

eFuture Information Technology Inc.  
Form 20-F  
April 24, 2015

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, 2014

OR

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

- 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: 333-126007

EFUTURE INFORMATION TECHNOLOGY INC.  
(Exact name of Registrant as specified in its charter)

Cayman Islands  
(Jurisdiction of incorporation or organization)

eFuture Information Technology Inc.  
A1103, A1105, A1106-07, Building A, Chengjian Plaza  
No. 18 Beitaipingzhuang Road  
Haidian District  
Beijing, 100088, People's Republic of China  
86-10-51650988  
(Address of principal executive offices)

Troe Wen, Secretary of the Board  
Telephone: +(86 10) 5165-0988  
Email: wenj@e-future.com.cn  
Facsimile: +(86 10) 5293-7688  
A1103, A1105, A1106-07, Building A, Chengjian Plaza  
No. 18 Beitaipingzhuang Road  
Haidian District  
Beijing, 100088, People's Republic of China

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

Edgar Filing: eFuture Information Technology Inc. - Form 20-F

Ordinary shares, par value \$0.0756 per share

NASDAQ Capital Market

Securities registered or to be registered pursuant to Section 12(g) of the Act: None.

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None.

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:

As of December 31, 2014, there were 3,989,626 ordinary shares of the Registrant outstanding.

---

Edgar Filing: eFuture Information Technology Inc. - Form 20-F

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

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:

US GAAP       International Financial Reporting Standards  
as issued by the International Accounting Standards Board       Other

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

## TABLE OF CONTENTS

<u>Item 1.</u>	<u>Identity of Directors, Senior Management and Advisers</u>	<u>1</u>
<u>Item 2.</u>	<u>Offer Statistics and Expected Timetable</u>	<u>1</u>
<u>Item 3.</u>	<u>Key Information</u>	<u>1</u>
<u>Item 4.</u>	<u>Information on the Company</u>	<u>16</u>
<u>Item 4A.</u>	<u>Unresolved Staff Comments</u>	<u>40</u>
<u>Item 5.</u>	<u>Operating and Financial Review and Prospects</u>	<u>40</u>
<u>Item 6.</u>	<u>Directors, Senior Management and Employees</u>	<u>53</u>
<u>Item 7.</u>	<u>Major Shareholders and Related Party Transactions</u>	<u>62</u>
<u>Item 8.</u>	<u>Financial Information</u>	<u>63</u>
<u>Item 9.</u>	<u>The Offer and Listing</u>	<u>63</u>
<u>Item 10.</u>	<u>Additional Information</u>	<u>64</u>
<u>Item 11.</u>	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>72</u>
<u>Item 12.</u>	<u>Description of Securities Other than Equity Securities</u>	<u>73</u>
<u>Item 13.</u>	<u>Defaults, Dividend Arrearages and Delinquencies</u>	<u>74</u>
<u>Item 14.</u>	<u>Material Modifications to the Rights of Securities Holders and Use of Proceeds</u>	<u>74</u>
<u>Item 15.</u>	<u>Controls and Procedures</u>	<u>74</u>
<u>Item 16.</u>	<u>[Reserved]</u>	<u>74</u>
<u>Item 16A.</u>	<u>Audit Committee Financial Expert</u>	<u>75</u>
<u>Item 16B.</u>	<u>Code of Ethics</u>	<u>75</u>
<u>Item 16C.</u>	<u>Principal Accountant Fees and Services</u>	<u>75</u>
<u>Item 16D.</u>	<u>Exemptions from the Listing Standards for Audit Committees</u>	<u>75</u>
<u>Item 16E.</u>	<u>Purchases of Equity Securities by the Issuer and Affiliated Purchasers</u>	<u>76</u>
<u>Item 16F.</u>	<u>Change in Registrant’s Certifying Accountant</u>	<u>76</u>
<u>Item 16G.</u>	<u>Corporate Governance</u>	<u>76</u>
<u>Item 16H.</u>	<u>Mine Safety Disclosure</u>	<u>76</u>
<u>Item 17.</u>	<u>Financial Statements</u>	<u>77</u>
<u>Item 18.</u>	<u>Financial Statements</u>	<u>77</u>
<u>Item 19.</u>	<u>Exhibits</u>	<u>77</u>

In this Annual Report on Form 20-F, references to “U.S. dollars”, “US\$” and “\$” are to United States dollars, references to “RMB”, “renminbi” or “yuan” are to the Chinese Yuan, and, unless the context otherwise requires, references to “eFuture,” “we,” “us” and “our” refer to eFuture Information Technology Inc., its consolidated subsidiaries and effectively controlled

variable interest entities as defined in Part I of this Annual Report.

---

SPECIAL CAUTIONARY NOTICE REGARDING FORWARD-LOOKING STATEMENTS

Certain matters discussed in this report may constitute forward-looking statements for purposes of the Securities Act of 1933, as amended (the “Securities Act”), and the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from the future results, performance or achievements expressed or implied by such forward-looking statements. The words “expect,” “anticipate,” “intend,” “plan,” “believe,” “seek,” “estimate,” and expressions are intended to identify such forward-looking statements. Our actual results may differ materially from the results anticipated in these forward-looking statements due to a variety of factors, including, without limitation, those discussed under “Item 3 - Key Information-Risk Factors,” “Item 4 - Information on the Company,” “Item 5 - Operating and Financial Review and Prospects,” and elsewhere in this report, as well as factors which may be identified from time to time in our other filings with the Securities and Exchange Commission (the “SEC”) or in the documents where such forward-looking statements appear. All written or oral forward-looking statements attributable to us are expressly qualified in their entirety by these cautionary statements.

The forward-looking statements contained in this report reflect our views and assumptions only as of the date this report is signed. Except as required by law, we assume no responsibility for updating any forward-looking statements.

PART I

Unless the context requires otherwise, references in this report to “eFuture,” “the Company,” “we,” “us,” and “our” refer to eFuture Information Technology Inc., our wholly-owned subsidiaries, eFuture (Beijing) Royalstone Information Technology Inc. (“eFuture Beijing”), and eFuture (Hainan) Royalstone Information Technology Inc. (“eFuture Hainan”), and an effectively controlled variable interest entity (“VIE”), Beijing Weidian Internet Service Co. Ltd. (“Weidian”, its former name is known as Beijing Changshentiandi Ecommerce Co., Ltd.), acquired on January 18, 2011.

Item 1. Identity of Directors, Senior Management and Advisers

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

A. Selected Consolidated Financial Data

The following table presents the selected consolidated financial information for our company. The selected consolidated statements of operations data for the three years ended December 31, 2012, 2013 and 2014 and the consolidated balance sheet data as of December 31, 2013 and 2014 have been derived from our audited consolidated financial statements set forth in “Item 18 – Financial Statements”. The selected consolidated statements of operations data for the years ended December 31, 2010 and 2011 and the selected consolidated balance sheet data as of December 31, 2010, 2011 and 2012 have been derived from our audited consolidated financial statements for the years ended December 31, 2010, 2011 and 2012, which are not included in this annual report. Our historical results do not necessarily indicate results expected for any future periods. The selected consolidated financial data should be read in conjunction with, and are qualified in their entirety by reference to, our audited consolidated financial statements and related notes and “Item 5. Operating and Financial Review and Prospects” below. Our audited consolidated financial statements are prepared and presented in accordance with Generally Accepted Accounting Principles in the United

States of America, or U.S. GAAP.

1

---

## Selected Consolidated Statements of Operations Data

	RMB					US\$
	For the Years Ended December 31,					For the Year Ended December 31, 2014
	2010	2011	2012	2013	2014	
Total Revenues	¥151,902,684	¥174,448,480	¥198,354,869	¥197,932,799	¥219,453,707	\$35,369,517
Income (Loss) From Operations	(21,732,821 )	(19,545,493 )	1,519,871	(7,840,176 )	10,616,141	1,711,011
Net Income (Loss)	(17,323,421 )	(18,830,869 )	(4,509,616 )	(7,451,510 )	7,387,156	1,190,593
Basic Earnings (Loss) Per Share	(4.53 )	(4.56 )	(1.07 )	(1.76 )	1.77	0.29
Diluted Earnings (Loss) Per Share	(4.53 )	(4.56 )	(1.07 )	(1.76 )	1.71	0.28
Net Income (Loss) from continuing operations	(17,386,892 )	(24,440,221 )	(4,509,616 )	(7,451,510 )	7,387,156	1,190,593
Basic Earnings (Loss) Per Share from continuing operations	(4.55 )	(5.92 )	(1.07 )	(1.76 )	1.77	0.29
Diluted Earnings (Loss) Per Share from continuing operations	(4.55 )	(5.92 )	(1.07 )	(1.76 )	1.71	0.28

## Selected Consolidated Balance Sheet Data

	RMB					US\$
	As of December 31,					As of December 31, 2014
	2010	2011	2012	2013	2014	
Total Assets	¥241,832,155	¥220,395,489	¥249,035,413	¥241,986,858	¥264,086,015	¥42,562,940
Total Current Liabilities	(102,375,657 )	(93,973,063 )	(123,356,961 )	(122,297,034 )	(133,654,628 )	(21,541,216 )
Long-term Liabilities	(3,134,677 )	(416,298 )	-	-	-	-
Net Assets	136,321,821	126,006,128	125,678,452	119,689,824	130,431,387	21,021,724
Ordinary Shares	2,161,766	2,353,068	2,353,068	2,326,182	2,357,978	380,037
Number of Weighted average Ordinary Shares	3,822,386	4,130,221	4,213,318	4,224,676	4,317,014	4,317,014

## Exchange Rate Information

Our business is primarily conducted in China and all of our revenues are denominated in RMB. However, periodic reports made to shareholders will include current period amounts translated into U.S. dollars using the then current



exchange rates, for the convenience of the readers. U.S. dollars information was translated under convenience translation provisions of Regulation S-X, Rule 3-20. The conversion of RMB into U.S. dollars in this annual financial report is based on 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. Unless otherwise noted, all translations from RMB to U.S. dollars and from U.S. dollars to RMB in this annual financial report were made at a rate of RMB6.2046 to US\$1.00, the noon buying rate in effect as of December 31, 2014. We make no representation that any RMB or U.S. dollar amounts could have been, or could be, converted into U.S. dollars or RMB, as the case may be, at any particular rate, or at all. The government of the People's Republic of China (the "PRC") imposes control over its foreign currency reserves in part through direct regulation of the conversion of RMB into foreign exchange and through restrictions on foreign trade. The Company does not currently engage in currency hedging transactions. The following table sets forth information concerning exchange rates between the RMB and the U.S. dollar for the periods indicated.

Period	Period-End	Noon Buying Rate Average		
		(1)	Low	High
		(RMB per U.S. dollar)		
2010	6.6000	6.7696	6.6000	6.8330
2011	6.2939	6.4475	6.2939	6.6364
2012	6.2301	6.2990	6.2221	6.3879
2013	6.0537	6.1412	6.0537	6.2438
2014				
December	6.2046	6.1886	6.1490	6.2256
2015				
January	6.2495	6.2181	6.1870	6.2535
February	6.2695	6.2518	6.2399	6.2695
March	6.1990	6.2386	6.1955	6.2741
April (through April 17, 2015)	6.1976	6.2010	6.1930	6.2152

Source: Federal Reserve Statistical Release

(1) Annual averages are calculated using the average of month-end rates of the relevant years. Monthly averages are calculated using the average of the daily rates during the relevant periods.

#### B. Capitalization and Indebtedness

Not applicable.

#### C. Reasons for the Offer and Use of Proceeds

Not applicable.

#### D. Risk Factors

You should carefully consider all of the information in this Annual Report and, in particular, the risks outlined below. Any of the following risks could have a material adverse effect on our business, financial condition and results of operations.

#### RISKS RELATED TO OUR BUSINESS

We are substantially dependent upon our key personnel, particularly Adam Yan, our Chairman, Weiquan Ren, the Chief Executive Officer, and Ping Yu, the Chief Financial Officer.

Our performance is substantially dependent on the performance of our executive officers and key employees. We do not have in place “key person” life insurance policies on any of our employees. The loss of the services of any of our executive officers or other key employees could substantially impair our ability to successfully implement our existing software and develop new programs and enhancements.

Our recent service fee revenue growth will require our officers to manage our business efficiently while recruiting a significant number of new employees to assist in further development and implementation of our software.

In 2014, we experienced an increase in service fee revenue. We intend to optimize our revenue mix by focusing on

generating more service fee income through a wider range and different levels of service in the future. The growth in the size and complexity of our business has placed and is expected to continue to place a significant strain on our management and operations. Continued growth will require us to recruit and hire a substantial number of new employees, including consulting and product development personnel. In particular, our ability to undertake new projects and increase license revenues is substantially dependent on the availability of our consulting personnel to assist in the licensing and implementation of our software solutions. We will not be able to continue to increase our business at historical rates without adding significant numbers of personnel skilled in software implementation and integration. Although we have not incurred significant difficulty in the hiring and training of skilled employees to date, there can be no assurance that we will effectively locate, retain or train additional personnel in the future. If we do not sufficiently increase our integration and implementation workforce over time, we may be required to forego licensing opportunities. Our ability to compete effectively and to manage future growth, if any, also will depend on our ability to continue to implement and improve operational, financial and management information systems on a timely basis.

Historically, wages for comparably skilled technical and management personnel in the software solutions industry in China have been lower than in developed countries, such as in the U.S. or Europe. In recent years, wages in China's software industry have increased and may continue to increase at faster rates. Wage increases will increase the cost of our products and services of the same quality and increase our cost of operations. As a result, our gross margin and profit margin may decline. In the long term, unless offset by increases in efficiency and productivity of our work force, wage increases may also result in increased prices for our solutions and services, making us potentially less competitive. Increases in wages, including an increase in the cash component of our compensation expenses, will increase our net cash outflow and our gross margin and profit margin may decline.

Our operating results may seasonally fluctuate, which could cause our results to fall short of expectations and may adversely affect the trading price of our ordinary shares.

Our business has historically experienced the highest level of revenue in the fourth quarter of each year, primarily due to significant year-end capital purchases by customers. This has resulted in 2014, 2013, and 2012 first quarter revenue being lower than revenue in the prior year's fourth quarter. We believe that this trend will continue in the future and that our revenue will continue to peak in the fourth quarter of each year and decline from that level in the first quarter of the following year. As we continue to grow, we expect that the seasonality in our business may cause our operating results to fluctuate. Due to the foregoing factors, we believe that quarter to quarter comparisons of our results of operations may not be a good indication of our future performance and should not be overly relied upon. It is likely that our results of operations in some periods may be below the expectations of public market analysts and investors. In this event, the price of our ordinary shares will probably decline, perhaps significantly more in percentage terms than any corresponding decline in our operating results.

We are heavily dependent upon the services of technical and managerial personnel who develop and implement our one-stop front-end supply chain total solutions, and we may have to actively compete for their services.

We are heavily dependent upon our ability to attract, retain and motivate skilled technical, managerial and consulting personnel, especially highly skilled engineers involved in ongoing product development and consulting personnel. Our ability to install, maintain and enhance our front-end supply chain total solutions is substantially dependent upon our ability to locate, hire and train qualified personnel. Many of our technical, managerial and consulting personnel possess skills that would be valuable to all companies engaged in software development, and the Chinese software industry is characterized by a high level of employee mobility and aggressive recruiting of skilled personnel. Consequently, we expect that we will have to actively compete with other Chinese software developers for these employees. Our ability to profitably operate is substantially dependent upon our ability to locate, hire, train and retain our technical, managerial and consulting personnel. Although we have not experienced difficulty locating, hiring, training or retaining our employees to date, there can be no assurance that we will be able to retain our current personnel, or that we will be able to attract and assimilate other personnel in the future. If we are unable to effectively obtain and maintain skilled personnel, the quality of our software products and the effectiveness of installation and training could be materially impaired.

We sell our services on a fixed-price, fixed-time basis, which exposes us to risks associated with cost overruns and delays.

We sell most of our services on a fixed-price, fixed-time basis. In contracts with our customers, we typically agree to pay late completion fines of up to 0.3% of the total contract value. In large scale projects, there are many factors beyond our control which could cause delays or cost overruns. In this event, we would be exposed to cost overruns and liability for late completion fines.



Our financial performance is dependent upon the sale and implementation of front-end supply chain total solutions and related services, a single, concentrated group of products.

We derive most of our revenues from the license and implementation of software applications for China's retail and consumer goods industries and providing consulting services. The life cycle of our software is difficult to estimate due in large measure to the potential effect of new software, applications and enhancements (including those we introduce) on the maturation in the China's retail and consumer goods industries. To the extent we are unable to continually improve our front-end supply chain total solutions to address the changing needs of the China's retail and consumer goods industries market, we may experience a significant decline in the demand for our programs. In such a scenario, our revenues may significantly decline.

The market for front-end supply chain total solutions is intensely competitive.

Although we believe that we have principal competitive factors in our markets, a number of companies offer competitive products addressing certain of our target markets. In the enterprise systems market, we compete with in-house systems developed by our targeted customers and with third-party developers. In addition, we believe that new market entrants may attempt to develop fully integrated enterprise-level systems targeting the China's retail and consumer goods industries. Many of our existing competitors, as well as a number of potential new competitors, have significantly greater financial, technical and marketing resources than we do. There can be no assurances that we will be able to compete successfully against current or future competitors. As a result of this product concentration and uncertain product life cycles, we may not be as protected from new competition or industry downturns as a more diversified competitor.

Our financial performance is directly related to our ability to adapt to technological change and evolving standards when developing and improving our front-end supply chain total solutions.

The software development industry is subject to rapid technological change, changing customer requirements, frequent new product introductions and evolving industry standards that may render existing software obsolete. The life cycles of our software are difficult to estimate. Our software products must keep pace with technological developments, conform to evolving industry standards and address the increasingly sophisticated needs of Chinese retailers, wholesalers, distributors and logistics companies. In particular, we believe that we must continue to respond quickly to users' needs for broad functionality. While we attempt to upgrade our software every one to two years, we cannot guarantee that our software will continue to enjoy market acceptance. To the extent we are unable to develop and introduce enhancements to existing products and new products in a timely manner, we believe that participants in the China's retail and consumer goods industries will obtain products from our competitors promptly and our sales will correspondingly suffer. In addition, we strive to achieve compatibility between our products and retailing systems platforms that we believe are or will become popular and widely adopted. We invest substantial resources in development efforts aimed at achieving this compatibility. If we fail to anticipate or respond adequately to technology or market developments, we could become less competitive and our revenue could be adversely affected.

Asset impairment reviews may result in future write-downs.

Our accounting policies require us, among other things, to conduct annual reviews of goodwill, and to test goodwill and amortizable intangible assets for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. In connection with our business acquisitions, we make assumptions regarding estimated future cash flows and other factors to determine the fair value of goodwill and intangible assets. In assessing the related useful lives of amortizable intangible assets, we have to make assumptions regarding their fair value, our recoverability of those assets and our ability to successfully develop and ultimately commercialize acquired technology. If those assumptions change in the future when we conduct our periodic reviews in accordance with applicable accounting standards, we may be required to record impairment charges. We have made impairment loss of

intangible assets in 2011. It is possible that future reviews will result in further write-downs of goodwill and other intangible assets.

5

---

The financial soundness of our clients and vendors could affect our business and results of operations.

As a result of the disruptions in the financial markets and other macro-economic challenges currently affecting the economy of the United States and other parts of the world, our clients, subcontractors, suppliers and other vendors may experience cash flow concerns. As a result, clients may modify, delay or cancel plans to purchase our services and vendors may reduce their output, change terms of sales, or stop providing goods or services to us. Additionally, if clients' or vendors' operating and financial performance deteriorates, or if they are unable to make scheduled payments or obtain credit, clients may not be able to pay, or may delay payment of, accounts receivable owed to us and vendors may restrict credit or impose different payment terms, or stop providing goods or services to us. Any inability of current or potential clients to pay us for our services or any demands by vendors for different payment terms may adversely affect our earnings and cash flow. Furthermore, if one or more of our vendors stops providing goods or services to us, or interrupts its provision of goods or services to us, our business could be disrupted and we may incur higher costs.

As a software-oriented business, our ability to operate profitably is directly related to our ability to develop and protect our proprietary technology.

We rely on a combination of trademark, trade secret, nondisclosure and copyright law to protect our front-end supply chain total solutions, which may afford only limited protection. Despite our efforts to protect our proprietary rights, unauthorized parties, including customers, may attempt to reverse engineer or copy aspects of our software products or to obtain and use information that we regard proprietary. Although we are currently unaware of any unauthorized use of our technology, in the future, we cannot guarantee that others will not use our technology without proper authorization.

Some of our software products are developed on third-party middleware software programs that are licensed by our customers from third parties, generally on a non-exclusive basis. Considering the fact that we believe that there are a number of widely available middleware programs available, we do not currently anticipate that our customers will experience difficulties obtaining these programs. The termination of any such licenses, or the failure of the third-party licensors to adequately maintain or update their products, could result in delay in our ability to ship certain of our products while we seek to implement technology offered by alternative sources. Nonetheless, while it may be necessary or desirable in the future to obtain other licenses, there can be no assurance that they will be able to do so on commercially reasonable terms or at all.

Our success and ability to compete depend substantially upon our intellectual property, which we protect through a combination of confidentiality arrangements and copyrights. We enter into confidentiality agreements with most of our employees and consultants, and control access to, and distribution of, our documentation and other licensed information. Despite these precautions, it may be possible for a third party to copy or otherwise obtain and use our technology without authorization, or to develop similar technology independently. Since the Chinese legal system in general and the intellectual property regime in particular, are relatively weak, it is often difficult to enforce intellectual property rights in China.

Third parties may initiate litigation against us alleging infringement of their proprietary rights. In the event of a successful claim of infringement and our failure or inability to develop non-infringing technology or license the infringed or similar technology on a timely basis, our business could be harmed. In addition, even if we are able to license the infringed or similar technology, license fees could be substantial and may adversely affect our results of operations.

In addition, we may initiate claims or litigation against third parties for infringement of our proprietary rights or to establish the validity of our proprietary rights. Such claims could be time consuming, and result in costly litigation.



We may become subject to litigation for infringing the intellectual property rights of others.

We reached a settlement agreement with Microsoft Corporation (“Microsoft”) for the claim of infringement of Microsoft intellectual property rights in year 2012. Others may initiate claims against us for infringing on their intellectual property rights. We may be subject to costly litigation relating to such infringement claims and we may be required to pay compensatory and punitive damages or license fees if we settle or are found culpable in such litigation. In addition, we may be precluded from offering products that rely on intellectual property that is found to have been infringed by us. We also may be required to cease offering the affected products while a determination as to infringement is considered. These developments could adversely affect our business, financial condition and results of operations.

Our front-end supply chain total solutions may contain integration challenges, design defects or software errors that could be difficult to detect and correct.

Implementation of our software may involve a significant amount of systems developed by third parties. Although we have not experienced a material number of defects associated with our software to date, despite extensive testing, we may, from time to time, discover defects or errors in our software only after use by a customer. We may also experience delays in shipment of our software during the period required to correct such errors. In addition, we may, from time to time, experience difficulties relating to the integration of our software products with other hardware or software in the customer's environment that are unrelated to defects in our software products. Such defects, errors or difficulties may cause future delays in product introductions and shipments, result in increased costs and diversion of development resources, require design modifications or impair customer satisfaction with our software. Since our software solutions are used by our customers to perform mission-critical functions, design defects, software errors, misuse of our products, incorrect data from external sources or other potential problems within or out of our control that may arise from the use of our products could result in financial or other damages to our customers. To date, however, we have not had significant difficulties integrating our software into our customers' existing systems. We do not maintain product liability insurance. Although our license agreements with customers contain provisions designed to limit our exposure to potential claims as well as any liabilities arising from such claims, such provisions may not effectively protect us against such claims and the liability and costs associated therewith. To the extent we are found liable in a product liability case, we could be required to pay a substantial amount of damages to an injured customer, in addition to the cost of litigation, thereby negatively affecting our financial condition.

We are subject to cybersecurity risks and incidents, which could cause our business and reputation to suffer.

Our cloud service and myStore business involve the storage and transmission of customers' information, sales data and shopping preferences. The protection of our customer data is vitally important to us. While we have implemented measures to prevent security breaches and cyber incidents, our information technology and infrastructure may be vulnerable to attacks by hackers or breaches due to employee error, malfeasance or other disruptions. Any such breach could compromise our networks and the information stored there could be accessed, publicly disclosed, lost or stolen. Any such access, disclosure or other loss of information could result in legal claims or proceedings and disrupt our operations and the services we provide to customers, which could adversely affect our business, financial condition and results of operations and damage our reputation. So far we have not experienced such attacks.

We have generated a significant shareholders' deficit, and we cannot provide any assurance that our business will be profitable in the future.

Though we achieved profitability from 2004 to 2006 and had a net income of RMB7,387,156 (US\$1,190,593) for the year ended December 31, 2014, we had an accumulated deficit of RMB114,906,766 (US\$18,519,609) as of December 31, 2014. As of December 31, 2014, our shareholders' equity was RMB130,431,387 (US\$21,021,724). While we have achieved profitability in previous years, there can be no assurance that we will be able to continue our growth or profitability.

myStore relies to a large extent on retailers to provide their services to consumers.

myStore is a mobile social network that connects consumers with retailers. In the early stage of development, we need to work closely with retailers to promote myStore among their members who subscribe for promotions or events. If we are unable to expand the myStore network, it will negatively impact the growth of myStore business. If we are not successful in retaining retailers or brand holders after myStore starts to generate revenues by charging transaction fees to retailers, brand holders, or consumers who purchase merchandise through myStore, our results of operations may be materially and adversely affected.



If we fail to keep up with rapid changes in technology and user behavior, our future success may be adversely affected.

Our future success will depend on our ability to respond to rapidly changing technologies, adapt our products and services to evolving industry standards and improve the performance and reliability of our products and services. Failure to adapt to such changes could negatively affect our business. In addition, changes in user behavior resulting from technological developments may also cause adverse effects. Mobile communications technologies are broadly implemented, and if we fail to develop products and technologies that are compatible with all mobile devices and operating systems, or if the products and services we develop are not widely accepted and used by users of various mobile devices and operating systems, we may not be able to fully penetrate the mobile internet market. In addition, the widespread adoption of new internet, networking or telecommunications technologies or other technological changes could require substantial expenditures to modify or integrate our products, services or infrastructure. If we fail to keep up with rapid technological changes to remain competitive, our future success may be adversely affected.

If myStore fails to continue to innovate and provide products and services that attract and retain users, it may not be able to generate sufficient user traffic levels.

In order to attract and retain users and enable users to enjoy a high-quality shopping and social networking experience, myStore must continue to invest significant resources in research and development to enhance the technology, improve our existing products and services and introduce additional high-quality functions and services. If we are unable to anticipate user preferences or industry changes, or if we are unable to modify our products and services on a timely basis, we may lose users. Our results of operations may also suffer if our innovations do not respond to the needs of our users, are not appropriately timed with market opportunities or are not effectively brought to market. As technology continues to develop, our competitors may be able to offer products and services that are, or that are perceived to be, substantially similar to or better than those provided by us. This may force us to expend significant resources in research and development and strategic investments and acquisitions in order to remain competitive.

#### RISKS RELATED TO CONDUCTING OUR BUSINESS IN CHINA

A slowdown in the Chinese economy may slow down our growth and profitability.

The Chinese economy has shown signs of slowdown in recent years, which may have a negative effect on our business. The Chinese government's focus is to forge a more sustainable economic model and move forward with reforms. Slowdown in the Chinese economy will likely impact the financial performance of the retailing, distribution, logistics and manufacturing industries in China. Consequently, under such circumstances, our customers may opt to delay discretionary expenditures like those for our software, which, in turn, could result in a material reduction in our sales.

Our customers are Chinese companies engaged in the retail and consumer goods industries, and, consequently, our financial performance is dependent upon the economic conditions of these industries.

We have derived most of our revenues to date from software and services to the Chinese retail and consumer goods industries for manufacturers, distributors, logistics player and retailers, and our future growth is critically dependent on increased sales to these particular industries. The success of our customers is intrinsically linked to economic conditions in these industries, which in turn are subject to intense competitive pressures and are affected by overall economic conditions. We believe the license of our software solutions and the purchase of our related services is discretionary and generally involves a significant commitment of capital. As a result, although we believe our products can assist China's retailers, distributors, wholesalers, and logistics companies in a competitive environment, demand for our products and services could be disproportionately and adversely affected by instability or downturns in the retailing, distribution, wholesaling and logistics industries, which may cause customers to exit the industry or

delay, cancel or reduce any planned expenditures for information management systems and software products. We have previously experienced this effect in connection with the global financial crises and economic downturn, placed upon China's retailing industry in recent years. There can be no assurance that we will be able to continue our historical revenue growth or achieve profitability on a quarterly or annual basis. Our results of operations will not be adversely affected by continuing or future downturns in these industries. Any adverse change in the Chinese retail and consumer goods industries could adversely affect the level of software expenditure by the participants in these industries, which, in turn, could result in a material reduction in our sales.

We depend upon contractual arrangements with our VIE for our business and these arrangements may not be as effective in providing operational control over these businesses as direct ownership and may be difficult to enforce.

Because PRC regulations restrict or prohibit our ability to provide internet content service directly in PRC, we are dependent on our VIE in which we have no direct ownership interest, to operate those businesses through contractual arrangements. These contractual arrangements may not be as effective in providing operational control over these businesses as direct ownership. For example, the VIE could fail to take actions required for our business despite their contractual obligation to do so. The VIE is able to transact business with parties not affiliated with us. If the VIE fails to perform their obligations under these arrangements, we may have to rely on legal remedies under PRC law. We cannot assure you that such remedies under PRC law would be effective or sufficient.

According to the PRC laws, a share pledge agreement is required to be registered with the Administration for Industry and Commerce. We have completed the registration of the share pledge agreements between eFuture Beijing, Weidian, our VIE, and Weidian's shareholders.

If the PRC government finds that the agreements that establish the structure for operating Weidian, our VIE, do not comply with applicable PRC laws and regulations, we could be subject to penalties and other actions.

Because PRC laws and regulations currently restrict any foreign investments in the telecommunication business in China by certain requirements to the registered capital and the ownership proportion of the foreign party, we are dependent on our VIE in which we have no direct ownership interest, to operate the business through various contractual arrangements. These contractual arrangements enable us to (1) have the power to direct the activities that most significantly affect the economic performance of Weidian; (2) receive substantially all of the economic benefits from Weidian in consideration for the services provided by our wholly owned subsidiary in China; and (3) have an exclusive option to purchase all or part of the equity interests in Weidian, when and to the extent permitted by PRC law, or request any existing shareholder of Weidian to transfer all or part of the equity interest in Weidian to another PRC person or entity designated by us at any time, in our discretion.

If eFuture Beijing, Weidian, or the contractual arrangements, are determined to be in violation of any existing or future PRC laws, rules or regulations, the relevant PRC regulatory authorities would have broad discretion in dealing with such violations, including:

- imposing fines;
- requiring us, eFuture Beijing or Weidian, to restructure the relevant ownership structure or operations;
- revoking the ICP license of Weidian.

The imposition of any of these actions would disrupt our ability to conduct business and may adversely affect our financial results.

The draft PRC Foreign Investment Law if enacted as proposed may adversely impact the viability of our current corporate structure, corporate governance and business operations.

The Ministry of Commerce published a discussion draft of the proposed Foreign Investment Law in January 2015 aiming to, upon its enactment, replace the existing laws regulating foreign investment in China, namely, the Sino-foreign Equity Joint Venture Enterprise Law, the Sino-foreign Cooperative Joint Venture Enterprise Law and the Wholly Foreign-invested Enterprise Law, together with their implementation rules and ancillary regulations. The Ministry of Commerce is currently soliciting comments on this draft and substantial uncertainties exist with respect to its enactment timetable, interpretation and implementation. The draft Foreign Investment Law, if enacted as proposed, may materially impact the viability of our current corporate structure, corporate governance and business operations in

many aspects.

Among other things, the draft Foreign Investment Law expands the definition of foreign investment and introduces the principle of “actual control” in determining whether a company should be treated as a foreign-invested enterprise (“FIE”). According to the definition set forth in the draft Foreign Investment Law, FIEs refer to enterprises established in China pursuant to PRC law that are solely or partially invested by foreign investors. The draft Foreign Investment Law specifically provides that entities established in China (without direct foreign equity ownership) but “controlled” by foreign investors, through a contract or trust for example, will be treated as FIEs. Once an entity falls within the definition of FIE, it may be subject to foreign investment “restrictions” or “prohibitions” set forth in a “negative list” to be separately issued by the State Council later. If an FIE proposes to conduct business in an industry subject to foreign investment “restrictions” in the “negative list,” the FIE must apply for a market entry clearance by the Ministry of Commerce before being established. If an FIE proposes to conduct business in an industry subject to foreign investment “prohibitions” in the “negative list,” it is not permitted to engage in the business. However, an FIE, during the market entry clearance process, may apply in writing to be treated as a PRC domestic enterprise if its foreign investor(s) is/are ultimately “controlled” by the PRC government authorities and its affiliates and/or PRC citizens. In this connection, “control” is broadly defined in the draft law to cover the following summarized categories: (i) holding 50% or more of the voting rights of the subject entity; (ii) holding less than 50% of the voting rights of the subject entity but having the power to secure at least 50% of the seats on the board or other equivalent decision making bodies, or having the voting power to exercise material influence on the board, the shareholders’ meeting or other equivalent decision making bodies; or (iii) having the power to exercise decisive influence, via contractual or trust arrangements, over the subject entity’s operations, financial matters or other key aspects of business operations.

Under the draft Foreign Investment Law, VIEs that are controlled via contractual arrangement would also be deemed as FIEs, if they are ultimately “controlled” by foreign investors. Therefore, for any companies with a VIE structure in an industry category that is included in the “negative list” as a restricted industry, the VIE structure may be deemed legitimate only if the ultimate controlling person(s) is/are of PRC nationality (either PRC government authorities and its affiliates or PRC citizens). Conversely, if the actual controlling person(s) is/are of foreign nationalities, then the variable interest entities will be treated as FIEs and any operation in the industry category on the “negative list” without market entry clearance may be considered as illegal.

The nominee shareholders of our VIE, Beijing Weidian, are PRC citizens. The draft Foreign Investment Law has not taken a position on what actions shall be taken with respect to the existing companies with a VIE structure, whether or not these companies are controlled by Chinese parties, while it is soliciting comments from the public on this point. Moreover, it is uncertain whether the businesses in which our VIE engages, will be subject to the foreign investment restrictions or prohibitions set forth in the “negative list” to be issued. If the enacted version of the Foreign Investment Law and the final “negative list” mandate further actions, such as Ministry of Commerce market entry clearance, to be completed by companies with existing VIE structure like us, we face uncertainties as to whether such clearance can be timely obtained, or at all.

The draft Foreign Investment Law, if enacted as proposed, may materially impact our corporate governance practice and increase our compliance costs. For instance, the draft Foreign Investment Law imposes stringent ad hoc and periodic information reporting requirements on foreign investors and the applicable FIEs. Aside from investment implementation reporting and investment amendment reporting that are required at each investment and alteration of investment specifics, an annual report is mandatory, and large foreign investors meeting certain criteria are required to report on a quarterly basis. Any company found to be non-compliant with these information reporting obligations may potentially be subject to fines and/or administrative or criminal liabilities, and the persons directly responsible may be subject to criminal liabilities.





The shareholders of our consolidated variable interest entities may have potential conflicts of interest with us, which may substantially disrupt our business.

The registered shareholders of our VIE entity, Weidian, include our current senior management and employees. Conflicts of interest may arise between such shareholders' duties to us and our VIE entity. If such conflicts arise and these shareholders do not act in our best interests, our business may be adversely affected. In addition, these shareholders may breach or cause our VIE entity to breach or refuse to renew their existing contractual arrangements that allow us to exercise effective control over them and to receive economic benefits from them. If we cannot resolve any conflicts of interest or disputes between us and any current or future registered shareholders of our VIE entity, we would have to resort to legal proceedings to remedy the situation, the outcome of which is uncertain and which may result in substantial costs and disruptions, which would negatively impact our business.

If we are found to be in violation of current or future PRC laws and regulations regarding Internet-related services and telecom-related activities, we could be subject to penalties.

The PRC has enacted regulations that apply to Internet-related services and telecom-related activities. While many aspects of these regulations remain unclear, they purport to limit and require licensing of various aspects of the provision of Internet information and content and online advertising services.

Weidian, our VIE, has obtained a license for the provision of Internet content services ("ICP license") on May 24, 2011. However, if current or future laws or regulations regarding Internet-related activities are interpreted to be inconsistent with our ownership structure and/or its business operations, our business could be severely impaired and it could be subject to severe penalties.

Our business could suffer if our executives and directors compete against us and our non-competition agreements with them cannot be enforced.

If any of our management or key personnel joins a competitor or forms a competing company, we may lose customers, suppliers, know-how and key professionals and staff members. Each of our directors and executive officers has entered into employment agreements and confidentiality and non-competition agreements with us. However, if any dispute arises between our directors and officers and us, the non-competition provisions contained in their confidentiality and non-competition agreements may not be enforceable, especially in China, where most of these executive officers and key employees reside, on the ground that we have not provided adequate compensation to these executive officers for their non-competition obligations, which is required under the relevant PRC regulations.

We may be subject to fines and legal sanctions if we or our employees who are PRC citizens fail to comply with PRC regulations relating to employee stock options granted by overseas listed companies to PRC citizens.

In March 2007, SAFE issued the Application Procedure for Foreign Exchange Administration for Domestic Individuals Participating in Employee Stock Holding Plans or Stock Option Plans of Overseas Listed Companies, also known as "Circular 78." Under Circular 78, PRC individuals who participate in an employee stock option holding plan or a stock option plan of an overseas listed company are required, through a PRC domestic agent or PRC subsidiary of the overseas listed company, to register with SAFE and complete certain other procedures. We and our Chinese employees who have been granted restricted shares or stock options pursuant to our stock incentive plans are subject to Circular 78 because we are an overseas listed company. However, in practice, significant uncertainties exist with respect to the interpretation and implementation of Circular 78. We have completed the registration of our existing employee stock incentive plans. If we or our Chinese employees fail to comply with, qualify under, or obtain any registration required by Circular 78 regarding future employee stock incentive plans, we or they may be subject to fines and legal sanctions imposed by SAFE or other PRC governmental authorities, which could result in a material

and adverse effect to our business operations and employee stock incentive plans.

We do not have business interruption, litigation or natural disaster insurance.

The insurance industry in China is still at an early stage of development. In particular PRC insurance companies offer limited business products. As a result, we do not have any business liability or disruption insurance coverage for our operations in China. Any business interruption, litigation or natural disaster may result in our business incurring substantial costs and the diversion of resources.

Changes in China's political and economic policies could harm our business.

The economy of China has historically been a planned economy subject to governmental plans and quotas and has, in certain aspects, been transitioning to a more market-oriented economy. Although we believe that the economic reform and the macroeconomic measures adopted by the Chinese government have had a positive effect on the economic development of China, we cannot predict the future direction of these economic reforms or the effects these measures may have on our business, financial position or results of operations. In particular, the government could change these economic reforms or any of the legal systems at any time. The influencing factors include level of government involvement in the economy, control of foreign exchange, methods of allocating resources, balance of payments position, international trade restrictions and conflict.

Labor laws in the PRC may adversely affect our results of operations.

As of December 31, 2014 we had approximately 744 employees in the PRC. On June 29, 2007, the PRC Government promulgated a new labor law, namely, the Labor Contract Law of the PRC, or the Labor Contract Law, which became effective on January 1, 2008. The Labor Contract Law establishes more restrictions and increases costs for employers to dismiss employees under certain circumstances, including specific provisions related to fixed-term employment contracts, non-fixed-term employment contracts, task-based employment, part-time employment, probation, consultation with the labor union and employee representative's council, employment without a contract, dismissal of employees, compensation upon termination and for overtime work, and collective bargaining. According to the Labor Contract Law, unless otherwise provided by law, an employer is obliged to sign a labor contract with a non-fixed term with an employee if the employer continues to hire the employee after the expiration of two consecutive fixed-term labor contracts or if the employee has worked for the employer for ten consecutive years. Severance pay is required if a labor contract expires without renewal because the employer refuses to renew the labor contract or provides less favorable terms for renewal. In addition, under the Regulations on Paid Annual Leave for Employees, which became effective on January 1, 2008, employees who have served more than one year for an employer are entitled to a paid vacation ranging from 5 to 15 days, depending on the number of the employee's working years at the employer. Employees who waive such vacation time at the request of employers shall be compensated for three times their regular salaries for each waived vacation day. As a result of these new measures designed to enhance labor protection, our labor costs are expected to increase, which may adversely affect our business and our results of operations. In addition, the PRC government in the future may enact further labor-related legislation that increases our labor costs and restricts our operations.

If PRC law were to phase out the preferential tax benefits currently being extended to qualified "High and New Technology Enterprises", we would have to pay more taxes, which could have a material and adverse effect on our financial condition and results of operations.

According to the PRC Corporate Income Tax Law, or the CIT Law, which became effective on January 1, 2008, as further clarified by subsequent tax regulations implementing the CIT Law, foreign-invested enterprises and domestic enterprises are subject to corporate income tax, at a uniform rate of 25%. The CIT rate of enterprises established before March 16, 2007 that were eligible for preferential tax rates according to then effective tax laws and regulations gradually transitioned to the uniform 25% CIT rate by January 1, 2013. In addition, certain enterprises may still benefit from a preferential tax rate of 15% under the CIT Law if they qualify as "high and new technology enterprises strongly supported by the state," subject to certain general factors described in the CIT Law and the related regulations.

In December 2008, our subsidiary eFuture Beijing was designated as "High and New Technology Enterprises" under the CIT Law, which entitles it to a preferential CIT rate of 15% from 2008 to 2014. If it fails to maintain the "High and New Technology Enterprises" qualification after 2014, its applicable CIT rate may increase to up to 25%, which could have a material adverse effect on our results of operations. We cannot assure you that we will be able to maintain our current effective tax rate in the future.

If the PRC law were to phase out preferential tax benefits currently granted to "High and New Technology Enterprises" or if we ceased to qualify as such, we would be subject to the standard statutory tax rate, which currently is 25%.

If we fail to comply with privacy protection regulations, we may face criminal charges, administrative sanctions, or be ordered to suspend our business operation, which could adversely affect our operation and financial results.

As an internet content provider, we are subject to regulations relating to protection of privacy. Under the Internet Measures, internet content providers are prohibited from producing, copying, publishing or distributing information that is humiliating or defamatory to others or that infringes the lawful rights and interests of others. Internet content providers that violate the prohibition may face criminal charges or administrative sanctions by PRC security

authorities. In addition, relevant authorities may suspend their services, revoke their licenses or temporarily suspend or close down their websites. Furthermore, under the Administration of Internet Bulletin Board Services issued by the Ministry of Information Industry in November 2000, internet content providers that provide electronic bulletin board services must keep users' personal information confidential and are prohibited from disclosing such personal information to any third party without the consent of the users, unless otherwise required by law. The regulation further authorizes relevant telecommunication authorities to order internet content providers to rectify any unauthorized disclosure. Internet content providers could be subject to legal liabilities if unauthorized disclosure causes damages or losses to internet users. However, the PRC government retains the power and authority to order internet content providers to provide the personal information of internet users if the users post any prohibited content or engage in illegal activities through the internet. We believe that we are currently in compliance with these regulations in all material aspects.

China's legal system embodies uncertainties that could adversely affect our ability to engage in the development and integration of the front-end supply chain total solutions.

Since 1979, the Chinese government has promulgated many new laws and regulations covering general economic matters. Despite this activity to develop a legal system, China's system of laws is not yet comprehensive. Even where adequate law exists in China, enforcement of existing laws or contracts based on existing law may be uncertain or sporadic, and it may be difficult to obtain swift and equitable enforcement or to obtain enforcement of a judgment by a court of another jurisdiction. The relative inexperience of China's judiciary, in many cases, creates additional uncertainty as to the outcome of any litigation. In addition, interpretation of statutes and regulations may be subject to government policies reflecting domestic political changes. Noting that our business is substantially dependent upon laws protecting intellectual property rights, any ambiguity in the interpretation or implementation of such laws may negatively impact our business, its financial condition and results of operation. Our activities in China will also be subject to administration review and approval by various national and local agencies of China's government. Because of the changes occurring in China's legal and regulatory structure, we may not be able to secure the requisite governmental approval for our activities. Although we have obtained all required governmental approval to operate our business as currently conducted, to the extent we are unable to obtain or maintain required governmental approvals, the Chinese government may, in its sole discretion, prohibit us from conducting our business.

You may face difficulties in protecting your interests, and your ability to protect your rights through the U.S. federal courts may be limited, because we are incorporated under Cayman Islands law, conduct most of our operations in China and most of our officers and directors reside outside the United States.

We are incorporated in the Cayman Islands, and conduct most of our operations in China through our subsidiaries in China. Most of our officers and directors reside outside the United States and some of the assets of those persons are located outside of the United States. It may be difficult or impossible for you to bring an original action against us or against these individuals in a Cayman Islands or Chinese court in the event that you believe that your rights have been infringed under the U.S. federal 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. You would also find it difficult to enforce a U.S. court judgment based on the civil liability provisions of the U.S. federal securities laws, in the United States, the Cayman Islands or China, against us or our officers and directors.

Our corporate affairs are governed by our Memorandum and Articles of Association and by the Companies Law, Cap. 22 (2012 Revision) and common law of the Cayman Islands. The rights of shareholders to take legal action against our directors and us, actions by minority shareholders and the fiduciary responsibilities of our directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from English common law, which has persuasive, but not binding, authority on a court in the Cayman Islands. The rights of our shareholders and the fiduciary responsibilities of our directors under Cayman Islands law are not as clearly established as they would be under statutes or judicial precedents in the United States. In particular, the Cayman Islands has a less developed body of securities laws as compared to the United States, and provides significantly less protection to investors. In addition, Cayman Islands companies may not have standing to initiate a shareholder derivative action before the federal courts of the United States.

As a result of all of the above, our public shareholders may have more difficulty in protecting their interests through actions against us or our management, directors or major shareholders than would shareholders of a corporation incorporated in a jurisdiction in the United States.

There can be no guarantee that China will comply with the membership requirements of the World Trade Organization.

Due in part to the relaxation of trade barriers following World Trade Organization accession in January 2002, we believe China will become one of the world's largest markets by the middle of the twenty-first century. As a result, we believe the Chinese market presents a significant opportunity for both domestic and foreign companies. With the Chinese accession to the World Trade Organization, Chinese industries are gearing up to face the new regimes that are required by World Trade Organization regulation. The Chinese government has begun to reduce its average tariff on imported goods. We believe that a tariff reduction on imported goods combined with increasing consumer demand in China may lead to increased demand for our logistics programs. China has also agreed that foreign companies will be allowed to import most products into any part of China. Current trading rights and distribution restrictions are to be phased out over a three-year period. In the sensitive area of intellectual property rights, China has agreed to implement the trade-related intellectual property agreement of the Uruguay Round. As our business is dependent upon the protection of our intellectual property in China and throughout the world, China's decision to implement intellectual property protection standards that coordinate with other major economies is of critical importance to our business and its ability to generate profits. However, there can be no assurances that China will implement any or all of the requirements of its membership in the World Trade Organization in a timely manner, if at all.

#### RISKS RELATED TO THE MARKET FOR OUR STOCK

We may not pay dividends.

We have not previously paid any cash dividends nor do we anticipate paying any dividends on our ordinary shares. Although we achieved profitability from 2004 to 2006 and had a net income of RMB7,387,156 (US\$1,190,593) for the year ended December 31, 2014, we cannot assure you that our operations will generate sufficient revenues to enable us to operate at profitable levels or to generate positive cash flows. Indeed, we had net losses of RMB4,509,616 and RMB7,451,510 for the years ended December 31, 2012 and 2013, respectively. Furthermore, there is no assurance our Board of Directors will declare dividends even if we are profitable. Dividend policy is subject to the discretion of our Board of Directors and will depend on, among other things, our earnings, financial condition, capital requirements and other factors. Under Cayman Islands law, we may only pay dividends from profits or credit from the share premium account (the amount paid over par value, which is \$0.0756), and we must be solvent before and after the dividend payment. If we determine to pay dividends on any of our ordinary shares in the future, as a holding company, we will be dependent on receipt of funds from our operating wholly- and partially-owned subsidiaries.

Our company's share price may be adversely affected by negative investor perceptions of small Chinese companies.

In the last couple of years, many smaller U.S.-listed companies that operate primarily in China have seen the public value of their securities decrease significantly. One factor in such decreases has been the widespread allegation of fraud and unreliable financial reporting. Another factor has been a number of negative research reports published about Chinese companies, sometimes by parties that sell the securities short prior to publishing the research report in order to capitalize on subsequent share price decreases. The SEC and other agencies and self-regulatory organizations are looking into specific allegations of wrongdoing and monitoring U.S.-listed Chinese companies in general.

As a result of the actions by some Chinese companies and the media and governmental attention focused on all Chinese companies, the share prices of nearly all smaller Chinese companies like ours have been adversely affected,

whether or not warranted in any particular case. If investors continue to lose confidence in smaller Chinese companies or if we are unable to differentiate our company in investors' estimation from the problematic Chinese companies, then we expect that our share price will continue to be harmed.

We may need additional capital and issue additional securities, which could result in dilution to our shareholders. The incurrence of indebtedness would result in increased debt service obligations, and the related covenants could restrict our operations and business activities.

We believe that our current cash and cash equivalents and anticipated cash flow from operations will be sufficient to meet our anticipated cash needs for the near future. We may, however, require additional cash resources due to changed business conditions or other future developments, including any investments or acquisitions we may pursue. If our cash resources are insufficient to satisfy investments or acquisitions, we may determine to issue additional equity or debt securities or obtain a credit facility. The issuance of additional equity securities could result in additional dilution to our shareholders. The incurrence of indebtedness would result in increased debt service obligations and may result in operating and financing covenants that would restrict our operations. Our ability to raise additional funds in the future is subject to a variety of uncertainties, including:

- investors' perception of, and demand for, securities of software and services providers;
- conditions of the U.S. and other capital markets in which we may seek to raise funds;
- our future results of operations, financial condition and cash flows;
- PRC governmental regulation of foreign investment in software and services in China;
- economic, political and other conditions in China, and
- PRC governmental policies relating to foreign currency borrowings.

We cannot assure you that, if we need additional cash, financing will be available in amounts or on terms acceptable to us, if at all, especially in the event of a severe and prolonged global economic recession. If we fail to raise additional funds, we may need to reduce our growth to a level that can be sustained by our cash flow. Without additional capital, we may not be able to acquire necessary technologies and develop new services and products, or respond to competitive pressures or unanticipated capital requirements.

Governmental control of currency conversion may affect the value of our ordinary shares.

The PRC government imposes controls on the convertibility of the Renminbi into foreign currencies and, in certain cases, the remittance of currency out of China. We receive substantially all of our revenues in Renminbi. Under our current corporate structure, our income is derived from dividend payments from our PRC subsidiaries. Shortages in the availability of foreign currency may restrict the ability of our PRC subsidiaries to remit sufficient foreign currency to pay dividends or other payments to us, or otherwise satisfy their foreign currency denominated obligations. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from trade-related transactions, can be made in foreign currencies without prior approval from the PRC State Administration of Foreign Exchange by complying with certain procedural requirements. However, approval from appropriate government authorities is required where Renminbi are to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of bank loans denominated in foreign currencies. The PRC government may also at its discretion restrict access in the future to foreign currencies for current account transactions. If the foreign exchange control system prevents us from obtaining sufficient foreign currency to satisfy our currency demands, we may not be able to pay dividends in foreign currencies to our shareholders.

Fluctuation in the value of the Renminbi may have a material adverse effect on the value of our ordinary shares.

The value of the Renminbi against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in political and economic conditions. The Renminbi is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. There remains significant international pressure on the



PRC government to adopt an even more flexible currency policy, which could result in a further and more significant appreciation of the Renminbi against the U.S. dollar. We rely entirely on dividends and other fees paid to us by our subsidiaries in China. Any significant revaluation of Renminbi may materially and adversely affect our cash flows, revenues, earnings and financial position, and the value of, and any dividends payable on, our ordinary shares in U.S. dollars. For example, an appreciation of Renminbi against the U.S. dollar would make any new Renminbi denominated investments or expenditures more costly to us, to the extent that we need to convert U.S. dollars into Renminbi for such purposes. An appreciation of Renminbi against the U.S. dollar would also result in foreign currency translation losses for financial reporting purposes when we translate our U.S. dollar denominated financial assets into Renminbi, as the Renminbi is our reporting currency.

Shareholder rights under Cayman Islands law may differ materially from shareholder rights in the United States, which could adversely affect the ability of us and our shareholders to protect our and their interests.

Our corporate affairs are governed by our Amended and Restated Memorandum and Articles of Association, by the Companies Law (2012 Revision) and the common law of the Cayman Islands. The rights of shareholders to take action against the directors, actions by minority shareholders, and the fiduciary responsibilities of our directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law in the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from English common law, the decisions of whose courts are of persuasive authority but are not binding on a court in the Cayman Islands. The rights of our shareholders and the fiduciary responsibilities of our directors under Cayman Islands law in this area may not be as clearly established as they would be under statutes or judicial precedent in existence in some jurisdictions in the United States. In particular, the Cayman Islands has a less formal body of securities laws as compared to the United States, and some states, such as Delaware, have more fully developed and judicially interpreted bodies of corporate laws. Moreover, our company could be involved in a corporate combination in which dissenting shareholders would have no rights comparable to appraisal rights which would otherwise ordinarily be available to dissenting shareholders of United States corporations. However, Cayman Islands statutory law does provide a mechanism for a dissenting shareholder in a merger or consolidation to apply to the Grand Court for a determination of the fair value of the dissenter's shares, if it is not possible for the Company and the dissenter to agree a fair price. Also, class actions are not recognized in the Cayman Islands but groups of shareholders with identical interests may bring representative proceedings which are similar. Subject to limited exceptions, under Cayman Islands law a minority shareholder may not bring a derivative action against a board of directors. Our Cayman Islands counsel has advised us that they are aware of one recent yet unreported derivative action having been brought in the Cayman Islands. Such actions are ordinarily available in respect of United States corporations in U.S. courts. Finally, Cayman Islands companies may not have standing to initiate shareholder derivative action before the federal courts of the United States. As a result, our public shareholders may face different considerations in protecting their interests in actions against the management, directors or our controlling shareholders than would shareholders of a corporation incorporated in a jurisdiction in the United States, and our ability to protect our interests may be limited if we are harmed in a manner that would otherwise enable us to sue in a United States federal court.

High technology and emerging market shares have historically experienced extreme volatility and may subject you to losses.

The trading price of our shares may be subject to significant market volatility due to investor perceptions of investments relating to China. In addition, the high technology sector of the stock market frequently experiences extreme price and volume fluctuations, which have particularly affected the market prices of many software companies and which have often been unrelated to the operating performance of those companies.

Our auditor, like other independent registered public accounting firms operating in China, is not permitted to be subject to inspection by Public Company Accounting Oversight Board, and as such, investors may be deprived of the benefits of such inspection.

Our independent registered public accounting firm that issues the audit reports included in our annual reports filed with the SEC, as an auditor of companies that are traded publicly in the United States and a firm registered with the Public Company Accounting Oversight Board (United States), or PCAOB, is required by the laws of the United States to undergo regular inspections by PCAOB to assess its compliance with the laws of the United States and professional standards. Because our auditor is located in China, a jurisdiction where PCAOB is currently unable to conduct inspections without the approval of the PRC authorities, our auditor, like other independent registered public accounting firms operating in China, is currently not inspected by PCAOB. Inspections of other firms that PCAOB has conducted outside of China have identified deficiencies in those firms' audit procedures and quality control procedures, which may be addressed as part of the inspection process to improve future audit quality. The inability of

PCAOB to conduct inspections of independent registered public accounting firms operating in China makes it more difficult to evaluate the effectiveness of our auditor's audit procedures or quality control procedures. As a result, investors may be deprived of the benefits of PCAOB inspections.

We may become a passive foreign investment company, which could result in adverse U.S. tax consequences to U.S. investors.

Based upon the nature of our business activities, we may be classified as a passive foreign investment company (“PFIC”) by the U.S. Internal Revenue Service (“IRS”) for U.S. federal income tax purposes. Such characterization could result in adverse U.S. tax consequences to you if you are a U.S. investor. For example, if we are a PFIC, a U.S. investor will become subject to burdensome reporting requirements. The determination of whether or not we are a PFIC is made on an annual basis and will depend on the composition of our income and assets from time to time. Specifically, we will be classified as a PFIC for U.S. tax purposes if either:

- 75% or more of our gross income in a taxable year is passive income; or
- the average percentage of our assets by value in a taxable year which produce or are held for the production of passive income (which includes cash) is at least 50%.

The calculation of the value of our assets is based, in part, on the then market value of our ordinary shares, which is subject to change. In addition, the composition of our income and assets will be affected by how, and how quickly, we spend the cash we raised in our initial public offering. We cannot assure you that we will not be a PFIC for any taxable year.

#### Item 4. Information on the Company

##### A. History and Development of the Company

We were established under the Cayman Islands Companies Law on November 2, 2000 to serve as a holding company for our subsidiary, eFuture (Beijing) Royalstone Information Technology Inc. (“eFuture Beijing”, formerly known as eFuture (Beijing) Tornado Information Technology Inc.). eFuture Beijing is a PRC company established in January 2000 for the development of our intellectual property. On October 31, 2006, we listed on the NASDAQ Capital Market under the symbol “EFUT,” and we changed our name from “e-Future Information Technology Inc.” to “eFuture Information Technology Inc.” in December 2008.

On December 20, 2012, we established the wholly owned subsidiary eFuture (Hainan) Royalstone Information Technology Inc. (“eFuture Hainan”) in Hainan Province, PRC. Since its incorporation, eFuture Hainan has not generated substantial business.

##### Acquisition and Disposition of Biaoshang and Wangku

On November 6, 2007, we acquired 51% majority equity interests in Beijing Fuji Biaoshang Information Technology Inc., or Biaoshang, from its original shareholders through our nominee, Mr. Tingchao Zhao, for RMB1.0 million pursuant to an equity transfer agreement between Mr. Tingchao Zhao and Mr. Boyong Jiang, who held 80% equity interests in Biaoshang. Biaoshang was incorporated on September 8, 2000 in Beijing, China and is engaged in information technology services.

On May 14, 2008, we acquired 51% majority equity interests in Beijing Wangku Hutong Information Technology Co., Ltd., or Wangku, from its original shareholders through our nominee Mr. Xuejun Zhang for RMB1.24 million pursuant to an equity transfer agreement between Mr. Xuejun Zhang and the original shareholders. Wangku was incorporated on June 27, 2005 in Beijing, China and is engaged in information technology services.

On July 16, 2010 and March 13, 2011, the Company sold its equity interests in Biaoshang and Wangku, respectively, for an aggregate sale price of RMB9.47 million pursuant to equity transfer agreements.



#### Acquisition of the Assets of Guangzhou Royalstone

In August 2007, we acquired the assets of Guangzhou Royalstone System Integration Co. Ltd., or Guangzhou Royalstone, pursuant to an asset transfer agreement between Crownhead Holding Limited and us whereby we acquired the assets and business of Guangzhou Royalstone from its original shareholders. As a result of the acquisition, we renamed eFuture (Beijing) Tornado Information Technology Inc. to eFuture Beijing.

#### Acquisition of the Assets and Business of Proadvancer

In April 2008, we acquired the assets and business of Proadvancer Systems Inc., or Proadvancer, pursuant to an assets and business transfer agreement between eFuture Beijing, Proadvancer System (BVI), Inc., Mr. Lu Kuang Yang, who is the shareholder of Proadvancer, and Proadvancer's PRC subsidiaries, Proadvancer Systems (Suzhou) Computer Application Software Co., Ltd, Beijing Proadvancer Technology Co., Ltd, whereby we acquired the assets and business of Proadvancer.

#### VIE entity-Weidian

PRC laws, rules and regulations currently restrict foreign-invested entities engaging in the operation of internet-related businesses in China. To comply with PRC laws, rules and regulations, we operate our e-Commerce service through our VIE, Weidian. On January 18, 2011, through eFuture Beijing, we entered into certain contractual arrangements with Weidian and its shareholders through which we gained effective control over the operations of Weidian. The contractual agreements consist of (1) Loan Agreement, (2) Share Pledge Agreement, (3) Exclusive Option Agreement, (4) Exclusive Business Cooperation Agreement and its Supplemental Agreement and (5) Power of Attorney.

## B. Business Overview

### General

eFuture Information Technology Inc. (Nasdaq: EFUT) is a leading provider of software and mobile social shopping network services to China's rapidly growing retail and consumer goods industries. As a pioneer and proponent of omni-channel and mobile internet solutions in the Asia-pacific, we developed myStore, a mobile shopping social network, to connect consumers and physical stores. The Company's strong brand recognition and lasting relationships among local and international clients, along with key strategic partnerships with leading global technology companies ensures eFuture's ability to stay at the forefront of industry trends and cement its leading role in China's retail and consumer markets.

## Vision

Where there are consumers, there is eFuture.

## Mission

Creating a happy consumer world.

## Our Market

### RETAIL MARKET IN CHINA

The global retail industry is undergoing a significant transformation. The most notable driver for these changes is undoubtedly the migration of offline retail sales to online channels. While the impact of this trend has become more evident in developed economies, the long-term potential to fundamentally transform traditional retail is expected to be greater in markets where the traditional retail sector remains underdeveloped. Consumers and brands in those markets tend to be more willing to adopt new online retail business models.

As a result of increased ownership of mobile devices, mobile Internet has become more and more popular, and it represents an indispensable part of the lives of its users. Since telecom operators make great efforts to promote “free traffic packages”, which allow those using mobile applications not to incur high traffic charges, the bottleneck for mobile internet development will ultimately be resolved. Mobile device users’ habits will change and the whole mobile Internet industry is expected to develop even more rapidly.

### The Fast Growing Domestic Retail Market

The retail market in China is in the midst of an extended period of robust growth, driven by increasing urbanization and higher levels of disposable income.

China's retail sales grew 12% year-over-year to RMB26.24trillion (US\$4.20 trillion) in 2014, according to China's National Bureau of Statistics. Alongside the rapid growth of China's retail sales, China's domestic consumption pattern is also undergoing significant development. Historically, China's economic growth has been largely driven by investments in fixed assets and exports, but the spending patterns of China's increasingly affluent population are beginning to expand beyond basic daily necessities to encompass more lifestyle products and services. Retail sales are expected to continue to grow as a percentage of China's GDP as private consumption becomes a more important component of China's economy.

The relatively early stage of development in China's retail market is characterized by several notable factors and trends:

**Highly fragmented:** The retail market in China is highly fragmented. As an example, the combined market share of the top 20 retailers in China was 7% in 2010, compared with 24% in the U.S., according to the Frost & Sullivan Report.

**Insufficient coverage:** Retail coverage in China lags behind consumers' increasing purchasing power for lifestyle products and services. According to the Frost & Sullivan Report, retail space in China was approximately 2 square feet per capita in 2009, compared with approximately 24 square feet per capita in the U.S. The breadth of product offerings and brand selection is often restricted by limited retail space, particularly in China's smaller cities.

**Low-margin:** As shown in the IDC International Sales Effectiveness Study 2012, point of sales ("POS") & Peripheral devices in stores accounted for the biggest share – approximately 25% of a company's IT spending – which indicates the company's attachment to the precise management of resources as the retail industry moves towards an increasingly low-margin phase. myStore serves as an extension of eFuture's POS solution, and can help customers to locate promotional targets at a faster pace and with lower costs.

**Retail technology:** For a retailer to effectively compete, it is now essential to master retail technology.

**Optimization – Innovation – Diversification:** To ensure healthy business growth, retailers will increasingly need to maintain a unique selling point, higher operational efficiency, core competency, and a diversified business model.

### Digital Marketing Revenue Size in China

#### The Online Ad Market in China

China's online ad market and mobile ad market has exploded in recent years, and according to forecasts it will continue its rapid growth into the future. According to iResearch, China's online advertising revenue is estimated to grow to RMB393 billion in 2018 and mobile advertising spending to RMB1.38 billion in 2015. China online advertising revenues rose 40% to RMB154 billion in 2014 over 2013.



According to an iResearch report (2014), new opportunities are coming for mobile advertising and its marketing form will continuously embrace innovation. Ownership of smart devices such as smart phones and tablets is going up, and wearable devices and smart household appliances are expected to experience significant growth. With rapid development of 4G networks and wide application of various apps about mobile social networking, mobile video, mobile map, etc., mobile marketing is expected to see new opportunity. Technologies such as QR code, acoustic wave and virtual reality remain to be attractive and mobile advertising will display ads and interact with audiences in manners different from PC-based online advertising.

In 2014, revenues of mobile advertising including mobile search advertising, app advertising, and mobile video advertising reached RMB29.69 billion with a high growth of over 100%. iResearch predicts that future mobile advertising will continue its high growth, much higher than that of online advertising market. It will become the core engine of internet advertising growth.

2014 saw high growth in revenue of mobile app advertising platforms. In this year, overall the mobile advertising market became mature and competitions became more regulated. On one hand, advertisers were in great demand and constantly increase investment in mobile advertising. Also, brand advertisers increased their advertising budgets. On the other hand, media environment becomes more mature, and more abundant, with additional advertising forms such as native advertising, video advertising appear.

The Emergence of E-commerce Channels

23

---

The emergence and growth of e-commerce channels have been driven by improvements in the accessibility and functionality of the internet, which means Chinese consumers can research and purchase products and services online more conveniently than before. The continued increase in migration from traditional retail to e-commerce is further accelerated by improving fulfillment and logistics networks, as well as the increased availability of online payment options.

According to iResearch China e-commerce GMV hit RMB12.3 trillion in 2014, up 21.3% from 2013. It is expected to keep growth stable in the next few years and to reach RMB24.2 trillion in 2018. Among China e-commerce market segments, mobile shopping is expected to develop rapidly and maintain a compounded growth rate of 48% in the next few years. It is expected to be a key factor for the rapid development of online shopping market. Moreover, online travel, offline to online and online to offline ("O2O") are expected to sustain a compounded growth rate of 20% as well.

In the future, online shopping and O2O is expected to be the fastest developing segment in the e-commerce market.

IT solutions technologies have become increasingly important for retailers as they seek to achieve a unique market position. A third party solution provider like myStore, amongst its many capabilities, is able to optimize inventory management and integrate consumer information and customer management, along with order fulfillment.

Brand premium – that is, the ability to consistently deliver what the consumers expect for a higher price – is expected to become the defining factor for profitability. Knowing the needs of potential customers is tantamount to success. A powerful database of consumer information that provides insights to continuously improve the consumer experience, combined with an ability to effectively manage personalized customer relationships, will be of significant business value. On a vastly different track to the traditional retail industry, myStore, an information-exchange platform, enables suppliers to efficiently analyze sales and consumer behavior so as to enhance engagements with potentially interested customers.

- M-Commerce in China

Mobile commerce (m-commerce), specifically, e-commerce conducted by users on mobile devices such as smart phones and tablet PCs, is a fast growing segment in the e-commerce market.

According to the iResearch report (2014), the soaring usage of mobile Internet, shift from PC to mobile device of Internet users, improved mobile shopping scenarios, ecommerce operators' rising efforts on mobile business and development of mobile shopping platforms all contribute to the surging of mobile shopping in China. Therefore, it is expected that mobile shopping will maintain its fast growth in the future years.

According to 2014 China Online Shopping Report released by iResearch, China's online shopping market GMV amounted to RMB2.8trillion in 2014, increasing 48.7% over 2013. In 2014, GMV of online shopping market comprised 10.7% of the total retail sales of consumer goods, increasing 2.8%.

iResearch data shows China mobile shopping GMV amounted to RMB929.71 billion in 2014, increasing 239.3%, a rate much higher than that of the whole online shopping market and PC online buying. Mobile shopping also took up 33.0% of the whole online shopping market, nearly 19% higher than 2013. iResearch believes that mobile shopping will keep expanding its market share in the coming years and finally surpass PC online shopping in 2016.

Strong merchandising capabilities: Consistently attracting consumers through the selection of carefully selected merchandise offered on flash sales websites engenders customer loyalty and enhances the effectiveness of marketing.

For more information regarding our industry and trends see Item 5(D) - Trend Information in this report. For more information regarding our revenues by category of activities for the years ended December 31, 2012, 2013 and 2014 see Item 5(A) - Operating Results in this report.

## Our Clients

eFuture's clients include manufacturers, distributors, resellers, logistics companies and retailers. The Company's client base encompasses global corporations such as Procter & Gamble, Pepsi and Carrefour as well as leading Chinese companies. Its domestic client base includes over 45 companies that were ranked among China's top 100 retailers during 2013, such as Suning, Shanghai Bailian-Lianhua, China Resources Vanguard, Beijing Wangfujing Tmall.com and JD.com.

## Growth Strategy

Our new strategy will blend multiple forces to create a truly omni-channel model that redefines the consumer experience, and will hope to play an important role in accelerating the inevitable transition to mobile internet.



## Our Products and Services

eFuture provides a one-stop, end-to-end integrated portfolio of software and services for the front-end supply chain from factory to consumer. eFuture operates three business lines: software solutions, myStore and omni-channel cloud service.

Software Solutions represent eFuture's traditional software business. Our Software solutions' mission is to digitize every value chain and each decision made by the customers. Our software professional service includes delivery services, recurring maintenance services and the construction of a reliable support service system. This proven model is a fundamental pillar for successful software companies.

myStore is a mobile social network connecting physical stores and its local consumers. Our goal is to digitize every consumer and form a significant database, which is the base of anticipating the trend of retail industry in the future. To advance our goal, we have launched myStore apps for consumers and retailers and accelerated investment in R&D.

Omni-channel Cloud Services includes myStore-driven omni-channel solutions, digital labor cloud services and digital social media marketing services. We are committed to creating a complete consumer experience by utilizing an omni-channel model, and in the process helping retailers and brands gain significant competitive advantages in today's mobile internet age.

For more information regarding our revenues by category of activities for the years ended December 31, 2012, 2013 and 2014 please see Item 5(A) - Operating Results in this report.

## Software Solutions

Our software solutions are specifically designed to optimize demand processes from factory to consumer, and to address SCM, business processes, decision support, inventory optimization, collaborative planning and forecasting requirements. Our software solutions integrate industry know-how with predictive information technologies, consulting services and best practices to help our clients create, manage and fulfill customer demand.

Our solutions can be deployed individually to meet specific needs, or as part of a scalable and fully-integrated end-to-end solution. Our software solutions consist of three independently deployable groups of products: Foundation Solutions, Collaborative Solutions and Intelligent Solutions, which range from internal and external collaborative process management to sophisticated business analysis.

Foundation Solutions– are used to meet client needs for services such as retail management, point of sale (“POS”), distribution management, logistics management, warehouse management, vendor payment and control and loyalty card management. Our clients use several of our Foundation Solutions, depending on the type of customer and their needs.

Collaborative Solutions– are used to meet client needs for services such as visual SCM and visual process management systems. Depending on the type of customer and their specific needs, our clients use a variety of Collaborative Solutions.

Intelligent Solutions– are used to meet client needs for services such as business intelligence, brand analysis, supplier relationship management and customer relationship management systems.

## Professional Services

Our software professional services business includes recurring maintenance and support services on existing software installations, delivery services, consulting services and outsourcing services.

Maintenance and Support Service– is provided following the installation of our software solutions, as clients will typically require ongoing maintenance support and software upgrades to ensure the efficient operation of their system. These services are designed to assist our customers with integration issues and to answer any questions that may arise.

Following a one-year regular maintenance program, an element of our initial software installation, our customers may choose to purchase three types of continued annual maintenance services. Under our Regular Service, we generally provide remote support over the telephone or internet during regular business hours. For our customers who elect to purchase our Advanced Service at a higher cost, we will provide these services at the customer’s location and on a real-time basis, if appropriate. We can also provide a Customized Service when some customers require a dedicated service executive and customized service plan with additional cost. Each level of maintenance offers customers a variety of options to meet their particular needs.

While on-site with our customers, it is common for us to identify problems and issues that we believe the customer should address in tandem with the use of our software. Items that we may discuss with our customers include increasing the size of data storage or the configuration of hardware. We report these identified items by giving written recommendations for actions the customer should consider. The objective is to report our general suggestions and not provide the detailed evaluation that would typically be performed under our consulting arrangements. If our customer deems additional services to be necessary, we will then enter into a separate consulting agreement with the customer. These maintenance services are unrelated to the development and installation of program upgrades that we develop from time to time.



Delivery Service– is provided to customers to assist in planning and executing their projects throughout the management process. We typically provide the following services at different stages of a project, as illustrated below:

Consulting Service– is provided by our consulting services group which consists of business consultants, systems analysts and technical personnel with extensive retail, manufacturing, and wholesale industry experience. The consulting services group assists our customers in all phases of systems implementation that exceed the limited services we provide under our maintenance arrangements, including systems planning and design, a customer-specific configuration of application modules, and on-site implementation or conversion from existing systems. We also offer a variety of post-implementation consulting services designed to maximize our customers' return on software investment, which include enhanced utilization reviews and business process optimization.

Outsourcing Service– is flexible by design to meet our clients' changing requirements. eFuture's outsourcing services can manage all or parts of our clients' non-core business processes or technology operations, from selective outsourcing to full-scope system and network outsourcing and data center management. eFuture's teams manage and operate the client's internal business processes. Leveraging technology with our industry and process expertise, we provide design, development, implementation, operation, and continuous improvement for both IT and business functions. Our call center, based in Wuhan and also referred to as our help desk department, provides a single point of contact to receive and manage all customers' requests (problem notification, information request, service request) across the entire range of services provided.

#### myStore

By leveraging eFuture's successful market experience and advanced technology developed for the retail industry, management extended its vision to develop myStore in 2011. myStore is a mobile shopping social network that connects and engages global consumers, aiming to target "SoLoMoMe" shoppers. Social – share shopping experiences, interests and recommendations. Local – shop at nearby stores (locally-based service). Mobile – shop anytime, anywhere. Me – specialized just for me. myStore is relatable but personal, built with the significant addressable market for SoLoMoMe in mind.

myStore is targeted at the digital marketing communication budget of brands and retailers. According to the online advertising data released by iResearch, revenues of China online advertising market amounted to RMB154 billion in 2014, up 40% versus 2013. In 2015 the market is expected to yield more than RMB200 billion.

myStore is designed with the objective of connecting global consumers to offline stores, online stores, social stores and mobile stores to create an omni-shopping platform for global consumers. This strategy is also integrated into a social marketing hub that starts with a brand-driven customer engagement and migrates to a consumer eccentric engagement model. myStore functions under a one-to-one customer engagement paradigm, where the user has its own private stores, and determines the brands, products, shopping lists and their own peers. myStore is also the comprehensive business solution for retailers, providing technology that offers direct access to customers' data on consumption behavior, purchasing pattern/habits and reaction/reception to marketing campaigns, and represents a key competitive advantage for retailers. Retail IT technology provides data analytics that directs marketing strategies, optimizes deployment of resources targeted to consumers' needs, and integrates with the supply chain.

myStore connects retailers to facilitate the aggregation effect of physical stores. The consumer-centric business circle thereby formed covers physical stores within 3 km so that consumers can examine products at a brick-and-mortar store and purchase products anytime, anywhere via mobile devices. In addition, consumers form a social shopping community with their friends and family in myStore and exchange recommendations with each other.

#### Omni-channel Cloud Services

Omni-channel cloud services include myStore-driven omni-channel solutions and digital social media marketing services. Omni-channel solutions, powered by myStore, are unified solutions including logistics management system designed to increase the performance of their supply chain, along with the construction of an e-commerce and mobile internet application service. We are committed to creating a complete consumer experience by making use of an omni-channel model, and in the process of helping retailers and brands gain significant competitive advantages in today's mobile internet age.

#### Sales and Marketing

To date, we have provided our products and services to businesses located throughout China via our extensive nationwide network:

Headquartered in Beijing

R&D centers in Beijing, Guangzhou and Wuhan

Regional service centers in Beijing, Shanghai, Guangzhou, Wuhan, Qingdao, Xi'an, Shijiazhuang, Hangzhou, Nanjing, Chengdu and Shenzhen

The year 2014 was a break out year for eFuture. Our new strategy of blending multiple forces to create a true omni-channel model that redefines the consumer experience and hopefully accelerates the inevitable transition to mobile internet was initiated. Driven by myStore, our traditional software business will still serve as the foundation for our entire strategic transition, which follows the trend of transferring from single-channel management to omni-channel management. The operating results of 2014 were significant, the software business returned to growth, while myStore also experienced a large-scale public testing, whereby the number of the registered users reached 1,500,000 at the end of December 31, 2014 and over 2,000,000 as of February 28, 2015. As a solid foundation and resource pool for myStore development, the company obtained steady growth in logistics, grocery and the e-commerce industry in 2014. Software license revenue for 2014 increased 23% year-over-year to RMB83.7 million (US\$13.5 million) from RMB67.9 million in 2013. The increase was primarily due to increased sales in the shopping mall, the e-commerce and the logistics industries. We plan to continue to increase our investment in the software business, and expect to expand market share in the top 100 chain retailers and in the tier three and four cities.

In 2014, myStore-driven omni-channel (including online, offline, mobile and social media channels) solutions began to enter the market, and are receiving positive feedback. Several pilot retail clients have started to deploy eFuture's omni-channel solutions, which provide a seamless approach to consumers through all available shopping channels across online, mobile, social and brick and mortar stores. myStore plans to continue to drive its omni-channel concept to become more widely accepted by the retail market.

As we face a continued increased omni-channel solutions demand from offline retailers, we have accelerated our investment in R&D, focused on providing standardized and easily-deployable omni-channel solutions. We believe the myStore-driven Omni-channel solutions represent a leading unified marketing and retail management total solution connecting traditional offline store, online e-commerce, social media and mobile internet application.

As a result of efficient management and strong customer loyalty, the backlog as of December 31, 2014 increased 17% year-over-year to RMB146.4 million (US\$23.6 million), and Service fee income for 2014 increased 27%

year-over-year to RMB129.8 million (US\$20.9 million) from RMB101.9 million in 2013.

## Collaborative Efforts and Recognition

eFuture partners with leading global companies such as IBM and Oracle to co-develop software and implement partners' solutions locally.

As of the date of this annual report, we have entered into the following agreements with large global corporations to generate business opportunities:

In 2007, IBM awarded us its Solution Developer Partnership Award - Asia Pacific Region. We have partnered with IBM to provide customer management systems and integrated retail supply chain software systems throughout China.

In 2007, we entered into a Value Added Systems Integrator ("VASI") Agreement with JDA® Software Group, Inc. (NASDAQ: JDAS) pursuant to which we are working to integrate people, processes and technology to provide local retailers with proven, robust solutions at an affordable price.

In 2007, we entered into an Independent Software Vendor Agreement with Motorola (China) Electronics Ltd., a subsidiary of Motorola, Inc. (NYSE: MOT) pursuant to which we are working to integrate people, processes and technology to provide local retailers with proven, robust mobile solutions at an affordable price.

In 2007, we entered into an Independent Software Vendor Agreement with Samsung Network China, Inc. pursuant to which we are working to integrate people, processes and technology to provide local retailers with proven, robust mobile point of sales solutions at an affordable price.

In 2008, we expanded our collaboration with IBM to launch a SaaS solution for the retail distribution industry in China. By combining IBM's integrated infrastructure and platforms with our expertise and best practices in front-end supply chain total solutions and service, we are confident that this partnership will allow us to offer first-rate solutions and services for upscale retailers in China's consumer goods and retail industry.

In 2009, through our collaboration with IBM, we launched China's first SaaS solution for the retail distribution industry. We successfully completed the deployment of the solution at select Beijing Wangfujing Department Store Group ("Wangfujing Group") stores in Beijing. Wangfujing Group is one of the largest retail groups in Beijing.

In 2009, we entered into a strategic relationship with JDA Software focused on collaborative growth. We believe this alliance will fuel delivery of our combined solution, which is designed to help retail and consumer goods companies in China optimize their operations and improve profitability.

As of the date of this annual report, we have been granted the following awards:

In 2010, IBM awarded us with the title of Excellent Application Solution Provider in Asia Pacific Region.

At the IBM 2011 China Partner Conference, we received the "IBM 2010 Market Leadership Achievement" award.

In 2011, integrated IT service provider Digital China named eFuture "Best Solution Partner in the Distribution Industry".

In 2011, we were also recognized as "Best logistics service provider in the business services sector" at an event convened by the Chinese General Chamber of Commerce and the China Business Herald.

In 2012, we received "Best Corporation" award from CCFA.

In 2012, China Computer Industry Association awarded us with the title of Gold Software Model Enterprise in Retail Industry.





In 2013, China Electronic Information Industry Development Institute awarded us with the title of Gold software and one of the most influential enterprises in China's retail industry.

In 2014, we were recognized as one of "Top Ten Wise Logistics Solution Providers" and "Top Ten Mobile Network Solution Providers" at VAR500 held by Business Partner Consulting Institute.

In 2014, Business Informatization Special Committee, China Electronics Chamber of Commerce awarded us with the title of "Outstanding Enterprise of The Year".

In 2014, Chinese Business Innovative Awards Committee of The Year 2014 recognized us as one of "Top Ten Chinese Business Innovation Services Providers".

In 2014, we received the award of "Best Solution In Software and Information Services Retail Industry" from China Electronic Information Industry Development Institute, Chinese Software Testing Center and Software and Information Services Magazine.

In 2014, Chinese Business Herald and Business China awarded us with the title of one of "Top Ten Innovative Services Providers".

In 2014, we were recognized as "The Most Popular Logistics Informatization Product With Nationwide Advanced Logistics Enterprises" by China's Logistics Network Technology and Equipment Special Committee, China Communications and Transportation Association.

## Competitive Landscape

Since the competitive landscape differs depending on the customer, eFuture divides its customer base into three tiers.

Tier 1 - multinational corporations in the retail and FMCG markets with operations in China. eFuture's biggest advantage within this tier is its "global" reach, meaning global, yet localized. Its competitors in this tier include those that are larger and possibly international, but that are less experienced in the Chinese market and often address multiple market segments. By contrast, eFuture focuses strictly on the retail and consumer goods sector. Our strategy is to provide global solutions with local service by collaborating with larger technology companies such as IBM and Oracle.

Tier 2 - the top 100 retailers and leading regional retailers in China. Here, eFuture enjoys strong brand recognition and is competing with global and local competitors. Over 45% of China's top 100 retailers are eFuture customers. Our global best practice offering features competitive pricing, more flexible and localized solutions, which gives eFuture a competitive advantage when addressing Tier 2 customers.

Tier 3 - all retail and FMCG companies outside the Tier 2 market. In this space, eFuture is competing with approximately 150+ companies that deliver solutions to small and medium-sized businesses located throughout China. Since 2009, eFuture started to conduct marketing activities in this space, which helped to increase market share.

We encounter competitive products from a variety of vendors. We believe that while our markets are still subject to intense competition, the number of significant competitors for business in China is relatively limited. We believe our principal competitive advantages are:

A leading position in China's retail and consumer goods software and services market  
Strategic partnerships with international and China leading retailers  
Vision and development capacity in mobile commerce

## Research & Development

In the fiscal year 2014, our research & development efforts focused on the following areas:

MyStore

eFuture upgraded the back-end system of myStore, including e-commerce, marketing and membership card support. Physical stores can import data on brands, categories, merchandise and inventories with one click, update data in batches and thereby manage inventories, accounts, orders and returns via myStore.

33

---

For consumers, they are allowed to pay through various methods and are provided with home delivery services and in-store pick-up services when shopping via myStore.

#### Omni-channel Platform

Omni-channel platform is a cloud service platform for retail and brands, providing data access services for various omni-channel applications and especially focusing on omni-channel data sharing. Therefore, the information gap among different channels will no longer exist and merchants are provided with consistent data on consumers, merchandise, inventories and orders for all channels. Merchants can also expand new channel applications based on omni-channel platform, which saves the trouble of switching channels for them.

Compared with traditional ERP system, omni-channel platform is established by adopting new mobile internet technologies like SaaS, NoSQL, OpenAPI and big data so that the omni-channel platform can integrate online and offline key data for the unified collection and management; thereby providing consistent and quick access service and a search service for retailers and brands.

The omni-channel platform also supports seamless docking with both mainstream internet platforms, which include taobao TOP platform, JD open platform, wechat platform and eFuture myStore platform, and various offline ERP platform including eFutureMyshop, eFuture POS-ERP, Retail Pro, SAP and so forth.

In 2015, we plan to focus on two areas that facilitate the integration of physical stores and accelerate their O2M transformation on R&D.

We also plan to focus on providing retailers with specialized marketing and transformation management through big data analysis and multi-channel service.

Our aim is to optimize the function of omni-channel to integrate retailers and brands with the ultimate target of providing better consumer experiences.

#### Intellectual Property

Our success and competitive position depend in part upon our ability to develop and maintain the proprietary aspect of our technology. The reverse engineering, unauthorized copying, or other misappropriation of our technology could enable third parties to benefit from our technology without us being compensated. We rely on a combination of trademarks, trade secrets, copyright law and contractual restrictions to protect the proprietary aspects of our technology. We seek to protect the source code to our software, documentation and other written materials under trade secret and copyright laws. While we actively take steps to protect our proprietary rights, such steps may not be adequate to prevent the infringement or misappropriation of our intellectual property. This is particularly the case in China where the laws may not protect our proprietary rights as fully as in the United States.

We license our software products under signed license agreements that impose restrictions on the licensee's ability to utilize the software and do not permit the re-sale, sublicense or other transfer of the software. Finally, we seek to avoid disclosure of our intellectual property by requiring employees and independent consultants to execute confidentiality agreements with us and by restricting access to our source code.

Although we develop our own software products, each is based upon middleware developed by third parties, including IBM and Oracle. We integrate this technology, licensed by our customers from third parties in our software products. If our customers are unable to continue to license any of this third party software, or if the third party licensors do not adequately maintain or update their products, we would face delays in the release of our software until equivalent technology interfaces can be identified, licensed or developed, and integrated into our software products. These

delays, if they occur, could harm our business, operating results and financial condition.

There has been a substantial amount of litigation in the software and internet industries regarding intellectual property rights. It is possible that in the future third parties may claim that our current or potential future software solutions infringe their intellectual property. We expect that software product developers and providers of e-commerce products will increasingly be subject to infringement claims as the number of products and competitors in our industry segment grows and the functionality of products in different industry segments overlaps. In addition, we may find it necessary to initiate claims or litigation against third parties for infringement of our proprietary rights or to protect our trade secrets. Although we may disclaim certain intellectual property representations to our customers, these disclaimers may not be sufficient to fully protect us against such claims. We may be more vulnerable to patent claims since we do not have any issued patents that we can assert defensively against a patent infringement claim. Any claims, with or without merit, could be time consuming, result in costly litigation, cause product shipment delays or require us to enter into royalty or license agreements. Royalty or licensing agreements, if required, may not be available on terms acceptable to us or at all, which could have a material adverse effect on our business, operating results and financial condition.

Our standard software license agreements contain an infringement indemnity clause under which we agree to indemnify and hold harmless our customers and business partners against liability and damages arising from claims of various copyright or other intellectual property infringement by our products. We have never lost an infringement claim and our costs to defend such lawsuits have been insignificant. Although it is possible that in the future third parties may claim that our current or potential future software solutions infringe on their intellectual property, we are not currently aware of any claims to have a significant impact on our business, operating results, or financial condition.

## Regulations

### Regulation of Software Products

On March 1, 2009, the Ministry of Information Industry issued the Administrative Measures on Software Products (the “Software Measures”) to strengthen the regulation of software products and to encourage the development of the Chinese software industry. The Software Measures provide a registration and filing system with respect to software products made in or imported into China. The software products may be registered with the Ministry of Information Industry’s provincial branch, which may entitle a company to enjoy the relevant encouragement policies in the Industrial Policies. Software products can be registered for five years, and the registration is renewable upon expiration.

### Regulation of Intellectual Property Rights

China has adopted legislation governing intellectual property rights, including trademarks and copyrights, and in 1998, China established the State Intellectual Property Office (“SIPO”) to coordinate China’s intellectual property enforcement efforts. SIPO is responsible for granting and enforcing patents, as well as coordinating intellectual property rights related to copyrights and trademarks. Protection of intellectual property in China follows a two-track system. The first track is administrative in nature, whereby a holder of intellectual property rights files a complaint at a local administrative office. Determining which intellectual property agency can be confusing, as jurisdiction of intellectual property matters is diffused throughout a number of government agencies and offices, each of which is typically responsible for the protection afforded by one statute or one specific area of intellectual property-related law. The second track is a judicial track, whereby complaints are filed through the Chinese court system. Since 1993, China has maintained various intellectual property tribunals. The total volume of intellectual property related litigation, however, remains small.

Copyright— China adopted its first copyright law in 1990. The National People’s Congress amended the Copyright Law in 2001 and 2010 to widen the scope of works and rights that are eligible for copyright protection. The amended

Copyright Law extends copyright protection to software products, among others. In addition, there is a voluntary registration system administered by the China Copyright Protection Center. Unlike patent and trademark registration, copyrighted works do not require registration for protection. Protection is granted to individuals from countries belonging to the international copyright conventions or bilateral agreements of which China is a member.

Trademark— The Chinese Trademark Law, adopted in 1982 and revised in 1993, 2001 and 2013, protects registered trademarks. The Trademark Office under the Chinese State Administration for Industry and Commerce handles trademark registrations and grants a term of ten years to registered trademarks. Trademark license agreements must be filed with the Trademark Office for record. China has a “first-to-register” principle with respect to trademark registration. Where a trademark for which a registration has been made is identical or similar to another trademark that has already been registered or been subject to a preliminary examination and approval for use on the same kind of or similar commodities or services, the application for registration of such trademark may be rejected. Any person applying for the registration of a trademark must not prejudice the existing rights of others obtained by priority, nor may any person register in advance a trademark that has already been used by another person and has already gained a “sufficient degree of reputation” through that person’s use. We have registered a number of our product names with the Trademark Office.

China is a signatory to the main international conventions on intellectual property rights and became a member of the Agreement on Trade Related Aspects of Intellectual Property Rights upon its accession to the WTO in December 2001.

Although there are differences in intellectual property rights between the United States and China, the most significant difference to our Company is the inexperience of China in connection with the development and protection of intellectual property rights. Similar to the United States, China has chosen to protect software under copyright law rather than trade secret, patent or contract law. As such, we will attempt to protect our most significant asset (software) pursuant to Chinese laws. Unlike the United States, which has lengthy case law related to the interpretation and applicability of intellectual property law, China is currently in the process of developing such interpretations.

#### Regulation of Value-added Telecommunications Services

The Telecommunications Regulations of the People’s Republic of China (“Telecom Regulations”), implemented on September 25, 2000, are the primary PRC law governing telecommunication services, and set out the general framework for the provision of telecommunication services by domestic PRC companies. The Telecom Regulations require that telecommunications service providers procure operating licenses prior to commencing operations. The Telecom Regulations draw a distinction between “basic telecommunications services,” which we generally do not provide, and “value-added telecommunications services.” The Telecom Regulations define value-added telecommunications services as telecommunications and information services provided through public networks. The Catalogue of Telecommunications Business (“Catalogue”), which was issued as an attachment to the Telecom Regulations and updated in February 2003, identifies online data and transaction processing, on-demand voice and image communications, domestic Internet virtual private networks, Internet data centers, message storage and forwarding (including voice mailbox, e-mail and online fax services), call centers, Internet access, and online information and data search as value-added telecommunications services. We engage in various types of business activities that are value-added telecommunications services as defined and described by the Telecom Regulations and the Catalogue.

On March 1, 2009, the MIIT issued Measures on the Administration of Telecommunications Business Operating Permits (“Telecom License Measures”) to supplement the Telecom Regulations and replace the previous Administrative Measures for Telecommunications Business Operating Licenses (“2001 Telecom Operating Measures”). The Telecom License Measures confirm that there are two types of telecom operating licenses for operators in China, one for basic telecommunications services and one for value-added telecommunications services. A distinction is also made as to whether a license is granted for “intra-provincial” or “trans-regional” (inter-provincial) activities. An appendix to each license granted will detail the permitted activities of the enterprise to which it was granted. An approved telecommunication services operator must conduct its business (whether basic or value-added) in accordance with the specifications recorded in its Telecommunications Services Operating License.

On May 24, 2011, the MIIT issued to Weidian a license for the provision of Internet content services (“ICP license”), which is considered to be a type of value-added telecommunications business. The ICP license is subject to annual inspections.



## Regulation of Foreign Direct Investment in Value-Added Telecommunications Companies

Various PRC regulations currently restrict foreign-invested entities from engaging in value-added telecommunication services, including providing Internet information services. Foreign direct investment in telecommunications companies in China is regulated by the Regulations for the Administration of Foreign-Invested Telecommunications Enterprises (“FITE Regulations”), which were issued by the PRC State Council on December 11, 2001 and amended on September 10, 2008. The FITE Regulations stipulate that foreign invested telecommunications enterprises in the PRC (“FITEs”), must be established as Sino-foreign equity joint ventures. Under the FITE Regulations and in accordance with WTO-related agreements, the foreign party to a FITE engaging in value-added telecommunications services may hold up to 50% of the equity of the FITE, with no geographic restrictions on its operations. The PRC government has not made any further commitment to liberalize its regulation of FITEs.

For a FITE to acquire any equity interest in a value-added telecommunications business in China, it must satisfy a number of stringent performance and operational experience requirements, including demonstrating a track record and experience in operating a value-added telecommunications business overseas. FITEs that meet these requirements must obtain approvals from the MIIT and the MOFCOM or their authorized local counterparts, which retain considerable discretion in granting approvals.

On July 13, 2006, the MIIT issued Notice of the Ministry of Information Industry on Intensifying the Administration of Foreign Investment in Value-added Telecommunications Services (“MIIT Notice”), which reiterates certain provisions of the FITE Regulations. Under the MIIT Notice, if a FITE intends to invest in a PRC value-added telecommunications business, the FITE must be established and must apply for a telecommunications business license applicable to the business. Under the MIIT Notice, a domestic company that holds a ICP license, is considered to be a type of value-added telecommunications business in China, and 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 illegally in China. Trademarks and domain names that are used in the provision of Internet content services must be owned by the ICP license holder. The MIIT Notice requires each ICP license holder to have appropriate 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 standards set forth in relevant PRC regulations. Our VIE, Weidian, rather than our subsidiaries, holds ICP licenses.

## Corporate Laws and Industry Catalogue Relating to Foreign Investment

The establishment, operation and management of corporate entities in China are governed by the Company Law of the PRC, or the Company Law, effective in 1994, as amended in 1999, 2004 and 2005, respectively. The Company Law is applicable to our PRC subsidiaries and affiliated PRC entities unless the PRC laws on foreign investment have stipulated otherwise.

The establishment, approval, registered capital requirement and day-to-day operational matters of wholly foreign-owned enterprises, such as our PRC subsidiary, eFuture Beijing, is regulated by the Wholly Foreign-owned Enterprise Law of the PRC effective in 1986, as amended in 2000, and the Implementation Rules of the Wholly Foreign-owned Enterprise Law of the PRC effective in 1990, as amended in 2001 and 2014.

Investment activities in the PRC by foreign investors are principally governed by the Guidance Catalogue of Industries for Foreign Investment, or the Catalogue, which was promulgated and is amended from time to time by the Ministry of Commerce and the National Development and Reform Commission. The Catalogue divides industries into three categories: encouraged, restricted and prohibited. Industries not listed in the Catalogue are generally open to foreign investment unless specifically restricted by other PRC regulations.

Establishment of wholly foreign-owned enterprises is generally permitted in encouraged industries. Some restricted industries are limited to equity or contractual joint ventures, while in some cases Chinese partners are required to hold the majority interests in such joint ventures. For example, sales and distribution of audio and video products are among the restricted categories and only contractual joint ventures in which Chinese partners holding majority interests can engage in the distribution of audio and video products in China. In addition, restricted category projects are also subject to higher-level government approvals. Foreign investors are not allowed to invest in industries in the prohibited category. We are in compliance with the foreign investment regulations through contractual arrangement with our VIE. For the risk related to these contractual arrangement, please refer to the relevant risk factors under “Item 3 - Key Information-Risk Factors”.

### Regulations Relating to Online Transactions

In May 2010, the State Administration for Industry and Commerce issued the Interim Measures for the Trading of Commodities and Services through the Internet effective in July 2010, which requires internet service providers that operate internet trading platforms to register and verify online shop owners' identities along with their business credentials, establish mechanisms to ensure safe online transactions, protect online shoppers' rights, and prevent the sale of counterfeit goods. We are subject to this rule as a result of our operation of the myStore Application. We believe we are currently in compliance with the Online Transaction Regulations.

### Regulations Relating to Privacy Protection

As an internet content provider, we are subject to regulations relating to protection of privacy. Under the Internet Measures, internet content providers are prohibited from producing, copying, publishing or distributing information that is humiliating or defamatory to others or that infringes the lawful rights and interests of others. Internet content providers that violate the prohibition may face criminal charges or administrative sanctions by PRC security authorities. In addition, relevant authorities may suspend their services, revoke their licenses or temporarily suspend or close down their websites. Furthermore, under the Administration of Internet Bulletin Board Services issued by the Ministry of Information Industry in November 2000, internet content providers that provide electronic bulletin board services must keep users' personal information confidential and are prohibited from disclosing such personal information to any third party without the consent of the users, unless otherwise required by law. The regulation further authorizes relevant telecommunication authorities to order internet content providers to rectify any unauthorized disclosure. Internet content providers could be subject to legal liabilities if unauthorized disclosure causes damages or losses to internet users. However, the PRC government retains the power and authority to order internet content providers to provide the personal information of internet users if the users post any prohibited content or engage in illegal activities through the internet. We believe that we are currently in compliance with these regulations in all material aspects.

### Seasonality

Like many other Chinese companies operating in China, our businesses tends to be slower in the quarter that includes the month of March and tends to be stronger in the quarter that includes December due to the Chinese New Year and the budgeting practice that is on calendar basis adopted by government agencies and most Chinese private enterprises.

### C. Organizational structure

The following is a list of our subsidiaries and consolidated affiliated entities established, all of which were organized in China:

Name	Date entity joined the Company	Relationship
eFuture (Beijing) Royalstone Information Technology Inc.	November 2000	Wholly-owned subsidiary
eFuture (Hainan) Royalstone Information Technology Inc.	December 2012	Wholly-owned subsidiary
Beijing Weidian Internet Service Co. Ltd.	January 2011	Consolidated affiliated entity



Our principal executive offices and headquarters in Beijing will be moved to Room A1103, A1105, A1106-07, Building A, Chengjian Plaza, No.18, Beitaipingzhuang Road, Haidian District, Beijing, 100088, China. Our telephone number is +86 10 5293 7699, and our fax number is +86 10 51650988.

#### D. Property, Plant and Equipment

##### Facilities

We currently operate eleven facilities throughout China. Our headquarters are located in Beijing. Our research and development operations are generally located in Guangzhou and Wuhan. We also maintain customer support and programming operations in Shanghai, Guangzhou and Wuhan.

Office	Address	Rental Term	Space
Beijing	8/F Topnew Tower 15 Guanghua Road Chaoyang District, Beijing, PRC	Expires April 25, 2015	1,496.77 sq. meters
Beijing	Room A1103, A1105, A1106-07, Building A, Chengjian Plaza No. 18, Beitaipingzhuang Road Haidian District, Beijing, PRC	Effective from April 17, 2015 and expires on July 24, 2017	629.43 sq. meters
Beijing	C Cube Youth Cultural and Creative Park 1 Fangjiacun Chaoyang District, Beijing, PRC	Effective from March 23, 2015 and expires on March 22, 2020	1,540 sq. meters
Shanghai	Floor 19E, F, G, H Shentong Information Plaza 55 West Huaihai Road Xu Hui District, Shanghai, PRC	Expires March 19, 2017	602.14 sq. meters
Nanjing	Room 2410, No. 3 Building Jiaye International City 158 Lushan Road, Jianye District Nanjing, Jiangsu Province, PRC	Expires December 31, 2016	327.57 sq. meters
Shijiazhuang	R2108, Floor 21 Changan Plaza 289 East Road of Zhongshan Street Shijiazhuang, Hebei Province, PRC	Expires December 31, 2016	647.68 sq. meters
Guangzhou	Room 01, Floor 3, Block A West 89 Zhongshan Street Guangzhou, Guangdong Province, PRC	Expires May 31, 2017	1,011 sq. meters
Wuhan	Floor 36 and 40 No. 7 Zhongnan Road, Wuchang District Wuhan, Hubei Province, PRC	Expires May 19, 2015	2293.73 sq. meters

Edgar Filing: eFuture Information Technology Inc. - Form 20-F

Qingdao	Floor 6, Block B, Haomai Building Wuhan University Science Park Wuhan, Hubei Province, PRC	Expires February 4, 2017	1135.21 sq. meters
	Room 1201, E-Commerce Industrial Park 19 Keyuan Weisan Road, Qingdao, Shandong Province, PRC	Expires March 31, 2020	130 sq. meters
Xi'an	Floor 12, Unit 1, Yulang International Building 183 Donger Road, Xi'an, Shanxi Province, PRC	Expires April 5, 2016	139.12 sq. meters
Hangzhou	Floor 20 Zhongdu Department Store Plaza, 87 Qingchun Road Xiacheng District, Hangzhou, Zhejiang Province, PRC	Expires March 24, 2017	170 sq. meters

Shenzhen	Room 1101-01, Floor 11 Yicui Building, 1058Cuizhu Road Luohu District Shenzhen, Guangdong Province, PRC	Expires July 31, 2017	340.27 sq. meters
Chengdu	Room 4, Floor 4, Unit 4, Building 1 Tianyi Garden, 99 Erhuan Road West 1st Section Qingyang District Chengdu, Sichuan Province, PRC	Expires May 17, 2015	119.93 sq. meters

We do not have any material plans, agreements or obligations to construct, expand or improve any facilities.

Item 4A. Unresolved Staff Comments

Not applicable.

Item 5. Operating and Financial Review and Prospects

The following discussion and analysis should be read in conjunction with our audited historical consolidated financial statements, together with the respective notes thereto, included elsewhere in this report. Our audited historical consolidated financial statements have been prepared in accordance with US GAAP. This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. See “Introduction — Forward-Looking Statements.” In evaluating our business, you should carefully consider the information provided under Item 3.D, “Risk Factors.” We caution you that our businesses and financial performance are subject to substantial risks and uncertainties.

A. Operating Results

Overview

eFuture is a leading provider of software and services to China's rapidly growing retail and consumer goods industries. eFuture offers one-stop, end-to-end integrated portfolio of software and services from factory to consumer on seven verticals: Fast Moving Consumer Goods (FMCG), Department Store, Shopping Mall, Grocery, Logistics, Specialty Store and Online Retailers. In light of the Company's strong brand recognition and long-term relationships among local and international clients, along with key strategic partnerships with leading global technology companies, eFuture is seeking to remain at the forefront of industry trends and perpetuate its leading role in China's growing retail and consumer markets.

Summary of 2014 Operations

The year 2014 was a break out year for eFuture. Our new strategy of blending multiple forces to create a true omni-channel model that redefines the consumer experience and hopefully accelerates the inevitable transition to mobile internet was initiated. Driven by myStore, our traditional software business will still serve as the foundation for our entire strategic transition, which follows the trend of transferring from single-channel management to omni-channel management. The operating results of 2014 were significant, the software business returned to growth, while myStore also experienced a large-scale public testing, whereby the number of the registered users reached 1,500,000 at the end of December 31, 2014 and over 2,000,000 as of February 28, 2015. As a solid foundation and resource pool for myStore development, the company obtained steady growth in logistics, grocery and the e-commerce industry in 2014. Software license revenue for 2014 increased 23% year-over-year to RMB83.7 million (US\$13.5 million) from RMB67.9 million in 2013. The increase was primarily due to increased sales in the shopping

mall, the e-commerce and the logistics industries. We plan to continue to increase our investment in the software business, and expect to expand market share in the top 100 chain retailers and in the tier three and four cities.

In 2014, myStore-driven omni-channel (including online, offline, mobile and social media channels) solutions began to enter the market, and are receiving positive feedback. Several pilot retail clients have started to deploy eFuture's omni-channel solutions, which provide a seamless approach to consumers through all available shopping channels across online, mobile, social and brick and mortar stores. myStore plans to continue to drive its omni-channel concept to become more widely accepted by the retail market.



As we face a continued increased omni-channel solutions demand from offline retailers, we have accelerated our investment in R&D, focused on providing standardized and easily-deployable omni-channel solutions. We believe the myStore-driven Omni-channel solutions represent a leading unified marketing and retail management total solution connecting traditional offline store, online e-commerce, social media and mobile internet application.

As a result of efficient management and strong customer loyalty, the backlog as of December 31, 2014 increased 17% year-over-year to RMB146.4 million (US\$23.6 million), and Service fee income for 2014 increased 27% year-over-year to RMB129.8 million (US\$20.9 million) from RMB101.9 million in 2013.

## Results of Operations

The following table presents the results of our operations for the years indicated. Our historical reporting results are not necessarily indicative of the results to be expected for any future period.

	Chinese Yuan (Renminbi)			U.S. Dollars
	For the Years Ended December 31,			For the
	2012	2013	2014	Year Ended December 31, 2014
<b>Revenues</b>				
Software revenue	¥79,535,451	¥67,872,447	¥83,693,264	\$13,488,906
Hardware revenue	28,460,810	28,155,097	5,948,379	958,705
Service fee revenue	90,358,608	101,905,255	129,812,064	20,921,906
Total revenues	198,354,869	197,932,799	219,453,707	35,369,517
<b>Cost of revenues</b>				
Cost of software revenue	(26,651,708 )	(11,989,808 )	(19,599,743 )	(3,158,905 )
Cost of hardware revenue	(23,862,880 )	(23,188,160 )	(6,032,868 )	(972,322 )
Cost of service fee revenue	(62,409,787 )	(79,532,929 )	(96,712,746 )	(15,587,265 )
Amortization of acquired customer relationships and softwares	(4,157,333 )	(286,000 )	-	-
Amortization of software costs	(2,767,041 )	(3,367,180 )	(3,765,833 )	(606,942 )
Total cost of revenues	(119,848,749 )	(118,364,077 )	(126,111,190 )	(20,325,434 )
Gross profit	78,506,120	79,568,722	93,342,517	15,044,083
<b>Operating expenses</b>				
Research and development expenses	(3,737,959 )	(7,247,250 )	(8,017,819 )	(1,292,238 )
General and administrative expenses	(32,799,689 )	(33,794,971 )	(27,369,028 )	(4,411,087 )
Selling and distribution expenses	(40,448,601 )	(46,366,677 )	(47,339,529 )	(7,629,747 )
Total operating expenses	(76,986,249 )	(87,408,898 )	(82,726,376 )	(13,333,072 )
Income (Loss) from operations	1,519,871	(7,840,176 )	10,616,141	1,711,011
<b>Other income (expenses)</b>				
Interest income	497,457	332,299	564,750	91,021
Interest expenses	-	-	(164,171 )	(26,460 )
Gains on derivative liabilities	3,168	-	-	-

Edgar Filing: eFuture Information Technology Inc. - Form 20-F

Other income (expenses)	(2,027,354 )	449,787	587,836	94,742
Foreign currency exchange gain (loss)	(5,328 )	(106,124 )	7,649	1,233
Income (Loss) before income tax	(12,186 )	(7,164,214 )	11,612,205	1,871,547
Less: Income tax expenses	4,497,430	287,296	4,225,049	680,954
Net income (loss)	¥(4,509,616 )	¥(7,451,510 )	¥7,387,156	1,190,593
Earnings (Loss) per ordinary share				
Basic	¥(1.07 )	¥(1.76 )	¥1.77	\$0.29
Diluted	¥(1.07 )	¥(1.76 )	¥1.71	\$0.28
Basic weighted average shares outstanding	4,213,318	4,224,676	4,173,014	4,173,014
Fully diluted weighted average shares outstanding	4,213,318	4,224,676	4,308,516	4,308,516

Edgar Filing: eFuture Information Technology Inc. - Form 20-F

The following table sets forth certain selected financial information expressed as a percentage of total revenues for the periods indicated and cost of revenues and product development expenses expressed as a percentage of the related revenues. In addition, the table sets forth a comparison of selected financial information, expressed as a percentage change in 2012, 2013 and 2014.

	RMB									
	Percentage of FY 2012 Revenues		Percentage of FY 2013 Revenues		Percentage of FY 2014 Revenues		Change FY 2012 v FY 2013	% Change	Change 2013	% Change 2013
	FY 2012		FY 2013		FY 2014					
<b>Revenues</b>										
Software sales	79,535,451	40.1 %	67,872,447	34.3 %	83,693,264	38.1 %	(11,663,004)	-14.7 %	15,820,000	15.8 %
Hardware sales	28,460,810	14.3 %	28,155,097	14.2 %	5,948,379	2.7 %	(305,713)	-1.1 %	(22,200,000)	-22.2 %
Service fee income	90,358,608	45.6 %	101,905,255	51.5 %	129,812,064	59.2 %	11,546,647	12.8 %	27,900,000	27.9 %
<b>Total revenues</b>	<b>198,354,869</b>	<b>100.0 %</b>	<b>197,932,799</b>	<b>100.0 %</b>	<b>219,453,707</b>	<b>100.0 %</b>	<b>(422,070)</b>	<b>-0.2 %</b>	<b>21,520,000</b>	<b>10.9 %</b>
<b>Cost of revenues</b>										
Cost of software	(26,651,708)	-13.4 %	(11,989,808)	-6.1 %	(19,599,743)	-8.9 %	14,661,900	-55.0 %	(7,600,000)	-76.0 %
Cost of hardware	(23,862,880)	-12.0 %	(23,188,160)	-11.7 %	(6,032,868)	-2.7 %	674,720	-2.8 %	17,150,000	17.1 %
Cost of service fee income	(62,409,787)	-31.5 %	(79,532,929)	-40.2 %	(96,712,746)	-44.1 %	(17,123,142)	27.4 %	(17,100,000)	-17.1 %
Amortization of acquired customer relationships and softwares	(4,157,333)	-2.1 %	(286,000)	-0.1 %	-	0.0 %	3,871,333	-93.1 %	286,000	28.6 %
Amortization of software costs	(2,767,041)	-1.4 %	(3,367,180)	-1.7 %	(3,765,833)	-1.7 %	(600,139)	21.7 %	(398,000)	-39.8 %
<b>Total cost of revenues</b>	<b>(119,848,749)</b>	<b>-60.4 %</b>	<b>(118,364,077)</b>	<b>-59.8 %</b>	<b>(126,111,190)</b>	<b>-57.5 %</b>	<b>1,484,672</b>	<b>-1.2 %</b>	<b>(7,740,000)</b>	<b>-7.7 %</b>
<b>Gross Profit</b>	<b>78,506,120</b>	<b>39.6 %</b>	<b>79,568,722</b>	<b>40.2 %</b>	<b>93,342,517</b>	<b>42.5 %</b>	<b>1,062,602</b>	<b>1.4 %</b>	<b>13,770,000</b>	<b>13.7 %</b>
<b>Operating expenses</b>										
Research and development	(3,737,959)	-1.9 %	(7,247,250)	-3.7 %	(8,017,819)	-3.7 %	(3,509,291)	93.9 %	(770,000)	-77.0 %
General and administrative	(32,799,689)	-16.5 %	(33,794,971)	-17.1 %	(27,369,028)	-12.5 %	(995,282)	3.0 %	6,425,000	64.2 %
Selling and distribution expenses	(40,448,601)	-20.4 %	(46,366,677)	-23.4 %	(47,339,529)	-21.6 %	(5,918,076)	14.6 %	(972,000)	-97.2 %
<b>Total operating</b>	<b>(76,986,249)</b>	<b>-38.8 %</b>	<b>(87,408,898)</b>	<b>-44.2 %</b>	<b>(82,726,376)</b>	<b>-37.7 %</b>	<b>(10,422,649)</b>	<b>13.5 %</b>	<b>4,682,000</b>	<b>46.8 %</b>

expenses

Income (Loss)

from

operations 1,519,871 0.8 % (7,840,176 ) -4.0 % 10,616,141 4.8 % (9,360,047 ) -615.8% 18,45

Comparison of Years Ended December 31, 2014 and 2013

Revenues

Our ability to increase our revenues depends in large part on our ability to (i) increase the market penetration of our existing products and services, and (ii) successfully identify, develop, introduce and commercialize new and upgraded products in a timely and cost-effective manner. We generally devote resources to product development efforts that we believe are commercially feasible, can generate significant revenues and strong margins and can be introduced into the market in the near term.

In any period, several factors will impact our revenues, including:

- global economic conditions;

- the level of acceptance of our products among our existing and potential customers;
  - our ability to attract and retain key customers and our sales force;
  - new product introductions by us and our competitors;
- our ability to price our products at levels that provide favorable margins;
  - exchange rate fluctuations; and
  - the availability of credit for our customers.

**Total revenues.** Total revenues are comprised of software sales, hardware sales and service fee revenue. Total revenues increased 10.9% from RMB197.9 million in 2013 to RMB219.5 million (US\$35.4 million) in 2014. The improvement in our workflow efficiencies between regional delivery teams and company-level technical support teams helped support the increase in revenues in 2014. Most of the backlog as of the end of 2013 had been realized to revenues in 2014. In addition, the expansion of our business in the small to mid-scale clients in recent years had a positive effect on our business. From the customers' aspect, the completion of the process of consolidation in our existing customers and the retail industry as a whole resulted in the reboot of their new store opening in 2014. 2014 revenues benefited from the increased demand from existing customers for software implementation, customization and maintenance services.

**Software sales.** Our software sales increased 23.3% from RMB67.9 million in 2013 to RMB83.7 million (US\$13.5 million) in 2014, which was primarily due to our increased investment in software business and the expansion of our business in the small to mid-scale clients in recent years particularly in 2014. In addition, our existing clients and the retail industry as a whole were in the process of consolidation in 2013 and at the same time, the new store openings of our clients were delayed. In 2014, in line with the completion of the process of consolidation, new store openings of our clients occurred and the demands for the purchase of our software licenses increased accordingly. The software sales primarily increased from shopping mall, e-commerce and logistics industries.

**Hardware sales.** Our hardware sales decreased 78.9% from RMB28.2 million in 2013 to RMB5.9 million (US\$1.0 million) in 2014. In recent years, we decided to de-emphasize hardware sales in an increasingly competitive hardware sales market. As a relatively young company, we do not believe that it is strategically beneficial to leverage a low margin, high volume sales sector. We worked to optimize our revenue mix and decreased the proportion of low-margin hardware business in 2014. As a result, there was a significant decrease in hardware sales in 2014.

**Service fee income.** Service fee income increased 12.8% from RMB90.4 million in 2012 to RMB101.9 million (US\$16.8 million) in 2013, which was primarily attributable to 122 new clients and additional revenue of RMB9.5 million (US\$1.6 million) from existing clients which increased the customization and enhancement of their IT systems in 2013. As mentioned above, the clients tended to reform and upgrade their IT systems to keep pace with the changing business environment. They were more focused on maintenance or customization services for existing systems than they were on the expansion and the opening of new stores. Service fee income revenues represented 45.6% and 51.5% of our total revenues in 2012 and 2013, respectively.

#### Cost of Revenues

**Cost of software sales.** Cost of software sales consists of labor costs, materials, overhead expenses and other expenses associated with the development of our software. Cost of software sales increased 63.5% from RMB12.0 million in 2013 to RMB19.6 million (US\$3.2 million) in 2014.

As a percentage of software sales, cost of software sales was 17.7% in 2013 and 23.4% in 2014. The significant increase was primarily attributable to the customization of certain software license projects in the logistics industry which largely increased labor costs.

Cost of hardware sales. Cost of hardware sales consists primarily of payments for third party hardware products that are utilized in connection with our software products. Cost of hardware sales decreased by 74.0% from RMB23.2 million in 2013 to RMB6.0 million (US\$1.0 million) in 2014, which was primarily attributable to decreased hardware sales.

As a percentage of hardware sales, cost of hardware sales was 82.4% in 2013 and 101.4% in 2014. The significant increase was primarily attributable to the provision accrued for a hardware project. As this project had been paused for a long period, we reviewed the project status and accrued RMB0.8 million (US\$0.1 million) for the future expected loss as of December 31, 2014.

Cost of service fee income. Cost of service fee income includes labor costs, business taxes and costs related to technical support services. Cost of services fee income increased 21.6% from RMB79.5 million in 2013 to RMB96.7 million (US\$15.6 million) in 2014, which was primarily attributable to the increase in service fee income.

As a percentage of service fee income, cost of service fee income was 78.0% in 2013 and 74.5% in 2014. The decrease was primarily attributable to the improvement in delivery efficiency.

Amortization of acquired customer relationships and softwares. The amortization of acquired software technology resulted from amortization of software technology acquired in a variety of acquisitions. The amortization of acquired technology expense decreased from RMB0.3 million in 2013 to nil in 2014, which was primarily attributable to the complete amortization of all of our acquired technology in 2014.

Amortization of software costs. Intangible assets include the cost of computer software we acquired and developed. These costs are amortized over the useful lives of the software. Costs primarily consist of salary and employee benefits for those involved in the development of the software. Amortization expense increased 11.8% from RMB3.4 million in 2013 to RMB3.8 million (US\$0.6 million) in 2014, which was primarily attributable to the fact that more capitalized software development projects achieved technological feasibility in recent years.

#### Operating Expenses

Interest Income. Interest income represents the interest accrued as a result of bank deposits. Our interest income increased 70% from RMB332,299 in 2013 to RMB564,750 in 2014, primarily due to higher average interest rates attained by making more fixed deposits.

Interest expense. Interest expense represents the interest accrued for short-term loans. We did not have expense related to short term loans in 2013.

Selling and distribution expenses. Selling and distribution expenses consist primarily of salaries and related costs of our sales and marketing departments, sales bonuses, costs of our marketing programs, public relations, advertising, trade shows, sales bonuses, and an allocation of our facilities overhead. Selling and distribution expenses remained relatively stable in 2014. Selling and distribution expenses were 23.4% of total revenues in 2013 and 21.6% of total revenues in 2014.

#### Other Expenses

Interest Income. Interest income represents the interest accrued as a result of bank deposits. Our interest income increased 70% from RMB332,299 in 2013 to RMB564,750 in 2014, which primarily contributed to interest income from a fixed deposit as a result of its maturity.

Interest expense. Interest expense represents the interest accrued for short-term loans. We did not have such expense in 2013.

Other income. In 2013 and 2014, other income mainly included the sponsor fee income from customer meetings and marketing activities.

Income tax expenses. Our income tax expenses increased from RMB0.3 million in 2013 to RMB4.2 million in 2014, which was primarily attributable to the increase in income before income tax in 2014.

#### Comparison of Years Ended December 31, 2013 and 2012

##### Revenues

Total revenues. Total revenues are comprised of software sales, hardware sales and service fee revenue. Total revenues decreased slightly from RMB198.4 million in 2012 to RMB197.9 million(US\$32.7 million) in 2013. Since the established work processes during the fourth quarter of 2011, we internally have optimized workflow efficiencies between regional delivery teams and company-level technical support teams. However, in 2013, the development of emerging online business had a significant impact on the traditional retail industry. Our customers were in the process of dealing with the changing business environment. This negatively impacted our growth.

Software sales. Our software sales decreased 14.7% from RMB79.5 million in 2012 to RMB67.9 million (US\$11.2 million) in 2013, which was primarily attributable to the postponement of the new stores opening schedules of our clients as a result of macroeconomic uncertainties. In line with the decline of China's domestic economic development, which is supported by the lower GDP growth rate in recent years, our existing customers and the retail industry as a whole was in the process of consolidation in 2013, as opposed to expansion. In addition, the significant increase in online business has resulted in our clients also postponing new stores openings, thereby decreasing our software licenses sales.

Hardware sales. Our hardware sales decreased slightly from RMB28.5 million in 2012 to RMB28.2 million (US\$4.7 million) in 2013. In recent years, we decided to de-emphasize hardware sales in an increasingly competitive hardware sales market. As a relatively young company, we do not believe that it is strategically beneficial to leverage a low margin, high volume sales sector. Consequently, while we will continue to sell computer hardware in connection with our software sales, we do not expect to emphasize hardware sales as part of our marketing and sales strategies. Accordingly, this has resulted in relatively stable hardware sales in 2013.

Service fee income. Service fee income increased 12.8% from RMB90.4 million in 2012 to RMB101.9 million (US\$16.8 million) in 2013, which was primarily attributable to 122 new clients and additional revenue of RMB9.5 million (US\$1.6 million) from existing clients which increased the customization and enhancement of their IT systems in 2013. As mentioned above, the clients tended to reform and upgrade their IT systems to keep pace with the changing business environment. They were more focused on maintenance or customization services for existing systems than they were on the expansion and the opening of new stores. Service fee income revenues represented 45.6% and 51.5% of our total revenues in 2012 and 2013, respectively.

##### Cost of Revenues

Cost of software sales. Cost of software sales consists of labor costs, materials, overhead expenses and other expenses associated with the development of our software. Cost of software sales decreased 55.0% from RMB26.7 million in 2012 to RMB12.0 million (US\$2.0 million) in 2013.



As a percentage of software sales, cost of software sales was 33.5% in 2012 and 17.7% in 2013. The significant decrease was primarily attributable to more standardized software license products being sold in 2013 as compared to 2012, which resulted in lower labor cost, thereby increasing profit margins.

Cost of hardware sales. Cost of hardware sales consists primarily of payments for third party hardware products that are utilized in connection with our software products. Cost of hardware sales decreased by 2.8% from RMB23.9 million in 2012 to RMB23.2 million (US\$3.8 million) in 2013, which was primarily attributable to decreased hardware sales.

As a percentage of hardware sales, cost of hardware sales was 83.8% in 2012 and 82.4% in 2013. The decrease was primarily attributable to our intentional selection of hardware projects with higher margins in 2013. Our comprehensive knowledge in the logistics industry has helped facilitate this initiative.

Cost of service fee income. Cost of service fee income includes labor costs, business taxes and costs related to technical support services. Cost of services fee income increased 27.4% from RMB62.4 million in 2012 to RMB79.5 million (US\$13.1 million) in 2013, which was primarily attributable to the increase in service fee income. However, the increase of cost of service fee income grew faster than the increase of service fee income.

As a percentage of service fee income, cost of service fee income was 69.1% in 2012 and 78.0% in 2013. The increase was primarily attributable to more complicated customization services for existing systems were resulted in higher labor costs resulting from wage inflation in 2013.

Amortization of acquired customer relationships and softwares. The amortization of acquired software technology in 2012 and 2013 resulted from amortization of software technology acquired in a variety of acquisitions. The amortization of acquired technology expense decreased 93.1% from RMB4.2 million in 2012 to RMB0.3 million (US\$47,244) in 2013, which was primarily attributable to the complete amortization of most of our acquired technology in 2013.

Amortization of software costs. Intangible assets include the cost of computer software we acquired and developed. These costs are amortized over the useful lives of the software. Costs primarily consist of salary and employee benefits for those involved in the development of the software. Amortization expense increased 21.7% from RMB2.8 million in 2012 to RMB3.4 million (US\$0.6 million) in 2013, which was primarily attributable to the fact that more capitalized software development projects achieved technological feasibility in recent years.

#### Operating Expenses

Research and development expenses. Research and development expenses, which are expensed as incurred, consist primarily of salaries and related costs of our R&D centre, consultants and an allocation of our facilities overhead and depreciation expenses. We believe that our success depends on continued enhancement of our current products and our ability to develop new technologically advanced products that meet the increasingly sophisticated requirements of our customers. Total research and development expenditure was RMB3.7 million and RMB7.2 million (US\$1.2 million) for the years ended December 31, 2012 and 2013, respectively. The increase was primarily attributable to certain previously capitalized R&D projects which were found to be unable to generate sufficient future cash flow for the company. The capitalized R&D cost was reverted as an expense item in 2013.

General and administrative expenses. General and administrative expenses consist primarily of costs from our finance, human resources and administration departments, third party legal and other professional services fees and an allocation of our facilities costs and depreciation expenses. General and administrative expenses increased 3.0% from RMB32.8 million in 2012 to RMB33.8 million (US\$5.6 million) in 2013, which was attributable to higher compensation costs from RMB9.9 million in 2012 to RMB10.7 million (US\$1.8 million) in 2013 due to increased headcount from 71 to 84. General and administrative expenses were 16.5% and 17.1% of total revenues in 2012 and in 2013, respectively.

Selling and distribution expenses. Selling and distribution expenses consist primarily of salaries and related costs of our sales and marketing departments, sales bonuses, costs of our marketing programs, public relations, advertising, trade shows, sales bonuses, and an allocation of our facilities overhead. Selling and distribution expenses increased 14.6% from RMB40.4 million in 2012 to RMB46.4 million (US\$7.7 million) in 2013. The increase was primarily due to increased headcount from 85 to 102, resulting in the increase of labor cost of RMB3.6 million. In addition, we invested in marketing events for the promotion of myStore-led omni channel solutions of RMB2.2 million in 2013.

Selling and distribution expenses were 20.4% of total revenues in 2012 and 23.4% of total revenues in 2013.

## Other Expenses

**Interest Income.** Interest income represents the interest accrued as a result of bank deposits. Our interest income decreased 33.2% from RMB497,457 in 2012 to RMB332,299 in 2013, which primarily contributed to the decrease of cash and cash equivalents in 2013.

**Gain on Derivatives.** On March 13, 2007, the Company raised \$10 million through the issuance of senior convertible notes. Upon conversion into shares, or at every reporting period, the fair value of changes in the carrying amount is treated as a gain or loss in the current period operations.

We recognized gains on derivatives of RMB3,168 in 2012. After the repurchase occurred in 2012, no gains were recognized in 2013.

**Other income (expenses).** In 2012, we accrued the obligations under the Settlement Agreement with Microsoft Corporation, which was an extraordinary expense. In 2013, other income represented for the sponsor fee income from customer meetings and marketing activities.

**Income tax expenses.** Our income tax expenses decreased from RMB4.5 million in 2012 to RMB0.3 million in 2013, which was primarily attributable to the increase in loss before income tax in 2013.

## Holding Company Structure

We are a holding company with no operations of our own. All of our operations are conducted through eFuture Beijing, our Chinese subsidiary. As a result, our ability to pay dividends and to finance any debt that we may incur is dependent upon dividends and other distributions paid by eFuture Beijing. If eFuture Beijing incurs debt on its own behalf in the future, the instruments governing the debt may restrict its ability to pay dividends to us. In addition, Chinese legal restrictions permit payment of dividends to us by eFuture Beijing only from its net income, if any, determined in accordance with Chinese accounting standards and regulations. Under Chinese law, eFuture Beijing may also be required to set aside a portion (at least 10%) of its after tax net income, if any, each year for certain reserve funds until the amount of the reserve reaches 50% of eFuture Beijing's registered capital. According to Chinese law, however, eFuture Beijing is required to withdraw reserve funds only in fiscal years following the elimination of its accumulated deficit in which it paid income tax. We do not believe that these fund reserves had or will have a material impact upon our liquidity. Although these statutory reserves can be used, among other alternatives, to increase the registered capital and eliminate future losses in excess of retained earnings, the reserve funds are not distributable as cash dividends except in the event of a solvent liquidation of eFuture Beijing. This reserve fund is not distributable as a cash dividend.

## Critical Accounting Policies and Estimates

We prepare our financial statements in conformity with US GAAP, which requires us to make estimates and assumptions that affect our reporting of, among other things, assets and liabilities, contingent assets and liabilities and net revenues and expenses. We continually evaluate these estimates and assumptions based on the most recently available information, our own historical experiences and other factors that we believe to be relevant under the circumstances. Since our financial reporting process inherently relies on the use of estimates and assumptions, our actual results could differ from what we expect. This is especially true with some accounting policies that require higher degrees of judgment than others in their application. We consider the policies discussed below to be critical to an understanding of our audited consolidated financial statements because they involve the greatest reliance on our management's judgment.

## Revenue Recognition

We generate revenue from the sale of software, related hardware, professional services including maintenance and support contracts, and professional consulting, training and contract development services. At this time, we generally license our products to customers on a perpetual basis and we recognize revenue upon delivery of the products. In addition, we will provide technical advisory services after the delivery of our products to help our customers exploit the full value and functionality of our products. We recognize revenue from the technical advisory services under these agreements as the services are performed. We recognize revenue from maintenance services over the period of the agreement.

We recognize revenue when it is realized and earned. We consider revenue realized or realizable and earned when:

- we have persuasive evidence of an arrangement;
- delivery has occurred;
- the sales price is fixed or determinable; and
- collectability is reasonably assured.

We consider delivery to occur when (i) products have been shipped or services have been provided to the client, (ii) risk of loss has transferred to the client, (iii) we have obtained client acceptance, (iv) client acceptance provisions have lapsed, or (v) we have objective evidence that the criteria specified in client acceptance provisions have been satisfied. We consider the sales price to be fixed or determinable when all contingencies related to the sale have been resolved. We have not encountered significant difficulty in the past with our customers accepting our products and services. Our products and services have generally fulfilled our customers' needs.

For software sales, we recognize revenues in accordance with ASC 985-605, Software Revenue Recognition. Revenue from perpetual (one-time charge) licensed software is recognized at the inception of the license term. Revenue from term (monthly license charge) arrangements is recognized on a subscription basis over the period that the customer is using the license. We do not provide any rights of return or warranties on software.

Revenues applicable to multiple-element fee arrangements are bifurcated among the elements such as software, hardware and post-contract service using vendor-specific objective evidence of fair value. Such evidence consists of pricing of multiple elements when those same elements are sold as separate products or arrangements. Software maintenance for the first year and initial training are included in the purchase price of the software. Initial training is provided at the time of installation and is recognized as income as part of the price of the software since it has minimal value. Maintenance is valued based on the fee schedule used by the Company for providing the regular level of maintenance service as sold to customers when renewing their maintenance contracts on a standalone basis.

Software revenues include VAT refund received from the Chinese local government on the sales of certain software. Such refund is granted to us as part of the PRC government's policy to encourage software development in the PRC, and is recorded as a component of revenue when the relevant compliance requirements are met, there are no further obligations, and is not subject to future returns or reimbursements.

We generally recognize revenue from hardware sales when the product is shipped to the customer and when there are no unfulfilled company obligations that affect the customer's final acceptance of the arrangement.

We provide professional services for system integration which involve the design and development of complex information technology systems to the customer's specifications. These services are provided on a fixed-price contract and the contract terms are generally short-term. Revenue is recognized on the completed contract method when delivery and acceptance is determined by a completion report signed by the customer.

We offer telephone and minimal on-site support to its customers. Revenue from maintenance services and technical support is recognized over the period of the agreement.

For those contracts containing multiple-delivery elements of software, customization, training and 1 year maintenance service, residual method under ASC985-605 is adopted. Vendor-specific objective evidence is only established for maintenance service by the renewal contract quoted at certain percentage of original contract price. There was no vendor-specific objective evidence established for other deliverables. If a contract only contains a completion date, then upon the date obtained the "Final Acceptance Report" from the customer, part of contract amount is recognized

as revenue based on the completion method; and the remaining part will be recognized evenly over the free maintenance service period.

### Allowance for Doubtful Accounts

Trade receivables, net are stated as the amount management expects to collect from outstanding balances. An estimate for doubtful accounts is made when collection of the full amount is no longer probable. We maintain an allowance for potentially uncollectible trade receivables based on our assessment of the collectability of trade receivables. In evaluating the collectability of individual receivable balances, we consider many factors, including the age of the balance, the customer's past payment history, its current credit-worthiness and current economic trends. Any adverse changes in these factors could require additional provisions be made. Our provision for doubtful accounts was RMB2.3 million in 2012, RMB1.9 million in 2013 and RMB2.0 million (US\$0.3 million) in 2014. As of December 31, 2013 and 2014, the allowance for doubtful accounts was RMB3.7 million and RMB4.5 million (US\$0.7 million), respectively.

### Inventory and Work in Process

Inventory is comprised of purchased hardware and software available for resale and other consumable materials. Labor and overhead costs are allocated to each contract based on actual labor hours incurred. Work in process consists of labor and overhead costs and outsourced service fees incurred on services contracts that have not been completed. Inventory and work in process are stated at the lower of cost or net realizable value.

Provisions are made for excess, slow moving and obsolete purchased hardware and software held for resale, as well as for inventories and work in process with carrying values in excess of net realizable value. We use the future selling price less the estimated taxes and future expenditure as the estimates of net realizable value on a contract by contract basis. The future expenditure is calculated on a basis of the pay rate of engineers and the estimated working hours. If there are any significant changes in the estimates, provisions may differ materially.

### Share-Based Compensation

We account for share-based compensation in accordance with ASC subtopic 718-10, or ASC 718-10, Compensation-Stock Compensation: Overall. Under the provisions of ASC 718-10, share-based compensation cost is estimated at the grant date based on the award's fair value as calculated by the Black-Scholes-Merton (BSM) option-pricing model and is recognized as expense over the requisite service period. The BSM model requires various highly judgmental assumptions including volatility and expected option life. Volatility is measured using historical daily price changes of each ordinary share over the respective expected life of the option. If the volatility increased or decreased 5%, the grant-day fair value would increase or decrease approximately by 6%. Expected option life is the number of years that we estimate, based on the vesting and contractual terms and employee demographics. The estimate of forfeitures will be adjusted over the requisite service period to the extent that actual forfeitures differ, or are expected to differ, from such estimates. Changes in estimated forfeitures will be recognized through a cumulative catch-up adjustment in the period of change. If any of the assumptions used in the BSM model change significantly, share-based compensation expenses may differ materially in the future from that recorded in the current period.

### Property and Equipment

We depreciate property and equipment on a straight-line basis over their estimated useful lives, which range from five years for motor vehicles and four years for purchased software and communication and office equipment to the shorter of three years or the lease term for leasehold improvements. These estimated lives have been reasonably accurate in the past and have been based on historical experience and the estimated useful lives of similar assets by other software companies. These estimates are reasonably likely to change in the future since they are based upon matters that are highly uncertain such as the general economy, potential changes in technology and estimated cash flows from the use of these assets.



Research and Development and Intangible Assets

We charge all of our development costs to research and development expenses until we have established technological feasibility. We acknowledge technological feasibility of our software when a detailed program design or working model is completed. Upon reaching technological feasibility, we capitalize additional software costs until the software is available for general release to customers. The subsequent expenditure in connection with major upgrade for the developed intangible assets is capitalized as incurred.

We amortize the cost of intangible assets by the greater of the amounts computed on a straight-line basis over the remaining estimated economic lives or the ratio that current gross revenues bear to the total of current and anticipated future gross revenues for an intangible asset. Such estimates are based upon historical usefulness of similar software products and the rate of change in technology in general. Our estimate has been reasonably accurate in the past, but it is reasonably likely to change in the future due to the highly uncertain nature of this estimate. Should economic conditions change or technological advances occur rapidly, our estimate could change quickly, which would result in recognition of increased or decreased amortization.

#### Valuation of Long-Lived Assets

We evaluate long-lived assets, such as fixed assets and purchased or internally developed intangible assets with finite lives, for impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable in accordance with ASC subtopic 360-10, Property, Plant and Equipment: Overall. When such events occur, we assess the recoverability of the asset group based on the undiscounted future cash flow the asset group is expected to generate and recognize an impairment loss when estimated undiscounted future cash flow expected to result from the use of the asset group plus net proceeds expected from disposition of the asset group, if any, is less than the carrying value of the asset group. If we identify an impairment, we reduce the carrying amount of the asset group to its estimated fair value based on a discounted cash flow approach or, when available and appropriate, to comparable market values. We use estimates and judgments in our impairment tests and if different estimates or judgments had been utilized, the timing or the amount of any impairment charges could be different. Asset groups to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell, and no longer depreciated. The assets and liabilities of a disposal group classified as held for sale would be presented separately in the appropriate asset and liability sections of the balance sheet. However, circumstances could cause us to have to reduce the value of our capitalized software more rapidly than we have in the past if our revenues were to significantly decline. Estimated cash flows from the use of the long-lived assets are highly uncertain and therefore the estimation of the need to impair these assets is reasonably likely to change in the future. Should the economy or acceptance of our software change in the future, it is likely that our estimate of the future cash flows from the use of these assets will change materially. The amount of possible change is discussed above under Property and Equipment and Intangible Assets.

#### Goodwill

Goodwill represents the excess of the purchase price over the fair value of the identifiable net assets acquired in a business combination. Under ASC 350-20, Intangibles — Goodwill and Other: Goodwill, goodwill is subject to an annual impairment test. If an event occurs or circumstances change that would more-likely-than-not reduce the fair value of a reporting unit below its carrying amount, an interim impairment test is performed between annual tests. The impairment test includes a comparison of estimated discounted cash flows associated with the asset's carrying amount. If the fair value is less than the carrying amount of the asset, the second step of the impairment test shall be performed to measure the amount of impairment loss, if any. In the second step, the implied fair market value of goodwill is estimated and compared to the carrying amount. If the carrying amount of goodwill exceeds its implied fair market value, an impairment loss equal to this excess is recorded. The recorded loss cannot exceed the carrying amount of goodwill.

We completed our annual impairment test as of December 31, 2014, and the fair value of the reporting unit exceeded its carrying value by 7.3%. We utilized a combination of the income approach and the market approach to estimate the fair value of each reporting unit. We selected this method because we believe that it most appropriately measures the reporting unit. The income approach is based on the projected cash flows, which are discounted to their present value using discount rates that consider the timing and risk of the forecasted cash flows. The market approach is based on our market capitalization and a control premium is applied to arrive at the fair value of the equity interest. We believe that this approach is appropriate because it provides a fair value estimate based upon the reporting unit's expected

long-term operating cash performance, together with its market value. Fair value derived from the income approach is estimated using internally-developed forecasts and assumptions. The discount rate used is the average estimated value a market participant's cost of capital a debt, derived using the customary market metrics. Other significant assumptions include terminal growth rates, future capital expenditures, and changes in future working capital requirements. The weighting of the income approach and the market approach is also a significant assumption. If there are any changes in these significant assumptions, fair value may differ materially. We also compare and reconcile our overall fair value to our market capitalization. The discount rate and terminal growth rate used in our impairment test were 24% and 3%, respectively. If the discount rate increased by 100 basis points, the fair value of the reporting unit would decrease by approximately RMB0.49 million which exceeded its carrying value by 7.5%. A decrease of 100 basis points in the terminal growth rate would result in approximately RMB0.03 million of declines in the fair value of the reporting unit which exceeded its carrying value by 7.9%. If the control premium decreased by 100 basis points, the fair value of the reporting unit would decrease by approximately RMB0.15 million, which would exceed its carrying value by 7.8%. Such changes will not result in the failure of step 1 test in the annual goodwill impairment test. Although there are inherent uncertainties related to the assumptions used and to our application of these assumptions to this analysis, we believe that a combination of the income approach and the market approach provides a reasonable estimate of the fair value of our reporting unit.

## Fair Values of Financial Instruments

We record certain of our financial assets and liabilities at fair value on a recurring basis. Fair value reflects the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, we consider the principal or most advantageous market in which it would transact and consider assumptions that market participants would use when pricing the asset or liability.

We apply a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. There are three levels of inputs that may be used to measure fair value:

Level 1 applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.

Level 2 applies to assets or liabilities for which there are inputs other than quoted prices included within Level 1 that are observable for the asset or liability such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which significant inputs are observable or can be derived principally from, or corroborated by, observable market data.

Level 3 applies to assets or liabilities for which there are unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities.

The carrying amount of cash and cash equivalents, trade receivables, other receivables, other receivables due from previously consolidated entities, refundable value added tax, advances to employees, prepaid expenses, short-term loans, trade payables, taxes payable, other payables, accrued expenses and advances from customers approximates fair value due to their immediate or short-term nature.

## B. Liquidity and Capital Resources

### Overview

We anticipate that our working capital will be sufficient to fund our cash needs and operations and to make payments on any existing liabilities for at least the next 12 months. We do not anticipate that we will need to use non-operational sources of cash, such as additional debt or equity financing, to meet our current cash needs. We may, however, require additional cash due to changing business conditions or other future developments, including any investments or acquisitions we may decide to pursue. If our existing cash is insufficient to meet our requirements, we may seek to sell debt securities or borrow from banks.

The following table sets forth a summary of our cash flows for the years indicated:

	2013	2014
	(In millions of RMB)	
Cash and cash equivalents	62.6	64.6
Net cash provided by (used in) operating activities	(0.6 )	3.4
Net cash used in investing activities	(16.1 )	(12.2 )
Net cash provided by (used in) financing activities	-	10.7

The cash and cash equivalents held in China by eFuture Beijing and eFuture Hainan were RMB62.5 million (US\$10.1 million) and RMB60.6 million as of December 31, 2014 and 2013, respectively. The cash and cash equivalents held by Weidian, our VIE, were RMB1.4 million (US\$0.2 million) and RMB0.6 million as of December 31, 2014 and 2013, respectively.

Operating activities provided cash of RMB3.4 million (US\$0.6 million) in 2014 compared to using cash of RMB0.6 million in 2013. The principal sources of our cash flow from operations are net income adjusted for depreciation, software amortization and share-based compensation cost. The increase in cash provided by operating activities was primarily attributable to the integrated effect of growth in net income, as adjusted for non-cash items and the effects of changes in working capital and other activities.

Investing activities used cash of RMB16.1 million in 2013 and RMB12.2 million (US\$2.0 million) in 2014. In 2014, the decrease in use of cash in investing was primarily attributable to decreased payments for intangible assets, which resulted from more investments in software research and development being expensed rather than capitalized into intangible assets.

Financing activities provided cash of RMB10.7 million in 2014 compared to nil in 2013, which was primarily due to proceeds from short-term loans.

#### Indebtedness

On July 16, September 11, October 22 and November 6, 2014, the Company borrowed four loans with term of one year of RMB1,500,000, RMB1,500,000, RMB2,692,003 and RMB5,000,000 respectively from three banks to meet temporary working capital needs. The annual interest rates are the benchmark interest rate announced by the People's Bank of China plus 20%-30% of the benchmark interest rate. The loans were guaranteed by Adam Yan, our Chairman. One of the loans was additionally guaranteed by Adam's wife. As of December 31, 2014, the outstanding short-term loans were RMB10,692,003 (US\$1,723,238).

Interest expenses incurred for the year ended December 31, 2014 was RMB164,171 (US\$26,460). The weighted average annual interest rate for the year ended December 31, 2014 was 7.5%.

#### C. Research and Development

Our success depends on continued enhancement of our current products and our ability to develop new technologically advanced products that meet the increasingly sophisticated requirements of our customers. Research and development expenses were RMB3.7 million, RMB7.2 million and RMB8.0 million (US\$1.3 million) in 2012, 2013 and 2014, respectively. The information provided under Item 5.A, "Operating Results" details the Company's research and development activities.

D. Trend Information

China Outlook

China's presence in the global consumer market has grown dramatically in recent years. China is already the biggest vehicle market and the second largest luxury market and is expected to become the world's largest consumer market within the next ten years. These statistics, combined with our attractive offerings, deep market knowledge and strong sales capabilities give us many reasons to be excited about our future. We are optimistic about the outlook for 2015.

## Industry and Market Outlook

In the wake of benefiting from China's booming retail and consumer goods industries, we believe that our innovative and attractive software and services offerings will facilitate our ongoing growth. Through our sales efforts, we have grown our project pipeline, and with it, our backlog. As of December 31, 2014 our contract backlog amounted to approximately RMB146.4 million (US\$23.6 million). Our backlog represents the projected revenue of our uncompleted contracts which have been signed with our clients. We cannot guarantee that the revenue projected in our backlog will be realized in its entirety or, if realized, will result in profits. In addition, project cancellations or scope adjustments may occur, from time to time, with respect to contracts reflected in our backlog. Accordingly, our backlog as of any particular date is an uncertain indicator of our future revenue. As backlog is not a defined accounting term, our computation of backlog may not necessarily be comparable to that of our industry peers.

## Top Line Growth Drivers

- As of December 31, 2014, our uncompleted project base was RMB146.4 million (US\$23.6 million), including RMB48.3 million (US\$7.8 million) of software license income, RMB85.8 million (US\$13.8 million) of service fee income and RMB12.3 million (US\$0.5 million) of hardware income, of which we expect to recognize approximately 80% in 2015.
- We anticipate strengthening our software core business while increasing more stable recurring service and consulting service revenues.
  - We anticipate pursuing profitable growth by improving our delivery cost and operating expense structure.
    - We will seek to innovate to further broaden omni-channel cloud service offerings.
    - We will continue to penetrate China's tier2 and tier3 cities.

## E. Off-Balance Sheet Arrangements

We have not entered into any financial guarantees or other commitments to guarantee the payment obligations of any third parties. We do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. Moreover, we do not have any variable interest in an unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing, hedging or research and development services with us.

## F. Tabular Disclosure of Contractual Obligations

The following table sets forth our contractual obligations as of December 31, 2014:

	Total	Payments Due By Period		
		Less than 1 Year	1-3 Years	More than 3 Years
Short-term Debt Obligations	¥10,692,003	¥10,692,003	¥-	¥-
Operating Lease Obligations	¥7,094,722	¥4,205,574	¥2,889,148	¥-
Total	¥17,786,725	¥14,897,577	¥2,889,148	¥-

## Item 6. Directors, Senior Management and Employees

### A. Directors and Senior Management

The following table sets forth our executive officers and directors, their ages and the positions held by them as of April 24, 2015.

53

---



Name	Age	Position
Adam Yan (1)(8)	47	Chairman
David Ren (1)	52	Chief Executive Officer and Director
Ping Yu (1)(7)	45	Chief Financial Officer and Director
Dehong Yang (1)	52	President
Gene Xia (1)	54	Senior Vice President and Chief Architect of the product research & development center
Zengqiang Lan (1)	52	Senior Vice President
Qicheng Yang (1)	49	Senior Technical Advisor
John Dai (1)(3)(4)(8)	52	Director
Ming Zhu (2)(4)(5)(9)	56	Director
Roger Zhang (1)(3)(5)(6)(9)	55	Director
Roy Zhou (1)(3)(4)(5)(6)(9)	45	Director

- (1) The individual's business addresses are as follows:
- a) c/o eFuture Information Technology Inc., C Cube Youth Cultural and Creative Park, 1 Fangjiacun, Chaoyang District, Beijing, 100124, China
  - b) c/o eFuture Information Technology Inc., A1103, A1105, A1106-07, Building A, Chengjian Plaza, No. 18 Beitapingzhuang Road, Haidian District, Beijing, 100088, China.
- (2) Mr. Zhu's business address is c/o RMCC Investments, LLC. 2800 Sugarberry Lane, Midlothian, VA 23113.
- (3) Member of audit committee
- (4) Member of compensation committee.
- (5) Member of corporate governance committee.
- (6) The appointment is effective since March 10, 2015.
- (7) Class II director whose term expires in 2016.
- (8) Class III director whose term expires in 2017.
- (9) Class I director whose term expires in 2015.

Adam Yan. Mr. Yan founded eFuture in 1997, and is currently the Company's Chairman. He was the CEO of the Company from 1997 to March 2015. He is also a member of the China Commerce Association for General Merchandise, the China Chain Store & Franchise Association and the China General Chamber of Commerce. Prior to founding eFuture, Mr. Yan was general manager of the Bangda Information Industry Center of Haikou Financial Bureau in Hainan Province from 1991 to 1997. From 1991 to 1994, he served as chief accounting software designer of Haikou Accounting Firm in Hainan Province. Mr. Yan holds a bachelor's degree in computer science and a master's degree in machine vision engineering from Chongqing University. He also studied accounting and finance at the Central University of Finance and Economics, Beijing. Mr. Yan has extensive executive experience in the software industry and provides the Company with valuable advice, strategic direction and insights into and industry trends.

David Ren. Mr. Ren is now CEO of the Company. He has served as a senior partner at Cybernaut Capital since 2006. He also served as Executive President of Shanshan Investment Holding Co., Ltd. from 2012 to 2014 and president of Shanghai Stock Exchange listed Ningbo Shanshan Co., Ltd. from 2011 to 2012. He also served as Vice Dean at Zhejiang University Innovation Institute, International from 2007 to 2011. He worked at Founder Group Corp. from 1993 to 2006. He was Vice President of Founder Holdings Company Limited and Chief Executive Officer of its Hong Kong-listed subsidiary Beijing Founder Electronics Co., Ltd, from 2001 to 2006, Vice President of Shanghai-listed Founder Technology Group Corp. from 1998 to 2001, and General Manager of Founder Group's Hangzhou branch from 1993 to 1998. Before joining Founder, Mr. Ren spent seven years as a university professor in Changjiang University. He holds a master's degree in engineering from the Department of Electric Machine Engineering of Zhejiang University and a bachelor's degree in engineering from the Department of Information Science and Electronic Engineering of Zhejiang University. Mr. Ren leverages his vast experience in the role of executives in the technology, media, telecom ("TMT") sector and investment field to provide the company with key insights into

financing and operation.

Ping Yu. Ms. Yu is CFO of eFuture Information Technology Inc. and has been serving as a director of the Company since January 2007. She was CFO of eFuture from 2007 to 2010. She was Chief Financial Officer of Prudent Energy from 2011 to 2014. Prior to joining Prudent, Ms. Yu was CFO of Lentuo International and led its successful NYSE IPO in 2010. She previously worked as an auditor and consultant with Golf & Wroblewski in New York, as well as gaining additional professional experience in the banking and real estate industries. Ms. Yu received her bachelor's degree in accounting from Hubei University and her master's degree in business administration from Rutgers University. She is a Certified Public Accountant in the United States. Ms. Yu's experience in both the U.S. and China makes her ideally placed to advise on finance and strategy.

Dehong Yang. Dr. Yang joined eFuture as President in January 2010. He also serves as a Retail Industry Expert of the China Chain Store & Franchise Association, Vice Director of the Chinese Electronic Commerce Association, and Vice Director of the Commercial Automation Committee of the China Electronic Chamber of Commerce. From 2002 to 2009, Dr. Yang served as General Manager of the Retail Division of Wincor Nixdorf Retail & Banking Systems Co., Ltd. From 1995 to 2000, he was a consultant to the distribution industry for IBM China Company Ltd. Mr. Yang holds a doctor's degree in management from China People's University in Beijing and a bachelor's degree in mathematics from North-East University in Shenyang, Liaoning. His extensive international business management experience and proven track record of successfully executing on strategic initiatives equip him to manage eFuture's day-to-day operations and lead the implementation of its growth strategy.

Gene Xia. Mr. Xia has been Senior Vice President and Chief Architect of the product research & development center at eFuture Information Technology Inc., since August 1, 2013. From 1993 to 2013, Mr. Xia served many different positions such as software development engineer, store support operational manager, software architect and IT infrastructure strategy officer etc. at Walmart Stores Inc. From 1991 to 1993, he was a software developer at IBM Research Triangle Park in the US. Early in his career, he served as an engineer at Beijing Institute of auto-testing technology in Beijing. Mr. Xia holds a master's degree in Computer Science from University of North Carolina and a bachelor's degree in Electric Engineering from Hubei University. He also studied Computer Engineering at Tsinghua University and Beijing University of Technology at Beijing. Mr. Xia's experience in software development greatly benefits our research and development as well as myStore business development.

Zengqiang Lan. Mr. Lan serves as Senior Vice President of the Company since 2013. He also serves as Executive President of eFuture Beijing since 2015. He was Vice President of eFuture Beijing from 2009 to 2012. Before he joined eFuture, he served as Vice President of CITIC 21CN Company Limited (00241.HK) from 2006 to 2009. From 2002 to 2005, he was General Manager of Hebei Business Computer Company. Mr. Lan holds a bachelor's degree in electronic engineering from Harbin University of Commerce. Mr. Lan's experience in management and sales is valuable to our business operation and growth.

Qicheng Yang. Prior to co-founding eFuture in 1997, Mr. Yang served as Chief Technology Officer of Hainan Fujie Industrial Inc., an information technology company delivering software and system integration services in Hainan Province, from 1995 to 1997. From 1993 to 1995, he was a manager in the system network department of Hainan ZhouliSci-Tech Industrial Inc. From 1990 to 1993, Mr. Yang taught computing at Huazhong University of Science and Technology. He holds a bachelor's and a master's degrees in automatic control from Huazhong University of Science and Technology. Mr. Yang's extensive technical background provides eFuture with the leadership and experience needed to further develop its leading edge software and services solutions.

John Dai. Mr. Dai is an independent consultant on China strategy development, executive coaching, leadership development, sales management, large account management and business planning. He was previously Director of External Relations and International Cooperation at the China Association of Small and Medium Enterprises, an organization aimed at advancing the interests of China's small and medium enterprises internationally. From 2001 to 2002, Mr. Dai was Chief Executive Officer of Vanda Computer Systems, a Hong Kong based public company focused on systems integration and banking application services in China. Mr. Dai also has 12 years of experience in various executive positions at IBM, including General Manager of IBM's Greater China Distribution Industry Group. Mr. Dai holds a master's degree in civil engineering from Tsinghua University and a bachelor's degree in industrial and civil construction from Wuhan Industrial University. With over 20 years' experience in executive management positions within multinational companies and extensive knowledge of China's retail industry, Mr. Dai is ideally placed to advise on eFuture's strategic direction.

Ming Zhu. Mr. Zhu has served as a director since 2005, and he has been an international business consultant with RMCC Investment, LCC., a Richmond, Virginia based import/export consulting firm, since 1994. Mr. Zhu holds a bachelor's degree in English from Beijing Second Foreign Languages Institute and a master's degree in tourism and business from Virginia Commonwealth University. Mr. Zhu draws on his extensive business and consulting background to offer advice on best practice and business development and expansion.



Roger Zhang. Mr. Roger Zhang, a U.S. Certified Public Accountant, is the Chief Financial Officer of EMAR Online Technology. Before joining EMAR, he served as Chief Financial Officer of China TransInfo Technology Corp., Ltd from 2011 to 2014. From 2009 to 2010, Mr. Zhang worked as the Chief Financial Officer of China Vocational Training Holdings Co., Ltd. From 2007 to 2008, Mr. Zhang worked as the Chief Financial Officer of Taizina Group, a major company in China's beverage market. From 2005 to 2007, Mr. Zhang was the Asia Pacific Controller of DraftFCB as well as the Asia Pacific Lead Area Controller of Interpublic Group of Companies, Inc. (DraftFCB's parent company), one of the world's largest advertising and marketing services companies. From 2004 to 2005, Mr. Zhang was a Senior Analyst and Project Leader at MCI, Inc., now a telecommunications subsidiary of Verizon Communications Inc., a global broadband and telecommunications company. From 1997 to 2004, Mr. Zhang worked in several finance and accounting positions in the United States, including as a Senior Analyst in Atlanta at ACSI Network Technologies, a telecommunications company that specialized in fiber optic broadband services; Senior Auditor at Union Camp Corporation and International Paper, an American pulp and paper company and as a Staff Auditor at Deloitte & Touche's Atlanta, Georgia office. Mr. Zhang holds an MBA in accounting degree from J. Mack Robinson School of Business, Georgia State University, and Master of Arts in Economics from Georgia State University, and Master of Sciences in Environmental Science from East China Normal University in Shanghai. Mr. Zhang is highly qualified to provide advice on the financing and operation of eFuture, given his expertise on financing and extensive management experience.

Roy Zhou. Mr. Roy Zhou, currently serves as the CEO of Yoyi digital Inc., a leading provider in the multi-screen programmatic buying platform in China. Before Yoyi, Mr. Zhou served as the Head of Google AdSense from 2006 to 2011 in the Asia Pacific region. Previous to Google, Roy worked as the regional manager of 3Com Asia from 1999 to 2003, and was in charge of overall service business in North Asia region, including Mainland China, Hong Kong, Taiwan, and South Korea. Prior to 3Com, Roy was the Business Development Manager of Sun Microsystems China from 1996 to 1999, and was responsible for cultivating the service market, increasing revenue, developing channel strategy, and managing key partners. After college, Roy worked in the Ministry of Water Resources of the Chinese Government from 1991 to 1995, helping build the national flood control and dispatch system to improve the efficiency of flood control. He holds a Master of Business Administration of Haas School of Business, University of California-Berkeley. Mr. Roy Zhou's rich work experience and in-depth knowledge of advertising is of significant value to the development of myStore and eFuture.

There are no family relationships among any of the persons named above, and there are no arrangements or understandings with major shareholders, customers, suppliers or others, pursuant to which any such person was selected as a director or member of senior management.

## B. Compensation

For the fiscal year ended December 31, 2014, we paid an aggregate compensation of RMB5.8 million (US\$0.9 million) in cash to our executive officers. Our subsidiaries are required by law to make contributions equal to certain percentages of each employee's salary for his or her pension insurance, medical insurance, unemployment and other statutory benefits. Other than the above-mentioned pension insurance mandated by applicable PRC law, we have not set aside or accrued any amount to provide pension, retirement or other similar benefits to our executive officers and directors. We made contributions of RMB27.8 million (US\$4.5 million) to statutory staff social benefit for all the employees including our executive officers for the fiscal year ended December 31, 2014.

### Executive and Director Compensation

The following table shows the annual compensation paid by us to our executive officers and directors for the year ended December 31, 2014, which includes some bonus for the fiscal year 2013.

## Annual Compensation for Year Ended December 31, 2014

Name	Salary	Bonus	All Other Compensation
Adam Yan Chairman, Chief Executive Officer and Director	¥ 812,650	¥ 53,114	—
Dehong Yang President	¥ 1,155,625	¥ 120,911	—
Deliang Tong (1) Ex-Director	¥ 120,000 \$	¥	—
Qicheng Yang Chief Technology Officer	¥ 549,350	¥ 65,547	—
Hongjun Zou Senior Vice President	¥ 628,050	¥ 64,336	—
Gene Xia Senior Vice President	¥ 802,300	¥ 51,807	—
Zengqiang Lan Senior Vice President	¥ 636,800	¥ 92,766	—
Tony Zhao (2) CEO Assistant	¥ 364,035	¥ 39,835	—
Ping Yu (3) Chief Financial Officer and Director	¥ 284,497	—	—
Ming Zhu Director	\$ 11,200	—	—
John Dai Director	\$ 11,200	—	—
Dennis O. Laing(4) Director	\$ 10,000	—	—
David Ren Director	\$ 11,200	—	—

(1) Served as a Class I director through March 18, 2014.

(2) Served as CEO Assistant through December 31, 2014.

(3) Serve as Chief Financial Officer from October 10, 2014.

(4) Served as Class II director through August 22, 2014.

## Incentive Compensation Plans

On April 18, 2001, we adopted the 2001 Option Plan (the “2001 Plan”), under which 59,063 stock options were granted to key employees, each with an exercise price of \$4.71, a contractual life of 11 years and evenly vested over a five-year period.

Under the 2001 Plan, our board of directors may amend or terminate the Plan at any time if required under the Plan, subject to shareholders’ approval.

On January 31, 2007, we adopted the 2005 Option Plan Set One (the “2005 Plan I”), under which 65,875 stock options were granted to key employees (including directors and senior management who are key employees), each with an exercise price of \$25.42, a contractual life of 10 years and evenly vested over a five-year period.

On September 17, 2007, we adopted the 2005 Option Plan Set Two (the “2005 Plan II”), under which 65,800 stock options were granted to key employees, each with an exercise price of \$11.71, a contractual life of 10 years and evenly vest over a five-year period.

Under the 2005 Plan I and Plan II, our board of directors may amend or terminate the Plan at any time if required under the Plan, subject to shareholders’ approval.

On December 11, 2009, we adopted a share incentive plan (the “2009 Plan”), which provided for the granting of share incentives, including Incentive Stock Option (ISO) and restricted shares to our key employees. Under the 2009 Plan, 175,000 stock options were granted to our key employees with an exercise price of \$6.55 and a contractual life of 10 years, 84,000 and 69,000 restricted shares are granted to members of the board of directors and senior management, respectively, with no cash consideration. Pursuant to the 2009 Plan, options and restricted shares evenly vest over a three-year period with the first 25% vested on the grant day.

The 2009 Plan is administered by our Nomination and Compensation Committee of the board of directors. The Nomination and Compensation Committee of the board of directors has the authority to determine the individuals who will receive grants, the type of grant, the number of shares subject to the grant, the terms of the grant, the time the grants will be made, the duration of any exercise or restriction period, and to deal with any other matters arising under the Plan. Our board of directors may amend or terminate the Plan at any time if required under the Plan, subject to shareholders' approval.

On December 20, 2011, our shareholders approved our 2011 Share Incentive Plan (the "2011 Plan"), which provides for the granting of equity incentives, including stock options and restricted shares to our key employees. We have reserved a total of 393,745 ordinary shares for grant under the 2011 Plan in accordance with its terms. A description of the 2011 Plan is set forth in Proposal 2 of the Notice of Annual Meeting of Shareholders and Proxy Statement for the 2011 Annual General Meeting, filed as Exhibit 99.1 to the Company's report on Form 6-K filed on November 30, 2011, and is incorporated herein by reference.

On May 23, 2012, we adopted the 2011 Plan. Under the 2011 Plan, options to purchase 253,000 shares were granted to our key employees with an exercise price of \$4.56 and a contractual life of 8.61 years, 134,000 restricted shares were granted to senior management with no cash consideration. Pursuant to the 2011 Plan, options and restricted shares were evenly vested over a three-year period with the first 25% vested on the grant day.

The 2011 Plan is administered by our Nomination and Compensation Committee of the board of directors. The Nomination and Compensation Committee of the board of directors has the authority to determine the individuals who will receive grants, the type of grant, the number of shares subject to the grant, the terms of the grant, the time the grants will be made, the duration of any exercise or restriction period, and to deal with any other matters arising under the Plan. Our board of directors may amend or terminate the Plan at any time if required under the Plan, subject to shareholders' approval.

On May 23, 2012, stock options to purchase 8,000 shares were granted to our key employees under the 2005 Plan II with an exercise price of \$4.56 and a contractual life of 2.61 years. Pursuant to the 2005 Plan II, such stock options were 100% vested on the grant day.

On May 23, 2012, 3,000 restricted shares were granted to senior management under the 2009 Plan with no cash consideration. Pursuant to the 2009 Plan, such restricted shares were 100% vested on the grant day.

On May 23, 2012, 51,000 restricted shares were granted to members of the board of directors under the 2009 Plan with no cash consideration. Pursuant to the 2009 Plan, such restricted shares were evenly vested over a three-year period with the first 25% vested on the grant day.

On February 5, 2013, 10,000 restricted shares were granted to senior management under the 2011 Plan with no cash consideration. Pursuant to the 2011 Plan, such restricted shares were evenly vested over a three-year period with the first 25% vested on the grant day.

On August 15, 2013, our shareholders approved our 2013 Share Incentive Plan (the "2013 Plan"), which provides for the granting of equity incentives, including stock options and restricted shares to our key employees. We have reserved a total of 387,454 ordinary shares for grant under the 2013 Plan in accordance with its terms. A description of the 2013 Plan is set forth in Proposal 2 of the Notice of Annual Meeting of Shareholders and Proxy Statement for the 2013 Annual General Meeting, filed as Exhibit 99.1 to the Company's report on Form 6-K filed on November 20, 2013, and is incorporated herein by reference. As of December 31, 2013, no options or restricted shares have been granted or issued.



The 2013 Plan is administered by our Nomination and Compensation Committee of the board of directors. The Nomination and Compensation Committee of the board of directors has the authority to determine the individuals who will receive grants, the type of grant, the number of shares subject to the grant, the terms of the grant, the time the grants will be made, the duration of any exercise or restriction period, and to deal with any other matters arising under the Plan. Our board of directors may amend or terminate the Plan at any time if required under the Plan, subject to shareholders' approval.



Vesting occurs on the following schedule: (a) 25% on the grant date and (b) 25% on each anniversary of the grant date

Total compensation cost for share-based payment arrangement recognized for the years ended December 31, 2012, 2013 and 2014 were RMB5.8 million, RMB1.5 million and RMB3.3 million (US\$0.5 million), respectively.

As of December 31, 2014, the total compensation cost related to stock options and restricted shares not yet recognized were RMB3.5 million (US\$0.6 million) and RMB2.9 million (US\$0.5 million), respectively, which are expected to be recognized over a weighted average period of 2.82 years and 2.76 years, respectively.

C. Board Practices

See information provided in response to Item 6.A. above as to the current directors and the expiration of current director terms.

Board of Directors and Board Committees

Our board of directors presently consists of seven members. There are no family relationships between any of our executive officers and directors.

The directors are divided into three classes. Class I directors shall face re-election at our annual general meeting of shareholders in 2015 and every three years thereafter. Class II directors shall face re-election at our annual general meeting of shareholders in 2016 and every three years thereafter. Class III directors shall face re-election at our annual general meeting of shareholders in 2017 and every three years thereafter.

If the number of directors changes, any increase or decrease will be apportioned among the classes so as to maintain the number of directors in each class as nearly as possible. Any additional directors of a class elected to fill a vacancy resulting from an increase in such class will hold office for a term that coincides with the remaining term of that class. Decreases in the number of directors will not shorten the term of any incumbent director. These board provisions could make it more difficult for third parties to gain control of our company by making it difficult to replace members of the Board of Directors.

A director may vote in respect of any contract or transaction in which he is interested, provided, however that the nature of the interest of any director in any such contract or transaction shall be disclosed by him at or prior to its consideration and any vote on that matter. A general notice or disclosure to the directors or otherwise contained in the minutes of a meeting or a written resolution of the directors or any committee thereof that a director is a shareholder of any specified firm or company and is to be regarded as interested in any transaction with such firm or company shall be sufficient disclosure and after such general notice it shall not be necessary to give special notice relating to any particular transaction.

There are no membership qualifications for directors. Further, there are no share ownership qualifications for directors unless so fixed by us in a general meeting. Our independent directors do not have any service contracts with our Company that provide for benefits upon termination of service.

Currently, three committees have been established under the board: the audit committee, the compensation committee and the corporate governance committee. The audit committee is responsible for overseeing the accounting and financial reporting processes of our company and audits of the financial statements of our company, including the appointment, compensation and oversight of the work of our independent auditors. For the fiscal year ended 2014, the audit committee consisted of Mr. Ren, Mr. Dai and Mr. Laing. The audit committee presently consists of Mr. Zhang, Mr. Dai and Mr. Zhou.

The compensation committee of the board of directors reviews and makes recommendations to the board regarding our compensation policies for our officers and all other forms of compensation, and also administers our incentive compensation plans and equity-based plans (but our board retains the authority to interpret those plans). For the fiscal year ended 2014, the compensation committee consisted of Mr. Dai, Mr. Ren and Mr. Zhu. The compensation committee presently consists of Mr. Dai, Mr. Zhu and Mr. Zhou.

The corporate governance committee of the board of directors is responsible for the assessment of the performance of the board, considering and making recommendations to the board with respect to the nominations or elections of directors and other governance issues. For the fiscal year ended 2014, the corporate governance committee consisted of Mr. Zhu, Mr. Ren and Mr. Dai. The corporate governance committee presently consists of Mr. Zhu, Mr. Zhang and Mr. Zhou.

There are no other arrangements or understandings pursuant to which our directors are selected or nominated.

There are no family relationships among any of the persons named above, and there are no arrangements or understandings with major shareholders, customers, suppliers or others, pursuant to which any such person was selected as a director or member of senior management.

#### D. Employees

As of December 31, 2014, we had 744 employees, all of whom were based in China. We believe that our relations with our employees are good. We have never had a work stoppage, and our employees are not subject to a collective bargaining agreement. As of December 31, 2014, 2013 and 2012, we had 744, 890 and 822 employees, respectively.

	December 31,		
	2012	December 31, 2013	December 31, 2014
Total	822	890	744
General & Administrative	71	84	60
Sales & Marketing	85	102	74
Research & Development	144	165	159
Software Development & Services	522	539	451

#### E. Share Ownership

The following table sets forth information with respect to beneficial ownership of our ordinary shares and options as of the date of this annual report, for all of our executive officers and directors individually. Beneficial ownership is determined in accordance with the rules of the SEC and includes voting or investment power with respect to the securities. Except as indicated below, and subject to applicable community property laws, the persons named in the table have sole voting and investment power with respect to all ordinary shares shown as beneficially owned by them. The number of our ordinary shares outstanding used in calculating the percentage for each listed person includes our ordinary shares underlying options held by such persons, but excludes ordinary shares underlying options held by any other person. Percentage of beneficial ownership is based on 5,413,091 ordinary shares, which includes 4,791,376 ordinary shares currently outstanding and 621,715 restricted shares and options to purchase ordinary shares which have vested or will vest within 60 days. These shareholders do not possess voting rights that differ from our other shareholders.

	Amount of Beneficial Ownership (1)	Percentage Ownership (2)	
Adam Yan (3)	750,282	13.86	%
David Ren (4)	250,000	4.62	%
Ping Yu (5)	122,000	2.25	%
Dehong Yang (6)	67,500	1.25	%
Gene Xia	*	*	
Qicheng Yang (7)	58,944	1.09	%
HongjunZou (8)	187,908	3.47	%
ZengqiangLan (9)	170,000	3.14	%
Deliang Tong	*	*	
John Dai	*	*	
Ming Zhu	*	*	

Edgar Filing: eFuture Information Technology Inc. - Form 20-F

All directors and executive officers as a group (11 people) (10)	1,678,334	31.01	%
--	-----------	-------	---

\* Less than 1%.

- (1) Beneficial ownership is determined in accordance with the rules of the SEC and includes voting or investment power with respect to the ordinary share.
- (2) The number of our ordinary shares outstanding used in calculating the percentage for each listed person includes the ordinary shares underlying currently exercisable options held by such person.

61

---

- (3) Includes (i) 591,427 ordinary shares; (ii) 152,604 ordinary shares through eFutureInc, whose beneficial owner is Adam Yan; (iii) currently exercisable 6,250 vested restricted shares held in the brokerage account of the administrator of the issuer's share incentive plan.
- (4) Includes 250,000 ordinary shares.
- (5) Includes (i) 100,000 ordinary shares; (ii) currently exercisable 22,000 vested restricted shares held in the brokerage account of the administrator of the issuer's share incentive plan.
- (6) Includes (i) 10,000 ordinary shares; (ii) currently exercisable 57,500 vested restricted shares held in the brokerage account of the administrator of the issuer's share incentive plan.
- (7) Includes (i) 37,444 ordinary shares; (ii) currently exercisable 21,500 vested restricted shares held in the brokerage account of the administrator of the issuer's share incentive plan.
- (8) Includes (i) 164,043 ordinary shares; (ii) currently exercisable 23,865 vested restricted shares held in the brokerage account of the administrator of the issuer's share incentive plan.
- (9) Includes (i) 150,000 ordinary shares; (ii) currently exercisable 20,000 vested restricted shares and options held in the brokerage account of the administrator of the issuer's share incentive plan.
- (10) Includes (i) 1,466,219 ordinary shares; (ii) currently exercisable 212,115 vested restricted shares and options held in the brokerage account of the administrator of the issuer's share incentive plan.

#### Share Incentive Plan

As of December 31, 2014, we had four share incentive plans in effect. No share was reserved under our 2009 Share Incentive Plan, 9,866 shares were reserved under our 2011 Share Incentive Plan and 49,000 shares were reserved under our 2013 Share Incentive Plan. The following table displays the number of shares outstanding under each plan that have been granted and the number remaining under each plan as of the date of filing.

	2009 Share Incentive Plan	2011 Share Incentive Plan	2013 Share Incentive Plan
Shares Granted under Plan (1)	332,000	383,879	338,454
Remaining Shares Available under Plan(2)	-	9,866	49,000
Total	332,000	393,745	387,454

(1) Includes only those shares (including those underlying warrants or options) that were granted and remain outstanding as of the date of filing. Does not include shares (including those underlying warrants or options) that were granted and subsequently reverted back to the incentive plan upon forfeiture or expiration.

(2) Includes shares (including those underlying warrants or options) that were granted and subsequently reverted back to the incentive plan upon forfeiture or expiration.

#### Item 7. Major Shareholders and Related Party Transactions

##### A. Major Shareholders



The following table sets forth information with respect to beneficial ownership of our ordinary shares and options as of the date of this annual report, for all of our executive officers and directors individually. Beneficial ownership is determined in accordance with the rules of the SEC and includes voting or investment power with respect to the securities. Except as indicated below, and subject to applicable community property laws, the persons named in the table have sole voting and investment power with respect to all ordinary shares shown as beneficially owned by them. The number of our ordinary shares outstanding used in calculating the percentage for each listed person includes our ordinary shares underlying options held by such persons, but excludes ordinary shares underlying options held by any other person. Percentage of beneficial ownership is based on 5,413,091 ordinary shares, which includes 4,791,376 ordinary shares currently outstanding and 621,715 restricted shares and options to purchase ordinary shares which have vested or will vest within 60 days. These shareholders do not possess voting rights that differ from our other shareholders.

	Amount of Beneficial Ownership (1)	Percentage Ownership (2)	
Adam Yan (3)	750,282	13.86	%
Zhu-Xu 2006 Charitable Remainder Unitrust	397,175	7.34	%

(1) Beneficial ownership is determined in accordance with the rules of the SEC and includes voting or investment power with respect to the ordinary shares.

(2) The number of our ordinary shares outstanding used in calculating the percentage for each listed person includes the ordinary shares underlying options held by such person.

(3) Includes (1) 591,427 ordinary shares; (2) 152,604 ordinary shares through eFuture Inc, whose beneficial owner is Adam Yan; (3) currently exercisable 6,250 vested restricted shares held in the brokerage account of the administrator of the issuer's 2009 share incentive plan.

B. Related Party Transactions

The Company did not enter into any related party transactions in the year ended December 31, 2014.

C. Interests of Experts and Counsel

Not applicable.

Item 8. Financial Information

A. Consolidated Statements and Other Financial Information

The consolidated financial statements of eFuture Information Technology Inc. are included at the end of this annual report, beginning with page F-1.

Legal and Administrative Proceedings

On October 19, 2011, the plaintiff, Microsoft Corporation, filed four software copyright infringement claims against eFuture Beijing at Wuhan Intermediate People's Court. On December 4, 2012, the Wuhan Intermediate People's Court rendered four court judgments against eFuture Beijing. The four court judgments awarded Microsoft monetary damages as well as reimbursement of the legal expenses and reasonable expenses of RMB3,944,898 in total. On March 28, 2013, eFuture Beijing entered into a confidential dispute settlement (the "Settlement Agreement") with Microsoft Corporation in respect to Microsoft's claims of product infringement against the Company. The settlement resolved all claims between the parties and the amount of the settlement was lower than the judgment previously awarded to Microsoft Corporation. We do not believe its obligations under the Settlement Agreement will have a material adverse effect on our business, operations or financial results. The Company made provision of such obligations under the Settlement Agreement as of December 31, 2012.

Other than as described above, we are not currently a party to any material litigation or other legal proceedings brought against us. We are also not aware of any legal proceedings, investigation or claim, or other legal exposure that has a more than remote possibility of having a material adverse effect on our business, financial condition or results of operations. From time to time we may be subject to legal proceedings, investigations and claims incidental to the conduct of our business from time to time.

B. Significant Changes

The Company completed a private placement sale of 798,000 ordinary shares to Mr. Adam Yan, Chairman, Mr. David Ren, Chief Executive Officer, Ms. Ping Yu, Chief Finance Officer and other individuals for US\$3.2 million (or \$ 4.0345 per share) in cash on April 13, 2015. For further details, please refer to the Form 6-K filed on April 20, 2015. Other than disclosed as described above, we have not experienced any significant changes since the date of our audited consolidated financial statements included in this annual report.

Item 9. The Offer and Listing

A. Offer and Listing Details

Our ordinary shares are listed on the NASDAQ Capital Market under the symbol "EFUT." The following table sets forth the high and low market prices for (i) the Company's most recent five fiscal years, (ii) the quarterly periods for the Company's last two fiscal years and the first two quarters of 2013, and (iii) the most recent six months on a monthly basis.



Full Financial Years	Low	High
January 1, 2014 – December 31, 2014	\$3.22	\$6.25
January 1, 2013 – December 31, 2013	\$2.55	\$4.87
January 1, 2012 – December 31, 2012	\$3.06	\$5.24
January 1, 2011 – December 31, 2011	\$3.18	\$6.05
January 1, 2010 – December 31, 2010	\$4.35	\$7.39
Fiscal Quarters	Low	High
April 1, 2015 – April 21, 2015	\$3.96	\$4.47
January 1, 2015 – March 31, 2015	\$3.76	\$4.70
October 1, 2014 – December 31, 2014	\$3.87	\$4.60
July 1, 2014 – September 30, 2014	\$3.90	\$5.18
April 1, 2014 – June 30, 2014	\$3.22	\$5.99
January 1, 2014 – March 31, 2014	\$4.44	\$6.25
October 1, 2013 – December 31, 2013	\$3.52	\$4.87
July 1, 2013 – September 30, 2013	\$2.55	\$4.16
April 1, 2013 – June 30, 2013	\$2.56	\$3.53
January 1, 2013 – March 31, 2013	\$2.91	\$4.19
Monthly	Low	High
April 2015 (through April 21, 2014)	\$3.96	\$4.47
March 2015	\$3.88	\$4.70
February 2015	\$3.84	\$4.20
January 2015	\$3.76	\$4.22
December 2014	\$4.22	\$4.50
November 2014	\$3.91	\$4.52

B. Plan of Distribution

Not applicable.

C. Markets

Our ordinary shares are listed on the NASDAQ Capital Market under the symbol “EFUT.”

D. Selling Shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expenses of the Issue

Not applicable.

Item 10. Additional Information

A. Share Capital

Not applicable.

B. Memorandum and Articles of Association

The information required by this item is incorporated by reference to the material headed "Description of Share Capital" in our Registration Statement on Form F-1, File No. 333-126007, as filed with the SEC.

64

---

C. Material Contracts

We have not entered into any material contracts other than in the ordinary course of business and other than those described in Item 4, "Information on the Company".

D. Exchange Controls

Exchange Controls in China

The principal regulations governing foreign currency exchange in China are the Foreign Exchange Administration Regulations (1996), as amended in 2007 and 2008, and the Administration Rules of the Settlement, Sale and Payment of Foreign Exchange (1996). Under these regulations, Renminbi are freely convertible for current account items, including the distribution of dividends, interest payments, trade and service-related foreign exchange transactions, but not for most capital account items, such as direct investment, loan, repatriation of investment and investment in securities outside China, unless the prior approval of SAFE or its local counterparts is obtained. In addition, any loans to an operating subsidiary in China that is a foreign invested enterprise, cannot, in the aggregate, exceed the difference between its respective approved total investment amount and its respective approved registered capital amount. Furthermore, any foreign loan must be registered with SAFE or its local counterparts for the loan to be effective. Any increase in the amount of the total investment and registered capital must be approved by the PRC Ministry of Commerce or its local counterpart. We may not be able to obtain these government approvals or registrations on a timely basis, if at all, which could result in a delay in the process of making these loans.

The dividends paid by the subsidiary to its shareholder are deemed shareholder income and are taxable in China. Pursuant to the Administration Rules of the Settlement, Sale and Payment of Foreign Exchange (1996), foreign-invested enterprises in China may purchase or remit foreign exchange, subject to a cap approved by SAFE, for settlement of current account transactions without the approval of SAFE. Foreign exchange transactions under the capital account are still subject to limitations and require approvals from, or registration with, SAFE and other relevant PRC governmental authorities.

Dividend Distribution

The principal regulations governing the distribution of dividends by foreign holding companies include the Foreign Investment Enterprise Law (1986), as amended, and the Administrative Rules under the Foreign Investment Enterprise Law (2001).

Under these regulations, foreign investment enterprises in China may pay dividends only out of their retained profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, foreign investment enterprises in China are required to allocate at least 10% of their respective retained profits each year, if any, to fund certain reserve funds unless these reserves have reached 50% of the registered capital of the enterprises. These reserves are not distributable as cash dividends.

Notice 75

On October 21, 2005, SAFE issued Notice 75, which became effective as of November 1, 2005. According to Notice 75, prior registration with the local SAFE branch is required for PRC residents to establish or to control an offshore company for the purposes of financing that offshore company with assets or equity interests in an onshore enterprise located in the PRC. An amendment to registration or filing with the local SAFE branch by such PRC resident is also required for the injection of equity interests or assets of an onshore enterprise in the offshore company or overseas funds raised by such offshore company, or any other material change involving a change in the capital of the offshore company.



Moreover, Notice 75 applies retroactively. As a result, PRC residents who have established or acquired control of offshore companies that have made onshore investments in the PRC in the past are required to complete the relevant registration procedures with the local SAFE branch by March 31, 2006. Under the relevant rules, failure to comply with the registration procedures set forth in Notice 75 may result in restrictions being imposed on the foreign exchange activities of the relevant onshore company, including the increase of its registered capital, the payment of dividends and other distributions to its offshore parent or affiliate and capital inflow from the offshore entity, and may also subject relevant PRC residents to penalties under PRC foreign exchange administration regulations.

PRC residents who control our company are required to register with SAFE in connection with their investments in us. Such individuals completed this registration in 2007. If we use our equity interest to purchase the assets or equity interest of a PRC company owned by PRC residents in the future, such PRC residents will be subject to the registration procedures described in Notice 75.

#### New M&A Regulations and Overseas Listings

On August 8, 2006, six PRC regulatory agencies, including the Ministry of Commerce, the State Assets Supervision and Administration Commission, the State Administration for Taxation, the State Administration for Industry and Commerce, CSRC and SAFE, jointly issued the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, or the New M&A Rule, which became effective on September 8, 2006. This New M&A Rule, among other things, includes provisions that purport to require that an offshore special purpose vehicle formed for purposes of overseas listing of equity interests in PRC companies and controlled directly or indirectly by PRC companies or individuals obtain the approval of CSRC prior to the listing and trading of such special purpose vehicle's securities on an overseas stock exchange.

On September 21, 2006, CSRC published on its official website procedures regarding its approval of overseas listings by special purpose vehicles. The CSRC approval procedures require the filing of a number of documents with the CSRC and it would take several months to complete the approval process. The application of this new PRC regulation remains unclear with no consensus currently existing among leading PRC law firms regarding the scope of the applicability of the CSRC approval requirement.

#### E. Taxation

##### Cayman Islands Taxation

The Cayman Islands currently levies no taxes on individuals or corporations based upon profits, income, gains or appreciation and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to our company levied by the Government of the Cayman Islands except for stamp duties which may be applicable on instruments executed in, or after execution brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties. There are no exchange control regulations or currency restrictions in the Cayman Islands.

Pursuant to Section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, we have obtained an undertaking from the Governor-in-Council:

- that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to us or our operations; and
- that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on the shares, debentures or other of our obligations.



The undertaking for us is for a period of twenty years from December 19, 2000.

#### United States Federal Income Taxation

The following is a summary of material United States federal income tax consequences under present law relating to the purchase, ownership, and disposition of our ordinary shares. This description does not provide a complete analysis of all potential tax consequences. The information provided below is based on the Internal Revenue Code of 1986, as amended, or the Code, Treasury Regulations, proposed Treasury Regulations, Internal Revenue Service, or the IRS, published rulings and court decisions, all as of the date hereof. These authorities may change, possibly on a retroactive basis, or the IRS might interpret the existing authorities differently. In either case, the tax consequences of purchasing, owning or disposing of ordinary shares could differ from those described below. We do not intend to obtain a ruling from the IRS with respect to the tax consequences of acquiring or holding the ordinary shares.

This description is general in nature and does not discuss all aspects of U.S. federal income taxation that may be relevant to a particular investor in light of the investor's particular circumstances, or to certain types of investors subject to special treatment under U.S. federal income tax laws, such as:

- banks or financial institutions;
- life insurance companies;
- tax-exempt organizations;
- dealers in securities or foreign currencies;
- traders in securities that elect to apply a mark-to-market method of accounting;
- persons holding ordinary shares as part of a position in a "straddle" or as part of a "hedging," "conversion" or "integrated" transaction for U.S. federal income tax purposes;
- persons subject to the alternative minimum tax provisions of the Code; and
- persons that have a "functional currency" other than the U.S. dollar.

This description generally applies to purchasers of our ordinary shares as capital assets. This description does not consider the effect of any foreign, state, local or other tax laws that may be applicable to particular investors.

Investors considering the purchase of ordinary shares should consult their own tax advisors regarding the application of the U.S. federal income tax laws to their particular situations and the consequences of U.S. federal estate or gift tax laws, foreign, state, or local laws, and tax treaties.

#### U.S. Holders

As used herein, the term "U.S. Holder" means a beneficial owner of ordinary shares that is:

- a citizen or resident of the U.S. or someone treated as a U.S. citizen or resident for U.S. federal income tax purposes;
- a corporation or other entity taxable as a corporation for U.S. federal income tax purposes organized in or under the laws of the U.S. or any political subdivision thereof;
- an estate the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust, if such trust validly elects to be treated as a U.S. person for U.S. federal income tax purposes, or if (a) a court within the U.S. can exercise primary supervision over its administration and (b) one or more U.S. persons have the authority to control all of the substantial decisions of such trust.

If a partnership (including for this purpose any entity treated as a partnership for U.S. tax purposes) is a beneficial owner of the ordinary shares, the U.S. tax treatment of a partner in the partnership will generally depend on the status of the partner and the activities of the partnership. A holder of the ordinary shares that is a partnership and partners in such partnership should consult their individual tax advisors about the U.S. federal income tax consequences of holding and disposing of the ordinary shares.

If you are not a U.S. Holder, this subsection does not apply to you and you should refer to “Non-U.S. Holders” below.

#### Taxation of Dividends and Other Distributions on Ordinary shares

Subject to the passive foreign investment company rules discussed below, all distributions to a U.S. Holder with respect to the ordinary shares, other than certain pro rata distributions of our shares, will be includible in a U.S. Holder’s gross income as ordinary dividend income when received, but only to the extent that the distribution is paid out of our current or accumulated earnings and profits. For this purpose, earnings and profits will be computed under U.S. federal income tax principles. The dividends will not be eligible for the dividends-received deduction allowed to corporations. To the extent that the amount of the distribution exceeds our current and accumulated earnings and profits, it will be treated first as a tax-free return of the tax basis in the ordinary shares, and to the extent the amount of the distribution exceeds the U.S. Holder’s tax basis, the excess will be taxed as capital gain. Any gain recognized by a non-corporate U.S. Holder on the sale or exchange of ordinary shares generally will be subject to a maximum tax rate of 15%, which maximum tax rate will increase under current law to 20% for dispositions occurring during taxable years beginning on or after January 1, 2009.

Dividends paid in Renminbi will be included in your income as a U.S. dollar amount based on the exchange rate in effect on the date that the U.S. Holder receives the dividend, regardless of whether the payment is in fact converted into U.S. dollars. If the U.S. Holder does not receive U.S. dollars on the date the dividend is distributed, the U.S. Holder will be required to include either gain or loss in income when the U.S. Holder later exchanges the Renminbi for U.S. dollars. The gain or loss will be equal to the difference between the U.S. dollar value of the amount that the U.S. Holder includes in income when the dividend is received and the amount that the U.S. Holder receives on the exchange of the Renminbi for U.S. dollars. The gain or loss generally will be ordinary income or loss from United States sources. If we distribute as a dividend non-cash property, the U.S. Holder will generally include in income an amount equal to the U.S. dollar equivalent of the fair market value of the property on the date that it is distributed.

Dividends will constitute foreign source income for foreign tax credit limitation purposes. The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. For this purpose, dividends distributed by us with respect to the ordinary shares will be “passive income” or, in the case of certain U.S. Holders, “financial services income.” In particular circumstances, a U.S. Holder that:

- has held the ordinary shares for less than a specified minimum period during which it is not protected from risk of loss,
- is obligated to make payments related to the dividends, or
- holds the ordinary shares in arrangements in which the U.S. Holder’s expected economic profit, after non-U.S. taxes, is insubstantial will not be allowed a foreign tax credit for foreign taxes imposed on dividends paid on the ordinary shares.

Distributions to a U.S. Holder of shares or rights to subscribe for shares that are received as part of a pro rata distribution to all our shareholders should not be subject to U.S. federal income tax. The basis of the new shares or rights so received will be determined by allocating the U.S. Holder’s tax basis in the ordinary shares between the ordinary shares and the new shares or rights received, based on their relative fair market values on the date of distribution. However, the basis of the new shares or rights will be zero if:

- the fair market value of the new shares or rights is less than 15.0% of the fair market value of the old ordinary shares at the time of distribution; and
- the U.S. Holder does not make an election to determine the basis of the new shares by allocation as described above.

The U.S. Holder's holding period in the new shares or rights will generally include the holding period of the old ordinary shares on which the distribution was made.

## Taxation of Disposition of Ordinary shares

Subject to the passive foreign investment company rules discussed below, a U.S. Holder will recognize taxable gain or loss on any sale or exchange of ordinary shares equal to the difference between the amount realized (in U.S. dollars) for the ordinary shares and the U.S. Holder's tax basis (in U.S. dollars) in the ordinary shares. The gain or loss will be capital gain or loss. Any gain or loss that you recognize will generally be treated as United States source income or loss, except that losses will be treated as foreign source losses to the extent you received dividends that were includible in the financial services income basket during the 24-month period prior to the sale. If the ordinary shares are not stock in a passive foreign investment company with respect to a U.S. Holder in either the taxable year of the distribution or the preceding taxable year, the distribution otherwise constitutes qualified dividend income for United States federal income tax purposes, certain holding period and other requirements are met, and the distribution is received in a taxable year beginning prior to January 1, 2009, the distribution will be taxable to a non-corporate U.S. Holder at a maximum rate of 15%.

## Passive Foreign Investment Company

We believe that we are not a passive foreign investment company for U.S. federal income tax purposes, but we cannot be certain whether we will be treated as a passive foreign investment company for any future taxable year. If we are a passive foreign investment company in any year in which a U.S. Holder holds ordinary shares, the U.S. Holder generally will be subject to increased U.S. tax liabilities and reporting requirements on receipt of certain dividends or on a disposition of ordinary shares, in that year and all subsequent years although a shareholder election to terminate such deemed passive foreign investment company status may be made in certain circumstances. U.S. Holders should consult their own tax advisors regarding our status as a passive foreign investment company, the consequences of an investment in a passive foreign investment company, and the consequences of making a shareholder election to terminate deemed passive foreign investment company status if we no longer meet the income or asset test for passive foreign investment company status in a subsequent taxable year.

A company is considered a passive foreign investment company for any taxable year if either:

- at least 75.0% of its gross income is passive income, or
- at least 50.0% of the value of its assets (based on an average of the quarterly values of the assets during a taxable year) is attributable to assets that produce or are held for the production of passive income.

We will be treated as owning our proportionate share of the assets and earning our proportionate share of the income of any other corporation in which we own, directly or indirectly, more than 25.0% (by value) of the stock of such corporation.

Our belief that we are not a passive foreign investment company is based on our estimate of the fair market value of our intangible assets, including goodwill, not reflected in our financial statements under US GAAP. In the future, in calculating the value of these intangible assets, we will value our total assets, in part, based on our total market value determined using the average of the quarterly selling prices of the ordinary shares for the relevant year. We believe this valuation approach is reasonable. However, it is possible that the IRS will challenge the valuation of our intangible assets, which may result in our classification as a passive foreign investment company. In addition, if our actual acquisitions and capital expenditures do not match our projections, the likelihood that we are or will be classified as a passive foreign investment company may also increase.

A separate determination must be made each year as to whether we are a passive foreign investment company. As a result, our passive foreign investment company status may change.

If we are a passive foreign investment company for any taxable year during which a U.S. Holder holds ordinary shares, the U.S. Holder will be subject to special tax rules with respect to:

- Any “excess distribution” that the U.S. Holder receives on ordinary shares, and
- Any gain the U.S. Holder realizes from a sale or other disposition (including a pledge) of the ordinary shares, unless the U.S. Holder makes a “mark-to-market” election as discussed below.

Distributions the U.S. Holder receives in a taxable year that are greater than 125% of the average annual distributions the U.S. Holder received during the shorter of the three preceding taxable years or the U.S. Holder's holding period for the ordinary shares will be treated as an excess distribution. Under these special tax rules:

- the excess distribution or gain will be allocated ratably over your holding period for the ordinary shares,
- the amount allocated to the current taxable year, and any taxable year prior to the first taxable year in which we were a passive foreign investment company, will be treated as ordinary income, and
- the amount allocated to each other year will be subject to tax at the highest tax rate in effect for that year and the interest charge generally applicable to underpayments of tax will be imposed on the resulting tax attributable to each such year.

The tax liability for amounts allocated to years prior to the year of disposition or "excess distribution" cannot be offset by any net operating losses, and gains (but not losses) realized on the sale of the ordinary shares cannot be treated as capital, even if the U.S. Holder holds the ordinary shares as capital assets.

A U.S. shareholder of a passive foreign investment company may avoid taxation under the excess distribution rules discussed above by making a "qualified electing fund" election to include the U.S. Holder's share of our income on a current basis. However, a U.S. Holder may make a qualified electing fund election only if the passive foreign investment company agrees to furnish the shareholder annually with certain tax information, and we do not presently intend to prepare or provide such information.

Alternatively, a U.S. Holder of "marketable stock" in a passive foreign investment company may make a mark-to-market election for stock of a passive foreign investment company to elect out of the excess distribution rules discussed above. If a U.S. Holder makes a mark-to-market election for the ordinary shares, the U.S. Holder will include in income each year an amount equal to the excess, if any, of the fair market value of the ordinary shares as of the close of your taxable year over the U.S. Holder's adjusted basis in such ordinary shares. A U.S. Holder is allowed a deduction for the excess, if any, of the adjusted basis of the ordinary shares over their fair market value as of the close of the taxable year only to the extent of any net mark-to-market gains on the ordinary shares included in the U.S. Holder's income for prior taxable years. Amounts included in a U.S. Holder's income under a mark-to-market election, as well as gain on the actual sale or other disposition of the ordinary shares, are treated as ordinary income. Ordinary loss treatment also applies to the deductible portion of any mark-to-market loss on the ordinary shares, as well as to any loss realized on the actual sale or disposition of the ordinary shares, to the extent that the amount of such loss does not exceed the net mark-to-market gains previously included for such ordinary shares. A U.S. Holder's basis in the ordinary shares will be adjusted to reflect any such income or loss amounts. The tax rules that apply to distributions by corporations which are not passive foreign investment companies would apply to distributions by us.

The mark-to-market election is available only for stock which is regularly traded on a national securities exchange that is registered with the SEC or on NASDAQ, or an exchange or market that the U.S. Secretary of the Treasury determines has rules sufficient to ensure that the market price represents a legitimate and sound fair market value. The mark-to-market election would be available to a U.S. Holder unless our ordinary shares are delisted from The NASDAQ Capital Market and do not subsequently become regularly traded on another qualified exchange or market.

A U.S. Holder who holds our ordinary shares in any year in which we are a passive foreign investment company would be required to file IRS Form 8621 regarding distributions received on our ordinary shares and any gain realized on the disposition of our ordinary shares.

Non-U.S. Holders

A Non-U.S. Holder generally will not be subject to U.S. federal income tax on dividends paid by us with respect to our ordinary shares unless the income is effectively connected with the Non-U.S. Holder's conduct of a trade or business in the United States.

70

---



A Non-U.S. Holder generally will not be subject to U.S. federal income tax on any gain attributable to a sale or other disposition of our ordinary shares unless such gain is effectively connected with the Non-U.S. Holder's conduct of a trade or business within the United States or the Non-U.S. Holder is a natural person who is present in the United States for 183 days or more and certain other conditions exist.

Dividends and gains that are effectively connected with a Non-U.S. Holder's conduct of a trade or business in the United States generally will be subject to tax in the same manner as they would be if the Non-U.S. Holder were a U.S. Holder, except that the passive foreign investment company rules will not apply. Effectively connected dividends and gains received by a corporate Non-U.S. Holder may also be subject to an additional branch profits tax at a 30.0% rate or a lower tax treaty rate.

#### Information Reporting and Backup Withholding

In general, information reporting requirements will apply to dividends in respect of our ordinary shares or the proceeds received on the sale, exchange or redemption of our ordinary shares paid within the United States (and, in certain cases, outside the United States) to U.S. Holders other than certain exempt recipients, such as corporations, and backup withholding tax may apply to such amounts if the U.S. Holder fails to provide an accurate taxpayer identification number or to report interest and dividends required to be shown on its U.S. federal income tax returns. The amount of any backup withholding from a payment to a U.S. Holder will be allowed as credit against the U.S. Holder's U.S. federal income tax liability provided that the appropriate returns are filed.

A Non-U.S. Holder generally may eliminate the requirement for information reporting and backup withholding by providing certification of its foreign status to the payer, under penalties of perjury, on IRS Form W-8BEN.

#### F. Dividends and Paying Agents

Not applicable.

#### G. Statement by Experts

Not applicable.

#### H. Documents on Display

We have filed this Annual Report on Form 20-F with the SEC under the Exchange Act. Statements made in this Annual Report as to the contents of any document referred to are not necessarily complete. With respect to each such document filed as an exhibit to this Annual Report, reference is made to the exhibit for a more complete description of the matter involved, and each such statement shall be deemed qualified in its entirety by such reference.

We are subject to the information requirements of the Exchange Act. In accordance with these requirements, the Company files reports and other information with the SEC. You may read and copy any materials filed with the SEC at the Public Reference Room at 100 F Street, N.E., Washington, D.C.20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains a web site at <http://www.sec.gov> that contains reports, proxy statements and other information regarding registrants that file electronically with the SEC.

As a foreign private issuer, we are exempt from the rules under the Exchange Act prescribing the furnishing and content of quarterly reports and proxy statements, and officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act.

I. Subsidiary Information

Not applicable.

71

---

Item 11. Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Risk

Our exposure to market risk for changes in interest rates relates primarily to the interest income generated by our cash deposits in banks and interest expense arising from our short-term bank borrowings that we incur in our ordinary course of business. We have not used derivative financial instruments in our investment portfolio. Interest-earning instruments and floating rate debt carry a degree of interest rate risk. We have not been exposed, nor do we anticipate being exposed, to material risks due to changes in interest rates. Our future interest income may fluctuate in line with changes in interest rates. However, the risk associated with fluctuating interest rates is principally confined to our cash deposits in banks, and, therefore, our exposure to interest rate risk is minimal and immaterial.

Foreign Exchange Risk

Virtually all of our revenues and costs are denominated in Renminbi and substantially all of our assets and liabilities are denominated in Renminbi. As a result, we are exposed to foreign exchange risk as our revenues and results of operations may be impacted by fluctuations in the exchange rate between U.S. dollars and Renminbi. We have not hedged exposures denominated in foreign currencies using any derivative financial instruments. Any significant revaluation of RMB against the U.S. dollar may materially affect our revenues, earnings and financial position in U.S. dollars. The RMB appreciated by 2.8% and depreciated by 2.4% against the U.S. dollar in 2013 and 2014, respectively, and the exchange rate between the RMB and the U.S. dollar was relatively stable in 2012. If the Renminbi appreciates or depreciates against the U.S. dollar, the value of our Renminbi revenues and assets as expressed in U.S. dollars in our financial statements will be subject to change. See “Risk Factors — Fluctuation of the Renminbi could materially affect our financial condition and results of operations.”

Inflation

Inflation in China has not had a material impact on our results of operations in recent years. According to the National Bureau of Statistics of China, the change in the Consumer Price Index in China was 2.6%, 2.6% and 2.0% in 2012, 2013 and 2014, respectively. The Chinese government may introduce measures in the future intended to reduce the inflation rate in China. We cannot assure you that these measures will not have a significant impact on our business. Any such measures may not be successful or immediately effective in reducing or slowing the increase in China’s inflation rate. Sustained or increased inflation in China may have an impact on China’s economy and our customers, which may adversely affect our business and financial results.

Taxation

The Company is incorporated in the Cayman Islands and conducts its primary business operations through the subsidiary and VIEs in the PRC. Under the current laws of the Cayman Islands and BVI, the Company is not subject to tax on income or capital gains. Additionally, upon payments of dividends by the Company to its shareholders, no Cayman Islands and BVI withholding tax will be imposed.

According to the PRC Corporate Income Tax Law, or the CIT Law, which became effective on January 1, 2008, as further clarified by subsequent tax regulations implementing the CIT Law, foreign-invested enterprises and domestic enterprises are subject to corporate income tax, at a uniform rate of 25%. The CIT rate of enterprises established before March 16, 2007 that were eligible for preferential tax rates according to the effective tax laws and regulations gradually transitioned to the uniform 25% CIT rate by January 1, 2013. In addition, certain enterprises may still benefit from a preferential tax rate of 15% under the CIT Law if they qualify as “high and new technology enterprises strongly supported by the state,” subject to certain general factors described in the CIT Law and the related regulations.

In December 2008, our subsidiary eFuture Beijing was designated as “High and New Technology Enterprises” under the CIT Law, which entitles it to a preferential enterprise income tax rate of 15% from 2008 to 2014. eFuture Hainan was subject to a 25% tax rate in 2014.

The CIT Law treats enterprises established outside of China with “effective management and control” located in China as PRC resident enterprises for tax purposes. The term “effective management and control” is generally defined as exercising overall management and control over the business, personnel, accounting, properties, etc. of an enterprise. The Company, if considered a PRC resident enterprise for tax purposes, would be subject to the PRC CIT at the rate of 25% on its worldwide income for the period after January 1, 2008. As of December 31, 2014, the Company has not accrued for PRC tax on such basis. The Company will continue to monitor its tax status.

Item 12. Description of Securities Other than Equity Securities

Not applicable.

PART II

Item 13. Defaults, Dividend Arrearages and Delinquencies

None.

Item 14. Material Modifications to the Rights of Securities Holders and Use of Proceeds

None.

Item 15. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Because of their inherent limitations, disclosure controls and procedures and internal control over financial reporting may not prevent or detect misstatements. In addition, projections of any evaluation of the effectiveness of such disclosure controls and procedures and internal control over financial reporting to future periods are subject to the risk that such procedures and controls may become inadequate because of changes in conditions, or that the degree of compliance with such policies and procedures may deteriorate.

As required by Rule 13a-15 (b) under the Securities Exchange Act, our management has carried out an evaluation under the supervision of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the period covered by this report.

Based upon that evaluation, our management has concluded that as of December 31, 2014, our disclosure controls and procedures were effective in ensuring that the information required to be disclosed by us in the reports that we file and furnish under the Exchange Act was recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control over financial reporting is a process designed under the supervision of our Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles.

Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2014. In making this assessment, management used the framework set forth in the report entitled "Internal Control - Integrated Framework" issued in 1992 by the Committee of Sponsoring Organizations of the Treadway Commission, or COSO. The COSO framework summarizes each of the components of a company's internal control system, including (i) the control environment, (ii) risk assessment, (iii) control activities, (iv) information and communication and (v) monitoring. Based on that evaluation, management concluded that these controls were effective at December 31, 2014.

This Annual Report on Form 20-F does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our independent registered public accounting firm pursuant to the rules of SEC that permit us to provide only

management's report in this Annual Report on Form 20-F.

Changes in Internal Controls over Financial Reporting

There were no changes in our internal controls over financial reporting during the year ended December 31, 2014 that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting.

Item 16. [Reserved]

Item 16A. Audit Committee Financial Expert

The Company's Board of Directors has determined that Mr. Roger Zhang qualifies as an "audit committee financial expert" in accordance with applicable NASDAQ Capital Market standards. Mr. Ren is not deemed to be an "expert" for any purpose, including for purposes of section 11 of the Securities Act of 1933, as a result of being designated as an audit committee financial expert, and this designation does not impose on Mr. Zhang any duties, obligations or liability that are greater than those imposed on him as a member of the Audit Committee and Board of Directors in the absence of that designation.

The Company's Board of Directors has also determined that Mr. Zhang and the other members of the Audit Committee are all "independent" in accordance with the applicable NASDAQ Capital Market standards.

Item 16B. Code of Ethics

The Company has adopted a Code of Business Conduct and Ethics that applies to the Company's employees, including its principal executive officer, principal financial officer, principal accounting officer, controller and persons performing similar functions. A copy of the Code of Business Conduct and Ethics was filed as an exhibit to our 2006 Annual Report. In addition, the Company has posted this information on its website at [www.e-future.com.cn](http://www.e-future.com.cn). Nothing on the Company's website is part of or deemed to be incorporated by reference into this Annual Report on Form 20-F. The Company will provide any person a copy of its Code of Business Conduct and Ethics, without charge, upon request. Such request should be addressed to:

eFuture Information Technology Inc.  
A1103, A1105, A1106-07, Building A, Chengjian Plaza  
No. 18 Beitaipingzhuang Road  
Haidian District  
Beijing, 100088, People's Republic of China  
Attention: Secretary

Item 16C. Principal Accountant Fees and Services

Audit Fees

For the years ended December 31, 2013 and 2014, we incurred in the aggregate amounts of RMB1,250,000 and RMB1,280,000 (US\$206,299), respectively, for the annual audit of our financial statements, which was billed by Grant Thornton China.

Audit Related Fees

There were no audit related fees incurred for fiscal years 2013 and 2014.

Tax and All Other Fees

We did not pay Grant Thornton China any fees for tax or other services for fiscal years 2013 and 2014, respectively.

Audit Committee Pre-Approval Policies and Procedures

Our Audit Committee has the sole authority to approve all audit engagement fees and terms, and the Audit Committee, or as member of the Audit Committee, must pre-approve any audit and non-audit service provided to the Company by the Company's independent auditor. Our Audit Committee approved all of the services provided by Grant



Thornton China for fiscal year 2013 and 2014, respectively.

Item 16D. Exemptions from the Listing Standards for Audit Committees

Not applicable.

75

---

Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers

Not applicable.

Item 16F. Change in Registrant's Certifying Accountant.

None.

Item 16G. Corporate Governance.

Our corporate governance practices do not differ from those followed by domestic companies listed on the NASDAQ Capital Market.

Item 16H. Mine Safety Disclosure.

Not applicable.

76

---

PART III

Item 17. Financial Statements

We have elected to provide financial statements pursuant to Item 18.

Item 18. Financial Statements

The consolidated financial statements of eFuture Information Technology Inc. are included at the end of this annual report, beginning with page F-1.

Item 19. Exhibits

- 1.1 Amended and Restated Memorandum and Articles of Association of the Registrant (incorporated by reference to Exhibit 3.1 of the Registrant's Registration Statement on Form F-1 (File No. 333-126007) filed with the SEC on June 21,2005)
- 1.2 Written resolutions of the Registrant amending the terms of its Memorandum of Association dated June 16, 2005 (incorporated by reference to Exhibit 3.3 of the Registrant's Registration Statement on Form F-1 (File No. 333-126007) filed with the SEC on October 18,2005)
- 2.1 Specimen Certificate for Ordinary shares(incorporated by reference to Exhibit 4.1 of the Registrant's Registration Statement on Form F-1 (File No. 333-126007) filed with the SEC on August 22,2005)
- 4.1 Securities Purchase Agreement dated as of March 13, 2007 by and among the Company, Capital Ventures International ("CVI"), Hudson Bay Fund, LP ("HBF") and Hudson Bay Overseas Fund, Ltd. ("HBOF") (incorporated by reference to Exhibit 99.1 of the Registrant's Current Report on Form 6-K filed with the SEC on March 15, 2007)
- 4.2 Registration Rights Agreement, dated March 13, 2007 by and among the Company, CVI, HBF and HBOF (incorporated by reference to Exhibit 99.5 of the Registrant's Current Report on Form 6-K filed with the SEC on March 15, 2007)
- 4.3 Form of Senior Convertible Note issued pursuant to the Securities Purchase Agreement dated as of March 13, 2007 (incorporated by reference to Exhibit 99.3 of the Registrant's Current Report on Form 6-K filed with the SEC on March 15, 2007)
- 4.4 Form of Series A Warrant issued pursuant to the Securities Purchase Agreement dated as of March 13, 2007 (incorporated by reference to Exhibit 99.2 of the Registrant's Current Report on Form 6-K filed with the SEC on March 15, 2007)
- 4.5 Form of Series B Warrant issued pursuant to the Securities Purchase Agreement dated as of March 13, 2007 (incorporated by reference to Exhibit 99.3 of the Registrant's Current Report on Form 6-K filed with the SEC on March 15, 2007)
- 4.6 Acquisition of Beijing Wangku Hutong Information Technology Co., Ltd. (incorporated by reference to Exhibit 99.1 of the Registrant's Current Report on Form 6-K filed with the SEC on May 21, 2007)
- 4.7 Acquisition of Crownhead Holdings Ltd. And Royalstone System Integrated Co., Ltd (incorporated by reference to Exhibit 99.1 of the Registrant's Current Report on Form 6-K filed with the SEC on August 15, 2007)
- 4.8 English translation of Equity Transfer Agreement dated as of July 16, 2010 between Tingchao Zhao (the nominee of the Registrant) and Boyong Jiang(incorporated by reference to Exhibit 4.8 of the Registrant's Annual Report on Form 20-F filed with the SEC on April 30, 2012)
- 4.9 English translation of Equity Transfer Agreement dated as of March 13, 2011 between Xuejun Zhang (the nominee of the Registrant) and Haibo Wang(incorporated by reference to Exhibit 4.9 of the Registrant's

Annual Report on Form 20-F filed with the SEC on April 30, 2012)

- 4.10 Loan Agreement dated as of January 18, 2011 between eFuture Beijing and Xuejun Zhang, one of the shareholders of Weidian(incorporated by reference to Exhibit 4.10 of the Registrant's Annual Report on Form 20-F filed with the SEC on April 30, 2012)

- 4.11 Loan Agreement dated as of January 18, 2011 between eFuture Beijing and Hongjun Zou, one of the shareholders of Weidian(incorporated by reference to Exhibit 4.11 of the Registrant’s Annual Report on Form 20-F filed with the SEC on April 30, 2012)
- 4.12 Share Pledge Agreement dated as of January 18, 2011 between eFuture Beijing and Xuejun Zhang, one of the shareholders of Weidian(incorporated by reference to Exhibit 4.12 of the Registrant’s Annual Report on Form 20-F filed with the SEC on April 30, 2012)
- 4.13 Share Pledge Agreement dated as of January 18, 2011 between eFuture Beijing and Hongjun Zou, one of the shareholders of Weidian(incorporated by reference to Exhibit 4.13 of the Registrant’s Annual Report on Form 20-F filed with the SEC on April 30, 2012)
- 4.14 Exclusive Option Agreement dated as of January 18, 2011 between eFuture Beijing, Weidian and Xuejun Zhang, one of the shareholders of Weidian(incorporated by reference to Exhibit 4.14 of the Registrant’s Annual Report on Form 20-F filed with the SEC on April 30, 2012)
- 4.15 Exclusive Option Agreement dated as of January 18, 2011 between eFuture Beijing, Weidian and Hongjun Zou, one of the shareholders of Weidian(incorporated by reference to Exhibit 4.15 of the Registrant’s Annual Report on Form 20-F filed with the SEC on April 30, 2012)
- 4.16 Exclusive Business Cooperation Agreement dated as of January 18, 2011 between eFuture Beijing and Weidian(incorporated by reference to Exhibit 4.16 of the Registrant’s Annual Report on Form 20-F filed with the SEC on April 30, 2012)
- 4.17 Supplemental Agreement to Exclusive Business Cooperation Agreement dated as of April 23, 2012 between eFuture Beijing and Weidian(incorporated by reference to Exhibit 4.17 of the Registrant’s Annual Report on Form 20-F filed with the SEC on April 30, 2012)
- 4.18 Power of Attorney dated as of January 18, 2011 issued by Xuejun Zhang, one of the shareholders of Weidian(incorporated by reference to Exhibit 4.18 of the Registrant’s Annual Report on Form 20-F filed with the SEC on April 30, 2012)
- 4.19 Power of Attorney dated as of January 18, 2011 issued by Hongjun Zou, one of the shareholders of Weidian(incorporated by reference to Exhibit 4.19 of the Registrant’s Annual Report on Form 20-F filed with the SEC on April 30, 2012)
- 8.1\* Subsidiaries of the Registrant
- 11.1 Code of Business Conduct and Ethics (incorporated by reference to Exhibit 11.1 of the Registrant’s Annual Report on Form 20-F filed with the SEC on June 28, 2007)
- 12.1\* Section 302 Certification of Adam Yan
- 12.2\* Section 302 Certification of Ping Yu
- 13.1\* Section 906 Certification of Adam Yan
- 13.2\* Section 906 Certification of Ping Yu
- 15.1\* Consent of Independent Registered Public Accounting Firm

\* Filed herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the undersigned certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form 20-F and has duly caused this Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 on Form 20-F to be signed on its behalf by the undersigned, thereunto duly authorized, in the People's Republic of China, on the 24th day of April, 2014.

EFUTURE INFORMATION TECHNOLOGY INC.

By: /s/ Adam Yan  
Name: Adam Yan  
Title: Chairman  
(Principal Executive  
Officer)

Date: April 24, 2014

By: /s/ Ping Yu  
Name: Ping Yu  
Title: Chief Financial Officer  
(Principal Financial Officer)

Date: April 24, 2014

EFUTURE INFORMATION TECHNOLOGY INC. AND SUBSIDIARIES

INDEX TO FINANCIAL STATEMENTS

	Page
Report of Independent Registered Public Accounting Firm	F-2
Consolidated Balance Sheets as of December 31, 2013 and 2014	F-3
Consolidated Statements of Operations for the Years Ended December 31, 2012, 2013 and 2014	F-4
Consolidated Statements of Changes in Shareholders' Equity for the Years Ended December 31, 2012, 2013 and 2014	F-5
Consolidated Statements of Cash Flows for the Years Ended December 31, 2012, 2013 and 2014	F-6
Notes to the Consolidated Financial Statements	F-8

F-1

---

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders eFuture Information Technology Inc.

We have audited the accompanying consolidated balance sheets of eFuture Information Technology Inc. (a Cayman Islands corporation) and its subsidiaries and variable interest entity (the "Company") as of December 31, 2014 and 2013, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2014. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We are not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of eFuture Information Technology Inc. and its subsidiaries and variable interest entity as of December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014 in conformity with accounting principles generally accepted in the United States of America.

/s/ GRANT THORNTON

Beijing, People's Republic of China  
April 24, 2015

F-2

---



EFUTURE INFORMATION TECHNOLOGY INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
AS OF DECEMBER 31, 2013 AND 2014

		Chinese Yuan (Renminbi)		U.S. Dollars
		December 31,		December
	Note	2013	2014	31, 2014
<b>ASSETS</b>				
Current assets				
Cash and cash equivalents		¥62,620,652	¥64,558,916	\$10,405,008
Trade receivables, net of allowance for doubtful accounts of ¥3,682,874 and ¥4,502,766(\$725,714), respectively	3	26,436,484	40,889,759	6,590,233
Refundable value added tax		2,047,262	6,765,916	1,090,468
Advances to employees		1,448,742	1,117,272	180,072
Other receivables		2,094,282	2,474,076	398,749
Prepaid expenses		1,237,347	1,554,052	250,468
Inventory and work in process, net of inventory provision of ¥3,415,570 and ¥4,356,091(\$702,074), respectively	4	19,900,382	14,560,195	2,346,677
Deferred tax assets, current portion	14	7,494,956	7,046,782	1,135,735
<b>Total current assets</b>		<b>123,280,107</b>	<b>138,966,968</b>	<b>22,397,410</b>
Non-current assets				
Long-term investments, net of impairment of ¥240,000 and ¥240,000(\$38,681), respectively	13	-	-	-
Property and equipment, net of accumulated depreciation of ¥8,134,647 and ¥9,515,986(\$1,533,699), respectively	5	3,498,773	3,279,483	528,557
Intangible assets, net of accumulated amortization of ¥76,424,196 and 80,190,029(\$12,924,287), respectively	6	33,601,807	40,294,260	6,494,256
Goodwill	6	80,625,667	80,625,667	12,994,498
Deferred tax assets	14	980,504	919,637	148,219
<b>Total non-current assets</b>		<b>118,706,751</b>	<b>125,119,047</b>	<b>20,165,530</b>
<b>Total assets</b>		<b>¥241,986,858</b>	<b>¥264,086,015</b>	<b>\$42,562,940</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
Current liabilities				
Short-term loans	7	¥-	¥10,692,003	\$1,723,238
Trade payables		11,999,261	12,509,613	2,016,184
Other payables	8	18,381,881	17,978,021	2,897,531
Accrued expenses	9	22,237,200	24,685,555	3,978,589
Taxes payable		15,608,001	16,128,358	2,599,419
Advances from customers		54,070,691	51,661,078	8,326,255
<b>Total current liabilities</b>		<b>122,297,034</b>	<b>133,654,628</b>	<b>21,541,216</b>
Commitments and contingencies	16			
Shareholders' Equity				
Ordinary shares, \$0.0756 U.S. dollars par value; 6,613,756 shares authorized; 3,921,176 shares and 3,989,626 shares issued and outstanding, respectively	10	2,326,182	2,357,978	380,037
Additional paid-in capital	10	231,082,930	234,405,541	37,779,316

Edgar Filing: eFuture Information Technology Inc. - Form 20-F

Statutory reserves	7,569,001	8,574,634	1,381,980
Accumulated deficits	(121,288,289)	(114,906,766)	(18,519,609)
Total shareholders' equity	119,689,824	130,431,387	21,021,724
Total liabilities and shareholders' equity	¥241,986,858	¥264,086,015	\$42,562,940

See the accompanying notes to the consolidated financial statements.

F-3

---

EFUTURE INFORMATION TECHNOLOGY INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS  
FOR THE YEARS ENDED DECEMBER 31, 2012, 2013 AND 2014

	Note	Chinese Yuan (Renminbi)			U.S. Dollars
		For the Years Ended December 31,			For the
		2012	2013	2014	Year Ended December 31, 2014
<b>Revenues</b>					
Software revenue		¥ 79,535,451	¥ 67,872,447	¥ 83,693,264	\$ 13,488,906
Hardware revenue		28,460,810	28,155,097	5,948,379	958,705
Service fee revenue		90,358,608	101,905,255	129,812,064	20,921,906
Total revenues		198,354,869	197,932,799	219,453,707	35,369,517
<b>Cost of revenues</b>					
Cost of software revenue		(26,651,708 )	(11,989,808 )	(19,599,743 )	(3,158,905 )
Cost of hardware revenue		(23,862,880 )	(23,188,160 )	(6,032,868 )	(972,322 )
Cost of service fee revenue		(62,409,787 )	(79,532,929 )	(96,712,746 )	(15,587,265 )
Amortization of acquired customer relationships and softwares		(4,157,333 )	(286,000 )	-	-
Amortization of software costs		(2,767,041 )	(3,367,180 )	(3,765,833 )	(606,942 )
Total cost of revenues		(119,848,749)	(118,364,077)	(126,111,190)	(20,325,434 )
Gross profit		78,506,120	79,568,722	93,342,517	15,044,083
<b>Operating expenses</b>					
Research and development expenses		(3,737,959 )	(7,247,250 )	(8,017,819 )	(1,292,238 )
General and administrative expenses		(32,799,689 )	(33,794,971 )	(27,369,028 )	(4,411,087 )
Selling and distribution expenses		(40,448,601 )	(46,366,677 )	(47,339,529 )	(7,629,747 )
Total operating expenses		(76,986,249 )	(87,408,898 )	(82,726,376 )	(13,333,072 )
Income (Loss) from operations		1,519,871	(7,840,176 )	10,616,141	1,711,011
<b>Other income (expenses)</b>					
Interest income		497,457	332,299	564,750	91,021
Interest expense		-	-	(164,171 )	(26,460 )
Gains on derivative liabilities		3,168	-	-	-
Other income (expenses)		(2,027,354 )	449,787	587,836	94,742
Foreign currency exchange gain (loss)		(5,328 )	(106,124 )	7,649	1,233
Income (Loss) before income tax		(12,186 )	(7,164,214 )	11,612,205	1,871,547

Edgar Filing: eFuture Information Technology Inc. - Form 20-F

Less: Income tax expense	14	4,497,430	287,296	4,225,049	680,954
Net income (loss)		¥ (4,509,616 )	¥ (7,451,510 )	¥ 7,387,156	\$ 1,190,593
Earnings (Loss) per ordinary share	15				
Basic		¥ (1.07 )	¥ (1.76 )	¥ 1.77	\$ 0.29
Diluted		¥ (1.07 )	¥ (1.76 )	¥ 1.71	\$ 0.28
Basic weighted average shares outstanding		4,213,318	4,224,676	4,173,014	4,173,014
Fully diluted weighted average shares outstanding		4,213,318	4,224,676	4,308,516	4,308,516

See the accompanying notes to the consolidated financial statements.

F-4

---

EFUTURE INFORMATION TECHNOLOGY INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2012, 2013 AND 2014

	Chinese Yuan (Renminbi)						
	Ordinary Shares		Additional Paid-in Capital	Treasury Stocks	Statutory Reserves	Accumulated Deficits	Total
	Shares	Amount					
Balance as of January 1, 2012	3,977,221	¥2,353,068	¥225,411,222	¥-	¥3,305,527	¥(105,063,689)	¥126,006,128
Ordinary shares repurchase	-	-	-	(1,602,451)	-	-	(1,602,451)
Share-based compensation expense	-	-	5,784,391	-	-	-	5,784,391
Appropriation to statutory reserves of eFuture Beijing	-	-	-	-	2,608,857	(2,608,857)	-
Net loss	-	-	-	-	-	(4,509,616)	(4,509,616)
Balance as of December 31, 2012	3,977,221	¥2,353,068	¥231,195,613	¥(1,602,451)	¥5,914,384	¥(112,182,162)	¥125,678,452
Ordinary shares repurchase	(65,045)	(31,070)	(1,571,381)	1,602,451	-	-	-
Issuance of vested restricted shares	9,000	4,184	(4,184)	-	-	-	-
Share-based compensation expense	-	-	1,462,882	-	-	-	1,462,882
Appropriation to statutory reserves of eFuture Beijing	-	-	-	-	1,654,617	(1,654,617)	-
Net loss	-	-	-	-	-	(7,451,510)	(7,451,510)
Balance as of December 31, 2013	3,921,176	¥2,326,182	¥231,082,930	¥-	¥7,569,001	¥(121,288,289)	¥119,689,824
Exercise of options by employees	2,000	925	54,880	-	-	-	55,805
Issuance of vested	66,450	30,871	(30,871)	-	-	-	-

restricted shares							
Share-based compensation expense	-	-	3,298,602	-	-	-	3,298,602
Appropriation to statutory reserves of eFuture Beijing	-	-	-	-	1,005,633	(1,005,633)	-
Net income	-	-	-	-	-	7,387,156	7,387,156
Balance as of December 31, 2014	3,989,626	¥2,357,978	¥234,405,541	¥-	¥8,574,634	¥(114,906,766)	¥130,431,387

	Ordinary Shares		Additional Paid-in Capital	U.S. Dollars			
	Shares	Amount		Treasury Stocks	Statutory Reserves	Accumulated Deficits	Total
Balance as of January 1, 2014	3,921,176	\$374,912	\$37,243,809	\$-	\$1,219,902	\$(19,548,124)	\$19,290,499
Exercise of options by employees	2,000	149	8,845	-	-	-	8,994
Issuance of vested restricted shares	66,450	4,976	(4,976)	-	-	-	-
Share-based compensation expense	-	-	531,638	-	-	-	531,638
Appropriation to statutory reserves of eFuture Beijing	-	-	-	-	162,078	(162,078)	-
Net income	-	-	-	-	-	1,190,593	1,190,593
Balance as of December 31, 2014	3,989,626	\$380,037	\$37,779,316	\$-	\$1,381,980	\$(18,519,609)	\$21,021,724

See the accompanying notes to the consolidated financial statements.

EFUTURE INFORMATION TECHNOLOGY INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2012, 2013 AND 2014

	Chinese Yuan (Renminbi)			U.S. Dollars
	For the Years Ended December 31,			For the
	2012	2013	2014	Year Ended December 31, 2014
<b>Cash flows from operating activities:</b>				
Net income (loss)	¥(4,509,616 )	¥(7,451,510 )	¥7,387,156	\$ 1,190,593
Adjustments to reconcile net income (loss) to net cash flows provided by (used in) operating activities:				
Depreciation of property and equipment	1,956,728	1,897,003	1,804,164	290,778
Amortization of intangible assets	6,924,374	3,653,180	3,765,833	606,942
Gains on derivative liabilities	(3,168 )	-	-	
Loss on disposal of property and equipment	6,959	9,008	26,165	4,217
Provision for doubtful accounts	2,290,370	1,874,355	1,962,403	316,282
Provision for loss in inventory and work in process	2,602,925	5,561,134	8,302,435	1,338,110
Share-based compensation expense	5,784,391	1,462,882	3,298,602	531,638
Deferred income taxes	(8,892,940 )	(619,250 )	509,041	82,043
Foreign currency exchange loss (gain)	5,329	35,280	(7,649 )	(1,233 )
<b>Changes in assets and liabilities:</b>				
Trade receivables	(7,568,236 )	(3,305,936 )	(16,765,678)	(2,702,136 )
Refundable value added tax	1,950,214	2,953,447	(4,718,654 )	(760,509 )
Advances to employees	383,432	(82,747 )	331,470	53,423
Advances to suppliers	57,340	-	-	-
Other receivables	508,497	662,879	(29,794 )	(4,802 )
Prepaid expenses	330,617	(102,745 )	(316,705 )	(51,044 )
Inventory and work in process	6,098,833	(6,161,784 )	(2,962,248 )	(477,428 )
Trade payables	5,048,244	(5,549,585 )	510,352	82,254
Other payables	4,395,121	1,461,460	(403,860 )	(65,090 )
Accrued expenses	10,732,163	(2,959,076 )	2,448,355	394,603
Taxes payable	11,923,172	(520,905 )	683,881	110,222
Advances from customers	(2,134,102 )	6,551,079	(2,409,613 )	(388,359 )
Net cash provided by (used in) operating activities	¥37,890,647	¥(631,831 )	¥3,415,656	\$ 550,504
<b>Cash flows from investing activities:</b>				
Purchases of property and equipment	(2,117,218 )	(1,052,469 )	(1,789,314 )	(288,385 )
Payments for intangible assets	(11,949,602)	(15,038,783)	(10,458,286)	(1,685,570 )
Cash received from disposal of property and equipment	240	5,650	14,751	2,377
Net cash used in investing activities	¥(14,066,580)	¥(16,085,602)	¥(12,232,849)	\$ (1,971,578 )

See the accompanying notes to the consolidated financial statements.





EFUTURE INFORMATION TECHNOLOGY INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2012, 2013 AND 2014 (CONTINUED)

	Chinese Yuan (Renminbi)			U.S. Dollars For the Year Ended December 31, 2014
	For the Years Ended December 31,			
	2012	2013	2014	
<b>Cash flows from financing activities:</b>				
Proceeds from short-term loans	¥-	¥-	¥10,692,003	\$ 1,723,238
Proceeds from exercise of options by employees	-	-	55,805	8,994
Cash paid for ordinary shares repurchase	(1,602,451 )	-	-	-
Net cash provided by (used in) financing activities	¥(1,602,451 )	¥-	¥10,747,808	\$ 1,732,232
Effect of exchange rate changes on cash and cash equivalents	(5,329 )	(35,280 )	7,649	1,233
Net increase (decrease) in cash and cash equivalents	22,216,287	(16,752,713)	1,938,264	312,391
Cash and cash equivalents at beginning of year	57,157,078	79,373,365	62,620,652	10,092,617
Cash and cash equivalents at end of year	¥79,373,365	¥62,620,652	¥64,558,916	\$ 10,405,008
<b>Supplemental cash flow information</b>				
Interest paid	¥-	¥-	¥164,171	\$ 26,460
Income tax paid	¥1,571,915	¥3,796,612	¥3,736,424	\$ 602,202

See the accompanying notes to the consolidated financial statements.

EFUTURE INFORMATION TECHNOLOGY INC. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. ORGANIZATION AND NATURE OF OPERATIONS

Organization

eFuture Information Technology Inc. (the “Company”) is a Cayman Islands Corporation. Its wholly owned subsidiary eFuture (Beijing) Tornado Information Technology Inc. is located in Beijing, the People’s Republic of China (the “PRC”). In August 2007, eFuture (Beijing) Tornado Information Technology Inc. was renamed as eFuture (Beijing) Royalstone Information Technology Inc. (“eFuture Beijing”). The Company is a holding company with no operations of its own. All of its operations are conducted through eFuture Beijing.

The Company acquired control over 100% of the equity interests in Beijing Changshengtiandi Ecommerce Co., Ltd. through certain nominees on January 18, 2011. Beijing Changshengtiandi Ecommerce Co., Ltd. was renamed as Beijing Weidian Internet Service Co. Ltd. (“Weidian”) in March 2014. Weidian was treated as a variable interest entity (“VIE”) for the years ended December 31, 2012, 2013 and 2014 (see note 12).

On December 20, 2012, the wholly owned subsidiary eFuture (Hainan) Royalstone Information Technology Inc. (“eFuture Hainan”) was incorporated in Hainan Province, PRC by the Company. Since its incorporation, eFuture Hainan has not generated substantial business.

The Company, its subsidiaries and VIE are collectively referred to as the “Group”.

Nature of Operations

The Group is mainly engaged in developing and selling Enterprise Resource Planning (ERP) software and providing ONE-STOP solutions for distribution, retail and logistics businesses focused on the supply chain front market for manufacturers, retailers, distributors and third party logistics, and in providing the related system integration service and technical training services. Systems integration services involve system design and system implementation through the application of the software together with certain purchased hardware from third-parties, as well as ongoing technical supporting services. Revenues are generated solely from sales to customers in China.

EFUTURE INFORMATION TECHNOLOGY INC. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“US GAAP”). Significant accounting policies followed by the Group in the preparation of its accompanying consolidated financial statements are summarized below.

Principles of Consolidation

The consolidated financial statements include the financial statements of the Company, its subsidiaries and VIE for which the Company is the primary beneficiary. All significant transactions and balances among the Company, its subsidiaries and VIE have been eliminated upon consolidation.

A subsidiary is an entity in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to appoint or remove the majority of the members of the board of directors; to cast majority of votes at the meeting of the board of directors or to govern the financial and operating policies of the investee under a statute or agreement among the shareholders or equity holders.

The Company applies guidance that requires certain VIE to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties.

Accounting Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, including trade receivables, inventory and work in process, property and equipment, intangible assets and goodwill, and the disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Management bases the estimates on historical experience and on various other assumptions that are believed to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results could materially differ from these estimates.

Foreign Currency Translation

The Group’s reporting and functional currency is the Renminbi (“RMB”), the official currency in the PRC. Transactions denominated in currencies other than the functional currency are translated into the functional currency at the exchange rates quoted by the People’s Bank of China (the “PBOC”) prevailing at the dates of the transactions. Gains and losses resulting from foreign currency transactions are included in the consolidated statements of operations. Monetary assets and liabilities denominated in foreign currencies are translated into RMB using the applicable exchange rates quoted by the PBOC at the applicable balance sheet dates. All such exchange gains or losses are included in foreign currency exchange gain (loss) in the consolidated statements of operations. Non-monetary assets denominated in foreign currencies have been remeasured at historical rates.

EFUTURE INFORMATION TECHNOLOGY INC. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Convenience Translation

The consolidated financial statements as of and for the year ended December 31, 2014 have been translated into U.S. dollars (“US\$” or “\$”) solely for the convenience of the reader. Translations of amounts from RMB into US\$ have been calculated at the exchange rate of RMB6.2046 per US\$1.00, as published on the website of the Federal Reserve Bank of New York as at December 31, 2014. These translated U.S. dollar amounts should not be construed as representing Chinese Yuan amounts or that the Chinese Yuan amounts have been or could be converted, realized or settled into U.S. dollars at that rate on December 31, 2014, or at any other rate.

Fair Values of Financial Instruments

The Group records certain of its financial assets and liabilities at fair value on a recurring basis. Fair value reflects the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Group considers the principal or most advantageous market in which it would transact and considers assumptions that market participants would use when pricing the asset or liability.

The Group applies a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument’s categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. There are three levels of inputs that may be used to measure fair value:

Level 1 applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.

Level 2 applies to assets or liabilities for which there are inputs other than quoted prices included within Level 1 that are observable for the asset or liability such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which significant inputs are observable or can be derived principally from, or corroborated by, observable market data.

Level 3 applies to assets or liabilities for which there are unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities.

The carrying amount of cash and cash equivalents, trade receivables, other receivables, refundable value added tax, advances to employees, prepaid expenses, short-term loans, trade payables, taxes payable, other payables, accrued expenses and advances from customers approximate their fair values due to their immediate or short-term nature.

Cash and Cash Equivalents

Cash and cash equivalents are comprised of cash on hand and demand deposits with original maturities of no more than three months. As of December 31, 2014, the Group has RMB64.6 million (US\$10.4 million) in cash and cash equivalents, 99.1% and 0.9% of which are held by financial institutions in the PRC and international financial institutions outside of the PRC, respectively, without a single bank or financial institution holding a substantial amount of the balances.

PRC state-owned banks, such as Bank of China, are subject to a series of risk control regulatory standards, and PRC bank regulatory authorities are empowered to take over the operation and management when any of those faces a material credit crisis. The Group does not foresee substantial credit risk with respect to cash and cash equivalents held

at the PRC state-owned banks. Meanwhile, China does not have an official deposit insurance program, nor does it have an agency similar to what was The Federal Deposit Insurance Corporation (FDIC) in the U.S. In the event of bankruptcy of one of the financial institutions in which the Group has deposits or investments, it may be unlikely to claim its deposits or investments back in full. The Group selected reputable international financial institutions with high ratings to place its foreign currencies. The Group regularly monitors the rating of the international financial institutions in case of any defaults. There has been no recent history of default in relation to these financial institutions.

F-10

---

EFUTURE INFORMATION TECHNOLOGY INC. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Trade and Other receivables, net

Trade receivables, net are stated at the amount management expects to collect from outstanding balances. An estimate for doubtful accounts is made when the collection is doubtful and a loss is probable and estimable. The Group maintains an allowance for potentially uncollectible trade receivables based on its assessment of the collectability of trade receivables. In evaluating the collectability of individual receivable balances, the Group considers many factors, including the age of the balance, the customer's past payment history, its current credit-worthiness and current economic trends. Any adverse changes in these factors could require additional provisions be made.

As of December 31, 2014, no customer individually accounted for more than 10% of total trade receivables.

Other receivables consist of miscellaneous items arising from transactions with non-trade customers.

The Group writes off receivables when they are deemed uncollectible, and payments subsequently received on the receivables for which doubtful accounts were specifically provided are recognized as other income in the consolidated financial statements.

Inventory and Work in Process

Inventory is comprised of purchased hardware and software available for resale and other consumable materials. Labor and overhead costs are allocated to each contract based on actual labor hours incurred. Work in process consists of labor and overhead costs and outsourced service fees incurred on services contracts that have not been completed. Inventory and work in process are stated at the lower of cost or net realizable value.

Provisions are made for excess, slow moving and obsolete purchased hardware and software held for resale, as well as for inventories and work in process with carrying values in excess of net realizable value. The Group uses the future selling price less the estimated taxes and future expenditure as the estimates of net realizable value on a contract by contract basis. The future expenditure is calculated on a basis of the pay rate of engineers and the estimated working hours. If there are any significant changes in the estimates, provisions may differ materially.

Long-term Investments

The Group accounts for an equity investment over which it has significant influence but does not own a majority equity interest or otherwise control using the equity method. For equity investments over which the Group does not have significant influence, cost method accounting is used.

On March 15, 2010, the Company acquired 15% of the equity interest of cFuture with total cash consideration of RMB240,000. The Company is required to perform an impairment assessment of its investments whenever events or changes in business circumstances indicate that the carrying value of the investment may not be fully recoverable. As of December 31, 2011, the Company determined that such events and changes occurred and were other-than-temporary. Thus, impairment of RMB240,000 was made to write down the asset to its fair value and take the corresponding charge to the consolidated statements of operations during the year ended December 31, 2011.

EFUTURE INFORMATION TECHNOLOGY INC. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets as follows:

Motor vehicles (years)	5
Leasehold improvements (years)	shorter of 3 or Lease Term
Office equipment (years)	4
Communication equipment (years)	4
Software (years)	4

The cost of maintenance and repairs is charged to expense as incurred and major improvements are capitalized. Gains or losses on sales or retirements are included in the operation results in the year of disposition.

Intangible Assets - Computer Software Costs and Research and Development

The Group charges all development costs to research and development expenses which include salaries, contractor fees, utilities, administrative expenses and other allocated expenses until technological feasibility has been established. Technological feasibility is established when a detail program design or working model is completed. After reaching technological feasibility, additional software costs are capitalized until the software is available for general release to customers. The capitalized software development expenditures are subject to amortization which is the greater of the amounts computed on a straight-line basis over its remaining estimated economic lives or the ratio that current gross revenues bear to the total of current and anticipated future gross revenues for a capitalized software developed by ourselves. The subsequent expenditure in connection with major upgrade for the developed intangible assets is capitalized as incurred.

Business Combination and Goodwill

The Group accounts for business combinations using the purchase method of accounting. This method requires that the acquisition cost to be allocated to the assets, including separately identifiable intangible assets, and the liabilities that the Group acquires based on their estimated fair values. The Group makes estimates and judgments in determining the fair value of the acquired assets and liabilities based on its experience with similar assets and liabilities in similar industries. If different judgments or assumptions were used, the amounts assigned to the individual acquired assets or liabilities could be materially different.

Goodwill represents the excess of the purchase price over the fair value of the identifiable assets and liabilities of the acquired business. In a business acquisition, any acquired intangible assets that do not meet separate recognition criteria are recognized as goodwill.

No amortization is recorded for goodwill. The Group first assesses qualitative factors to determine whether it is “more likely than not” that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test on an annual basis or more frequently if necessary. If the qualitative assessment determines that impairment is probable, then additional steps are taken to determine and quantify potential impairment by estimating the fair value based upon the present value of future cash flows. In estimating the future cash flows, the Group takes into consideration the overall and industry economic conditions and trends, market risk of the Group and historical information.





EFUTURE INFORMATION TECHNOLOGY INC. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Impairment of Long-lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that carrying amount of an asset may not be recoverable. The Group may recognize impairment of long-lived assets in the event the net book value of such assets exceeds the future undiscounted cash flows attributable to these assets. If impairment exists, the impairment amount is recognized for the difference between the fair value of the asset and its carrying value.

Revenue Recognition

The Group recognizes revenue when (1) it has persuasive evidence of an arrangement, (2) delivery has occurred, (3) the sales price is fixed or determinable, and (4) collectability is reasonably assured. Delivery does not occur until products have been shipped or services have been rendered to the client and the client has signed a completion and acceptance report, risk of loss has transferred to the client, client acceptance provisions have lapsed, or the Group has objective evidence that the criteria specified in client acceptance provisions have been satisfied. The sales price is not considered to be fixed or determinable until all contingencies related to the sale have been resolved.

The Group's policy requires the customers to make payments before delivery has occurred or service has been rendered. Such unearned amounts billed to customers are recorded as advances from customers in the Group's consolidated financial statements, until the above criteria have been met.

The amount of revenue recognized represents the invoiced value of products sold or services rendered, net of a value-added tax ("VAT"). All of the Group's software and hardware that are sold in the PRC and the Group's service that are provided in the PRC after September 2012 are subject to a Chinese VAT at a rate of 17% and 6%, respectively of the gross sales price or at a rate approved by the Chinese local government. This VAT may be offset by VAT paid by the Group on externally purchased software, hardware and service from suppliers. The VAT amounts paid and available for offset are maintained in current liabilities.

In respect of revenues on self-developed software sales, a VAT refund at a rate of 14% of the gross sales price is approved by the Chinese local government. The VAT subjected to the refund is recorded as refundable value added tax in the Group's consolidated financial statements.

The Group provides the following products and services: self-developed software, purchased software, purchased hardware, system design and integration, and professional services, including post contract maintenance and technical support.

Software

The Group sells self-developed software and software purchased from other vendors.

EFUTURE INFORMATION TECHNOLOGY INC. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For software sales, the Group recognizes revenues in accordance with ASC 985-605, Software Revenue Recognition. Revenue from perpetual (one-time charge) licensed software is recognized at the inception of the license term. Revenue from term (monthly license charge) arrangements is recognized on a subscription basis over the period that the customer is using the license. The Group does not provide any rights of return or warranties on software.

Revenues applicable to multiple-element fee arrangements are bifurcated among the elements such as software, hardware and post-contract service using vendor-specific objective evidence of fair value. Such evidence consists of pricing of multiple elements when those same elements are sold as separate products or arrangements. Software maintenance for the first year and initial training are included in the purchase price of the software. Initial training is provided at the time of installation and is recognized as income as part of the price of the software since it is minimal in value. Maintenance is valued based on the fee schedule used by the Group for providing the regular level of maintenance service as sold to customers when renewing their maintenance contracts on a standalone basis.

Software revenues include VAT refund received from the Chinese local government on the sales of certain software. Such refund is granted to the Group as part of the PRC government's policy to encourage software development in the PRC, and is recorded as a component of revenue when the relevant compliance requirements are met, there are no further obligations, and are not subject to future returns or reimbursements.

#### Hardware

Revenue from hardware sales is recognized when the product is shipped to the customer and there are no unfulfilled obligations that affect the customer's final acceptance of the arrangement. If hardware deliverable is one of the elements in a multiple-elements arrangement, the Group recognizes revenues in accordance with ASC subtopic 605-25 ("ASC 605-25"), Revenue recognition: Multiple-Element Arrangements. Because generally the hardware is a standalone sale and the software components are not essential to the functionality of hardware, revenue of hardware is carved out from the total consideration based on best estimated selling price which is cost plus a reasonable margin. The software components are within the scope of ASC 985-605, which should apply the same method as software deliverables.

#### Services

##### Professional service

The Group provides system integration which involves the design and development of complex IT systems to the customer's specifications. These services are provided on a fixed-price contract and the contract terms are generally short-term. Revenue is recognized on the completed contract method when delivery and acceptance is determined by a completion report signed by the customer.

The Group offers telephone and minimal on-site support to its customers. Revenue from maintenance services and technical support is recognized over the period of the agreement.

For those contracts containing multiple-delivery elements of software, customization, training and 1 year maintenance service, residual method under ASC985-605 is adopted. Vendor-specific objective evidence is only established for maintenance service by the renewal contract quoted at certain percentage of original contract price. There was no vendor-specific objective evidence established for other deliverables. If contract only contains a completion date, then upon the date obtained the "Final Acceptance Report" from customer, part of contract amount is recognized as revenue based on the completion method; the remaining part will be recognized evenly over the free maintenance service period.



EFUTURE INFORMATION TECHNOLOGY INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Cost of Revenues

Costs associated with contracts are deferred and recognized as inventory and work in process until the services are rendered, the products and software are installed and delivered to and accepted by the customer. When the criteria for revenue recognition have been met, costs incurred are recognized as cost of revenues. Cost of revenues include labor costs, materials, overhead expenses, business taxes related to certain services revenues and other expenses associated with the development of IT systems to customers' specifications, the cost of purchased hardware and software, and costs related to technical support services. Amortization of capitalized software costs and costs of acquired technology are included in the cost of revenues.

Advertising Costs

Advertising costs are expensed when incurred. Total advertising expenses were RMB43,900, RMB274,326 and RMB 100,547(US\$16,205) for the years ended December 31, 2012, 2013 and 2014, respectively.

Income Taxes

The Group recognizes deferred income taxes under the asset and liability method. Deferred income taxes are recognized for differences between the financial statement carrying amounts and tax bases of assets and liabilities at enacted tax rates in effect for the years in which the differences are expected to reverse. A valuation allowance is recorded against deferred tax assets if management does not believe the Group has met the "more likely than not" standard imposed by ASC subtopic 740-10.

The Group adopted the provisions of ASC subtopic 740-10 ("ASC 740-10"), Income Taxes: Overall. ASC 740-10 clarified the accounting for uncertainty in income taxes by prescribing the recognition threshold a tax position is required to meet before being recognized in the financial statements. The Group did not incur a cumulative effect adjustment upon adoption of ASC 740-10 nor did the standard have a material impact on the Group's financial statements for the years ended December 31, 2012, 2013 and 2014.

In general, the PRC tax authorities have up to five years to conduct examinations of the Group's tax filings. Accordingly, the PRC subsidiaries' tax years 2010 through 2014 remain open to examination by the respective taxing jurisdictions.

Statutory Reserves

eFuture Beijing and eFuture Hainan, as wholly foreign-owned enterprises incorporated in the PRC, are required on an annual basis to make appropriations of net income, after the recovery of accumulated deficit, to a general reserve fund and a staff bonus and welfare fund. These reserve funds are set at certain percentages of after-tax income determined in accordance with PRC accounting standards and regulations (the "PRC GAAP"). The percentage of the appropriation for general reserve fund is at least 10%, and the percentage of the appropriation for staff bonus and welfare fund is at the discretion of the companies' boards of directors.

EFUTURE INFORMATION TECHNOLOGY INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Weidian, as a domestic enterprise incorporated in the PRC, is required on an annual basis to make an appropriation of net income, after the recovery of accumulated deficit, to a statutory reserve fund. The statutory reserve fund is set at the percentage of not lower than 10% of the after-tax income determined in accordance with the PRC GAAP.

Once the level of the general reserve fund and the statutory reserve fund reach 50% of the registered capital of the underlying entities, further appropriations to these funds are discretionary. The Group's statutory reserves can only be used for specific purposes of enterprises expansion and staff bonus and welfare, and are not distributable to the shareholders except in the event of liquidation. Appropriations to these funds are accounted for as transfers from retained earnings to the statutory reserves.

For the years ended December 31, 2012, 2013 and 2014, RMB2,608,857, RMB1,654,617 and RMB1,005,633 (US\$162,078) was made to statutory reserves of eFuture Beijing, respectively. As of December 31, 2013 and 2014, the balance of the general reserve fund was RMB7,569,001 and RMB8,574,634 (US\$1,381,980), respectively.

#### Dividends

Dividends are recorded when declared. No dividends were declared for the years ended December 31, 2012, 2013 and 2014, respectively.

PRC regulations currently permit payment of dividends only out of accumulated profits as determined in accordance with PRC GAAP. The Company's PRC subsidiaries can only distribute dividends after they have met the PRC requirements for appropriation to statutory reserves (see note 2, Statutory Reserves).

#### Net Earnings (Loss) per share of Ordinary shares

Basic earnings (loss) per share is computed by dividing net income (loss) attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. Diluted earnings (loss) per share is computed under the treasury stock method by dividing net income (loss) attributable to ordinary shareholders as adjusted for the effect of dilutive ordinary share equivalents, if any, by the weighted average number of ordinary and dilutive potential ordinary share equivalents outstanding during the period. Potential ordinary share equivalents consist of shares issuable upon the conversion of preferred stock, the exercise of stock options and warrants and restricted shares subject to cancellation.

#### Share-Based Compensation

The Company accounts for share-based compensation in accordance with ASC subtopic 718-10 ("ASC 718-10"), Compensation-Stock Compensation: Overall. Under the provisions of ASC 718-10, share-based compensation expense for options is estimated at the grant date based on the award's fair value as calculated by the Black-Scholes-Merton (BSM) option-pricing model and is recognized as expense net of a forfeiture rate over the requisite service period. The BSM model requires various highly judgmental assumptions including volatility and expected option life. Volatility is measured using historical daily price changes of ordinary shares over the respective expected life of the option. Expected option life is the number of years that the Company estimates, based on the vesting and contractual terms and employee demographics. The estimate of forfeitures will be adjusted over the requisite service period to the extent that actual forfeitures differ, or are expected to differ, from such estimates. Changes in estimated forfeitures will be recognized through a cumulative catch-up adjustment in the period of change. If any of the assumptions used in the BSM model change significantly, share-based compensation expenses may differ materially in the future from that recorded in the current period. Share-based compensation expense for restricted shares is measured on quoted price of the Company's share on date of grant.



EFUTURE INFORMATION TECHNOLOGY INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Contingencies

The Company records accruals for certain of its outstanding legal proceedings or claims when it is probable that a liability will be incurred and the amount of loss can be reasonably estimated. The Company evaluates, on a quarterly basis, developments in legal proceedings or claims that could affect the amount of any accrual, as well as any developments that would make a loss contingency both probable and reasonably estimable. The Company discloses the amount of the accrual if it is material.

When a loss contingency is not both probable and estimable, the Company does not record an accrued liability but discloses the nature and the amount of the claim, if material. However, if the loss (or an additional loss in excess of the accrual) is at least reasonably possible, then the Company discloses an estimate of the loss or range of loss, if such estimate can be made and material, or states that such estimate is immaterial if it can be estimated but immaterial, or discloses that an estimate cannot be made. The assessments of whether a loss is probable or reasonably possible, and whether the loss or a range of loss is estimable, often involve complex judgments about future events. Management is often unable to estimate the loss or a range of loss, particularly where (i) the damages sought are indeterminate, (ii) the proceedings are in the early stages, or (iii) there is a lack of clear or consistent interpretation of laws specific to the industry-specific complaints among different jurisdictions. In such cases, there is considerable uncertainty regarding the timing or ultimate resolution of such matters, including eventual loss, fine, penalty or business impact, if any.

Recently Enacted Accounting Standards

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). The amendments in ASU 2014-09 affect any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (e.g., insurance contracts or lease contracts). This ASU will supersede the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance, and creates a Topic 606 Revenue from Contracts with Customers. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps:

- Step 1: Identify the contract(s) with a customer.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

For a public entity, the amendments are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. The Group is in the process of evaluating the impact of adoption of this guidance on the Group's consolidated financial statements.

In August 2014, the FASB issued ASU No. 2014-15, Presentation of Financial Statements – Going Concern. This standard requires management to evaluate for each annual and interim reporting period whether it is probable that the reporting entity will not be able to meet its obligations as they become due within one year after the date that the financial statements are issued. If the entity is in such a position, the standard provides for certain disclosures depending on whether or not the entity will be able to successfully mitigate its going concern status. This guidance is effective for annual periods ending after December 15, 2016 and interim periods within annual periods beginning after December 15, 2016. Early application is permitted. The Group does not anticipate that adoption will have a significant impact on the Group's financial position, results of operations, or cash flows.





## EFUTURE INFORMATION TECHNOLOGY INC. AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

In February 2015, the FASB issued ASU No. 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis. ASU 2015-02 focuses on the consolidation evaluation for reporting organizations that are required to evaluate whether they should consolidate certain legal entities. The ASU simplifies consolidation accounting by reducing the number of consolidation models from four to two. In addition, the new standard simplifies the FASB Accounting Standards Codification and improves current guidance by: (i) placing more emphasis on risk of loss when determining a controlling financial interest; (ii) reducing the frequency of the application of related-party guidance when determining a controlling financial interest in a VIE; and (iii) changing consolidation conclusions for public and private companies in several industries that typically make use of limited partnerships or VIEs. The ASU will be effective for public companies for periods beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period. The Group is in the process of evaluating the impact of adoption of this guidance on the Group's consolidated financial statements.

## NOTE 3. TRADE RECEIVABLES

The trade receivables amount included in the consolidated balance sheets as of December 31, 2013 and 2014 were as follows:

	Chinese Yuan (Renminbi)		U.S. Dollars
	December 31,		December 31,
	2013	2014	2014
Trade receivables	¥30,119,358	¥45,392,525	\$ 7,315,947
Allowance for doubtful accounts	(3,682,874 )	(4,502,766 )	(725,714 )
Trade receivables, net	¥26,436,484	¥40,889,759	\$ 6,590,233

The movement of the allowance for doubtful accounts during the years was as follows:

	Chinese Yuan (Renminbi)			U.S. Dollars
	December 31,			December
	2012	2013	2014	31,
				2014
Balance at the beginning of the year	¥3,559,207	¥2,811,934	¥3,682,874	\$593,572
Provision for the year	2,290,370	1,874,355	1,962,403	316,282
Write-offs	(3,037,643)	(1,003,415)	(1,142,511)	(184,140)
Balance at the end of the year	¥2,811,934	¥3,682,874	¥4,502,766	\$725,714

## NOTE 4. INVENTORY AND WORK IN PROCESS

The inventory amounts included in the consolidated balance sheets as of December 31, 2013 and 2014 comprised of:

	Chinese Yuan (Renminbi)		U.S. Dollars
	December 31,		December 31,
	2013	2014	2014
Work in process	¥22,160,859	¥16,794,736	\$ 2,706,819
Purchased hardware and software held for resale	1,155,093	2,121,550	341,932
Inventory provision	(3,415,570 )	(4,356,091 )	(702,074 )
Total inventories, net	¥19,900,382	¥14,560,195	\$ 2,346,677



## EFUTURE INFORMATION TECHNOLOGY INC. AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The movement of inventory provision related to loss making contracts during the years was as follows:

	Chinese Yuan (Renminbi)			U.S. Dollars
	2012	December 31,		December 31,
		2013	2014	2014
Balance at the beginning of the year	¥4,507,846	¥2,467,133	¥3,415,570	\$550,490
Current year additions	2,602,925	5,561,134	8,302,435	1,338,109
Current year written-off	(4,643,638)	(4,612,697)	(7,361,914)	(1,186,525)
Balance at the end of the year	¥2,467,133	¥3,415,570	¥4,356,091	\$702,074

## NOTE 5. PROPERTY AND EQUIPMENT, NET

Property and equipment included in the consolidated balance sheets as of December 31, 2013 and 2014 comprised of:

	Chinese Yuan (Renminbi)		U.S. Dollars
	December 31,		December 31,
	2013	2014	2014
Motor vehicles	¥1,245,883	¥1,245,883	\$ 200,800
Leasehold improvements	2,870,432	3,192,766	514,580
Office equipment	5,498,110	5,760,046	928,351
Communication equipment	38,000	38,000	6,124
Software	1,980,995	2,558,774	412,400
Total	11,633,420	12,795,469	2,062,255
Accumulated depreciation	(8,134,647)	(9,515,986)	(1,533,698)
Property and equipment, net	¥3,498,773	¥3,279,483	\$ 528,557

Depreciation expense was RMB2.0 million, RMB1.9 million and RMB1.8 million (US\$0.3 million) for the years ended December 31, 2012, 2013, and 2014, respectively.

## NOTE 6. GOODWILL AND INTANGIBLE ASSETS, NET

The carrying amount of goodwill included in the consolidated balance sheets as of December 31, 2013 and 2014 were RMB80,625,667 and RMB80,625,667 (US\$12,994,498), respectively. The balance represents the goodwill arising from the Group's acquisition of Royalstone, Health Field and Proadvancer.

## EFUTURE INFORMATION TECHNOLOGY INC. AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The Group first assessed qualitative factors to determine whether it is “more likely than not” that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. The value of the reporting unit implied by the test was based on management’s assessment of the Group’s business strategy, the related expected future cash flows based on working capital requirements and market capitalization. The Group perform a valuation test (step 1) based on assessments made in the qualitative process. As of December 31, 2014, there was no impairment and no impairment loss on goodwill was recognized.

Intangible assets included in the consolidated balance sheets as of December 31, 2014 and 2013 comprised of:

	Weighted Average Amortization Period (years)	Gross Carrying Amount	Accumulated Amortization	Net Book Value	
Customer relationship	4.48	¥ 36,270,003	¥ 36,270,003	¥-	\$-
Software	5	6,588,516	6,588,516	-	-
Internally generated software	4	77,249,770	37,331,510	39,918,260	6,433,656
Trademark	Indefinite	376,000	-	376,000	60,600
Balance at December 31, 2014		¥ 120,484,289	¥ 80,190,029	¥40,294,260	\$6,494,256

	Weighted Average Amortization Period (years)	Gross Carrying Amount	Accumulated Amortization	Net Book Value	
Customer relationship	4.48	¥ 36,270,003	¥ 36,270,003	¥-	
Software	5	6,588,516	6,588,516	-	
Internally generated software	4	66,791,484	33,565,677	33,225,807	
Trademark	Indefinite	376,000	-	376,000	
Balance at December 31, 2013		¥ 110,026,003	¥ 76,424,196	¥33,601,807	

## EFUTURE INFORMATION TECHNOLOGY INC. AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Amortization expense for the years ended December 31, 2012, 2013 and 2014 was RMB6.9 million, RMB3.7 million and RMB3.8 million (US\$0.6 million), respectively. Unamortized capitalized software costs as of December 31, 2013 and 2014 were RMB23.4 million and RMB33.6 million (US\$5.4 million), respectively.

The Group determined the fair value of intangible assets based on the expected future cash flows generated by them. No impairment loss was recorded for the years ended December 31, 2012, 2013 and 2014.

Estimated aggregate amortization related to the existing intangible assets with definite lives for the each of succeeding five years is as follows:

	Chinese Yuan (Renminbi)	U.S. Dollars
For the years ending December 31,		
2015	¥ 7,623,993	\$ 1,228,765
2016	10,602,879	1,708,874
2017	9,037,932	1,456,650
2018	8,435,765	1,359,599
2019	4,217,691	679,768
Thereafter	-	-

## NOTE 7. SHORT-TERM LOANS

On July 16, September 11, October 22 and November 6, 2014, the Group borrowed four loans with term of one year of RMB1,500,000, RMB1,500,000, RMB2,692,003 and RMB5,000,000 respectively from three banks to meet temporary working capital needs. The annual interest rates are the benchmark interest rate announced by the People's Bank of China plus 20%-30% of the benchmark interest rate. The loans were guaranteed by Adam Yan, our Chairman. One of the loans was additionally guaranteed by Adam's wife. As of December 31, 2014, the outstanding short-term loans were RMB10,692,003 (US\$1,723,238).

Interest expenses incurred for the year ended December 31, 2014 was RMB164,171 (US\$26,460). The weighted average annual interest rate for the year ended December 31, 2014 was 7.5%.

## EFUTURE INFORMATION TECHNOLOGY INC. AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## NOTE 8. OTHER PAYABLES

Other payables included in the consolidated balance sheets as of December 31, 2013 and 2014 comprised of:

	Chinese Yuan (Renminbi)		U.S. Dollars
	December 31,		December 31,
	2013	2014	2014
Social welfare accrual	¥13,069,295	¥11,629,721	\$ 1,874,371
Expenses payable to employees	1,458,703	2,072,380	334,007
Payroll taxes payable	2,307,857	2,750,666	443,327
Customer deposits	1,274,676	1,234,676	198,993
Miscellaneous payable	271,350	290,578	46,833
Total other payables	¥18,381,881	¥17,978,021	\$ 2,897,531

## NOTE 9. ACCRUED EXPENSES

Accrued expenses included in the consolidated balance sheets as of December 31, 2013 and 2014 comprised of:

	Chinese Yuan (Renminbi)		U.S. Dollars
	December 31,		December 31,
	2013	2014	2014
Accrued payroll	¥17,958,706	¥21,568,749	\$ 3,476,251
Accrued rental fee	100,000	-	-
Accrued audit fee	1,290,000	1,398,800	225,446
Other accruals	2,888,494	1,718,006	276,892
Total accrued expenses	¥22,237,200	¥24,685,555	\$ 3,978,589

As of December 31, 2013, other accruals mainly represented the unpaid employee reimbursements, air tickets fee and marketing expenses. As of December 31, 2014, other accruals mainly represented accrued outsourcing service fee, air tickets fee and unpaid employee reimbursements.

## NOTE 10. SHAREHOLDERS' EQUITY

## Preferred stock

The Company's Articles of Association allow for the issuance of convertible preferred stock in the amount of 10,000,000 shares at a par value of \$0.0756 per share with the rights as described in those articles. Holders of the preferred stock have the same voting rights as holders of ordinary stock. All other material rights are to be determined by special resolution of the Company. No shares of convertible preferred stock have been issued as of December 31, 2013 and 2014.

## Ordinary shares

On December 22, 2011, the Company announced a share repurchase program to repurchase up to US\$2 million worth of its ordinary shares over the next 12 months. For the year ended December 31, 2012, the Company repurchased 65,045 shares with an average price of US\$3.87 per share. As the cancellation of repurchased shares had not been completed as of December 31, 2012, the Group recorded the payments for shares repurchase in treasury stocks.

In January 2013, the share repurchase was completed, and the Company reversed the treasury stocks and deducted the ordinary shares and additional paid-in capital.

In October 2013, certain employees exercised their right in receiving 9,000 vested restricted shares. Accordingly, the issued and outstanding number of ordinary shares increased.

F-22

---

EFUTURE INFORMATION TECHNOLOGY INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

In February 2014, options to purchase 2,000 ordinary shares were exercised by an employee. During the year ended December 31, 2014, certain employees exercised their right in receiving 66,450 vested restricted shares. Accordingly, the issued and outstanding number of ordinary shares increased.

NOTE 11. SHARE-BASED AWARDS PLAN

On April 18, 2001, the Company adopted the 2001 Option Plan (the “2001 Plan”), under which 59,063 stock options were granted to key employees, each with an exercise price of \$4.71, a contractual life of 11 years and evenly vested over a five-year period.

Under the 2001 Plan, the Company’s board of directors may amend or terminate the Plan at any time if required under the Plan, subject to shareholders’ approval.

On January 31, 2007, the Company adopted the 2005 Option Plan Set One (the “2005 Plan I”), under which 65,875 stock options were granted to key employees (including directors and senior management who are key employees), each with an exercise price of \$25.42, a contractual life of 10 years and evenly vest over a five-year period.

On September 17, 2007, the Company adopted the 2005 Option Plan Set Two (the “2005 Plan II”), under which 65,800 stock options were granted to key employees, each with an exercise price of \$11.71, a contractual life of 10 years and evenly vested over a five-year period.

Under the 2005 Plan I and Plan II, the Company’s board of directors may amend or terminate the Plan at any time if required under the Plan, subject to shareholders’ approval.

On December 11, 2009, the Company adopted a share incentive plan (the “2009 Plan”), which provided for the granting of share incentives, including Incentive Stock Option (ISO) and restricted shares to key employees. Under the 2009 Plan, 175,000 stock options were granted to key employees with an exercise price of \$6.55 and a contractual life of 10 years, 84,000 and 69,000 restricted shares are granted to members of the board of directors and senior management, respectively, with no cash consideration. Pursuant to the 2009 Plan, options and restricted shares were evenly vested over a three-year period with the first 25% vested on the grant day.

The 2009 Plan is administered by the Company’s Nomination and Compensation Committee of the board of directors. The Nomination and Compensation Committee of the board of directors has the authority to determine the individuals who will receive grants, the type of grant, the number of shares subject to the grant, the terms of the grant, the time the grants will be made, the duration of any exercise or restriction period, and to deal with any other matters arising under the Plan. The Company’s board of directors may amend or terminate the Plan at any time if required under the Plan, subject to shareholders’ approval.

On December 20, 2011, the Company’s shareholders approved the Company’s 2011 Share Incentive Plan (the “2011 Plan”), which provides for the granting of equity incentives, including stock options and restricted shares to key employees. Under the 2011 Plan, 393,745 ordinary shares were reserved for grant in accordance with its terms. No options or restricted shares were granted as of December 31, 2011 under the 2011 Plan.



EFUTURE INFORMATION TECHNOLOGY INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

On May 23, 2012, the Company adopted the 2011 Plan. Under the 2011 Plan, options to purchase 253,000 shares were granted to key employees with an exercise price of \$4.56 and a contractual life of 8.61 years, 134,000 restricted shares were granted to senior management with no cash consideration. Pursuant to the 2011 Plan, options and restricted shares were evenly vested over a three-year period with the first 25% vested on the grant day.

The 2011 Plan is administered by the Company's Nomination and Compensation Committee of the board of directors. The Nominee and Compensation Committee of the board of directors has the authority to determine the individuals who will receive grants, the type of grant, the number of shares subject to the grant, the terms of the grant, the time the grants will be made, the duration of any exercise or restriction period, and to deal with any other matters arising under the Plan. The Company's board of directors may amend or terminate the Plan at any time if required under the Plan, subject to shareholders' approval.

On May 23, 2012, stock options to purchase 8,000 shares were granted to key employees under the 2005 Plan II with an exercise price of \$4.56 and a contractual life of 2.61 years. Pursuant to the 2005 Plan II, such stock options were 100% vested on the grant day.

On May 23, 2012, 3,000 restricted shares were granted to senior management under the 2009 Plan with no cash consideration. Pursuant to the 2009 Plan, such restricted shares were 100% vested on the grant day.

On May 23, 2012, 51,000 restricted shares were granted to members of the board of directors under the 2009 Plan with no cash consideration. Pursuant to the 2009 Plan, such restricted shares were evenly vested over a three-year period with the first 25% vested on the grant day.

On February 5, 2013, 10,000 restricted shares were granted to senior management under the 2011 Plan with no cash consideration. Pursuant to the 2011 Plan, such restricted shares were evenly vested over a three-year period with the first 25% vested on the grant day.

On August 15, 2013, the Company's shareholders approved the Company's 2013 Share Incentive Plan (the "2013 Plan"), which provides for the granting of equity incentives, including stock options and restricted shares to key employees. Under the 2013 Plan, 387,454 ordinary shares were reserved for grant in accordance with its terms. No options or restricted shares were granted as of December 31, 2013 under the 2013 Plan.

The 2013 Plan is administered by the Company's Nomination and Compensation Committee of the board of directors. The Nomination and Compensation Committee of the board of directors has the authority to determine the individuals who will receive grants, the type of grant, the number of shares subject to the grant, the terms of the grant, the time the grants will be made, the duration of any exercise or restriction period, and to deal with any other matters arising under the Plan. The Company's board of directors may amend or terminate the Plan at any time if required under the Plan, subject to shareholders' approval.

## EFUTURE INFORMATION TECHNOLOGY INC. AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

On December 25, 2014, the Company adopted the 2013 Plan. Under the 2013 Plan, options to purchase 296,000 shares were granted to key employees with an exercise price of \$4.39 and a contractual life of 8 years, and 44,454 restricted shares were granted to senior management with no cash consideration. Pursuant to the 2013 Plan, options and restricted shares evenly vest over a three-year period with the first 25% vested on the grant day.

On December 25, 2014, stock options to purchase 40,000 shares were granted to key employees under the 2009 Plan with an exercise price of \$4.39 and a contractual life of 4 years. Pursuant to the 2009 Plan, such stock options were evenly vested over a three-year period with the first 25% vested on the grant day.

On December 25, 2014, 25,000 restricted shares were granted to senior management under the 2009 Plan with no cash consideration. Pursuant to the 2009 Plan, such restricted shares were evenly vested over a three-year period with the first 25% vested on the grant day.

On December 25, 2014, 68,004 restricted shares were granted to senior management under the 2011 Plan with no cash consideration. Pursuant to the 2011 Plan, such restricted shares evenly vest over a three-year period with the first 25% vested on the grant day.

The fair value of options granted is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

	2005 Plan I January 31, 2007	2005 Plan II September 17, 2007	2009 Plan December 11, 2009	2011 Plan May 23, 2012	2013 Plan December 25, 2014
Grant date					
Expected life (in years)	6.5	6.5	5.25	5.25	4.75
Risk-free interest rate	4.82%	4.32%	2.94%	0.71%	1.75%
Expected volatility	75%	75%	100%	82.25%	61.18%
Expected dividend yield	0%	0%	0%	0%	0%
Forfeiture rate	3%	3%	3%	3%	3%

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options. The Company recognized share-based compensation expense under the 2005 Plan, 2011 Plan and 2013 Plan using a straight line basis over the requisite service period, whereas, the Company recognized share-based compensation expense under the 2009 Plan using a graded vesting attribution method.

## EFUTURE INFORMATION TECHNOLOGY INC. AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

A summary of option activity as of December 31, 2014, and changes during the year then ended is presented below:

	Number	Weighted Average Exercise Price	Aggregate Intrinsic Value	Weighted Average Remaining Contractual Term (years)
Outstanding as of January 1, 2014	413,525	\$8.74		5.03
Granted	336,000	\$4.39		7.53
Exercised	(2,000 )	\$4.56	\$ 2,080	4.50
Forfeited	(26,500 )	\$9.37		
Outstanding as of December 31, 2014	721,025	\$6.70	\$ -	5.68
Exercisable as of December 31, 2014	417,900	\$6.76	\$ -	5.64

For the year ended December 31, 2014, the number and weighted average grant-date fair value for the Company's non-vested stock options were as follows:

	Number	Weighted Average Grant-date Fair Value
Non-vested on January 1, 2014	105,500	\$ 1.92
Granted	336,000	\$ 2.21
Vested	(135,125)	\$ 2.10
Forfeited	(3,250 )	\$ 1.92
Non-vested on December 31, 2014	303,125	\$ 2.16

For the year ended December 31, 2014, the number and weighted-average grant-date fair value for the Company's non-vested restricted shares were as follows:

	Number	Weighted Average Grant-date Fair Value
Non-vested on January 1, 2014	81,250	\$ 3.49
Granted	137,458	\$ 4.39
Vested	(67,864 )	\$ 3.97
Forfeited	(15,500 )	\$ 3.29
Non-vested on December 31, 2014	135,344	\$ 4.19

The weighted average grant-date fair value of stock options and restricted shares granted for the year ended December 31, 2014 was US\$2.21 and US\$4.39, respectively. The weighted average grant-date fair value of restricted shares granted for the year ended December 31, 2013 was US\$3.72. The weighted average grant-date fair value of stock options and restricted shares granted for the year ended December 31, 2012 was US\$1.91 and US\$3.60, respectively.

EFUTURE INFORMATION TECHNOLOGY INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The total intrinsic value of stock options exercised for the year ended December 31, 2014 was US\$2,080. No stock options were exercised in 2012 or 2013.

The total fair value of stock options vested for the years ended December 31, 2012, 2013 and 2014 were RMB4.0 million, RMB0.6 million and RMB1.8 million (US\$0.3 million), respectively.

The total fair value of restricted shares vested for the years ended December 31, 2012, 2013 and 2014 were RMB2.5 million, RMB0.9 million and RMB1.7 million (US\$0.3 million), respectively.

Total compensation cost for share-based payment arrangement recognized for the years ended December 31, 2012, 2013 and 2014 were RMB5.8 million, RMB1.5 million and RMB3.3 million (US\$0.5 million), respectively.

As of December 31, 2014, the total compensation cost related to stock options and restricted shares not yet recognized were RMB3.5 million (US\$0.6 million) and RMB2.9 million (US\$0.5 million), respectively, which are expected to be recognized over a weighted average period of 2.82 years and 2.76 years, respectively.

The Company received cash proceeds of RMB55,805 (US\$8,994) from exercise of stock options for the year ended December 31, 2014. No stock options were exercised in 2012 or 2013.

NOTE 12. VARIABLE INTEREST ENTITIES AND OTHER LONG-TERM INVESTMENT

(a) Variable interest entities

ASC 810, Consolidation, requires a variable interest entity to be consolidated by a company if that company is the primary beneficiary of that variable interest entity.

To satisfy PRC laws and regulations, the Group conducts its internet information and certain other businesses in the PRC via its variable interest entities. These variable interest entities are directly owned by certain employees of the Company. Capital for the variable interest entities is funded by the Company through loans provided to those employees, and is initially recorded as loans to related parties. These loans are eliminated for accounting purposes with the capital of variable interest entities during consolidation.

Under contractual agreements with the Company, employees who are shareholders of the variable interest entities are required to transfer their ownership in these entities to the Company, if permitted by PRC laws and regulations, or, if not so permitted, to designees of the Company at any time to repay the loans outstanding. All voting rights of the variable interest entities are assigned to the Company, and the Company has the right to designate all directors and senior management personnel of the variable interest entities. Employees who are shareholders of the variable interest entities have pledged their shares in the variable interest entities as collateral for the loans. As of December 31, 2013 and 2014, the aggregate amount of these loans were both RMB1,500,000.

EFUTURE INFORMATION TECHNOLOGY INC. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

As of December 31, 2013 and 2014, the Company effectively controlled one variable interest entity, Weidian, which has been included in the consolidated financial statements.

Weidian

Weidian was incorporated in the PRC in 2011 and is an e-Commerce service provider. On January 18, 2011, the Company entered into a loan agreement with Zou Hongjun, an employee of the Company, pursuant to which the Company provided RMB1,350,000 to him for obtaining 90% of equity interests in Weidian. On January 18, 2011, the Company entered into a loan agreement with Zhang Xuejun, an employee of the Company, pursuant to which the Company provided RMB150,000 to him for obtaining 10% of equity interests in Weidian. On January 18, 2011, the Company entered into share pledge agreements with Zou Hongjun and Zhang Xuejun, respectively, pursuant to which the two employees of the Company pledged all their equity interests in Weidian to the Company, and the Company effectively controlled 100% of the interest in Weidian through Zou Hongjun and Zhang Xuejun.

Weidian is the Company's VIE. The selected financial data of Weidian for the years ended December 31, 2013 and 2014 and as of December 31, 2013 and 2014 were as follows:

	Chinese Yuan (Renminbi)		U.S. Dollars
	December 31,		December
	2013	2014	31, 2014
Total assets	¥ 597,574	¥ 1,274,631	\$ 205,433
Total liabilities	324	916,514	147,715
Revenues	-	-	-
Net loss	14,368	239,133	38,541
Net cash provided by operating activities	5,761	783,358	126,254
Net cash provided by investing activities	-	-	-
Net cash provided by financing activities	-	-	-

(b) Other long-term investment

Other long-term investment includes the investment in which the Group does not have the ability to exercise significant influence (generally, when the Group has an investment of less than 20% ownership) and for which there is not a readily determinable fair value, is accounted for using the cost method. Dividends and other distributions of earnings from investee, if any, are included in income when declared.

On March 15, 2010, the Company purchased 15% interest of Fuji Saiwei (Beijing) Technology Co., Ltd., ("cFuture"). The Company recorded an investment on cFuture of RMB240,000 by applying the cost method of accounting. cFuture was incorporated in PRC in 2009 and engages in e-Retail business to render e-service to the retailers.

EFUTURE INFORMATION TECHNOLOGY INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The Company is required to perform an impairment assessment of its investments whenever events or changes in business circumstances indicate that the carrying value of the investment may not be fully recoverable. As of December 31, 2011, the Company determined that such events and changes occurred and were other-than-temporary. Thus, impairment of RMB240,000 was made to write down the asset to its fair value and take the corresponding charge to the consolidated statements of operations during the year ended December 31, 2011.

For the years ended December 31, 2013 and 2014, no impairment loss was recorded in the consolidated financial statements.

NOTE 13. RELATED PARTY TRANSACTIONS

The Company did not enter into any related party transactions in the year ended December 31, 2014.

NOTE 14. INCOME TAXES

The Company is incorporated in the Cayman Islands and conducts its primary business operations through the subsidiary and VIEs in the PRC. Under the current laws of the Cayman Islands, the Company is not subject to tax on income or capital gains. Additionally, upon payments of dividends by the Company to its shareholders, no Cayman Islands withholding tax will be imposed.

According to the PRC Corporate Income Tax Law, or the CIT Law, which became effective on January 1, 2008, as further clarified by subsequent tax regulations implementing the CIT Law, foreign-invested enterprises and domestic enterprises are subject to corporate income tax, at a uniform rate of 25%. The CIT rate of enterprises established before March 16, 2007 that were eligible for preferential tax rates according to then effective tax laws and regulations gradually transitioned to the uniform 25% CIT rate by January 1, 2013. In addition, certain enterprises may still benefit from a preferential tax rate of 15% under the CIT Law if they qualify as “high and new technology enterprises strongly supported by the state,” subject to certain general factors described in the CIT Law and the related regulations.

In December 2008, the Company’s subsidiary eFuture Beijing was designated as “High and New Technology Enterprises” under the CIT Law, which entitles it to a preferential CIT rate of 15% from 2008 to 2014. The Company expects that eFuture Beijing will continue to qualify for the preferential CIT rate in the future. Weidian was subject to a 25% tax rate in 2012, 2013 and 2014, respectively. eFuture Hainan was subject to a 25% tax rate in 2013 and 2014.

The CIT Law treats enterprises established outside of China with “effective management and control” located in China as PRC resident enterprises for tax purposes. The term “effective management and control” is generally defined as exercising overall management and control over the business, personnel, accounting, properties, etc. of an enterprise. eFuture Information Technology Inc., if considered a PRC resident enterprise for tax purposes, would be subject to the PRC CIT at the rate of 25% on its worldwide income for the period after January 1, 2008. As of December 31, 2014, eFuture Information Technology Inc. has not accrued for PRC tax on such basis as it had no substantial business. The Company will continue to monitor its tax status.

## EFUTURE INFORMATION TECHNOLOGY INC. AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Income (Loss) before tax for the years ended December 31, 2012, 2013 and 2014 was taxed in the following jurisdictions:

	Chinese Yuan (Renminbi)			U.S. Dollars
	For the Years Ended December 31,			For the
	2012	2013	2014	Year Ended December 31, 2014
PRC	¥15,240,940	¥(501,808 )	¥19,653,549	\$ 3,167,577
Cayman Islands	(15,253,126)	(6,662,406)	(8,041,344 )	(1,296,030 )
Income (Loss) before income tax	¥(12,186 )	¥(7,164,214)	¥11,612,205	\$ 1,871,547

The income tax expenses for the years ended December 31, 2012, 2013 and 2014 were as follows:

	Chinese Yuan (Renminbi)			U.S. Dollars
	For the Years Ended December 31,			For the
	2012	2013	2014	Year Ended December 31, 2014
Current tax before tax loss carry forwards (set-off)	¥13,330,732	¥891,449	¥3,656,684	\$ 589,350
Tax loss carry forwards (set-off)	59,638	15,098	59,324	9,561
Current income taxes	13,390,370	906,547	3,716,008	598,911
Deferred income taxes	(8,892,940 )	(619,251)	509,041	82,043
Total income tax expenses	¥4,497,430	¥287,296	¥4,225,049	\$ 680,954

The reconciliation of income tax expenses computed by applying the statutory corporate income tax rate to pre-tax income (loss) to the actual tax expense (benefit) is as follows:

	Chinese Yuan (Renminbi)			U.S. Dollars
	For the Years Ended December 31,			For the
	2012	2013	2014	Year Ended December 31, 2014
Income tax expense (benefit) computed at statutory tax rate of 25%	¥(3,046 )	¥(1,791,053)	¥2,903,051	\$ 467,887
Difference in tax rate of the Company outside the PRC	3,813,282	1,665,601	2,010,336	324,007
Effect of tax holiday for a subsidiary	(1,547,949)	44,142	(1,989,084)	(320,582 )
Non-deductible expenses	2,799,105	396,408	1,241,422	200,081
Tax loss carry forward (set-off)	59,638	15,098	59,324	9,561
Deferred tax benefit	(623,600 )	(42,900 )	-	-
Income tax expenses	¥4,497,430	¥287,296	¥4,225,049	\$ 680,954

## EFUTURE INFORMATION TECHNOLOGY INC. AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The components of the deferred tax assets and liabilities were as follows:

	Chinese Yuan (Renminbi)		U.S. Dollars
	December 31,		December 31,
	2013	2014	2014
<b>Deferred Tax Assets:</b>			
Net operating loss carry forwards	¥237,193	¥134,060	\$ 21,607
Allowance for doubtful accounts and write offs	2,266,888	2,220,401	357,864
Inventory provision	512,335	653,414	105,311
Accruals and others	5,022,822	5,187,854	836,130
Intangible assets impairment	980,504	980,504	158,029
Valuation allowance	(237,193 )	(134,060 )	(21,607 )
Total deferred tax assets	¥8,782,549	¥9,042,173	\$ 1,457,334
<b>Deferred Tax Liabilities:</b>			
Fix assets depreciation	¥-	¥(60,867 )	\$ (9,810 )
Refundable value added tax	(307,089 )	(1,014,887 )	(163,570 )
Total deferred tax liabilities	¥(307,089 )	¥(1,075,754 )	\$ (173,380 )
Net deferred tax assets	¥8,475,460	¥7,966,419	\$ 1,283,954

As of December 31, 2014, the Group had a net operating loss of approximately RMB0.5 million (US\$0.1 million) deriving from entities in the PRC which can be carried forward after certain reconciliation per tax regulation to offset future net profit for income tax purposes. The net operating loss will expire RMB0.2 million, RMB0.1 million, and 0.2 million in 2015, 2016 and 2017, respectively.

The Group recorded a valuation allowance against the 2013 and 2014 operating loss carry forwards of Weidian and eFuture Hainan as of December 31, 2013 and 2014, respectively, as the Group believes it is more likely than not that such deferred tax assets will not be realized.

The Group has evaluated its income tax uncertainty under ASC 740-10. ASC 740-10 clarifies the accounting for uncertainty in income taxes by prescribing the recognition threshold a tax position is required to meet before being recognized in the financial statements. The Group has elected to classify interest and penalties related to an uncertain tax position, if and when required, as part of income tax expense in the consolidated statements of operations. Under the PRC law, net operating loss will expire within 5 years. As of and for the years ended December 31, 2013 and 2014, no unrecognized tax benefits or interest and penalties associated with uncertainty in income taxes have been recognized.



## EFUTURE INFORMATION TECHNOLOGY INC. AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## NOTE 15. EARNINGS (LOSS) PER SHARE

The following shares were excluded from the calculation of diluted net income (loss) per share as they were anti-dilutive shares for the years ended December 31, 2012, 2013 and 2014:

	Years ended December 31,		
	2012	2013	2014
Stock options	440,075	413,525	720,868
Non-vested restricted shares	138,750	81,250	-
Total anti-dilutive shares	578,825	494,775	720,868

The following table is a reconciliation of the numerators and denominators used in the calculation of basic and diluted earnings (loss) per share and the weighted-average ordinary shares outstanding for the years ended December 31, 2012, 2013 and 2014:

	Chinese Yuan (Renminbi)			U.S. Dollars
	For the Years Ended December 31,			For the
	2012	2013	2014	Year Ended December 31, 2014
Net income (loss)	¥(4,509,616)	¥(7,451,510)	¥7,387,156	\$ 1,190,593
Basic weighted average ordinary shares outstanding	4,213,318	4,224,676	4,173,014	4,173,014
Effect of dilutive securities:				
Stock options and non-vested restricted shares	-	-	135,502	135,502
Diluted weighted average ordinary shares outstanding	4,213,318	4,224,676	4,308,516	4,308,516
Basic earnings (loss) per share	¥(1.07 )	(1.76 )	¥1.77	\$ 0.29
Diluted earnings (loss) per share	¥(1.07 )	(1.76 )	¥1.71	\$ 0.28

## EFUTURE INFORMATION TECHNOLOGY INC. AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## NOTE 16. COMMITMENTS AND CONTINGENCIES

Operating Lease Agreements– Operating lease commitments include the commitments under the lease agreements for the Group’s office premises. The Group leases eleven office facilities throughout China under non-cancelable operating leases with various expiration dates. The amounts of commitments for non-cancelable operating leases in effect at December 31, 2014, were as follows:

		Chinese Yuan (Renminbi)	U.S. Dollars
2015	¥	4,205,574	\$ 677,816
2016		2,299,933	370,682
2017		589,215	94,964
2018		-	-
2019		-	-
Total	¥	7,094,722	\$ 1,143,462

The Group incurred rental expense of RMB8,782,644, RMB8,984,026 and RMB8,688,546 (US\$1,400,339) for the years ended December 31, 2012, 2013 and 2014, respectively. All lease agreements have different lease periods, ranging from 1 year to 4 years.

Software Infringement Indemnity – Standard software license agreements contain an infringement indemnity clause under which the Company agrees to indemnify and hold harmless customers and business partners against liability and damages arising from claims of various copyright or other intellectual property infringements by their software products. The terms constitute a form of guarantee that is subject to the provision.

We estimate the fair value of our indemnification obligations as insignificant, based on our historical experience concerning product and patent infringement claims. Accordingly, we have no liabilities recorded for indemnification under these agreements as of December 31, 2013 and 2014.

EFUTURE INFORMATION TECHNOLOGY INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Litigation –The Group from time to time is involved in disputes and litigation arising out of the normal course of business. On October 19, 2011, the plaintiff, Microsoft Corporation, filed four software copyright infringement claims against eFuture Beijing at Wuhan Intermediate People’s Court. On December 4, 2012, the Wuhan Intermediate People’s Court rendered four court judgments against eFuture Beijing. The four court judgments awarded Microsoft monetary damages as well as reimbursement of the legal expenses and reasonable expenses of RMB3,944,898 in total. On March 28, 2013, eFuture Beijing entered into a confidential dispute settlement (the “Settlement Agreement”) with Microsoft Corporation in respect to Microsoft’s claims of product infringement against the Company. The settlement resolved all claims between the parties and the amount of the settlement was lower than the judgment previously awarded to Microsoft Corporation. The Group made provision of such obligations under the Settlement Agreement as of December 31, 2012. It was paid in 2013.

The Group was not aware of any potential unasserted claims that would have a material effect on the Group’s financial condition or results of operations.

## EXHIBIT INDEX

Exhibit No.	Description
1.1	Amended and Restated Memorandum and Articles of Association of the Registrant (incorporated by reference to Exhibit 3.1 of the Registrant's Registration Statement on Form F-1 (File No. 333-126007) filed with the SEC on June 21,2005)
1.2	Written resolutions of the Registrant amending the terms of its Memorandum of Association dated June 16, 2005 (incorporated by reference to Exhibit 3.3 of the Registrant's Registration Statement on Form F-1 (File No. 333-126007) filed with the SEC on October 18,2005)
2.1	Specimen Certificate for Ordinary shares(incorporated by reference to Exhibit 4.1 of the Registrant's Registration Statement on Form F-1 (File No. 333-126007) filed with the SEC on August 22,2005)
4.1	Securities Purchase Agreement dated as of March 13, 2007 by and among the Company, Capital Ventures International ("CVI"), Hudson Bay Fund, LP ("HBF") and Hudson Bay Overseas Fund, Ltd. ("HBOF") (incorporated by reference to Exhibit 99.1 of the Registrant's Current Report on Form 6-K filed with the SEC on March 15, 2007)
4.2	Registration Rights Agreement, dated March 13, 2007 by and among the Company, CVI, HBF and HBOF (incorporated by reference to Exhibit 99.5 of the Registrant's Current Report on Form 6-K filed with the SEC on March 15, 2007)
4.3	Form of Senior Convertible Note issued pursuant to the Securities Purchase Agreement dated as of March 13, 2007 (incorporated by reference to Exhibit 99.3 of the Registrant's Current Report on Form 6-K filed with the SEC on March 15, 2007)
4.4	Form of Series A Warrant issued pursuant to the Securities Purchase Agreement dated as of March 13, 2007 (incorporated by reference to Exhibit 99.2 of the Registrant's Current Report on Form 6-K filed with the SEC on March 15, 2007)
4.5	Form of Series B Warrant issued pursuant to the Securities Purchase Agreement dated as of March 13, 2007 (incorporated by reference to Exhibit 99.3 of the Registrant's Current Report on Form 6-K filed with the SEC on March 15, 2007)
4.6	Acquisition of Beijing Wangku Hutong Information Technology Co., Ltd. (incorporated by reference to Exhibit 99.1 of the Registrant's Current Report on Form 6-K filed with the SEC on May 21, 2007)
4.7	Acquisition of Crownhead Holdings Ltd. And Royalstone System Integrated Co., Ltd (incorporated by reference to Exhibit 99.1 of the Registrant's Current Report on Form 6-K filed with the SEC on August 15, 2007)
4.8	English translation of Equity Transfer Agreement dated as of July 16, 2010 between Tingchao Zhao (the nominee of the Registrant) and Boyong Jiang(incorporated by reference to Exhibit 4.8 of the Registrant's Annual Report on Form 20-F filed with the SEC on April 30, 2012)
4.9	English translation of Equity Transfer Agreement dated as of March 13, 2011 between Xuejun Zhang (the nominee of the Registrant) and Haibo Wang(incorporated by reference to Exhibit 4.9 of the Registrant's Annual Report on Form 20-F filed with the SEC on April 30, 2012)
4.10	Loan Agreement dated as of January 18, 2011 between eFuture Beijing and Xuejun Zhang, one of the shareholders of Weidian(incorporated by reference to Exhibit 4.10 of the Registrant's Annual Report on Form 20-F filed with the SEC on April 30, 2012)



- 4.11 Loan Agreement dated as of January 18, 2011 between eFuture Beijing and Hongjun Zou, one of the shareholders of Weidian(incorporated by reference to Exhibit 4.11 of the Registrant's Annual Report on Form 20-F filed with the SEC on April 30, 2012)
- 4.12 Share Pledge Agreement dated as of January 18, 2011 between eFuture Beijing and Xuejun Zhang, one of the shareholders of Weidian(incorporated by reference to Exhibit 4.12 of the Registrant's Annual Report on Form 20-F filed with the SEC on April 30, 2012)
- 4.13 Share Pledge Agreement dated as of January 18, 2011 between eFuture Beijing and Hongjun Zou, one of the shareholders of Weidian(incorporated by reference to Exhibit 4.13 of the Registrant's Annual Report on Form 20-F filed with the SEC on April 30, 2012)
- 4.14 Exclusive Option Agreement dated as of January 18, 2011 between eFuture Beijing, Weidian and Xuejun Zhang, one of the shareholders of Weidian(incorporated by reference to Exhibit 4.14 of the Registrant's Annual Report on Form 20-F filed with the SEC on April 30, 2012)
- 4.15 Exclusive Option Agreement dated as of January 18, 2011 between eFuture Beijing, Weidian and Hongjun Zou, one of the shareholders of Weidian(incorporated by reference to Exhibit 4.15 of the Registrant's Annual Report on Form 20-F filed with the SEC on April 30, 2012)
- 4.16 Exclusive Business Cooperation Agreement dated as of January 18, 2011 between eFuture Beijing and Weidian(incorporated by reference to Exhibit 4.16 of the Registrant's Annual Report on Form 20-F filed with the SEC on April 30, 2012)
- 4.17 Supplemental Agreement to Exclusive Business Cooperation Agreement dated as of April 23, 2012 between eFuture Beijing and Weidian(incorporated by reference to Exhibit 4.17 of the Registrant's Annual Report on Form 20-F filed with the SEC on April 30, 2012)
- 4.18 Power of Attorney dated as of January 18, 2011 issued by Xuejun Zhang, one of the shareholders of Weidian(incorporated by reference to Exhibit 4.18 of the Registrant's Annual Report on Form 20-F filed with the SEC on April 30, 2012)
- 4.19 Power of Attorney dated as of January 18, 2011 issued by Hongjun Zou, one of the shareholders of Weidian(incorporated by reference to Exhibit 4.19 of the Registrant's Annual Report on Form 20-F filed with the SEC on April 30, 2012)
- 8.1\* Subsidiaries of the Registrant
- 11.1 Code of Business Conduct and Ethics (incorporated by reference to Exhibit 11.1 of the Registrant's Annual Report on Form 20-F filed with the SEC on June 28, 2007)
- 12.1\* Section 302 Certification of Adam Yan
- 12.2\* Section 302 Certification of Ping Yu
- 13.1\* Section 906 Certification of Adam Yan
- 13.2\* Section 906 Certification of Ping Yu
- 15.1\* Consent of Independent Registered Public Accounting Firm

\* Filed herewith.