

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

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

FORM 20-F

(Mark One)

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

OR

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2014

OR

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

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

Date of event requiring this shell company report \_\_\_\_\_

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

Commission file number: 333-126007

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

Cayman Islands  
(Jurisdiction of incorporation or organization)

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

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

Title of each class

Name of each exchange on which registered

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Ordinary shares, par value \$0.0756 per share

NASDAQ Capital Market

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

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

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer       Accelerated filer       Non-accelerated filer

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

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

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

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

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

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SPECIAL CAUTIONARY NOTICE REGARDING FORWARD-LOOKING STATEMENTS

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

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

PART I

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

Item 1. Identity of Directors, Senior Management and Advisers

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

A. Selected Consolidated Financial Data

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

States of America, or U.S. GAAP.

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## Selected Consolidated Statements of Operations Data

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

## Selected Consolidated Balance Sheet Data

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

## Exchange Rate Information

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



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

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

Source: Federal Reserve Statistical Release

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

#### B. Capitalization and Indebtedness

Not applicable.

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

Not applicable.

#### D. Risk Factors

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

#### RISKS RELATED TO OUR BUSINESS

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

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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

Asset impairment reviews may result in future write-downs.

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

many aspects.

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

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

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

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





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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

As of December 31, 2014 we had approximately 744 employees in the PRC. On June 29, 2007, the PRC Government promulgated a new labor law, namely, the Labor Contract Law of the PRC, or the Labor Contract Law, which became effective on January 1, 2008. The Labor Contract Law establishes more restrictions and increases costs for employers to dismiss employees under certain circumstances, including specific provisions related to fixed-term employment contracts, non-fixed-term employment contracts, task-based employment, part-time employment, probation, consultation with the labor union and employee representative's council, employment without a contract, dismissal of employees, compensation upon termination and for overtime work, and collective bargaining. According to the Labor Contract Law, unless otherwise provided by law, an employer is obliged to sign a labor contract with a non-fixed term with an employee if the employer continues to hire the employee after the expiration of two consecutive fixed-term labor contracts or if the employee has worked for the employer for ten consecutive years. Severance pay is required if a labor contract expires without renewal because the employer refuses to renew the labor contract or provides less favorable terms for renewal. In addition, under the Regulations on Paid Annual Leave for Employees, which became effective on Ja