

NINETOWNS INTERNET TECHNOLOGY GROUP CO LTD  
Form 20-F  
July 15, 2008

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, 2007

OR

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

OR

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

Date of event requiring this shell company report . . . . .

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number \_\_\_\_\_

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

Cayman Islands  
(Jurisdiction of incorporation or organization)

22nd Floor, 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)

Contact Person: Tommy Siu Lun Fork  
Chief Financial Officer  
Phone: +852-9021-9597  
Facsimile: +852-2868-4483

Edgar Filing: NINETOWNS INTERNET TECHNOLOGY GROUP CO LTD - Form 20-F

Address: 22nd Floor, Building No. 1, Capital A Partners,  
No.20 Gong Ti East Road, Chaoyang District Beijing 100020, China  
(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

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

Title of each class	Name of each exchange on which registered
35,791,834 ordinary shares	Nasdaq Global Market

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

None  
(Title of Class)

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

American Depositary  
Shares,  
each representing one  
ordinary share, par  
value HK\$0.025 per  
share  
(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.

35,791,834 ordinary shares, par value HK\$0.025 per  
share

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

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 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  Other

by the International Accounting Standards Board

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



## Table of contents

	Page
<u>Item 1. Identity of Directors, Senior Management and Advisors</u>	1
<u>Item 2. Offer Statistics and Expected Timetable</u>	1
<u>Item 3. Key Information</u>	1
<u>Item 4. Information on the Company</u>	27
<u>Item 4A. Unresolved Staff Comments</u>	57
<u>Item 5. Operating and Financial Review and Prospects</u>	58
<u>Item 6. Directors, Senior Management and Employees</u>	80
<u>Item 7. Major Shareholders and Related Party Transactions</u>	93
<u>Item 8. Financial Information</u>	97
<u>Item 9. The Offering and Listing</u>	99
<u>Item 10. Additional Information</u>	100
<u>Item 11. Quantitative and Qualitative Disclosures About Market Risk</u>	109
<u>Item 12. Description of Securities Other than Equity Securities</u>	109
<u>Item 13. Defaults, Dividend Arrearages and Delinquencies</u>	110
<u>Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds</u>	110
<u>Item 15. Controls and Procedures</u>	110
<u>Item 16A. Audit Committee Financial Expert</u>	114
<u>Item 16B. Code of Ethics</u>	114
<u>Item 16C. Principal Accountant Fees and Services</u>	114
<u>Item 16D. Exemptions from the Listing Standards for Audit Committee</u>	115
<u>Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers</u>	115
<u>Item 17. Financial Statements</u>	116
<u>Item 18. Financial Statements</u>	116
<u>Item 19. Exhibits</u>	116

TOC

Introduction

This annual report on Form 20-F includes our audited consolidated financial statements for the years ended December 31, 2005, 2006 and 2007, and as of December 31, 2006 and 2007. References to “2005,” “2006,” “2007”, “2008” and “2009” where appropriate, references to the years ended or ending December 31, 2005, 2006, 2007, 2008 and 2009, respectively.

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

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

Forward-looking statements

This annual report contains forward-looking statements that relate to future events or our future financial performance. In some cases, you can identify forward-looking statements by terminology such as “anticipate,” “believe,” “continue,” “could,” “estimate,” “expect,” “forecast,” “intend,” “may,” “plan,” “potential,” “predict,” “project,” “should,” or “will,” or the terms or other comparable terminology. These statements involve known and unknown risks, uncertainties, and other factors that may cause our or our industry’s actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. These risks, uncertainties and other factors include, among other things, those listed under “Risk factors” as well as those included elsewhere in this annual report.

These forward-looking statements include, but are not limited to, statements relating to:

- 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.

You should not place undue reliance on forward-looking statements and you should read these statements in conjunction with the risk factors disclosed in Item 3 of this annual report, “Key Information – Risk factors.” We undertake no obligation to publicly update or revise any forward-looking statements whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions the forward-looking events discussed in this annual report might not occur and our actual results could differ materially from those anticipated in these forward-looking statements.



TOC

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 information and other data

The following table shows selected consolidated financial information and other data for our business. You should read the following information in conjunction with Item 5 of this annual report, "Operating and Financial Review and Prospects." The statement of operations data and cash flow data for the years ended December 31, 2005, 2006 and 2007, and the balance sheet data as of December 31, 2006 and 2007, are derived from our audited consolidated financial statements and related notes thereto, which are included in this annual report beginning on page F-1. These audited consolidated financial statements and the related notes thereto have been prepared in accordance with accounting principles generally accepted in the United States, or U.S. GAAP.

The statement of operations data for 2003 and 2004, and the balance sheet data as of December 31, 2003, 2004 and 2005, are derived from our audited consolidated financial statements which have not been included in this annual report.

In thousands, except  
per share, per ADS  
and  
operating data and  
percentages

For the year ended December 31,

	2003	2004	2005	2006	2007	2007(1)
<b>Statement of operations data:</b>						
<b>Total net revenues:</b>						
Enterprise software and related customer maintenance services	RMB113,791	RMB188,720	RMB203,488	RMB116,833	RMB77,327	US\$10,601
Software development services	19,045	12,723	35,700	36,017	25,642	3,515
Computer hardware sales	72	104	678	398	-	-
Business-to-business search services	-	-	-	-	489	67
	132,908	201,547	239,866	153,248	103,458	14,183
<b>Cost of revenues:</b>						
	(1,532)	(1,528)	(495)	-	-	-

Enterprise software and  
related customer maintenance  
services

Software development services	(4,939)	(2,970)	(18,192)	(16,805)	(17,748)	(2,433)
Computer hardware	(48)	(9)	(482)	(134)	-	-

1

---

TOC

sales						
Business-to-business search services	-	-	-	-	(5,109)	(700)
	(6,519)	(4,507)	(19,169)	(16,939)	(22,857)	(3,133)
Gross profit	126,389	197,040	220,697	136,309	80,601	11,050
Operating expenses:						
Selling and marketing	(13,674)	(15,977)	(25,752)	(13,604)	(41,086)	(5,633)
General and administrative	(56,911)	(36,572)	(49,538)	(65,928)	(108,729)	(14,905)
Research and development	(2,691)	(4,819)	(11,249)	(29,825)	(32,003)	(4,387)
Provision for impairment of goodwill	-	-	-	-	(193,570)	(26,536)
Total operating expenses	(73,276)	(57,368)	(86,539)	(109,357)	(375,388)	(51,461)
Government subsidies	211	1,340	447	705	1,015	139
Income (loss) from operations	53,324	141,012	134,605	27,657	(293,772)	(40,272)
Interest income	1,220	3,768	17,625	19,302	13,885	1,903
Gains on disposal of securities	-	-	-	-	43,546	5,970

In thousands,  
except per share,  
per ADS and  
operating data and  
percentages

For the years ended December 31,

	2003	2004	2005	2006	2007	2007(1)
Income (loss) before provision for income taxes and minority interest	RMB54,544	RMB144,780	RMB152,230	RMB46,959	RMB(236,341)	US\$(32,399)
Provision for income taxes	(4,116)	(1,823)	(626)	(1,031)	(243)	(33)
Income (loss) before minority interest	50,428	142,957	151,604	45,928	(236,584)	(32,432)
Minority interest	(9,239)	(9,006)	-	-	6,053	830
Net income (loss)	41,189	133,951	151,604	45,928	(230,531)	(31,602)
Net income (loss) per share and ADS(2):						
Basic	1.82	4.96	4.39	1.32	(6.59)	(0.90)
Diluted	1.82	4.74	4.25	1.30	(6.59)	(0.90)
Cash flow data:						
Net cash provided by operating activities	87,244	143,270	146,372	40,832	(2,941)	(403)
Net cash (used in) provided by investing activities	(39,629)	(179,405)	(110,851)	(176,483)	57,193	7,840
Net cash provided by (used in) financing activities	70,250	565,597	2,044	6,328	1,268	174

TOC