eFuture Information Technology Inc.
Form 20-F
June 29, 2010

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

(Mark One)

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

OR

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2009

OR

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

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

Date of event requiring this shell company report __________

For the transition period from __________ to __________

Commission file number: 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.
8F Topnew Tower
15 Guanghua Road
Chaoyang District
Beijing 100026, People's Republic of China
86-10-51650988
(Address of principal executive offices)

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8F Topnew Tower, 15 Guanghua Road
Chaoyang District
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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
Common stock, 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, 2009, there were 3,368,424 shares of the registrant's Common Stock outstanding.

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

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 o No x

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 o No x

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 x No o

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 o	Accelerated filer o	Non-accelerated filer x

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

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

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 o No x

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In this Annual Report on Form 20-F, references to “dollars” 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 sim 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 subsidiary, eFuture (Beijing) Royalstone Information Technology Inc. (“eFuture Royalstone” or “eFuture Beijing”), and the effectively controlled two variable interest entities (“VIEs”), Beijing Wangku Hutong Information Technology Co., Ltd. (“Wangku”), acquired on May 14, 2008, and Beijing Fuji Biaoshang Information Technology Co., Ltd. (“Biaoshang” or “bFuture”), acquired on October 24, 2007.

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 income data for the three years ended December 31, 2007, 2008 and 2009 and the consolidated balance sheet data as of December 31, 2008 and 2009 have been derived from our audited consolidated financial statements set forth in Item 18 – Financial Statements. The selected consolidated balance sheet data for the year ended December 31, 2007 have been derived from our audited consolidated balance sheet as of December 31, 2007, which is not included in this annual report. The selected consolidated statements of income data for the years ended December 31, 2005 and 2006 and the selected consolidated balance sheet data as of December 31, 2005 and 2006 have been derived from our audited consolidated financial statements for the years ended December 31, 2005 and 2006, 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 .

	RMB					USD
	For the Year Ended December 31,					For the Year Ended December 31,
	2005	2006	2007	2008	2009	2009
Total Revenues	¥ 39,244,001	¥ 47,843,530	¥ 84,920,993	¥ 139,863,502	¥ 122,267,642	$ 17,912,311
Profit (Loss) From Operations	5,843,028	7,976,967	6,562,255	(10,037,244)	(29,525,848)	(4,325,561)
Earnings (Loss) From Operations Per Common Stock	4.73	4.72	2.44	(3.12)	(8.78)	(1.29)
Net loss attributable to eFuture						

Information Technology	5,470,263	8,104,726	(21,526,314)	(4,478,112)	(25,265,497)	(3,701,416)
Basic Earnings (Loss) Per Share	4.43	4.80	(8.01)	(1.39)	(7.51)	(1.10)
Diluted Earnings (Loss) Per Share	3.50	4.43	(8.01)	(1.39)	(7.51)	(1.10)

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	RMB					USD
			As of December 31,			As of December 31,
	2005	2006	2007	2008	2009	2009
Total Assets	¥ 31,657,674	¥ 83,025,047	¥ 208,877,159	¥ 238,862,093	¥ 228,537,620	$ 33,480,951
Total Current Liabilities	(19,565,356)	(18,476,058)	(55,815,000)	(93,306,490)	(106,202,185)	(15,558,708)
Long-term Liabilities	-	-	(49,849,390)	(10,595,717)	(7,970,483)	(1,167,682)
Net Assets	12,092,318	64,548,989	103,212,769	134,755,472	116,260,412	17,032,247
Common Stock	938,550	1,647,781	1,811,589	2,039,196	2,042,384	299,211
Number of Weighted-average Common Stock	938,550	1,689,434	2,687,380	3,214,466	3,362,986	

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. 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 RMB6.8259 to US$1.00, the noon buying rate in effect as of December 31, 2009. 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.

	Noon Buying Rate			
Period	Period-End	Average (1)	Low	High
	(RMB per US Dollar)			
2006	7.8041	7.9723	7.8041	8.0702
2007	7.2946	7.6072	7.2946	7.8127
2008	6.8225	6.9477	6.7800	7.2946
2009	6.8259	6.8275	6.8244	6.8299
2010				
January	6.8268	6.8269	6.8258	6.8295
February	6.8258	6.8285	6.8258	6.8330
March	6.8258	6.8262	6.8254	6.8270
April	6.8247	6.8256	6.8275	6.8229
May	6.8305	6.8275	6.8245	6.8310
June (through June 18, 2010)	6.8267	6.8298	6.8267	6.8323

(1) Averages are calculated using the average of the daily rates during the relevant period.

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.

Lingering effects of the global economic crisis, could materially and adversely affect our business, financial condition and results of operations.

Over the last two years, the global economic crisis has affected all areas of business in all the regions we operate in.

While the Chinese economy has begun to show signs of recovery and improvement in recent months, disruptions in orderly financial markets, resulting from, among other factors, severely diminished liquidity and credit availability plus volatile and declining valuations of securities and other investments have caused business and consumer confidence to ebb, business activities to slow down, and unemployment to increase.

We are unable to predict whether the economic downturn has completely subsided. A continuing economic downturn may adversely affect our business in a number of ways, including:

- Reduced demand for our products and services. In a period of economic uncertainty, customers may adopt a strategy of deferring purchases to upgrade existing equipment or deploy new equipment until later periods. In addition, customers who must finance their capital expenditures through various forms of debt may find financing unavailable to them.

- Increased pricing pressure and lower margins. Our competitors include a number of enterprises with relatively greater size in terms of revenues, working capital, financial resources and number of employees than we have. If the size of our potential markets contracts due to the global economic downturn, competition for available sales may become more intense, which could require us to offer or accept pricing, payment, or local content terms which are less favorable to remain competitive. In some cases we might be unwilling or unable to compete for business where competitive pressures make a potential opportunity unprofitable to us.

- Greater difficulty in collecting accounts receivable. Any sales made to customers whose financial resources may be subject to rapid decline, could expose us to losing sales, delaying revenue recognition or accepting greater collection risks due to credit quality issues.

- Additional restructuring and impairment charges. If we are unable to generate the level of revenues, profits, and cash flow contemplated by our business plan, management will be forced to take further action to focus our business activities and align our cost structure with anticipated revenues. These actions, if necessary could result in additional restructuring charges and/or asset impairment charges being recognized in 2010 and beyond.

Our management has determined that we have material weaknesses in our internal controls over financial reporting.

In connection with the preparation of our annual report on internal control over financial reporting, our management noted that our company has material weaknesses in our internal controls over financial reporting. Specifically, our management noted material weaknesses in our policies regarding (i) controls over the financial reporting processes, (ii) monthly and year end closing processes. See "Item 15T. Controls and Procedures – Management's Annual Report on Internal Control over Financial Reporting."

We have taken steps to improve the controls in this area. Despite these steps, we may experience reportable conditions and significant deficiencies in the future, which, if not remediated, may render us unable to detect in a timely manner misstatements that could occur in our financial statements in amounts that may be material.

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 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 sustain our profitability on a quarterly or annual basis or that 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 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, we had an accumulated deficit of RMB 68,687,892 as of December 31, 2009. As of December 31, 2009, our shareholders' equity was RMB 116,260,412. While we have achieved profitability in previous years, there can be no assurance that we will be able to continue our growth or profitability. Indeed, we had a net loss of RMB 25,265,497 in the fiscal year ended December 31, 2009.

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.

Although we remained stable in service fee revenue in the fiscal year 2009 due to the economic downtown, we believe we are well positioned to extend our track record of growth throughout 2010. We intend to optimize our revenue mix by focusing on generating more service fee income through a wider range and different levels of service. 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.

Our operating results may seasonally fluctuate, which could cause our results to fall short of expectations.

Our business has historically experienced the highest revenue in the fourth quarter of each year, primarily due to a massive year-end capital purchases by customers. Such factors have resulted in 2009, 2008, and 2007 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.

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.

Competition within the Chinese market for our software products is significant.

We believe that while the Chinese market for front-end supply chain total solutions is subject to intense competition, the number of significant competitors is relatively limited, we effectively compete in our market, our competitors occupy a substantial competitive position. There can be no assurance that we will be able to effectively compete in our industry on an ongoing basis.

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 industry. 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 front 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. We cannot guarantee 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 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 incur a loss of competitiveness or revenue.

We are substantially dependent upon our key personnel, particularly Adam Yan, our Chairman and Chief Executive 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.

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.

In the future, we may receive notices claiming that we are infringing the proprietary rights of third parties. While we believe that we do not infringe and have not infringed upon the rights of others, we cannot guarantee that we will not become the subject of infringement claims or legal proceedings by third parties with respect to our current programs or future software developments. 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. Any such claims could be time consuming, result in costly litigation, cause product shipment delays or force us to enter into royalty or license agreements rather than dispute the merits of such claims, thereby impairing our financial performance by requiring us to pay additional royalties and/or license fees to third parties. We have never lost an infringement claim since our formation.

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, thereby impairing our financial condition.

We may not pay dividends.

We have not previously paid any cash dividends nor do we anticipate paying any dividends on our common stock. Although we achieved profitability from 2004 to 2006, we cannot assure you that our operations will continue to result in sufficient revenues to enable us to operate at profitable levels or to generate positive cash flows. Indeed, we had net losses of RMB 4,478,112 and RMB 25,265,497 in the fiscal years ended December 31, 2008 and 2009, 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 common stock in the future, as a holding company, we will be dependent on receipt of funds from our operating wholly- and partially-owned subsidiaries.

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

We cannot assure you that growth of the Chinese economy will be steady or that any slowdown will not have a negative effect on our business. Several years ago, the Chinese economy experienced deflation, which may recur in the foreseeable future. More recently, the Chinese government announced its intention to use macroeconomic tools and regulations to slow the rate of growth of the Chinese economy, the results of which are difficult to predict. Adverse changes 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.

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

The insurance industry in China is still at an early state 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.

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 common stock, 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.

Governmental control of currency conversion may affect the value of our common stock.

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 common stock.

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 common stock 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.

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.

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

In December 2008, our subsidiary eFuture Beijing was designated as “High and New Technology Enterprises” under the EIT Law, which entitles it to a preferential EIT rate of 15% from 2008 to 2010. If it fails to maintain the “High and New Technology Enterprises” qualification, its applicable EIT 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.

Furthermore, we may apply for a refund of the 5% business tax levied on our total revenues derived from our technology consulting services. 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%, and we would be unable to obtain business tax refunds for our provision of technology consulting services.

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 complete. 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.

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 (2007 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 developed 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. Also, our Cayman Islands counsel is not aware of a significant number of reported class actions or derivative actions having been brought in Cayman Islands courts. 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.

As we are a Cayman Islands company and most of our assets are outside the United States, it will be extremely difficult to acquire jurisdiction and enforce liabilities against us and our officers, directors and assets based in China.

We are a Cayman Islands exempt company, and our corporate affairs are governed by our Amended and Restated Memorandum and Articles of Association and by the Cayman Islands Companies Law (2007 Revision) and other applicable Cayman Islands laws. Certain of our directors and officers reside outside of the United States. In addition, the Company's assets are located outside the United States. As a result, it may be difficult or impossible to effect service of process within the United States upon our directors or officers and our subsidiaries, or enforce against any of them court judgments obtained in United States courts, including judgments relating to United States federal securities laws. In addition, there is uncertainty as to whether the courts of the Cayman Islands and of other offshore jurisdictions would recognize or enforce judgments of United States courts obtained against us predicated upon the civil liability provisions of the securities laws of the United States or any state thereof, or be competent to hear original actions brought in the Cayman Islands or other offshore jurisdictions predicated upon the securities laws of the United States or any state thereof. Furthermore, because the majority of our assets are located in China, it would also be extremely difficult to access those assets to satisfy an award entered against us in United States court.

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.

Item 4. Information on the Company

A. History and Development of the Company

We were established as an offshore company incorporated in the Cayman Islands under the Cayman Islands Companies Law on November 2, 2000. eFuture (Beijing) Tornado Information Technology Inc. ("eFuture Tornado"), which was established as a domestic Chinese company in April 2000 in an effort to maintain intellectual property, has previously and will continue to conduct all of our software development operations as our wholly-owned subsidiary within China.

On October 31, 2006, we listed on the NASDAQ Capital Market under the symbol "EFUT."

On August 28, 2007, following the successful acquisition of Guangzhou Royalstone System Integration Co. Ltd., eFuture Tornado was renamed "eFuture (Beijing) Royalstone Information Technology Inc." ("eFuture Royalstone" or "eFuture Beijing").

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With the approval of our shareholders, we changed our name from "e-Future Information Technology Inc." to "eFuture Information Technology Inc." in 2008.

Our acquisition of Proadvancer in April 2008 has enhanced our core business and enabled market leadership and significant share gains in China's logistics market. The acquisition of a majority stake in Beijing Fuji Biaoshang Information Technology Inc. in 2007 and the effectively controlled 51% of the ownership in Beijing Wangku Hutong Information Technology Co., Ltd. in 2007 and 2008, respectively, further bolstered our eService strategy.

Our principal executive offices and headquarters in Beijing moved to the central business district in May of 2009, which is located at 8/F Topnew Tower, 15 Guanghua Road, Chaoyang Distinct, Beijing 100026, China. Our telephone number is +86 10 5293 7699, and our fax number is +86 10 5293 7688. Our previous address was No. 10, BUT Software Park, No.1 Disheng North Street, BDA, Beijing 100176, China.

OUR MARKET

The strength of China's economy and rapid increases in personal wealth have significantly grown China's consumer goods market, as the spending power and aspirations of consumers rise. In response, industries are consolidating and leading retailers are penetrating second-tier and even some third-tier Chinese cities. We believe that the need to modernize China's supply chain infrastructure is increasing at a dramatic rate. The appearance of modern retailers in China is also generating demand for more efficient and reliable systems and services.

According to data from the National Bureau of Statistics of China, in 2009, the total retail sales of consumer goods reached RMB 12.5 trillion, up by 15.5% over the previous year. An analysis on different areas showed that the retail sales of consumer goods in cities reached RMB 8.5 trillion up by 15.5% and the retail sales of consumer goods at and below county level was RMB 4.0 trillion, up by 15.7%. Analyzed by different sectors, the sales for the wholesale and retail trade reached RMB 10.5 trillion, up 15.6%; the sales of the lodging and catering industry was RMB 1.8 trillion, up 16.8%, and the sales for the other industries were RMB 193.2 billion, up 2.5%.

Participants including manufacturers, distributors, wholesalers, logistics companies and retailers in China's front-end supply chain market are currently facing intensifying competition, fluctuating demand, evolving retail channels and increasing globalization. Sales are pressured, margins are compressed through intensified competition and most companies are trying to achieve improved results with fewer people. As a result, small and large Chinese companies are increasingly seeking technology solutions to better manage their increasingly complex businesses, improve their operating efficiencies and financial performance, and strengthen their relationships with customers and suppliers. Although Chinese businesses traditionally have low technology adoption rates, we believe that China's rapid economic development will require Chinese companies to look to source ready-made solutions for front-end supply chain management and optimization.

eFuture Market Position

We are a leading front-end supply chain total solutions provider in retail and consumer goods industries as companies in China increase expenditures on software and services.

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:

l Strong recognition of the eFuture brand among prominent international and local clients;

l Extensive nationwide network coverage;

- Strategic partnership with leading global technology companies; and
- Disciplined expansion of our core software business and ability to leverage of our large retail install base to expand our eServices offering;

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B. Business Overview

General

We are a leading provider of software and services in China's rapidly growing retail and consumer goods industries. eFuture provides integrated software and services to manufacturers, distributors, wholesalers, logistics companies and retailers in China's front-end supply chain (from factory to consumer) market, especially in the retail and fast moving consumer goods industries.

eFuture currently serves more than 1,000 retailers and 5,000 suppliers operating in China. eFuture is one of IBM's premier business partners in Asia Pacific and a strategic partner of Oracle, Microsoft, JDA, Motorola and Samsung Network in China. eFuture has more than 670 employees and 20+ offices/service sites across China.

Mission and Strategy

Mission

eFuture's mission is to help customers win a sustained competitive advantage by improving the DNA of the supply chain. Our valuable offerings of software and services can help customers perform at a significantly higher level of liquidity and efficiency by enabling front-end supply chain performance optimization to achieve profitable, sustainable growth. We strives to build upon our established leading position and accelerate business innovation to ensure our long term success.

Growth Strategy

As a leading provider of software solutions and services in the retail and consumer goods industries in China, we have the following three growth strategies consisting of multiple organic and non-organic growth drivers:

l Organic Growth – Software Business - We aim to drive the long-term organic growth and profitability of our core software solutions business and related professional services by:

u Solidifying our leading position and competitive advantage in the front-end supply chain market

u Increasing our software related value-added services to optimize demand processes from factory to consumer, including recurring support services for existing software installation, client retention, delivery services, consulting services and outsourcing services

u Expanding our geographic coverage, including growth into second and third tier, cities

l Organic Growth – eServices - We plan to grow our eService business through organic expansion. This is a key growth engine for the company and an area where we have made significant progress by leveraging existing retailer relationships and suppliers and consumers and resources. Our eService solutions include:

- u Business-to-business (B2B) service between retailers and suppliers
- u Software-as-a-Service (SaaS) including Supply Chain Management (SCM) solutions
- u Business-to-consumer (B2C) solutions
- u Transaction plus one day supply chain financing (T+1 SCF) service

l M&A – We aim to expand our business through our merger and acquisition strategy of targeted ‘fill-in’ acquisitions. Our strategy is to actively pursue various M&A opportunities that complement organic growth by focusing on targets that will help us to achieve the following goals:

- u Diversify our product offering - Independent Software Vendors (ISV) with offerings complementary to our solutions, which focus on industries including fashion, auto, consumer electronics, drugstores and fast-moving consumer goods.
- u Broaden our regional coverage - ISVs with extensive coverage in South, East, and North China.
- u Penetrate the small and medium sized businesses (SMB) market - Companies with standardized, scalable product offerings that facilitate penetration into SMBs in second and third tier cities in China.
- u Create additional recurring revenue streams - Companies with products and services delivering a stable and recurring revenue stream, and which provide potential for growth.

Our Business

Our businesses include our front-end supply chain total solution business and our eService business.

Our front-end supply chain total solution business is our core business, and includes our software solutions and related value-added services. This business provides front-end supply chain total solutions in the retail and consumer goods industries to help companies cut costs and increase efficiency. Our software solutions, which optimize business processes, can be further divided into three segments, which include our foundation solutions, collaborative solutions and intelligent solutions. Our software solutions are enhanced and supported by our software related value-added services which include recurring support services on existing software installations, delivery services, consulting services and outsourcing services.

eService business is our emerging business segment, and includes B2B services, SaaS which includes SCM solutions and B2C store solutions, and T+1 SCF services.

By solidifying our core software business, growing value-added service revenues, and strengthening our eService offerings and capabilities, we have established a diverse platform which we believe will allow us to further expand our market share and generate consistent revenue in the coming years.

We achieved consistent organic growth and expansion through mergers and acquisitions from 2006 to 2008. Total revenues decreased in 2009 in comparison to 2008 due largely to decreased technology spending by our customers as a result of the challenging macro economic environment. However, the key factors which we believe will support our growth in the future include:

- l China’s robust macroeconomic environment and strong growth catalysts in the retail and consumer goods industries;
- l Strong recognition of the eFuture brand among prominent international and local clients;
- l Extensive nationwide network coverage;
- l Strategic partnership with leading global technology companies; and
- l Disciplined expansion of our core software business and ability to leverage our large retail install base to expand our eServices offering.

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The market in China for our products and services is driven by robust growth catalysts. Our brand is well known among prominent international and local clients, including 15 Fortune 500 companies. We are a leading front-end supply chain total solutions provider and are one of the only nationwide software and service vendors of our kind. At the same time, we are expanding from our core competency of front-end supply chain total solutions into B2B services and SaaS by leveraging the resources of our large install-base of retail clients.

SOFTWARE BUSINESS

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.

Our 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.

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

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

Related Value-Added Services

Our software related value-added services business includes recurring support services on existing software installations, delivery services, consulting services and outsourcing services.

Support Services are 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 questions that may arise.

Following a one-year regular maintenance program that is an element of our initial software installation, our customers may purchase three levels of annual continued maintenance services. As noted below, under our Regular and Silver plans, we generally provide these maintenance services over the telephone during regular business hours. For our customers who elect to purchase our Gold plan at a higher cost, we will provide these services at the customer’s location and on a real-time basis, if appropriate. Each level of maintenance offers customers different options to meet their particular needs.

While on-site with our Gold plan customers, it is common for us to identify problems and issues that we believe the customer should consider in connection 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 items identified as a part of our maintenance by giving written recommendations for actions the customer should consider. These services are simply a report of our suggestions and not an extensive evaluation that would be done under our consulting arrangements. If our customer deems additional services to be necessary, we will 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.

Software upgrades are dependent upon the customer and the type of software program and are developed on approximately 1-2 year cycles. Smaller customers or projects are updated on a two year cycle; medium sized customers and projects are updated on an 18-month cycle; and larger customers and projects are updated on a yearly cycle. We do not offer these upgrades as part of our initial license arrangement. Rather, customers must pay for each upgrade that they opt to install on their systems. Each upgrade is delivered through the download of service packs.

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

Consulting Services are 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, 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 Services – Flexible by design to meet our clients' changing requirements, eFuture 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 teams manage and operate client internal business processes. Leveraging technology and our industry and process expertise, we provide design, development, implementation, operation, and continuous improvement of 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.

ESERVICE BUSINESS

Our eServices business based on cloud computing architechture, includes B2B services, SaaS services which includes SCM solutions and B2C store solutions, and T+1 SCF services.

B2B services Business (Wangku www.99114.com and www.Jindian.com.cn)

Since May 2008, through the purchase of a 51% ownership stake, we gained effective control of Wangku, a leading B2B service provider in China with a focus on the retail and fast-moving consumer goods industries. Since the fourth quarter of 2008, we have focused on establishing more robust sales capabilities and practices at Wangku, to speed up the business pipeline in order to convert more prospects into deals.

The goal of our B2B services is two-fold:

- First, we aim to help local and overseas suppliers enter into nationwide stores in China through Wangku's service at www.99114.com; and
- Second, we act as a bridge between potential suppliers and retailers to help efficiently exchange new product supply and demand information via China Jindian's service ("jindian" means "enter store" in Mandarin) at www.jindian.com.cn.

SaaS Business (www.bFuture.com.cn)

Throughout 2009, we focused on enhancing our SaaS-based applications, allowing us to become a fully integrated software application company. Among other benefits, our SaaS-based applications generate revenue both at the time of sale, and on a consistent and ongoing basis with the sale of corresponding service agreements.

- SaaS is a model of software delivery where the software company provides maintenance, daily technical operation, and support for the software provided to their clients. SaaS is a model of software delivery rather than a market segment; software can be delivered using this method to any market segment including home consumers, small businesses, as well as medium and large businesses.
- We will focus on using this method to deliver software to SMBs in China, especially in SCM, CRM, B2C store, and POS for mini store.

Given the macroeconomic pressures businesses are currently facing in China, the minimum upfront costs of our SaaS offering provide an ideal solution for retail customers looking to utilize eFuture's services.

SCM SaaS

We co-developed a SCM SaaS service with IBM Research Lab and IBM Global Service team in October of 2007. We control 51% of the ownership of bFuture by VIE.

In March 2008, eFuture and IBM entered into a strategic partnership to launch this SaaS platform (bFuture, www.bfuture.com.cn) for the retail distribution industry in China. Wangfujing Department Store Group, one of the largest department stores in China, became the first to use this online SCM platform. Thus far, this initiative has brought 4,000 of Wangfujing Group's 15,000 suppliers onto the platform, allowing them to exchange business information, arrange payments online and access purchase orders, returns, payment status, inventory levels and analysis of sales data. In addition, two new retailers have deployed this software package as well.

In line with our organic growth strategy to expand our eService offering, we began in 2009 to see growing interest from existing clients to scale-up and expand their relationship with eFuture by utilizing our eService applications.

We started to deploy a bundled package offering bFuture SCM SaaS service together with its POS-ERP software in two of our Strategic Business Units ("SBUs"), the Department Store and Shopping Mall SBU and the Grocery Business SBU.

We have installed and are currently serving three retailers and their 3,000 suppliers with the bundled POS-ERP package. In addition, over 10 retailers are in the process of deploying the package. Following deployment, these retailers will be able to open SaaS services with their suppliers. We expect to see more profitable growth from this service as we increase the scale of the operation.

SaaS B2C Store

In addition, we deployed our SaaS B2C stores, a web-based store for retailers and a new element of our eService strategy, to five department stores. While still in its infancy, we believe this service has strong long-term growth potential. As a result, at the end of 2008, our bFuture SaaS-B2C database currently holds over 70,000 items and receives over 300 orders each day, with over 2,000 suppliers offering merchandise through these online stores.

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cFuture, established in September 2009, is a provider of services that enable e-commerce, multichannel retailing to the retail and consumer goods industry in China. cFuture delivers an integrated, end-to-end solution and service allowing retailers to establish business-to-consumer ("B2C") online stores through a B2C platform (or "e-Cube"), which is comprised of consulting, infrastructure, technology and fulfillment.

In March 2010, the Company acquired control over a 15% equity position in cFuture for RMB240,000 in cash.

T+1 SCF Service (www.bFuture.com.cn)

In June, 2009, we announced the successful launch of a pilot T+1 SCF program through our subsidiary bFuture. The goal of this innovative program is to shorten the payment cycle between retailers and their small- to medium-sized suppliers by providing short term loans through participating banks to retailers with good credit. With the loans, the retailers will be able to shorten the accounts payable cycle to their suppliers by the following day after the transaction, hence the moniker “T+1 SCF” service.

bFuture will provide the necessary software and services for retailers and their small-to-medium-sized suppliers to execute the program with banks, and charge software and service fees for the program implementation.

This service is a perfect complement to bFuture’s existing suite of SaaS services geared towards facilitating the flow of goods and services in a cost effective and time efficient manner.

SALES AND MARKETING

We recently restructured our sales organization from a product driven model to a customer driven model by building major account teams and three regional sales teams focused on North, South and East China.

Furthermore, we appointed Mr. Dehong Yang in the newly created position of President of eFuture Information Technology Inc. in December 4, 2009. Mr. Yang officially joined eFuture on January 1st, bringing with him over 10 years of international business management experience and a proven track record of successfully implementing and driving strategic initiatives. He has held senior roles at Wincor Nixdorf and IBM, and has extensive experience in the retail and consumer goods and e-commerce markets, providing him with an ideal background to support eFuture’s growth initiatives.

As President, Mr. Yang is responsible for the overall management of operations company-wide. Since coming onboard in January, he has begun to drive the development and execution of a number of key priorities. Under his guidance, we restructured our sales organization from a product driven model to a customer driven model by building major account teams and three regional sales teams focused on North, South and East China at the beginning of 2010 and we are firmly focused on optimizing our revenue mix by moving toward a higher margin structure, realigning our cost base with industry best practices to enhance our profitability.

Marketing Initiatives

In 2009, we significantly strengthened our market position through investment in new releases of core software solutions and sales-related activities to further strengthen penetration into tier-2 and tier-3 cities.

Since early 2009, we have redeployed 35% of our sales team to help expand new client development in tier-2 and tier-3 cities in China. This effort is a critical building block to help us expand our geographic reach and client base. In addition, we have invested in new marketing initiatives to support our sales team as they work to deepen our penetration in tier 2, 3, and 4 cities. We also set up a new, specialized marketing team with about 50 staff located around China to help speed up the sales cycle, develop new sales leads, and increase our market share in all key markets in China. This effort has resulted in significant progress. During the second, third, and fourth quarters, we expanded our sales and marketing outreach efforts into a number of tier- 2, 3, and 4 cities. As of December the 31st, our pipeline had grown to over 1,000 clients with operations in 350 cities across China. We also believe we will start to generate new contract signings in the coming year.

We have seen steady growth in our pipeline of new projects. In fact, out of a total of 968 new contracts with a value of $20.4 million, new contracts from tier-2, 3, and 4 cities accounted for 25.7% of the total contract value. This will help us to continue to build up our revenue for the next few years.

Geographical Coverage

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

- Operating 20+ offices/service sites across China
- Headquartered in Beijing
- R&D centers in Guangzhou & Wuhan
- Regional service centers in Shanghai, Guangzhou and Wuhan

Our Ecosystem

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

We are one of IBM's Premier Business Partners in Asia-Pacific, and our bFuture SaaS platform was co-developed with IBM and runs on IBM hardware and middleware.

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 - Asian 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 will aim 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 will aim 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 will aim 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 our 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.
- In 2009, we entered into a strategic relationship with Microsoft Corporation to provide a standardized POS-ERP system for retailers in China. This system will integrate Microsoft Windows Embedded POSReady 2009 into eFuture's POS-ERP Store Operation System.

Our Key Clients

We provide front-end supply chain (from factory to consumer) total solutions to all participants in China's consumer goods and retail market. These customers include manufacturers, distributors, wholesalers, logistics companies and retailers throughout China.

We currently serve over 1,000 retailers and over 5,000 suppliers and manufacturers operating in China, including Fortune 500 companies that do business in China, such as Procter & Gamble, Yum! Brands, PepsiCo, Kraft, Kimberly-Clark, B&Q-Kingfisher, L'Oreal, JUSCO-Aeon, Guangzhou China and China COFCO; and the top 100 retailers, such as China Resources Vanguard, BELLE, Shanghai Lianhua, Nanjing Suning Appliance, Chongqing Department Store, Shangdong Yinzuo, Shangdong Jiajiayue, Beijing Wangfujing, Beijing Jingkelong, Wuhan Zhongbai, Wuhan Wushang Group, Hunan Bubugao, Fujian Yonghui and PARKSON China.

Currently, our software solutions are utilized:

- in all provinces in China except Taiwan and Macau;
- in more than 200 cities;
- by more than 6,000 clients, including over 1,000 retailers who use over 900,000 suppliers, and over 5,000 suppliers which include distributors and manufacturers;
- by more than 12,000 multi-format stores at more than 130,000 retailing points-of-sale;
- by over 36 of the top 100 retailers and 24 of the 60 largest retailers in China;
- more than 5,000 distribution nodes.

Our Competitive Landscape

We are a leading front-end supply chain total solutions provider in retail and consumer goods industries. The market is segmented into multiple tiers.

Tier 1 Market – Comprised of Multinational Corporations in the retail and FMCG markets with operations in China
In this market, our chief competitors are SAP, Oracle, JDA, ORACLE and IBM. eFuture concentrates on the front-end supply chain solutions segment, whereas our competitors are less specialized and address other segments of the IT market, such as database management applications (Oracle, IBM), IT services (IBM), and back-office applications (SAP, Oracle).

Our strategy is to provide "global solution and local service" and bundled solutions by collaborating with larger global technology companies. Our front-end supply chain solutions, including POS, Store Operation, Distribution Management and Customer Relationship Management, ect., are quite flexible and can be bundled together with 3rd party back-office solutions, including Financial Management System and Human Resources Management System, etc.

Tier 2 Market – Comprised of the top 100 retailers and leading regional retailers in China
We are the market leader in this segment in terms of software and software-related service revenue. We won 36 clients among China's top 100 retailers in 2009. Our global peers are very active and aggressive in this market. We compete with global peers as well as some local peers, such as Changyi, Tech-Trans and Heading, etc. Our competitive advantages in the Tier 2 market include competitive pricing and more flexible localized solutions compared with global peers and global best practice offering compared with local peers.

Tier 3 Market and Others – Comprised of all retail and FMCG companies outside the Tier 2 market
We compete against an additional 170+ companies such as UFIDA and Kingdee in the Tier 3 market, which deliver solutions to small and medium sized businesses located throughout China. Our competitors in this segment are typically more focused on a regional level or on certain industries, and in many cases lack our broad service offering and nationwide network.

Our Research & Development

In 2009, management increased investment in new products and services to RMB 12.1 million in order to increase revenue potential from existing clients and drive the expansion of eFuture's addressable markets:

eFuture Business Intelligence ("BI") Solutions
- eFuture's fully integrated suite of BI software solutions provide retailers with the ability to better understand customer buying behavior, to drive sales and profitability, to decrease supply chain costs, and to reduce operational costs.
- eFuture BI Solutions integrate data from across the customer's enterprise, and provides easily accessible self-service reporting and analysis.
- We developed and launched our BI solutions to address the needs of our SBU in three areas: marketing, operations and merchandizing.
- We are currently conducting a trial with one client to ascertain the market reception and potential of this product line.
- Thus far in 2009, the Company has successfully completed CRM pilot programs with a few major Beijing-based department store groups, with positive market reception.

eFuture ONE CRM
- eFuture ONE CRM provides a robust platform for retail and consumer clients to analyze customer and transactional data in order to strategically profile and segment customers to predict their future behavior.
- Specific solutions offer profiling and segmentation of retail outlets based on transaction history and trade area demographics; market-basket analysis for determining which products are likely to be purchased together; tracking of customer movement between segments; analysis of customer behavior and price sensitivity; and customized reports of customer data based on a variety of inputs.
- The eFuture CRM system is specifically designed to cater to the growing needs of customers in our Department Store SBU.
- Thus far in 2009, the Company has successfully completed CRM pilot programs with a few major Beijing-based department store groups, with positive market reception.

Regulation

Proprietary Rights

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 paying for it. We rely on a combination of trademark, trade secret, 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 releases of our software until equivalent technology 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 do not currently expect a significant impact on our business, operating results, or financial condition.

China's Intellectual Property Rights Enforcement System

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.

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 that have only recently been adopted. 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 on Software Products

On October 27, 2000, 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. Under the Software Measures, a software developer must have all software products imported into or sold in China tested by a testing organization approved by the Ministry of Information Industry. The software products must be registered with the Ministry of Information Industry or with its provincial branch. The sale of unregistered software products in China is forbidden. 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. 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.

Copyright. China adopted its first copyright law in 1990. The National People's Congress amended the Copyright Law in 2001 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 and 2001, 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" system that requires no evidence of prior use or ownership. We have registered a number of our product names with the Trademark Office.

C. Organizational structure

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

Name	Joining the Company	Relationship
eFuture (Beijing) Royalstone Information Technology Inc.	April 2000	Wholly-owned subsidiary
Beijing Fuji Biaoshang Information Technology Co., Ltd.	December 2007	Consolidated affiliated entity with 51% ownership
Beijing Wangku Hutong Information Technology Co., Ltd.	May 2008	Consolidated affiliated entity

with 51% ownership

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D. Property, Plant and Equipment

Facilities

We currently operate six 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 Distinct Beijing 100026, PRC	Expires April 24, 2012 Commenced on April 25, 2009	1,496.77 sq. meters
Shanghai	Floor 19E, F, G, H, I Shentong Information Plaza 55 West Road of Huaihai Street Shanghai, Xu Jiahu District, PRC	Expires March 19, 2011	757.47 sq. meters
Nanjing	Floor 3,49 Jiangsu Software Park,169 Road of Longpan zhong street, Nanjing, Jiangsu province, PRC	Expires December 31, 2010	283 sq. meters
Shijiazhuang	R2108,Floor 21 Changan Plaza 289 East Road of Zhongshan Street Shijiazhuang, Hebei province, PRC	Expires December 31, 2010	647.68 sq. meters
Guangzhou	Rear Building Huicheng Plaza 130 Zhongshan Street Guangzhou, Guangdong province, PRC	Expires November 30, 2011	500 sq. meters
Wuhan	Floor 2 and 3 Office Building of Machine Bureau Fujiapo, Wuchang District Wuhan, Hubei Province, PRC	Expires June 30, 2010	846 sq. meters
Wuhan	Floor 36 and 40 No. 7 of Zhongnan Road Wuchang District Wuhan, Hubei Province, PRC	Expires May 19, 2015	2293.73 sq. meters

We leased a new facility in Wuhan to support our expanded business needs which is under internal decoration and will be ready for use in July, 2010.

Item 4A. Unresolved Staff Comments

Not applicable.

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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 prospectus. 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. See “Risk Factors — Lingering effects of the global economic crisis, could materially and adversely affect our business, financial condition and results of operations.”

A. Operating Results

Overview

We are a leading provider of software and services in China’s rapidly growing retail and consumer goods industries. eFuture provides integrated software and services to manufacturers, distributors, wholesalers, logistics companies and retailers in China’s front-end supply chain (from factory to consumer) market, especially in the retail and fast moving consumer goods (“FMCG”) industries.

Our core business is to provide front-end supply chain total solutions to companies in the retail and consumer goods industries to help them reduce costs and increase efficiency, while leveraging our core business’ resources and exploring new opportunities in eService. We believe our bundling strategy will allow our customers to benefit from synergies in our various product offerings in the retail and consumer goods industries.

Revenues

Our revenues increased from RMB84,920,993 in 2007 to RMB139,863,502 in 2008 but decreased to RMB122,267,642 in 2009. The significant increase in 2008 reflected organic growth driven by the successful expansion of our product and service lines and our increasing market penetration, both in China’s largest cities and expansion into second and third tier cities. The increase in 2008 also reflected our acquisitions of Wangku and Proadvancer in 2008. For the fiscal year 2009, we experienced a year-over-year decline of 12.6% in total revenues, primarily attributable to the fact that customers delayed or reduced their IT expenditures during the year as a result of the economic downturn.

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, in a timely and cost-effective manner, new and upgraded products. We generally choose to devote resources to product development efforts that we believe are commercially feasible, can generate significant revenues and margins and can be introduced into the market in the near term.

In any period, several factors will impact our net 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;

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Cost of Revenues

Our cost of our revenues includes wages, materials, handling charges, and other expenses associated with the development of software, sales of hardware, and technical support services. We expect our cost of revenue to grow as our revenues grow. As noted above, development costs will increase in the future, and we expect revenues to increase at the same time. It is possible that we could incur development costs with little revenue recognition, but based upon our past history, we expect our revenues to grow.

Because our cost of revenues will vary according to the software developed, hardware and the technical support services provided, the mix of products and services provided is the most significant factor in determining our cost of revenues as a percentage of revenues, amortization of acquired technologies and software cost also affect the cost of revenues.

Operating Expenses

Our operating expenses consist of research and development expenses, general and administrative expenses and selling and distribution expenses.

Summary of 2009 Operations

Despite the difficult operating environment in 2009 as a result of the economic downturn, we took the opportunity to implement a number of business reforms. We continued to solidify our core enterprise software business, grow value-added service revenues, and strengthen our eService offering and capabilities. We believe we are positioned to renew our track record of growth in 2010. Apart from the above stated external factors, we believe our performance reflects our continued execution, focused growth strategy, affordable and flexible suite of solutions, our large and diversified install base and the continued resilience of China’s retail and consumer goods industry.

We also solidified our core enterprise software business and forged into new frontiers of eService, including our B2B service and SaaS service for SCM and B2C store. And while still a relatively nascent endeavor, our eService strategy remains a key long-term growth driver. The eService segment began to make a positive contribution in 2009, representing 8.0% of our total revenues for the full year.

Results of Operations

The following table presents the results of our operations for the periods 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 Year Ended December 31,
	For the Years Ended December 31,			
	2007	2008	2009	2009
Revenues				
Software sales	¥ 42,076,411	¥ 66,215,769	¥ 54,187,769	$ 7,938,553
Hardware sales	16,198,402	26,655,967	21,518,084	3,152,417
Service fee income	26,646,180	46,991,766	46,561,789	6,821,341
Total Revenues	84,920,993	139,863,502	122,267,642	17,912,311
Cost of revenues				
Cost of software	15,648,282	22,928,605	13,265,401	1,943,392
Cost of hardware	12,601,230	21,989,087	17,294,931	2,533,722
Cost of service fee income	6,965,367	20,247,922	22,916,896	3,357,344
Amortization of acquired technology	8,231,375	13,308,030	11,983,299	1,755,563
Amortization of software costs	2,889,118	3,632,744	4,280,232	627,058
Total Cost of Revenue	46,335,372	82,106,388	69,740,759	10,217,079
Gross Profit	38,585,621	57,757,114	52,526,883	7,695,232
Operating Expenses				
Research and development expenses	816,479	6,512,776	3,165,788	463,791
General and administrative expenses	19,192,286	40,488,964	43,840,536	6,422,675
Selling and distribution expenses	12,014,601	20,792,618	34,284,407	5,022,694
Impairment loss of goodwill	-	-	762,000	111,633
Total Operating Expenses	32,023,366	67,794,358	82,052,731	12,020,793
Profit/(loss) from operations	6,562,255	(10,037,244)	(29,525,848)	(4,325,561)
Other income (expenses):				
Interest income	3,533,326	1,424,029	425,103	62,278
Interest expense	(2,813,489)	(1,246,780)	(453,861)	(66,491)
Interest expenses - amortization of discount on notes payable	(22,415)	(33,212)	(13,316)	(1,951)
Interest expenses - amortization of deferred loan costs	(2,114,685)	(978,204)	(350,996)	(51,421)
Income/(loss) on investments	985,085	(3,552,902)	-	-
Gain on derivatives	10,324,874	33,122,465	1,290,329	189,034
Loss on extinguishment of convertible notes	(39,504,662)	(22,529,233)	-	-
Foreign currency exchange gain/(loss)	544,173	368,127	(133,087)	(19,497)
Loss before tax	(22,505,538)	(3,462,954)	(28,761,676)	(4,213,609)
Income tax expense/(benefit)	946,704	(810,744)	1,396,305	204,560
Net loss	(21,558,834)	(4,273,698)	(27,365,371)	(4,009,049)

Net profit (loss) attributable to the noncontrolling interest		32,520		(204,414)		2,099,874		307,633
Net loss attributable to eFuture Information Technology		(21,526,314)		(4,478,112)		(25,265,497)		(3,701,416)
Other comprehensive income								
Foreign currency translation adjustment		491,079		-		-		-
Comprehensive loss	¥	(21,035,235)	¥	(4,478,112)	¥	(25,265,497)	$	(3,701,416)
Loss per common stock								
Basic	¥	(8.01)	¥	(1.39)	¥	(7.51)	$	(1.10)
Diluted	¥	(8.01)	¥	(1.39)	¥	(7.51)	$	(1.10)
Basic Weighted-average Shares Outstanding		2,687,380		3,214,466		3,362,986		3,362,986
Fully-Diluted Weighted-average Shares Outstanding		2,687,380		3,214,466		3,396,881		3,396,881

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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 2007, 2008 and 2009.

	RMB									
	FY 2007	Percentage of FY 2007 Revenues	FY 2008	Percentage of FY 2008 Revenues	FY 2009	Percentage of FY 2009 Revenues	Change FY 2007 v FY 2008	% Change	Change FY 2008 v FY 2009	% Chan
evenues										
ftware sales	42,076,411	49.5%	66,215,769	47.3%	54,187,769	44.3%	24,139,358	57.4%	(12,028,000)	-18.2
rdware es	16,198,402	19.1%	26,655,967	19.1%	21,518,084	17.6%	10,457,565	64.6%	(5,137,883)	-19.3
rvice fee come	26,646,180	31.4%	46,991,766	33.6%	46,561,789	38.1%	20,345,586	76.4%	(429,977)	-0.9
tal evenues	84,920,993	100.0%	139,863,502	100.0%	122,267,642	100.0%	54,942,509	64.7%	(17,595,860)	-12.6
st of evenues										
st of ftware	15,648,282	18.4%	22,928,605	16.4%	13,265,401	10.8%	7,280,323	46.5%	(9,663,204)	-42.1
st of rdware	12,601,230	14.8%	21,989,087	15.7%	17,294,931	14.1%	9,387,857	74.5%	(4,694,156)	-21.3
st of service e income	6,965,367	8.2%	20,247,922	14.5%	22,916,896	18.7%	13,282,555	190.7%	2,668,974	13.2
nortization acquired chnology	8,231,375	9.7%	13,308,030	9.5%	11,983,299	9.8%	5,076,655	61.7%	(1,324,731)	-10.0
nortization software sts	2,889,118	3.4%	3,632,744	2.6%	4,280,232	3.5%	743,626	25.7%	647,488	17.8
tal Cost of evenue	46,335,372	54.5%	82,106,388	58.7%	69,740,759	56.9%	35,771,016	77.2%	(12,365,629)	-15.1
oss Profit	38,585,621	45.4%	57,757,114	41.3%	52,526,883	43.0%	19,171,493	49.7%	(5,230,231)	-9.1
erating penses										
search and velopment	816,479	1.0%	6,512,776	4.7%	3,165,788	2.6%	5,696,297	697.7%	(3,346,988)	-51.4
neral and ministrative	19,192,286	22.6%	40,488,964	28.9%	43,840,536	35.9%	21,296,678	111.0%	3,351,572	8.3
lling and stribution penses	12,014,601	14.1%	20,792,618	14.9%	34,284,407	28.0%	8,778,017	73.1%	13,491,789	64.9
pairment ss of odwill	-	0.0%	-	0.0%	762,000	0.6%	-	0.0%	762,000	100.0

tal perating penses	32,023,366	37.7%	67,794,358	48.5%	82,052,731	67.1%	35,770,992	111.7%	14,258,373	21.0
ofit/(loss) om erations	6,562,255	7.7%	(10,037,244)	-7.2%	(29,525,848)	-24.1%	(16,599,499)	-253.0%	(19,488,604)	194.2

The following table sets forth certain gross margin data expressed as a percentage of software sales revenues, hardware revenues and services fee revenue, as appropriate:

	RMB					
	FY 2007	Gross Margin for FY 2007	FY 2008	Gross Margin for FY 2008	FY 2009	Gross Margin for FY 2009
Revenues						
Software sales	42,076,411		66,215,769		54,187,769	
Hardware sales	16,198,402		26,655,967		21,518,084	
Service fee income	26,646,180		46,991,766		46,561,789	
Total Revenues	84,920,993		139,863,502		122,267,642	
Cost of Revenues						
Cost of software	15,648,282	62.8%	22,928,605	65.4%	13,265,401	75.5%
Cost of hardware	12,601,230	22.2%	21,989,087	17.5%	17,294,931	19.6%
Cost of service fee income	6,965,367	73.9%	20,247,922	56.9%	22,916,896	50.8%
Amortization of acquired technology	8,231,375		13,308,030		11,983,299	
Amortization of software costs	2,889,118		3,632,744		4,280,232	
Total Cost of Revenue	46,335,372		82,106,388		69,740,759	
Gross Profit	38,585,621	45.4%	57,757,114	41.3%	52,526,883	43.0%

Comparison of Years Ended December 31, 2007, 2008 and 2009

Revenue

Total revenue. Total revenue is comprised of software sales, hardware sales and service fee revenue. Total revenue increased 64.7% from RMB 84.9 million in 2007 to RMB 139.9 million in 2008 but decreased 12.6% from 2008 to RMB 122.3 million in 2009.

The 2008 increase was primarily attributable to our significant growth across all product lines and revenues generated from the acquired companies. The 2009 decrease was primarily attributable to decrease in software sales and hardware sales resulting from the economic downturn and the competitive market.

Software sales. Our software sales increased 57.4% from RMB 42.1 million in 2007 to RMB 66.2 million in 2008 but decreased 18.2% from 2008 to RMB 54.2 million in 2009.

The 2008 increase was primarily attributable to the re-alignment of our clients into seven major categories and improved operating efficiency. Conversely, the 2009 decrease was primarily attributable to reduced sales to our Supermarket, Department Store and Shopping Mall and Specialty Retailing customers, many of whom delayed plans for new store opening as result of the economic downturn. However, customers maintained a solid level of investment in upgrading systems in existing stores and management believes there are now positive signs of a market rebound. As a result, we expect to generate increased software sales in the future.

Hardware sales. Our hardware sales increased 64.6% from RMB 16.2million in 2007 to RMB 26.7 million in 2008 but decreased 19.3% from 2008 to RMB 21.5 million in 2009.

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 justifiable 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 have not emphasized and do not expect to emphasize hardware sales as part of our marketing and sales strategies. Nonetheless, there may be occasions where we may profitably include hardware in projects that we complete for clients that possess superior credit. This has occurred since 2007, especially during 2008 when several customers from our key accounts required the purchase of new hardware for integration into their software products. As a result, we experienced an increase in hardware sales in 2008, compared to the previous year, whereas, a decrease in hardware sales in fiscal year 2009 as a result of the economic slowdown. We expect that, in the short-term, we may capture additional revenues from hardware sales, but our management believes that the long-term health of our company is substantially dependent upon the licensing of our software products.

Service fee income. Service fee income revenues increased 76.4% from RMB 26.6 million in 2007 to RMB 47.0 million in 2008 but decreased 0.9% from 2008 to RMB 46.6 million in 2009. Service fee income revenues represented 31.4%, 33.6% and 38.1% of our total revenues, respectively, in 2007, 2008 and 2009.

The increase in service fee income in 2008, compared to the previous year is primarily attributable to the service fee income generated from eService in 2008 including B2B services and SaaS. In May 2008, we acquired an additional 31% ownership interest in Wangku to further expand its eService business initiatives, allowing us to offer a leading B2B platform that connects retailers and small to medium-sized suppliers. In addition, as our software sales continue to grow, our customer base has also increased year-over-year, which provides additional opportunities for our company to generate service fees associated with such software. Conversely, in 2009, we experienced a slight decrease in service fee income, compared with the fiscal year 2008. The decrease is mainly attributable to the fact that some of our major customers delayed or reduced value-added services expenditures in 2009 as result of the economic downtown. However, despite the slowdown, revenue from our existing client remained relatively stable. As we continue to refine our business model, we expect to generate increased service fee income.

Cost of revenues

Cost of software. Cost of software consists of wages, materials, handling charges and other expenses associated with the development of our software. Cost of software increased 46.5% from RMB 15.6 million in 2007 to RMB 22.9 million in 2008 but decreased 42.1% from 2008 to RMB 13.3 million in 2009.

The 2008 increase resulted from the expansion of our sales force in key geographic markets in 2007 and a proportionate increase in sales volume in 2008. Conversely, the 2009 decrease resulted directly from the decrease in software sales we experienced in 2009. We will continue to pursue marquee global accounts in China including B&Q-Kingfisher, Johnson & Johnson, Jusco and Aeon as well as leading domestic software providers such as Beijing Jade Bird Sihua and others. We are now supplying solutions to over 1,000 retail clients. As such, these projects require more integration services to reach completion. Over time, however, we believe that as our customer base grows, our cost of license and related maintenance revenue will increase as we hire personnel for our customer support organization.

As a percentage of software sales, cost of software was 37.2% for 2007, 34.6% for 2008 and 24.5% for 2009. The 2008 decrease was primarily attributable to improved processes to shorten the software implementation cycle. In 2007, the completion percentage for contracts signed in the current year was 44%; at the end of 2008, the percentage increased to 54.2%, and remained stable in 2009. The higher completion rate was achieved through improved training programs, hiring policies, and software design. However, the 2009 decrease was primarily attributable to the increase of software license income compared with the prior year. The margin for our software license income was relatively higher than the margins of other forms of income.

Cost of hardware. Cost of hardware consists primarily of fees for third party hardware products that are utilized in connection with our software products. Cost of hardware increased by 74.5% from RMB12.6 million in 2007 to RMB22.0 million in 2008 but decreased by 21.3% from 2008 to RMB 17.3 million in 2009.

The 2008 increase resulted directly from the increase in hardware sales we experienced in 2008. Oppositely, the 2009 decrease resulted directly from the decrease in hardware sales we experienced in 2009. As a percentage of hardware sales, cost of hardware was 78% in 2007, 82.5% in 2008 and 80.4% in 2009. The 2008 increase was primarily attributable to the diminished margin in hardware sales, and the 2009 decrease was primarily attributable to our selective high margin deal in hardware sales. Gross margins were 17.5% and 19.6% in 2008 and 2009, respectively.

Cost of service fee income. Cost of service fee income includes salaries and related expenses of our consulting organization and an allocation of our facilities and depreciation expenses. Cost of services increased 190.7% from RMB7.0 million for 2007 to RMB20.2 million for 2008 and increased 13.2% from 2008 to RMB 22.9 million for 2009. These increases were a result of several factors:

- Increased allotment of senior technical personnel on major accounts to explore service expansion and additional monetization opportunities. In addition, high-end configurations and higher salaries of senior personnel added extra expenses to our projects.
- Increased marketing efforts on major accounts to further explore customers' potential needs in their IT operating plans.

Amortization of acquired technology. The amortization of acquired software technology in 2007, 2008 and 2009 resulted from amortization of software technology acquired in a variety of acquisitions noted above. Amortization of acquired technology expense increased 61.7% from RMB8.2 million in 2007 to RMB13.3 million in 2008 but decreased 10.0% from RMB13.3 million in 2008 to RMB12.0 million in 2009.

We have been making acquisitions since 2007, the increase in amortization of acquired technology in 2008 is attributable to the acquisitions we did in 2008. The decrease in the amortization of acquired technology in 2009 is primarily due to the complete amortization of parts of our acquired technology in 2009.

Amortization of software costs. Intangible assets include the cost of computer software we acquired and developed. These costs are amortized over the useful life of the software. Costs included are mostly salary and employee benefits for those involved in the development of the software. Amortization expense increased 25.7% from RMB2.9 million in 2007 to RMB3.6 million in 2008 and increased 17.8% from 2008 to RMB4.3 million in 2009.

The increases are due to the increase of software products being amortized since 2007. Because we are continually developing our products, we expect amortization to increase in future years based upon our success in developing new products for our customers.

Operating expenses

Research and development. Research and development expenses, which are expensed as incurred, consist primarily of salaries and related costs of our engineering organization; consultants; and an allocation of our facilities 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. Research and development expenses increased 697.7% from RMB0.8 million in 2007 to RMB6.5 million in 2008 but decreased 51.4% from 2008 to RMB3.2 million in 2009.

The 2008 increase was primarily attributable to the fact that since 2007 we have focused on integrating and upgrading software products to meet the evolving complexities of our customers' businesses to gain market acceptance of our software products that were developed in previous fiscal periods. On the other hand, the 2009 decrease was primarily attributable to the fact that product launches following the successful completion of product development and pilot phases which resulted in an increase of Research and development capitalization. Research and development represented 1.0% of total revenue for 2007, 4.7% of total revenue for 2008 and 2.6% of total revenue for 2009.

General and administrative. General and administrative expenses consist primarily of costs from our finance and human resources departments; third party legal and other professional services fees; and an allocation of our facilities costs and depreciation expenses. General and administrative expenses increased 111.0% from RMB 19.2 million in 2007 to RMB 40.5 million in 2008 and increased 8.3 % from 2008 to RMB 43.8 million in 2009.

The 2008 increase in general and administrative expenses was attributable to a RMB 1.5 million increase in salaries, a RMB 3.0 million increase in maintenance costs of eight new branches, and RMB 1.6 million expenses associated with audit and Sarbanes-Oxley Act compliance. The 2009 increase in general and administrative expenses was attributable to a RMB 1.8 million increase in incentive compensation, a RMB 1.8 million increase in rental, electricity and water expenses.

General and administrative expenses were 22.6% of total revenues for 2007, 28.9% of total revenues in 2008 and 35.9% of the total revenues in 2009. This increase in general and administrative expenses as a percentage of revenue was attributable to the increase of general and administrative expenses noted above. We expect that as a public company we will likely experience an increase in general and administrative expenses as a percentage of total revenues in future fiscal periods. These expenses include additional legal and accounting fees and public relations costs.

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, collateral sales bonuses, and an allocation of our facilities. Selling and distribution expenses increased 73.1% from RMB 12.0 million in 2007 to RMB 20.8 million in 2008 and increased 64.9% from 2008 to RMB 34.3 million in 2009.

The increase in selling and distribution expenses was primarily due to additional labor costs associated with the expansion of our sales force and the expansion of our business year over year. We added 11 employees to our sales department in 2008 and 15 employees in 2009. We anticipate that sales and marketing expenses will increase to support our intended expansion of our sales and marketing organization. Selling and distribution expenses were 14.1% of total revenue for 2007 and 14.9% of total revenues in 2008 and 28.0% of total revenues in 2009.

Impairment of goodwill. The Company performed a two-step goodwill test annually. The Company recognized no impairment loss on goodwill in the years prior to December 31, 2008. During the year ended December 31, 2009, the Company recorded a goodwill impairment loss of RMB 0.7 million due to reductions in expected future cash flows.

Other Expenses

Interest Income. Interest income represents the interest accrued as a result of bank deposits. Our interest income decreased 59.7% from RMB 3.5 million in 2007 to RMB1.4 million in 2008 and decreased 70.1% from 2008 to RMB 425,103 in 2009.

The substantial decrease in 2008 was primarily due to reduced interest earned in 2008 on proceeds from our initial public offering and private offering in 2007 as we began to use such proceeds to grow our business. The decrease in

2009 was mainly attributable to a reduction in the amount of interest earned from on term bank deposits during 2009.

Interest Expense. Our interest expense decreased dramatically from RMB5.0 million in 2007 to RMB2.3 million in 2008 and decreased further to RMB 818,173 in 2009.

The 2008 decrease primarily resulted from the reduced interest on the Convertible Notes issued to institutional investors on March 13, 2007 as the institutional investors began to convert the Convertible Notes. The 2009 decrease was primarily due to the reduced principle of Convertible Notes.

Gain on Derivative. On March 13, 2007, the Company raised $10 million through the issuance of Convertible Notes. On conversion into shares or at every reporting period, the fair value of changes on the carrying amount is treated as a gain or loss in the current period operations.

Our gain on derivatives increased dramatically from RMB 10.3 million in 2007 to RMB 33.1 million in 2008 but significantly decreased to RMB 1.3 million in 2009.

Gain or Loss on Extinguishment of Convertible Notes. Upon conversion of Convertible Notes, the Company recognized a gain or loss on extinguishment of Convertible Notes.

The Company recognized a loss of RMB 39.5 million in 2007, RMB 22.5 million in 2008, but nil in 2009 on extinguishment of Convertible Notes as there was no conversion in 2009. This is recorded as a non-operating expense in the consolidated statement of operations.

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 out of 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. Noting our accumulated deficit and the tax deferrals associated with our business, we have not funded these reserves in the past and do not expect to do so in the near future. Consequently, 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 ways, 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, value-added services including maintenance and support contracts, and professional consulting, training and contract development services and eService including B2B services and SaaS services. At this time, we generally license our products to customers on a perpetual basis and we recognize revenue upon delivery of the products. Under certain of our license agreements, 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 sale of software licenses and technical advisory services under these agreements as the services are performed over the contract period. We recognize revenue from eService over the period of the agreement.

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

l we have persuasive evidence of an arrangement;
l delivery has occurred;
l the sales price is fixed or determinable; and
l 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. Should other products or services be introduced in the market that compete with our products and services, our future customers may choose those products and services instead of ours, which may affect our ability to generate revenues. We believe that our continuous efforts to develop of our software products will allow us to remain competitive in our market.

For software sales, the Company recognizes revenues in accordance with ASC 985-605, Software Revenue Recognition. We recognize revenue from perpetual (one-time charge) licensed software at the inception of the license term. We recognize revenue from term (monthly license charge) arrangements on a subscription basis over the term of the license. We include revenues from maintenance for the first year and initial training in the purchase price of the software. We provide initial training at the time of installation and recognize such income as part of the price of the software since it is minimal in value. We value maintenance based on a fee schedule we use for providing our regular level of maintenance. We include maintenance revenue in the income statement under services and recognize it over the term of the agreement. We allocate revenues applicable to multiple-element fee arrangements among elements such as software, hardware, and post-contact service using vendor-specific objective evidence of fair value. Such evidence consists primarily of pricing of multiple elements sold as separate elements in the contract.

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 value-added services for system integration which involve the design and development of complex information technology systems to the customer's specifications. We provide these services on a fixed-price contract, and the contract terms generally are short. We recognize revenue when delivery and acceptance is determined by a completion report signed by our customer. In addition to value-added services, we provide eServices, including our B2B services, which help link local and overseas suppliers to stores throughout China and help efficiently exchange new product supply and demand information between potential suppliers and retailers, and our SaaS services, which serve the retail distribution industry in China by bringing retailers' suppliers onto a single platform, allowing them to exchange business information, arrange payments online and access purchase orders, returns, payment status, inventory levels and analysis of sales data. We recognize revenue over the period of the agreement.

Allowance for Doubtful Accounts

Trade receivables are stated as the amount management expects to collect from outstanding balances. An estimate for doubtful debts is made when collection of the full amount is no longer probable. We maintain an allowance for potentially uncollectible accounts receivable based on our assessment of the collectability of accounts receivable. 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. Our allowance for doubtful account was RMB 4.7 million in 2007, RMB 4.7 million in 2008 and RMB 4.2 million in 2009.

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 our each common stock over the respective expected life of the option. Expected option life is the number of years that we estimate, based on the vesting and contractual terms and employee demographics. 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 three years 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 Asset,

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. Although we have not established a budget or time table for software development, we anticipate the need to continue the development of our software products in the future and the cost could be significant. We believe that, as in the past, the costs of development will result in new products that will increase revenue and therefore justify costs. There is, however, a reasonable possibility that we may be unable to realize the carrying value of our software, and the amount not so realized may adversely affect our financial position, results of operation or liquidity in the future.

We amortize the cost of intangible assets over the estimated period of realization of revenue from the related intangible assets. The estimated life of our software is based upon historical usefulness of similar software products and the rate of change in technology in general. Our estimate of the useful lives of our software 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 of the useful lives of our software products could decline quickly, which would result in recognition of increased amortization.

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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 assets group based on the undiscounted future cash flow the asset group is expected to generate and recognizes 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 assets group, if any, is less than the carrying value of the assets group. If we identify an impairment, we reduce the carrying amount of the assets 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.

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 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 additional equity securities, debt securities or borrow from banks.

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

	2008	2009

		(In millions)		
Cash and cash equivalents	RMB	60.8	RMB	59.1
Net cash generated from operating activities		31.1		10.6
Net cash used in investing activities		(32.8)		(12.3)
Net cash (used in) generated from financing activities		(4.4)		-

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Operating activities provided cash of RMB10.6 million in 2009 compared to RMB31.1 million in 2008. The principal sources of our cash flow from operations are net income adjusted for depreciation, software amortization, the gain on derivatives and loss on extinguishment of convertible notes and compensation expenses for directors and employees. The decrease in cash provided by operating activities was primarily due to a proportionate decrease in revenue.

Investing activities used cash of RMB12.3 million in 2009 and RMB32.8 million in 2008. The primary use of cash in investing activities in 2009 was capital expenditures. Whereas our investing activities in 2008 consisted of RMB7.7 million in capital expenditures and RMB57.7 million in payment of direct costs related to the Royalstone and other acquisitions.

Financing activities used cash of nil in 2009 and used cash of RMB4.4 million in 2008. Financing activities in 2008 included RMB8.1 million payment of the make-whole obligation on the convertible notes completed in March 2007, which was partially offset by the receipt of proceeds of RMB3.6 million from the warrants issued to the underwriter in our IPO.

Indebtedness

On March 13, 2007, we closed a Securities Purchase Agreement with three funds affiliated with two institutional investors, pursuant to which we raised RMB69,079,430 (net of cash loan costs of RMB8,330,570) by issuing $10,000,000 senior convertible notes along with Series A warrants and Series B warrants.

The convertible notes were initially convertible into 400,160 of our common stock at $24.99 per share. Pursuant to the Agreement, the conversion price reset to $19.00 on June 11, 2008 since the market price of the Company's common stock was below $19.00 on that day.

The Series A warrants are exercisable by the Holder within five years on any day on or after September 9, 2007 for an aggregate of 184,077 Shares, at an initial price of $28.25 per common stock, subject to adjustment. The Series B warrants to purchase an aggregate of 230,097 common stock at an initial exercise price of $24.99 per Share expired on September 8, 2008. Likewise, the Placement Agent warrants to purchase 73,291 common stock of the Company at an initial price of $24.99 per Share expired on September 8, 2008.

On October 3, 2007, one of the investors converted RMB37,529,400 ($5,000,000) of the convertible notes into 200,080 common stock. In July and August of 2008, another investor converted RMB27,326,700 ($4,000,000) of the convertible notes into 210,526 common stock. As of the date of this filing, $1,000,000 in convertible notes remains outstanding. These notes bear interest at an annual rate of 3% from issuance to March 12, 2008; 5% from March 13, 2008 through March 12, 2009; 7% from March 13, 2009 through March 12, 2010 and 10% from March 13, 2010 through maturity.

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. The information provided under Item 5.A, "Operating Results" details the Company's research and development activities.

D. Trend Information

China Outlook

In November, 2008, China unveiled a stimulus package estimated at RMB 4 trillion (about $570 billion). It will be spent over two year span to finance programs in 10 major areas, such as low-income housing, rural infrastructure, water, electricity, transportation, the environment, technological innovation and rebuilding from several disasters, most notably the May 12, 2008 earthquake in Sichuan province. We believe China's recent stimulus package is likely to contribute to our growth and the growth of our customers in the retail and consumer goods industries in future periods.

As part of the overall stimulus package, China announced stimulus sub-packages for 10 industries in February 2009. Previous support packages include the auto, steel, shipbuilding, textile, machinery-manufacturing, electronics and information industries, the light industry and petrochemical sectors. In addition, the State Council of China central government announced a plan to support the logistics sector, including the building of a special district for logistics development, and to accelerate urban delivery, wholesale and rural logistics. To the extent the stimulus plan is spent in China's logistics industry in general and in the retail goods logistics industry in particular, we believe the package is likely to result in continued growth in our industry.

Industry and Market Outlook

Management expects macroeconomic factors, such as retail sales of consumer goods and IT spending, to increase at a healthy rate in 2010. According to data from the National Bureau of Statistics of China, total retail sales of consumer goods in cities in China reached RMB 8.5 trillion in 2009, an increase of 15.5% over the prior year. eFuture expects to remain in a strong position to compete in the SCM sector.

While we expect that retail sales of consumer goods in China are likely to grow in 2010, in light of the lingering effects of the worldwide financial crisis and the current instability in the world's markets, it is impossible to predict the effect of global macroeconomic factors on our industry and company. Any prolonged weakness in the world's retail industry in general or in China in particular could harm our customers and, as a result, our business.

Top Line Growth Drivers

- As of December 31, 2009, our uncompleted project base was RMB 72.5 million (US$10.6 million), including RMB 33.3 million (US$4.9 million) of software license income and RMB 36.1 million (US$5.3 million) of service fee income expected to be recognized in future years.

- We anticipate increasing demand for value-added service such as maintenance and outsourcing, and the upward trend in license revenue from existing customers.

- We anticipate solid demand from department stores, supermarkets, and key customer accounts under challenging economic conditions.

- We seek to deepen penetration and expand market share via our plan to further develop our B2B services, SaaS businesses (including SCM and B2C store eShopping) and T+1 SCF service by leveraging our relationships with over 1,000 retailers, their base of over 13,000 stores and over 900,000 suppliers as well as nearly 80 million end consumers.

Channel Expansion Initiatives

Currently, we derive approximately half of our revenue from China's three mega-cities—Beijing, Shanghai and Guangzhou—and approximately 80% of our total revenue from eight first tier cities (including the mega-cities) in China. However, the continued expansion of many retailers, including current eFuture customers, into China's second and third tier cities presents a significant opportunity to gain additional market share in these growing markets. As such, one of our key initiatives going forward was to enhance penetration into second and third tier cities, by investing approximately RMB7.5 million in order to increase the coverage of our sales and distribution network from 10 up to 15 provinces in China. In the first quarter of 2010, eFuture benefited from increased expenditure from both our large accounts and our fast-growing second and third tier cities. We have restructured our sales organization from a product driven model to a customer driven model by building major account teams and three regional sales teams focused on North, South and East China since the beginning of 2010.

Underpinning our successful sales & marketing strategy is our continued investment in R&D, which is focused on two areas: core software solutions and development platform. Our strategy consists of either upgrading existing systems or developing new versions. In 2010, we will continue to invest in new products and services to increase revenue potential from existing clients and drive the expansion of our addressable markets.

R&D investment in new releases of core software solutions and sales-related activities has enabled us to improve our market position, further strengthening our penetration into second and third tier cities. We will continue to broaden our service offering in order to generate new revenue streams and a more even distribution of total revenue throughout the year.

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, 2009:

	Payments Due By Period
	Less than