries, only out of accumulated profits as determined in accordance with accounting standards and regulations in China. Each of our PRC subsidiaries is also required to set aside at least 10% of its after-tax profit based on PRC accounting standards each year to its general reserves until the cumulative amount reaches 50% of its registered capital. As a result of these and other restrictions under PRC laws and regulations, our PRC subsidiaries and Ronghe Tongshang are restricted in their ability to transfer net assets to us in terms of cash dividends, loans or advances. Such restrictions amounted to approximately RMB553.7 million, RMB554.6 million and RMB555.2 million (US\$89.0 million) as of December 31, 2011, 2012 and 2013, respectively. These reserves are not distributable as cash dividends, or as loans or advances. Ronghe Tongshang may also allocate a portion of its after-tax profits, as determined by its board of directors, to its staff welfare and bonus funds, which may not be distributed to us. In addition, if any of our PRC subsidiaries incurs debt on its own behalf in the future, the instruments governing the debt may restrict its ability to pay dividends or make other distributions to us.

Furthermore, under regulations of the SAFE, the Renminbi is not convertible into foreign currencies for capital account items, such as loans, repatriation of investments and investments outside of China, unless the prior approval

of the SAFE is obtained and prior registration with the SAFE is made.

We do not expect any of such restrictions or taxes to have a material impact on our ability to meet our cash obligations.

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

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

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

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

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

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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, 2013, we had 165 employees dedicated to research and development, of whom 20 have master's degrees and one has a Ph.D. degree in software development related fields. 21 of our R&D employees concentrate their efforts on the research and development of our B2C e-commerce business. Most of our research and development efforts are located in our principal executive offices in Beijing.

Our expenses for research and development activities totaled RMB11.0 million in 2011, RMB14.9 million in 2012 and RMB16.7 million (US\$2.8 million) in 2013.

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 plan to establish an additional research and development center in the eastern region of China.

D. Trend information

Other than as disclosed elsewhere in this annual report, we are not aware of any trends, uncertainties, demands, commitments or events for the period from January 1, 2013 to December 31, 2013 that are reasonably likely to have a material effect on our net revenues, income, profitability, liquidity or capital resources, or that caused the disclosed financial information to be not necessarily indicative of future operating results or financial conditions.

E. Off-balance sheet arrangements

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

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We have entered into leasing arrangements relating to our office premises, technical support centers and farm for self-grown products for our B2C e-commerce business. Our contractual obligations regarding these lease arrangements generally consist of rental payments and other charges that are due and payable on a monthly basis during the term of the relevant lease. In general, our lessors have the right to terminate the lease agreements and repossess the leased premises if we fail to make the prescribed payments for two consecutive months, or the expiration of a reasonable period after service of notice for non-payment of rent by the lessors. The following sets forth our commitments under these leases as of December 31, 2013:

	(in thousands)
Less than one year	RMB 2,499
1-3 years	1,084
3-5 years	1,077
More than 5 years	2,141
Total	RMB 6,801

As of December 31, 2013, we had unrecognized tax liabilities amounting to RMB6.0 million (US\$1.0 million). Since there is a high degree of uncertainty regarding the timing of future cash outflows, we are unable to make reasonable estimates regarding the timing of settlement with the respective tax authority.

G. Safe harbor

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

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

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

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

fluctuations in general economic and business conditions in China;

our ability to adjust to technological change; and

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

These forward-looking statements involve various risks and uncertainties. Although we believe that our expectations expressed in these forward-looking statements are reasonable, our expectations may turn out to be incorrect. Our actual results could be materially different from our expectations. Important risks and factors that could cause our actual results to be materially different from our expectations are generally set forth in Item 3.D Key Information Risk Factors beginning on page 5 and other sections in this annual report.

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

Table of Contents**Item 6. Directors, Senior Management and Employees.****A. Directors and senior management**

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

Name	Age	Position
Shuang Wang	51	Director and Chief Executive Officer
Kin Fai Ng	69	Director, Senior Vice President and Company Secretary
Dachun Zhang	69	Director
Fushan Chen	75	Director
Mark Ming Hsun Lee	42	Director
Martin Cheung	45	Director
Xiaoguang Ren	50	President
Tommy Siu Lun Fork	51	Chief Financial Officer
Min Dong	50	Senior Vice President, Legal Affairs, Administration and Human Resources
Bolin Wu	48	Chief Technology Officer
Zhonghai Xu	45	General Manager for Research and Development

Shuang Wang founded our predecessor, Ninetowns Technology, in 1995 and has served as a director and our Chief Executive Officer since 1995. From 1992 to 1994, Mr. Wang was the founder and Chief Executive Officer of Ninetowns Technology Co., Ltd., a company engaged in sales of computer hardware in China. From 1989 to 1992, Mr. Wang was the executive deputy general manager of Shenzhen Zhongnong Enterprise Corporation, a company engaged in the import and export of agricultural products. In March 2002, Mr. Wang was awarded the Traverse Cup Prize by Software World Magazine and Microelectronic Industry Development and Research jointly with a number of industry magazines in China for Mr. Wang's outstanding performance in and significant contributions to the information technology industry. In March 2003, Mr. Wang was also recognized as one of the 2002 top ten leaders of the PRC software industry in China by Software World Magazine jointly with China Central TV for his significant contributions to the software industry. Mr. Wang is also the chairman of the board of directors of Beijing New Take, Ninetowns Internet, Beijing Ninetowns Times and Dalian Changzheng; the vice-chairman and a non-executive director of iTowNet; and a director of Jitter Bug, Ixworth, New Take, Shielder, Ninetowns Ports and Ninetowns Real Estate. Mr. Wang holds a bachelor's degree in science from Beijing Institute of Technology, a master's degree in optics engineering from Beijing Institute of Technology and an engineering qualification certificate from the Ministry of Agriculture of the PRC.

Kin Fai Ng has served as a director since October 2003, a senior vice president of our company since 2000 and our company secretary since June 2006. He has also been a director of New Take, Jitter Bug, Ixworth and Beijing New Take since 2000. He is also the chairman of the board of directors of Huainan Suitable Estate, Huainan Huacheng Estate and Beijing Ronghe Zhihui. From 1996 to 1999, Mr. Ng was an executive officer at Baolong Real Estate Development Co., Ltd., a company engaged in property development in China.

Dachun Zhang has served as a director since October 2003. From 2002 to 2003, Mr. Zhang served as an executive director of Yew Sang Hong Holdings Limited, an electrical engineering contractor. Mr. Zhang was the vice president of COSCO Group Limited, a shipping company, the executive deputy chairman and president of COSCO (Hong Kong) Group Limited, chairman of COSCO (Hong Kong) Shipping Company Limited from 1996 to 1999. Mr. Zhang

served as an executive director and the president of China Merchants Group Limited, a conglomerate based in China that is engaged in the transportation and harbor operation businesses, from 1998 to 1999 and the chairman of the board of directors of China Merchants Holdings International Company Limited from 1998 to 2000. From 1999 to 2001, Mr. Zhang served as the chairman of the board of directors of China Chengxin Securities Rating Co., Ltd., a company engaged in the credit rating business in China. Mr. Zhang is also an independent, non-executive director of Rey Resources Limited, a company listed on the Australian Securities Exchange. Mr. Zhang holds a bachelor's degree in language and literature from Poznan University in Poland, a master's degree in shipping from the University of Wales in the United Kingdom and the qualification certificate of a senior economist in shipping management conferred by the Ministry of Communications of the PRC.

Fushan Chen has served as a director since October 2003. Mr. Chen, who is presently retired, served as the general manager and the director of the Hong Kong Branch of the China Classification Society, a shipping industry trade organization, from 1995 to 2001. Mr. Chen also served as the deputy director of the Ship Inspection Bureau of the PRC and the vice-chairman of the China Classification Society and the China Classification Association, respectively, from 1989 to 1995. Mr. Chen holds a bachelor's degree in ship casting from Nanjing Shipping Institute.

Mark Ming Hsun Lee has served as a director since October 2004. Since June 2006, Mr. Lee was the founder, the chief executive officer, president and a director of Splashtop Inc. (formerly called DeviceVM Inc.), a company engaged in the software business. Mr. Lee was the founder, chief executive officer, president and a director of OSA Technologies, Inc., a company engaged in the software business, and served in such positions from April 2000 to April 2004. From April 2004 to June 2006, Mr. Lee served as the senior vice president of Avocent Corp., a provider of computer keyboard, video and mouse switching and network connectivity solutions, since it acquired OSA Technologies, Inc. in April 2004. From the summer of 1991 to April 2000, Mr. Lee served in various positions, including enterprise platform marketing manager, senior information technology architect and engineer, design engineer for Intel Corporation. Mr. Lee is also a director of The Linux Foundation and a director of Monte Jade Science and Technology (West Coast).

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Mr. Lee holds a bachelor's degree in electrical engineering and a master's degree in electrical engineering and computer science from Massachusetts Institute of Technology. Mr. Lee also holds a master's degree in business administration from Arizona State University.

Martin Cheung has served as a director since June 2008. Mr. Cheung currently works as the Chief Financial Officer of China Zenix Auto International Ltd., a company listed on the New York Stock Exchange (NYSE:ZX). Mr. Cheung also serves as an Independent Non-Executive Director of Boyaa Interactive International Ltd., a company listed on the Hong Kong Stock Exchange (00434.HK). Mr. Cheung is a member of the American Institute of Certified Public Accountants and is a Certified Public Accountant of Australia. Mr. Cheung obtained a bachelor's degree in Social Sciences from the University of Hong Kong in 1991, a master's of Science degree in Accounting from Curtin University of Technology, in Perth, Australia in 1997 and a master's of Science degree in Finance (Investment Management) from the Hong Kong University of Science and Technology in 2001. Xiaoguang Ren has served as our President since January 2004. From 1995 to December 2003, Mr. Ren served in various positions with our company, including vice president and senior vice president for sales and marketing. Mr. Ren has also been a director of Ixworth and Jitter Bug since February 2000. From 1988 to 1995, Mr. Ren served as the general manager of Beijing University Fangyuen Life Science Co., Ltd. and Tsingtao Minyi High Technology Co., Ltd, both companies engaged in the software development business. Mr. Ren is also a director of iTowNet, New Take, Beijing New Take, Ninetowns Times and Ninetowns Ports, a director and general manager of Ninetowns Internet and the sole supervisor of Shanghai New Take. Mr. Ren holds a bachelor's degree in mathematics from Heilongjiang University and a master's degree in computer science from the Computing Technologies Research Institute of the Chinese Academy of Sciences. Mr. Ren received an executive master of business administration degree from Peking University in January 2010.

Tommy Siu Lun Fork has served as our Chief Financial Officer since September 2002. Prior to joining our company, Mr. Fork was the Qualified Accountant and Company Secretary of Zheda Lande Scitech Limited, a provider of telecommunications services, from 2001 to 2002. From 1997 to 2001, Mr. Fork was a senior manager of assurance and advisory services of Deloitte Touche Tohmatsu. Mr. Fork holds a bachelor's degree in Science from The University of Hong Kong and is a Certified Public Accountant in Hong Kong.

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

Bolin Wu has served as our Chief Technology Officer since 1997 and General Manager, Research and Development, from 1997 to 2010. Prior to joining our company in 1997, Mr. Wu was in charge of the software engineering department of Tsingtao Minyi High Technology Co., Ltd., a company engaged in the software development business, from 1995 to 1997 and served as an assistant professor at Shandong Textile Polytechnic Institute and the Automation Faculty of Qingdao University from 1992 to 1995. Mr. Wu currently serves as the sole member of the supervisory board of iTowNet. He is also the chairman of the board of directors of Huaixiang Modern Agriculture. Mr. Wu holds a bachelor's degree in application electronics from Hangzhou University of Commerce and a master's degree in automation and computer science from Shanghai Jiaotong University.

Zhonghai Xu has served as our General Manager for Research and Development since 2010. Prior to joining our Company in 2010, Mr. Xu served as general manager at eGrid Technology Ltd., a software company providing

business integration solutions and related products to corporations and government since 2002. Mr. Xu holds a bachelor's degree in electrical engineering from Changchun University of Science and Technology and a master's degree in image processing from Changchun Institute of Optics, Fine Mechanics and Physics.

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

B. Compensation

As of December 31, 2013, we do not have any outstanding loans or credit to any of our directors or executive officers, and we have not provided guarantees for borrowings by any of these persons. For 2013, the aggregate amount of compensation paid by us to all of our directors and executive officers was approximately RMB6.1 million (US\$1.0 million).

Our PRC subsidiary as well as our consolidated entity and its subsidiaries are required by law to make contributions based on each employee's salary for his or her pension insurance, medical insurance, housing fund, unemployment and other statutory benefits. The aggregate amount of such contributions we made with respect to our directors and executive officers for the year ended December 31, 2013 was RMB0.3 million (US\$56,000). We have no service contracts with any of our directors providing for benefits upon termination of employment.

We have entered into service agreements with each of our executive officers. We may terminate an executive officer's service for cause at any time without notice, for certain acts of the officer, including, but not limited to, gross negligence or willful misconduct in relation to service to us, grave misconduct that is detrimental to the interests or reputation of us, or a conviction of a crime. We have not entered into any service agreement that provides for benefits upon termination of service with any of our directors or executive officers.

2003 Plan

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

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

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

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

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

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

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

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

Termination of 2003 Plan. The 2003 Plan and all unexercised options granted thereunder lapsed in accordance with its terms in November 2013.

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Amended and Restated 2004 Plan

Our board of directors adopted the Amended and Restated 2004 Plan on October 21, 2005 and our shareholders approved the Amended and Restated 2004 Plan on December 2, 2005. The Amended and Restated 2004 Plan contains certain amendments to the 2004 Plan, including an increase in the aggregate number of ordinary shares that may be issued under the Amended and Restated 2004 Plan from 1.8 million ordinary shares to 4.3 million ordinary shares, an addition of an ever-green provision and the ability to grant share appreciation rights, restricted share awards and performance awards.

The Amended and Restated 2004 Plan provides for the grant of incentive share options, within the meaning of Section 422 of the Internal Revenue Code, to our employees and employees of our affiliates and subsidiaries.

Our board of directors or a committee appointed by our board of directors administers our Amended and Restated 2004 Plan. The administrator has the power to determine the terms of the share options, including the exercise price, the number of shares subject to each such award and the circumstances for vesting.

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

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

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

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

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

The following table summarizes the options granted under our Amended and Restated 2004 Plan to our directors and executive officers as of May 14, 2014.

	Ordinary Shares Underlying Options Granted	Exercise Price (US\$/Share)	Date of Grant	Date of Expiration
Xiaoguang Ren	19,286	8.60	February 23, 2005	February 22, 2015
	22,368	3.03	February 5, 2008	February 4, 2018
	220,000	1.40	July 16, 2009	July 15, 2019
	70,000	1.60	February 10, 2010	February 9, 2020
Bolin Wu	35,357	8.60	February 23, 2005	February 22, 2015
	39,930	3.03	February 5, 2008	February 4, 2018
	220,000	1.40	July 16, 2009	July 15, 2019
	70,000	1.60	February 10, 2010	February 9, 2020
Tommy Siu Lun Fork	17,679	8.60	February 23, 2005	February 22, 2015
	220,000	1.40	July 16, 2009	July 15, 2019
	70,000	1.60	February 10, 2010	February 9, 2020
Shuang Wang	20,893	8.60	February 23, 2005	February 22, 2015
	330,000	1.40	July 16, 2009	July 15, 2019
	70,000	1.60	February 10, 2010	February 9, 2020
Min Dong	17,679	8.60	February 23, 2005	February 22, 2015
	110,000	1.40	July 16, 2009	July 15, 2019
	70,000	1.60	February 10, 2010	February 9, 2020
Dachun Zhang	8,036	8.60	February 23, 2005	February 22, 2015
	3,000	3.03	February 5, 2008	February 4, 2018
	11,250	1.40	July 16, 2009	July 15, 2019
	30,000	1.60	February 10, 2010	February 9, 2020
Fushan Chen	8,036	8.60	February 23, 2005	February 22, 2015
	3,000	3.03	February 5, 2008	February 4, 2018
	11,250	1.40	July 16, 2009	July 15, 2019
	30,000	1.60	February 10, 2010	February 9, 2020
Mark Ming Hsun Lee	17,679	8.60	February 23, 2005	February 22, 2015
	4,500	3.03	February 5, 2008	February 4, 2018
	15,000	1.40	July 16, 2009	July 15, 2019

	30,000	1.60	February 10, 2010	February 9, 2020
Kin Fai Ng	12,000	3.03	February 5, 2008	February 4, 2018
	90,000	1.40	July 16, 2009	July 15, 2019
	30,000	1.60	February 10, 2010	February 9, 2020
Martin Cheung	30,000	1.40	July 16, 2009	July 15, 2019
	30,000	1.60	February 10, 2010	February 9, 2020

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The following table summarizes, as of May 14, 2014, shares granted under our Amended and Restated 2004 Plan to our directors and executive officers.

	Shares Granted	Date of Grant	End of Vesting Period
Xiaoguang Ren	66,716	February 5, 2008	February 5, 2012
	585,771	February 10, 2010	February 10, 2011
Bolin Wu	41,982	February 5, 2008	February 5, 2012 &