

NINETOWNS INTERNET TECHNOLOGY GROUP CO LTD

Form 20-F

June 24, 2009

Table of Contents

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 20-F

(Mark One)

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

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

For the fiscal year ended December 31, 2008

OR

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

OR

**o 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)

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

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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

35,791,834 ordinary shares

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

Name of each exchange on which registered

Nasdaq Global Market

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 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 (§232.405 of this chapter) 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

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>	29
<u>Item 4A. Unresolved Staff Comments</u>	56
<u>Item 5. Operating and Financial Review and Prospects</u>	56
<u>Item 6. Directors, Senior Management and Employees</u>	77
<u>Item 7. Major Shareholders and Related Party Transactions</u>	88
<u>Item 8. Financial Information</u>	91
<u>Item 9. The Offering and Listing</u>	92
<u>Item 10. Additional Information</u>	94
<u>Item 11. Quantitative and Qualitative Disclosures About Market Risk</u>	102
<u>Item 12. Description of Securities Other than Equity Securities</u>	102
<u>Item 13. Defaults, Dividend Arrearages and Delinquencies</u>	103
<u>Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds</u>	103
<u>Item 15. Controls and Procedures</u>	103
<u>Item 16A. Audit Committee Financial Expert</u>	105
<u>Item 16B. Code of Ethics</u>	105
<u>Item 16C. Principal Accountant Fees and Services</u>	105
<u>Item 16D. Exemptions from the Listing Standards for Audit Committee</u>	106
<u>Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers</u>	106
<u>Item 16F. Change in Registrant's Certifying Accountant</u>	106
<u>Item 16G. Corporate Governance</u>	106

<u>Item 17. Financial Statements</u>	107
<u>Item 18. Financial Statements</u>	107
<u>Item 19. Exhibits</u>	107
<u>Exhibit 4.78</u>	
<u>Exhibit 4.79</u>	
<u>Exhibit 4.80</u>	
<u>Exhibit 4.81</u>	
<u>Exhibit 4.82</u>	
<u>Exhibit 4.83</u>	
<u>Exhibit 4.84</u>	
<u>Exhibit 4.85</u>	
<u>Exhibit 4.86</u>	
<u>Exhibit 4.87</u>	
<u>Exhibit 8.1</u>	
<u>Exhibit 12.1</u>	
<u>Exhibit 12.2</u>	
<u>Exhibit 13.1</u>	
<u>Exhibit 13.2</u>	
<u>Exhibit 15.1</u>	
<u>Exhibit 15.2</u>	
<u>Exhibit 15.3</u>	

Table of Contents

Introduction

This annual report on Form 20-F includes our audited consolidated financial statements for the years ended December 31, 2006, 2007 and 2008, and as of December 31, 2007 and 2008. References to 2006, 2007, 2008, 2009 and 2010 are, where appropriate, references to the years ended or ending December 31, 2006, 2007, 2008, 2009 and 2010, 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 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.

Table of Contents**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 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, 2006, 2007 and 2008, and the balance sheet data as of December 31, 2007 and 2008, 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 2004 and 2005, and the balance sheet data as of December 31, 2004, 2005 and 2006, 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 years ended December 31,**

	2004	2005	2006	2007	2008	2008⁽¹⁾
	RMB	RMB	RMB	RMB	RMB	US\$
Statement of operations data:						
Total net revenues:						
Enterprise software and related customer maintenance services	188,720	203,488	116,833	77,327	84,965	12,454
Software development services	12,723	35,700	36,017	25,642	19,458	2,852
Computer hardware sales	104	678	398			
Business-to-business search services				489	2,496	366
Other					94	14
	201,547	239,866	153,248	103,458	107,013	15,686
Cost of revenues:						
Enterprise software and related customer maintenance services	(1,528)	(495)				
Software development services	(2,970)	(18,192)	(16,805)	(17,748)	(12,423)	(1,821)
Computer hardware sales	(9)	(482)	(134)			
Business-to-business search services				(5,109)	(19,707)	(2,889)
Other					(76)	(11)
	(4,507)	(19,169)	(16,939)	(22,857)	(32,206)	(4,721)

Table of Contents

In thousands, except per share, per ADS and operating data and percentages	For the years ended December 31,					
	2004 RMB	2005 RMB	2006 RMB	2007 RMB	2008 RMB	2008⁽¹⁾ US\$
Gross profit	197,040	220,697	136,309	80,601	74,807	10,965
Operating expenses:						
Selling and marketing	(15,977)	(25,752)	(13,604)	(41,086)	(30,338)	(4,447)
General and administrative	(36,572)	(49,538)	(65,928)	(108,729)	(98,517)	(14,440)
Research and development	(4,819)	(11,249)	(29,825)	(32,003)	(27,699)	(4,060)
Impairment of property and equipment					(4,339)	(636)
Impairment of intangible assets					(43,747)	(6,412)
Impairment of goodwill				(193,570)	(78,081)	(11,445)
Total operating expenses	(57,368)	(86,539)	(109,357)	(375,388)	(282,721)	(41,440)
Government subsidies	1,340	447	705	1,015		
Income (loss) from operations	141,012	134,605	27,657	(293,772)	(207,914)	(30,475)
Interest income	3,768	17,625	19,302	13,885	7,026	1,030
Gain from sales of short-term investments				43,546	9,866	1,446
Gain from disposal of investment under cost method					2,187	321
Other income					358	52
Income (loss) before provision for income tax and minority interests	144,780	152,230	46,959	(236,341)	(188,477)	(27,626)
Income tax (expense) benefit	(1,823)	(626)	(1,031)	(243)	13,382	1,961
Income (loss) before minority interests	142,957	151,604	45,928	(236,584)	(175,095)	(25,665)
Minority interests	(9,006)			6,053	5,483	804
Net income (loss)	133,951	151,604	45,928	(230,531)	(169,612)	(24,861)
Net income (loss) per share and ADS:						
Basic	4.96	4.39	1.32	(6.59)	(4.85)	(0.71)
Diluted	4.74	4.25	1.30	(6.59)	(4.85)	(0.71)
Cash flow data:						
Net cash provided by (used in) operating activities	143,270	146,372	40,832	(2,941)	(24,015)	(3,521)
Net cash (used in) provided by investing activities	(179,405)	(110,851)	(176,483)	57,193	(47,232)	(6,922)
Net cash provided by financing activities	565,597	2,044	6,328	1,268		
	2004 RMB	2005 RMB	As of December 31, 2006 RMB	2007 RMB	2008 RMB	2008⁽¹⁾ US\$

Balance sheet data:

Cash and cash equivalent	696,993	731,474	598,648	649,863	576,642	84,521
Restricted cash				853	670	98
Trade receivables, net of allowance for doubtful accounts, from:						
external customers	38,190	17,459	18,775	31,096	27,938	4,095
related parties	30,940	29,752	28,330	6,350	6,005	880
Term deposits	150,913	207,000	307,209	26,000	28,000	4,104
Total assets	1,222,182	1,345,773	1,365,289	1,171,180	953,325	139,732
Deferred revenue	97,230	67,886	26,383	32,472	21,392	3,136
Total liabilities	131,130	98,808	60,309	92,793	53,145	7,790
Total shareholders' equity	1,090,452	1,246,365	1,304,980	1,072,904	900,180	131,942
Number of ordinary shares outstanding ⁽²⁾	34,391,834	34,991,834	34,991,834	34,991,834	35,791,834	35,791,834

(1) For the convenience of the reader, RMB amounts are expressed in U.S. dollars at the rate of RMB6.8225 to US\$1.00, the noon buying rate in effect on December 31, 2008 as quoted by the Federal Reserve Bank of New York.

(2) In 2008, 800,000 of the Company's ordinary shares were converted into American Depositary Shares to facilitate our employees' cashless exercise of vested stock options. Stock options for 6,186 ordinary shares were exercised in 2008.

Table of Contents

Exchange rate information

Our business is primarily conducted in China and denominated in Renminbi. This annual report contains translations of Renminbi amounts into U.S. dollars at a specific rate solely for the convenience of the reader. The conversion of Renminbi into U.S. dollars in this annual report is based on the noon buying rate in The City of New York for cable transfers of Renminbi as certified for customs purposes by the Federal Reserve Bank of New York. Unless otherwise noted, all translations from Renminbi to U.S. dollars and from U.S. dollars to Renminbi in this annual report were made at a rate of RMB6.8225 to US\$1.00, the noon buying rate in effect as of December 31, 2008. We make no representation that any Renminbi amounts could have been, or could be, converted into U.S. dollars at any particular rate, the rates stated below, or at all. In addition, such translations should not be construed to be the amounts that would have been reported under U.S. GAAP. 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 Renminbi and U.S. dollars for the periods indicated. These rates are provided solely for your convenience and are not necessarily the exchange rates that we used in this annual report or will use in the preparation of our periodic reports or any other information to be provided to you. The source of these rates is the noon buying rate in the City of New York for cable transfers of RMB as certified for customs purposes by the Federal Reserve Bank of New York.

	Period End	Noon Buying Rate		
		Average ⁽¹⁾ (RMB per US\$1.00)	Low	High
2003	8.2767	8.2771	8.2880	8.2765
2004	8.2765	8.2768	8.2774	8.2764
2005	8.0702	8.1936	8.2765	8.0702
2006	7.8041	7.9723	8.0702	7.8041
2007	7.2946	7.6058	7.8127	7.2946
2008	6.8225	6.9477	7.2946	6.7800
2009				
January	6.8392	6.8360	6.8403	6.8225
February	6.8395	6.8363	6.8470	6.8241
March	6.8329	6.8360	6.8438	6.8240
April	6.8180	6.8304	6.8361	6.8180
May	6.8278	6.8235	6.8326	6.8176
June ⁽²⁾	6.8352	6.8328	6.8371	6.8264

(1) Annual and monthly averages are calculated using the average of the daily rates during the relevant period.

(2) For the period to and including June 12, 2009.

Table of Contents

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

Sales of our enterprise software and related customer maintenance services and software development services that are either used by the State Administration for Quality Supervision and Inspection and Quarantine of the PRC, or the PRC Inspections Administration, or by regional PRC inspection and quarantine bureaus, have accounted for substantially all of our total net revenues. We expect that, in the near future, we will continue to generate a substantial portion of our total net revenues through (i) sales of enterprise software and related customer maintenance services and (ii) software development services that will be used in connection with the PRC Inspections Administration filings. Net revenues from sales of enterprise software and related customer maintenance services for PRC Inspections Administration filings accounted for 76.2%, 74.7% and 79.4% of our total net revenues in 2006, 2007 and 2008, respectively.

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

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

Table of Contents

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

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

In August 2005, the PRC Inspections Administration selected our company as the winning bidder in connection with the PRC Inspections Administration's request for proposals for the development of a software product that has certain basic functionalities similar to those of iDeclare.CIQ and iProcess.CIQ. The PRC Inspections Administration agreed to pay a one-time fee of RMB3.3 million to purchase the ownership of the software product that we developed. In February 2006, the PRC Inspections Administration commenced the distribution of the software products that our company developed, free-of-charge to end-users. As certain basic functionalities of the newly developed software products are similar to those of iDeclare.CIQ and iProcess.CIQ, the provision of such software products free-of-charge by the PRC Inspections Administration has a material adverse effect on our results of operations and on our future profitability. For example, we sold, together with our franchisees, approximately 2,200, 1,000 and 400 software packages of iDeclare.CIQ during the first quarter of 2007, 2008 and 2009, respectively, which is significantly lower than the approximately 8,000 software packages of iDeclare.CIQ sold by our company and our former distributors and franchisees during the first quarter of 2005. 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 and we believe there is uncertainty surrounding the PRC Inspections Administration's future promotional plans for its free software products. ***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 substantially all of our total net revenues from the sales of our enterprise software and related customer maintenance services, and the provision of software development services in 2008. 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. We anticipate that a material portion of our net revenue in the future will be derived from businesses that are not directly related to sales of our enterprise software and related customer maintenance services or the provision of software development services.

From 2006 to 2008, we focused on developing our business-to-business, or B2B, business and strategy. We pursued selective strategic acquisitions and investments in companies such as Global Market Group Ltd., or Global Market, Ample Spring Holdings Limited, or Ample Spring (a related party of Beijing Baichuan Tongda Science and Technology Development Company Ltd., or Baichuan, which is one of our variable interest entities, or VIEs), and Hangzhou Tophere InfoTech Inc., or Hangzhou Tophere. We launched our new B2B vertical search platform, tootoo.com in May 2007 through which we offered our B2B business and services. In March 2009, we announced our decision to wind down our B2B business.

Table of Contents

In the second half of 2009, we aim to expand our research and development initiatives to include opportunities in the business-to-consumer, or B2C business. Our B2C business is under development and we may not successfully introduce it as one of our primary businesses. We do not have a significant operating history in respect to such new B2C 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 31, 2009, 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 17.67% of our ordinary shares. Mr. Wang and Ms. Dong will have substantial influence over the management and policies of our company and the outcome of most corporate actions. In addition, we understand from publicly available information that Mr. Yong Ping Duan, or Mr. Duan, and Technology Pioneer Corp., or Technology Pioneer, beneficially own 19.76% and 8.58% of our American Depositary Shares, or ADSs, respectively. Mr. Duan and Technology Pioneer will also have substantial influence over the outcome of most corporate actions. As a result, Mr. Wang, Ms. Dong, Mr. Duan and Technology Pioneer have the power to take corporate actions which other shareholders may not believe are in their best interests or in the best interests of our company. There can be no assurance that Mr. Wang, Ms. Dong, Mr. Duan and Technology Pioneer will not cause our company to take such corporate actions.

Mr. Wang and Ms. Dong beneficially own 100.0% of Ninetowns Import & Export e-Commerce Co., Ltd., or Import & Export, which in turn owns a 49.0% equity interest in iTowNet, the operator of the PRC Inspections Administration's data exchange platforms and electronic processing system. iTowNet is 51.0% owned by the PRC Inspections Administration and operates the data exchange platforms that interface between international trade enterprises using our enterprise software and the PRC Inspections Administration's internal electronic processing systems. iTowNet receives a fee of RMB5 from the end-users for each submission made over its data exchange platforms. Mr. Wang is a non-executive director and the vice-chairman of the board of directors of iTowNet. Due to their ownership interest in iTowNet and Mr. Wang's position as a director of iTowNet, the interests of Mr. Wang and Ms. Dong may also differ from those of our other shareholders.

Mr. Xiaoguang Ren, who is our President, or Mr. Ren, is also a non-executive director of iTowNet. Mr. Bolin Wu, who is our General Manager, Research and Development and Chief Technology Officer, or Mr. Wu, is the sole supervisor of iTowNet. As the supervisor of iTowNet, Mr. Wu is responsible for overseeing the financial operations of iTowNet, the actions of its board of directors and senior management and their compliance with relevant laws and iTowNet's charter documents.

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

Table of Contents

We derived RMB21.2 million, RMB2.9 million and RMB2.5 million (US\$0.4 million), or 13.9%, 2.8% and 2.3