eFuture Information Technology Inc.
Form 20-F
April 25, 2013

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

FORM 20-F

(Mark One)

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

OR

þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012

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)	Troe Wen, Secretary of the Board Telephone: +(86 10) 5165-0988 Email: wenj@e-future.com.cn Facsimile: +(86 10) 5293-7688 8F Topnew Tower, 15 Guanghua Road Chaoyang District Beijing, 100026, 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
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, 2012, there were 3,977,221 ordinary shares of the Registrant 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 þ

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 þ

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 þ No o

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 þ 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 þ

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

US GAAP þ	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 þ

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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.

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 three variable interest entities ("VIEs"), Beijing Changshengtiandi Ecommerce Co., Ltd. ("Changshengtiandi"), acquired on January 18, 2011, Beijing Wangku Hutong Information Technology Co., Ltd. ("Wangku"), acquired on May 14, 2008 and disposed on March 13, 2011, and Beijing Fuji Biaoshang Information Technology Co., Ltd. ("Biaoshang" or "bFuture"), acquired on November 6, 2007 and disposed on July 16, 2010.

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, which excludes the operating results for each years and balances as of each years ended of Biaoshang and Wangku because they are classified as discontinued operations. The selected consolidated statements of income data for the three years ended December 31, 2010, 2011 and 2012 and the consolidated balance sheet data as of December 31, 2011 and 2012 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, 2010 have been derived from our audited consolidated balance sheet as of December 31, 2010, which is not included in this annual report. The selected consolidated statements of income data for the years ended December 31, 2008 and 2009 and the selected consolidated balance sheet data as of December 31, 2008 and 2009 have been derived from our audited consolidated financial statements for the years ended December 31, 2008 and 2009, 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 For the Years Ended December 31,					US$ For the Year Ended December 31,
	2008	2009	2010	2011	2012	2012
Total Revenues	¥129,546,655	¥108,835,887	¥151,902,684	¥174,448,480	¥198,354,869	$ 31,838,152
Income (Loss) From Operations	(6,882,703)	(24,432,621)	(21,732,821)	(19,545,493)	1,519,871	243,956
Net Loss	(4,478,112)	(25,265,497)	(17,323,421)	(18,830,869)	(4,509,616)	(723,843)
Basic Loss Per Share	(1.39)	(7.51)	(4.53)	(4.56)	(1.07)	(0.18)

Diluted Loss Per Share	(1.39)	(7.51)	(4.53)	(4.56)	(1.07)	(0.18)
Net loss from continuing operations	(854,598)	(19,887,910)	(17,386,892)	(24,440,221)	(4,509,616)	(723,843)
Basic Loss Per Share from continuing operations	(0.26)	(5.91)	(4.55)	(5.92)	(1.07)	(0.18)
Diluted Loss Per Share from continuing operations	(0.26)	(5.91)	(4.55)	(5.92)	(1.07)	(0.18)

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	RMB					US$
	As of December 31,					As of December 31,
	2008	2009	2010	2011	2012	2012
Total Assets	¥242,362,093	¥231,747,618	¥241,832,155	¥220,395,489	¥249,035,413	$39,972,940
Total Current Liabilities	(96,806,490)	(109,412,183)	(102,375,657)	(93,973,063)	(123,356,961)	(19,800,158)
Long-term Liabilities	(10,595,717)	(7,970,483)	(3,134,677)	(416,298)	-	-
Net Assets	134,959,886	114,364,952	136,321,821	126,006,128	125,678,452	20,172,782
Ordinary Shares	2,039,196	2,042,384	2,161,766	2,353,068	2,353,068	377,693
Number of Weighted-average Ordinary Shares	3,214,466	3,362,986	3,822,386	4,130,221	4,213,318	4,213,318

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 RMB6.2301 to US$1.00, the noon buying rate in effect as of December 31, 2012. 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 U.S. dollar)			
2008	6.8225	6.9477	6.7800	7.2946
2009	6.8259	6.8275	6.8244	6.8299
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
December	6.2301	6.2328	6.2251	6.2502
2013				
January	6.2186	6.2215	6.2134	6.2303
February	6.2213	6.2323	6.2213	6.2438
March	6.2108	6.2154	6.2105	6.2246
April (through April 19, 2013)	6.1772	6.1927	6.1720	6.2078

Source: Federal Reserve Statistical Release

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(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 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.

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 2012, 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 2012, 2011, and 2010 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 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 those 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 of RMB2.4 million, RMB4.1 million and nil for the years ended December 31, 2010, 2011 and 2012, respectively. 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 recently reached a settlement agreement with Microsoft Corporation (“Microsoft”) for the claim of infringement of Microsoft intellectual property rights. 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 involves 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.

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 RMB112,182,162 (US$18,006,479) as of December 31, 2012. As of December 31, 2012, our shareholders' equity was RMB125,678,452 (US$20,172,782). 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 RMB4,509,616 (US$723,843) for the year ended December 31, 2012.

RISKS RELATED TO CONDUCTING OUR BUSINESS IN CHINA

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.

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 VIEs for our certain 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 VIEs 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 VIEs could fail to take actions required for our business despite their contractual obligation to do so. The VIEs are able to transact business with parties not affiliated with us. If these VIEs fail 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, Changshengtiandi, our VIE, and Changshengtiandi's shareholders.

If the PRC government finds that the agreements that establish the structure for operating Changshengtiandi, 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 Changshengtiandi; (2) receive substantially all of the economic benefits from Changshengtiandi 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 Changshengtiandi, when and to the extent permitted by PRC law, or request any existing shareholder of Changshengtiandi to transfer all or part of the equity interest in Changshengtiandi to another PRC person or entity designated by us at any time, in our discretion.

If eFuture Beijing, Changshengtiandi, 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 Changshengtiandi, to restructure the relevant ownership structure or operations;
- revoking the ICP license of Changshengtiandi.

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

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.

Changshengtiandi, 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 recent 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 intend to submit the application for registration of our employee stock incentive plan as soon as possible. We or our Chinese employees may not be able to comply with, qualify under, or obtain any registration required by Circular 78. If we or our Chinese employees fail to comply with the provisions of Circular 78, 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 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.

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 particluar, 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.

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

As of December 31, 2012 we had approximately 822 employees in the PRC. On June 29, 2007, the PRC Government promulgated a new labour law, namely, the Labour Contract Law of the PRC, or the Labour Contract Law, which became effective on January 1, 2008. The Labor Contract Law establishes more restrictions and increases costs for employers to dismiss employees under certain circumstances, including specific provisions related to fixed-term employment contracts, non-fixed-term employment contracts, task-based employment, part-time employment, probation, consultation with the labor union and employee representative's council, employment without a contract, dismissal of employees, compensation upon termination and for overtime work, and collective bargaining. According to the Labor Contract Law, unless otherwise provided by law, an employer is obliged to sign a labor contract with a non-fixed term with an employee if the employer continues to hire the employee after the expiration of two consecutive fixed-term labor contracts or if the employee has worked for the employer for ten consecutive years. Severance pay is required if a labor contract expires without renewal because the employer refuses to renew the labor contract or provides less favorable terms for renewal. In addition, under the Regulations on Paid Annual Leave for Employees, which became effective on January 1, 2008, employees who have served more than one year for an employer are entitled to a paid vacation ranging from 5 to 15 days, depending on the number of the employee's working years at the employer. Employees who waive such vacation time at the request of employers shall be compensated for three times their regular salaries for each waived vacation day. As a result of these new measures designed to enhance labor protection, our labor costs are expected to increase, which may adversely affect our business and our results of operations. In addition, the PRC government in the future may enact further labor-related legislation that increases our labor costs and restricts our operations.

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

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

In December 2008, our subsidiary eFuture Beijing was designated as “High and New Technology Enterprises” under the CIT Law, which entitles it to a preferential CIT rate of 15% from 2008 to 2013. If it fails to maintain the “High and New Technology Enterprises” qualification after 2013, its applicable CIT rate may increase to up to 25%, which could have a material adverse effect on our results of operations. We cannot assure you that we will be able to maintain our current effective tax rate in the future.

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

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

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

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

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

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

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

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RISKS RELATED TO THE MARKET FOR OUR STOCK

We may not pay dividends.

We have not previously paid any cash dividends nor do we anticipate paying any dividends on our ordinary shares. Although we achieved profitability from 2004 to 2006, we cannot assure you that our operations will generate sufficient revenues to enable us to operate at profitable levels or to generate positive cash flows. Indeed, we had net losses of RMB18,830,869 and RMB4,509,616 (US$723,843) for the years ended December 31, 2011 and 2012, respectively. Furthermore, there is no assurance our Board of Directors will declare dividends even if we are profitable. Dividend policy is subject to the discretion of our Board of Directors and will depend on, among other things, our earnings, financial condition, capital requirements and other factors. Under Cayman Islands law, we may only pay dividends from profits or credit from the share premium account (the amount paid over par value, which is $0.0756), and we must be solvent before and after the dividend payment. If we determine to pay dividends on any of our ordinary shares in the future, as a holding company, we will be dependent on receipt of funds from our operating wholly- and partially-owned subsidiaries.

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

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

As a result of the actions by some Chinese companies and the media and governmental attention focused on all Chinese companies, the share prices of nearly all smaller Chinese companies like ours have been adversely affected, whether or not warranted in any particular case. If investors continue to lose confidence in smaller Chinese companies or if we are unable to differentiate our company in investors’ estimation from the problematic Chinese companies, then we expect that our share price will continue to be harmed.

We may issue addiitonal securities, which could result in dilution to our shareholders.

We may require additional cash resources due to changed business conditions or other future developments, including any investments or acquisitions we may pursue. If our cash resources are insufficient to satisfy investments or acquisitions, we may determine to issue additional securities, which could result in dilution to our current shareholders.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

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

Acquisition and Disposition of Biaoshang and Wangku

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

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

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

Acquisition of the Assets of Guangzhou Royalstone

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

Acquisition of the Assets and Business of Proadvancer

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

VIE entity - Changshengtiandi

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

B. Business Overview

General

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

Vision

Where there are consumers, there is eFuture.

Mission

Creating a happy consumer world.

Our Market

eFuture's software solutions and services are focused on the retail and consumer goods industries, and work with market-leading companies within these sectors. In China, retail sales accounted for almost 40% of GDP in 2012 and have shown a constant upward trend between 2006 and 2012, with a CAGR of 17.4%. In 2012, China's retail sales reached RMB20.7 trillion, representing a growth rate of 12.7% over 2011. The rapid growth of the retail and consumer goods industry in China has been driven by powerful macro-economic trends that continue today-increasing GDP, rapid urbanization, improving quality of life and increasing national disposable income. According to a report by IDC in May 2012, total expenditure on IT solutions in China's retail industry was almost RMB2.36 billion in 2011. For more information regarding our industry and trends see Item 5(D) - Trend Information of this report. For more information regarding our revenues by category of activities for the years ended December 31, 2010, 2011 and 2012 see Item 5(A) - Operating Results of this report.

Our Clients

eFuture's clients include manufacturers, distributors, resellers, logistics companies and retailers. The Company's client base encompasses global corporations such as Procter & Gamble, Pepsi, L'Oreal, Kimberly-Clark, Gucci and B&Q as well as leading Chinese companies. Its domestic client base includes over 30 companies that were ranked among China's top 100 retailers during 2012, such as Suning, Shanghai Bailian-Lianhua, China Resources Vanguard and Beijing Wangfujing.

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Growth Strategy

As a leading provider of software solutions and services in the retail and consumer goods industries in China, we focus on the following long-term organic growth strategies:

Strengthening our core software core business while increasing more stable recurring maintenance and support service revenues;

Pursuing profitable growth by increasing the market share among key accounts; and

Investing in innovation, such as omni-channel solutions and cloud services to further broaden service offerings.

Our Products and Services – Core Businesses

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

Software Solutions represents eFuture's core business. The Company's software solutions include the management of merchandizing, distribution, warehousing, supply chains, customer relationships, logistics and points of sale. They are highly scalable and can be deployed either individually or together with back-end systems. These solutions offer enhanced decision making and responsiveness to consumer demands, along with increased efficiency, which all ultimately drive profit growth.

Professional Services is eFuture's fast growing business, and covers operations, delivery, consulting, maintenance and support services via the Company's nationwide service centers and their teams of dedicated professionals.

Cloud Service is eFuture's new business, and consists of cloud services based on cloud computing architecture, such as Salesforce Automation ("SFA").

By solidifying our core software business, growing professional service revenues, and developing our cloud service offerings and capabilities, we have established a diverse platform which we believe will allow us to further increase our market share and generate consistent revenue in the future. For more information regarding our revenues by category of activities for the years ended December 31, 2010, 2011 and 2012 see Item 5(A) - Operating Results of this report.

Software Solutions

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

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

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

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

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

Professional Services

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

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

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

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

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

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

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

Cloud Service (www.cloudsales.com.cn)

Cloud service is eFuture's new business, and consists of cloud services based on cloud computing architecture, such as Salesforce Automation ("SFA") and Data Link.

The official launch of our cloud service offering marked an important milestone in the development of our Company, and allows us to offer an expanded portfolio of solutions to China's retail and fast moving consumer goods industries.

Our cloud service offering is a cost-effective solution for clients as they are charged a monthly fee rather than being required to make a significant upfront license fee payment or buy additional hardware. This, in turn, translates into recurring revenue for eFuture.

MyStore – Seed Business

MyStore is positioned to be a consumer social network shopping platform. We have already completed the phase I testing and have seen the postive results.

Sales and Marketing

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

- Headquartered in Beijing
- R&D centers in Beijing, Guangzhou and Wuhan
- Regional service centers in Beijing, Shanghai, Guangzhou, Wuhan, Qingdao, Xi'an, Fuzhou, Hangzhou, Nanjing, Chongqing and Shenzhen

2012 was a truly transformational year. Our transformational process has been marked by three key strategic initiatives to enhance our position for future growth.

First, we have been making good progress in enhancing our sales capacity by leveraging opportunities through value added service offerings.

Second, we have improved our productivity, quality and cost efficiency of our service delivery through localization.

Third, we have increased our value proposition for customers and have successfully moved many up the value chain.

The product management process, particularly in project completion times, has improved. We have approximately 60 mid-level managers covering regional and business verticals, and over the course of 2012, the Company conducted a number of training courses sought to improve sales, leadership and project management.

In addition, we've invested resources to enhance our delivery efficiency. The results have been positive with significant improvement in our operating metrics. At the end of 2011 we had a pipeline of 58 groups of prospective clients with a potential aggregate contract value of RMB26 million. By the end of 2012, we increased the number of prospective clients to approximately 100 with a potential contract value of over RMB50 million (US$8.0 million).

Existing client revenue and contract value has also increased. Average contract value in the fourth quarter 2012 increased by 27.7%, and for the full year 2012, a 29% increase versus 2011.

We continue to migrate towards higher quality and financially stronger clients with businesses that offers greater scale and higher contract values. A better understanding of the requirements of these clients enables more efficient interactions and improved collection times of accounts receivable.

Through our continued efforts to move up the value chain, we have enhanced our competitive niche, expanding our offerings from products-driven services to near solution-based services so as to deepen client penetration and increase size of sales. In addition, service delivery efficiency improved significantly, as we tightened our control measures to minimize risk and costs. This is reflected in our improved profit margins.

Our marketing efforts have also yielded positive results. Marketing expenses have been maintained at 2011 levels. We have generated approximately 100 additional prospective clients throughout 2012. These results have been assisted by our efforts to publish a quarterly "eFuture Business Review" that features views from industry veterans, academia and IT experts, and are primarily targeted at the C suite level.

In addition, our focus on tier 2 cities has also proved fruitful. We have organized seminars in 15 cities, including Hubei, Zhejiang, Fujian, Shanxi and Shandong, and increased our participation in the national industry associations, such as the China Chain Store & Franchise Association (“CCFA”), China Commerce Association for General Merchandise, the China General Chamber of Commerce and others.

We've organized over 30 such events to build our brand awareness and raise our profile in 2012. These events help to identify sales opportunities and consequently expanded our pipelines. At the same time, it has helped to identify markets in which we plan to prioritize our marketing efforts in 2013.

Collaborative Efforts and Recognition

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

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

- In 2007, IBM awarded us its Solution Developer Partnership Award - Asia Pacific Region. We have partnered with IBM to provide customer management systems and integrated retail supply chain software systems throughout China.
- In 2007, we entered into a Value Added Systems Integrator (“VASI”) Agreement with JDA® Software Group, Inc. (NASDAQ: JDAS) pursuant to which we 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.

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

In 2010, IBM awarded us with the title of Excellent Application Solution Provider in Asia Pacific Region.
At the IBM 2011 China Partner Conference, we received the "IBM 2010 Market Leadership Achievement" award.
In 2011, integrated IT service provider Digital China named eFuture "Best Solution Partner in the Distribution Industry".
In 2011, we were also recognized as "Best logistics service provider in the business services sector" at an event convened by the Chinese General Chamber of Commerce and the China Business Herald.
In 2012, we received "Best Corporation" award from CCFA.
In 2012, China Computer Industry Association awarded us with the title of Gold Software Model Enterprise in Retail Industry.

Competitive Landscape

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

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

Tier 2 - the top 100 retailers and leading regional retailers in China. Here, eFuture enjoys strong brand recognition and is competing with global and local competitors. Over 30% of China's top 100 retailers are eFuture customers. Our global best practice offering features competitive pricing, more flexible and localized solutions, which gives eFuture a competitive advantage when addressing Tier 2 customers.

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

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

a leading position in China's retail and consumer goods software and services market
strong brand recognition among international and local clients
strategic partnerships with leading global technology companies
one-stop, end-to-end integrated portfolio of products and services

Research & Development

In the fiscal year 2012, our research & development efforts focus on the following area:

Data Link Cloud Services

Data Link services, a new cloud based distributor relationship management application under our cloud platform, allow the manufacturers to access to real-time sales, inventory and replenishment information directly from their distributors.

MyStore

We are currently engaged in the initial stage of developing a consumer social network shopping platform. It aims to connect and engage consumers.

Congou

Congou development platform, which consists a set of open-source software framework and rapid application development tools, is designed to increase development efficiency and software quality based on browser/server architecture by JAVA technology applications.

Congou development platform provides uniform data access layer (DAL), enterprise service bus (ESB), business process management (BPM) engine, security control, message queue, task scheduling and other supports. It allows programmers to focus on the business data object, without having to be concerned about specific instances of the database type, deployment, caching strategy and the specific technology such as database connection pool. At the same time, it also allows the implementation personnel use the visual graphical tools to compile and adjust the service flow and workflow.

Intellectual Property

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

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

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

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

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

Regulations

Regulation of Software Products

On March 1, 2009, the Ministry of Information Industry issued the Administrative Measures on Software Products (the "Software Measures") to strengthen the regulation of software products and to encourage the development of the Chinese software industry. 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. The software products that have been registered or filed with the Ministry of Information Industry or with its provincial branch may enjoy the relevant encouragement policies in the Industrial Policies. Software products can be registered for five years, and the registration is renewable upon expiration.

Regulation of Intellectual Property Rights

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

Copyright – China adopted its first copyright law in 1990. The National People's Congress amended the Copyright Law in 2001 and 2010 to widen the scope of works and rights that are eligible for copyright protection. The amended Copyright Law extends copyright protection to software products, among others. In addition, there is a voluntary registration system administered by the China Copyright Protection Center. Unlike patent and trademark registration, copyrighted works do not require registration for protection. Protection is granted to individuals from countries belonging to the international copyright conventions or bilateral agreements of which China is a member.

Trademark – The Chinese Trademark Law, adopted in 1982 and revised in 1993 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.

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

Although there are differences in intellectual property rights between the United States and China, the most significant difference to our Company is the inexperience of China in connection with the development and protection of intellectual property rights. Similar to the United States, China has chosen to protect software under copyright law rather than trade secret, patent or contract law. As such, we will attempt to protect our most significant asset (software) pursuant to Chinese laws 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 of Value-added Telecommunications Services

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

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

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

Regulation of Foreign Direct Investment in Value-Added Telecommunications Companies

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

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

On July 13, 2006, the MIIT issued Notice of the Ministry of Information Industry on Intensifying the Administration of Foreign Investment in Value-added Telecommunications Services ("MIIT Notice"), which reiterates certain provisions of the FITE Regulations. Under the MIIT Notice, if a FITE intends to invest in a PRC value-added telecommunications business, the FITE must be established and must apply for a telecommunications business license applicable to the business. Under the MIIT Notice, a domestic company that holds a ICP license, is considered to be a type of value-added telecommunications business in China, and is prohibited from leasing, transferring or selling the license to foreign investors in any form, and from providing any assistance, including providing resources, sites or facilities, to foreign investors to conduct value-added telecommunications businesses illegally in China. Trademarks and domain names that are used in the provision of Internet content services must be owned by the ICP license holder. The MIIT Notice requires each ICP license holder to have appropriate facilities for its approved business operations and to maintain such facilities in the regions covered by its license. In addition, all value-added telecommunications service providers are required to maintain network and information security in accordance with standards set forth in relevant PRC regulations. Our VIE, Changshengtiandi, rather than our subsidiaries, holds ICP licenses.

Seasonality

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

C. Organizational structure

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

	Date entity joined

Name	the Company	Relationship
eFuture (Beijing) Royalstone Information Technology Inc.	November 2000	Wholly-owned subsidiary
Beijing Changshengtiandi Ecommerce Co., Ltd.	January 2011	Consolidated affiliated entity

Our principal executive offices and headquarters in Beijing moved to the central business district in May of 2009, located at 8/F Topnew Tower, 15 Guanghua Road, Chaoyang District, Beijing 100026, China. Our telephone number is +86 10 5293 7699, and our fax number is +86 10 5165 0988.

D. Property, Plant and Equipment

Facilities

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

Office	Address	Rental Term	Space
Beijing	8/F Topnew Tower 15 Guanghua Road Chaoyang District Beijing, PRC	Expires April 25, 2015	1,496.77 sq. meters
Shanghai	Floor 19E, F, G, H Shentong Information Plaza 55 West Huaihai Road Xu Hui District, Shanghai, PRC	Expires March 19, 2015	602.14 sq. meters
Nanjing	Room 2410, No. 3 Building Jiaye International City 158 Lushan Road, Jianye District Nanjing, Jiangsu Province, PRC	Expires December 31, 2013	327.57 sq. meters
Shijiazhuang	R2108, Floor 21 Changan Plaza 289 East Road of Zhongshan Street Shijiazhuang, Hebei Province, PRC	Expires December 31, 2014	647.68 sq. meters
Guangzhou	Rear Building Huicheng Plaza 130 Zhongshan Street Guangzhou, Guangdong Province, PRC	Expires March 31, 2014	1,760 sq. meters
Wuhan	Floor 36 and 40 No. 7 Zhongnan Road, Wuchang District Wuhan, Hubei Province, PRC	Expires May 19, 2015	2293.73 sq. meters
Qingdao	Floor 6 C, Block A No. 11 Building Qingdao Software Park No. 288 Ningxia Road, Shinan District Qingdao, Shandong Province, PRC	Expires June 30, 2014	107.98 sq. meters
Xi’an	Room 1235, Floor 12, Unit 1 Yu Long International No. 183 Dong’er Road Xi’an, Shanxi Province, PRC	Expires April 5, 2014	139.17 sq. meters
Fuzhou	Room 06, Floor9 Rongcheng Commercial & Trade Center No.129 Wuyi North Road, Gulou District	Expires May 31, 2014	100.84 sq. meters

	Fuzhou, Fujian Province, PRC		
Hangzhou	Floor 20 Zhongdu Department Store Plaza, 87 Qingchun Road Xiacheng District, Hangzhou, Zhejiang Province, PRC	Expires March 24, 2014	170 sq. meters
Shenzhen	Room G, H & L, Floor 8, International Trade Business Building, Nanhu Road, Luohu District, Shenzhen	Expires June 30, 2014	492.43 sq. meters

As of the date of this report, the old Chongqing office expired while the new site has not been confirmed. We do not have any material plans, agreements or obligations to construct, expand or improve any facilities.

ITEM 4A. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

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

A. Operating Results

Overview

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

Summary of 2012 Operations

2012 was a truly transformational year. Our transformational process has been marked by three key strategic initiatives to enhance our position for future growth.

First, we have been making good progress in enhancing our sales capacity by leveraging opportunities through value added service offerings.

Second, we have improved our productivity, quality and cost efficiency of our service delivery through localization.

Third, we have increased our value proposition for customers and have successfully moved many up the value chain.

The product management process, particularly in project completion times, has improved. We have approximately 60 mid-level managers covering regional and business verticals, and over the course of 2012, the Company conducted a number of training courses sought to improve sales, leadership and project management.

In addition, we've invested resources to enhance our delivery efficiency. The results have been positive with significant improvement in our operating metrics. At the end of 2011 we had a pipeline of 58 groups of prospective clients with a potential aggregate contract value of RMB26 million. By the end of 2012, we increased the number of prospective clients to approximately 100 with a potential contract value of over RMB50 million (US$8.0 million).

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We continue to migrate towards higher quality and financially stronger clients with businesses that offers greater scale and higher contract values. A better understanding of the requirements of these clients enables more efficient interactions and improved collection times of accounts receivable.

Through our continued efforts to move up the value chain, we have enhanced our competitive niche, expanding our offerings from products-driven services to near solution-based services so as to deepen client penetration and increase size of sales. In addition, service delivery efficiency improved significantly, as we tightened our control measures to minimize risk and costs. This is reflected in our improved profit margins.

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In addition, our focus on tier 2 cities has also proved fruitful. We have organized seminars in 15 cities, including Hubei, Zhejiang, Fujian, Shanxi and Shandong, and increased our participation in the national industry associations, such as the China Chain Store & Franchise Association (“CCFA”), China Commerce Association for General Merchandise, the China General Chamber of Commerce and others.

We've organized over 30 such events to build our brand awareness and raise our profile in 2012. These events help to identify sales opportunities and consequently expanded our pipelines. At the same time, it has helped to identify markets in which we plan to prioritize our marketing efforts in 2013.

Results of Operations

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

	Chinese Yuan (Renminbi) For the Years Ended December 31, 2010	2011	2012	U.S. Dollars For the Year Ended December 31, 2012
Revenues				
Software revenue	¥63,887,988	¥52,599,132	¥79,535,451	$12,766,320
Hardware revenue	35,805,127	38,838,235	28,460,810	4,568,275
Service fee revenue	52,209,569	83,011,113	90,358,608	14,503,557
Total Revenues	151,902,684	174,448,480	198,354,869	31,838,152
Cost of revenues				
Cost of software revenue	(11,952,426)	(12,658,868)	(26,651,708)	(4,277,894)
Cost of hardware revenue	(31,282,457)	(32,412,956)	(23,862,880)	(3,830,256)
Cost of service fee revenue	(30,748,994)	(57,885,408)	(62,409,787)	(10,017,462)
Amortization of acquired customer relationships and softwares	(10,353,492)	(7,838,965)	(4,157,333)	(667,298)
Amortization of software costs	(4,734,364)	(3,319,857)	(2,767,041)	(444,141)
Impairment loss of intangible assets	(2,401,502)	(4,135,194)	-	-
Total Cost of Revenues	(91,473,235)	(118,251,248)	(119,848,749)	(19,237,051)
Gross Profit	60,429,449	56,197,232	78,506,120	12,601,101
Operating Expenses				
Research and development expenses	(8,152,923)	(4,666,122)	(3,737,959)	(599,984)
General and administrative expenses	(39,253,368)	(46,231,355)	(32,799,689)	(5,264,713)
Selling and distribution expenses	(34,755,979)	(24,845,248)	(40,448,601)	(6,492,448)
Total Operating Expenses	(82,162,270)	(75,742,725)	(76,986,249)	(12,357,145)
Profit (Loss) from operations	(21,732,821)	(19,545,493)	1,519,871	243,956
Other income (expenses)				
Interest income	588,600	534,203	497,457	79,847
Interest expenses	(636,050)	(550,338)	-	-
Interest expenses - amortization of discount on convertible notes payable	(13,712)	(6,431,872)	-	-
Interest expenses - amortization of deferred loan costs	(369,516)	(474,399)	-	-
Finance cost - exchange warrants	(1,443,888)	-	-	-
Loss on investments	(54,192)	(240,000)	-	-
Gains on derivative liabilities	3,429,479	347,565	3,168	508
Other income (expenses)	-	873,697	(2,027,354)	(325,412)
Foreign currency exchange loss	(530,939)	(36,864)	(5,328)	(855)
Loss from continuing operations before income tax	(20,763,039)	(25,523,501)	(12,186)	(1,956)
Less: Income tax expenses (benefit)	(1,770,001)	(571,857)	4,497,430	721,887
Loss from continuing operations	(18,993,038)	(24,951,644)	(4,509,616)	(723,843)
	(1,606,146)	(511,423)	-	-

Less: Net loss attributable to the non-controlling interest				
Net loss from continuing operations attributable to eFuture Information Technology Inc.	(17,386,892)	(24,440,221)	(4,509,616)	(723,843)
Discontinued operations				
Gain from discontinued operations (including gain on disposal of ¥3,427,236, ¥6,701,170 and nil, respectively)	63,471	5,609,352	-	-
Less: Income tax expenses	-	-	-	-
Gain from discontinued operations	63,471	5,609,352	-	-
Net loss	¥(17,323,421)	¥(18,830,869)	¥(4,509,616)	$(723,843)
Earnings (Loss) per ordinary share				
Basic	¥(4.53)	¥(4.56)	¥(1.07)	$(0.18)
- Continuing operations	(4.55)	(5.92)	(1.07)	(0.18)
- Discontinued operations	0.02	1.36	-	-
Diluted	¥(4.53)	¥(4.56)	¥(1.07)	$(0.18)
- Continuing operations	(4.55)	(5.92)	(1.07)	(0.18)
- Discontinued operations	0.02	1.36	-	-
Basic Weighted-average Shares Outstanding	3,822,386	4,130,221	4,213,318	4,213,318
Fully-Diluted Weighted-average Shares Outstanding	3,831,803	4,130,221	4,213,318	4,213,318

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 2010, 2011 and 2012.

	RMB								
	FY 2010	Percentage of FY 2010 Revenues	FY 2011	Percentage of FY 2011 Revenues	FY 2012	Percentage of FY 2012 Revenues	Change FY 2010 v FY 2011	% Change	Chang FY 2011 2012
Revenues									
Software sales	63,887,988	42.1 %	52,599,132	30.2 %	79,535,451	40.1 %	(11,288,856)	-17.7 %	26,936,3
Hardware sales	35,805,127	23.6 %	38,838,235	22.3 %	28,460,810	14.3 %	3,033,108	8.5 %	(10,377.
Service fee income	52,209,569	34.4 %	83,011,113	47.5 %	90,358,608	45.6 %	30,801,544	59.0 %	7,347,49
Total Revenues	151,902,684	100.0 %	174,448,480	100.0 %	198,354,869	100.0 %	22,545,796	14.8 %	23,906,3
Cost of Revenues									
Cost of software	(11,952,426)	-7.9 %	(12,658,868)	-7.3 %	(26,651,708)	-13.4 %	(706,442)	5.9 %	(13,992.
Cost of hardware	(31,282,457)	-20.6 %	(32,412,956)	-18.6 %	(23,862,880)	-12.0 %	(1,130,499)	3.6 %	8,550,07
Cost of service fee income	(30,748,994)	-20.2 %	(57,885,408)	-33.1 %	(62,409,787)	-31.5 %	(27,136,414)	88.3 %	(4,524,3
Amortization of acquired customer relationships and softwares	(10,353,492)	-6.8 %	(7,838,965)	-4.5 %	(4,157,333)	-2.1 %	2,514,527	-24.3 %	3,681,63
Amortization of software costs	(4,734,364)	-3.1 %	(3,319,857)	-1.9 %	(2,767,041)	-1.4 %	1,414,507	-29.9 %	552,816
Impairment loss of intangible assets	(2,401,502)	-1.6 %	(4,135,194)	-2.4 %	-	0.0 %	(1,733,692)	72.2 %	4,135,19
Total Cost of Revenues	(91,473,235)	-60.2 %	(118,251,248)	-67.8 %	(119,848,749)	-60.4 %	(26,778,013)	29.3 %	(1,597,5
Gross Profit	60,429,449	39.8 %	56,197,232	32.2 %	78,506,120	39.6 %	(4,232,217)	-7.0 %	22,308,8
Operating Expenses									
Research and development	(8,152,923)	-5.4 %	(4,666,122)	-2.7 %	(3,737,959)	-1.9 %	3,486,801	-42.8 %	928,163
General and administrative	(39,253,368)	-25.8 %	(46,231,355)	-26.5 %	(32,799,689)	-16.5 %	(6,977,987)	17.8 %	13,431,6

Selling and distribution expenses	(34,755,979)	-22.9 %	(24,845,248)	-14.2 %	(40,448,601)	-20.4 %	9,910,731	-28.5 %	(15,603,
Total Operating Expenses	(82,162,270)	-54.1 %	(75,742,725)	-43.4 %	(76,986,249)	-38.8 %	6,419,545	-7.8 %	(1,243,5
Profit (Loss) from operations	(21,732,821)	-14.3 %	(19,545,493)	-11.2 %	1,519,871	0.8 %	2,187,328	-10.1 %	21,065,3

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

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RMB	FY 2010	Gross Margin for FY 2010	FY 2011	Gross Margin for FY 2011	FY 2012	Gross Margin for FY 2012
Revenues						
Software sales	63,887,988		52,599,132		79,535,451	
Hardware sales	35,805,127		38,838,235		28,460,810	
Service fee income	52,209,569		83,011,113		90,358,608	
Total Revenues	151,902,684		174,448,480		198,354,869	
Cost of Revenues						
Cost of software	(11,952,426)	81.3 %	(12,658,868)	75.9 %	(26,651,708)	66.5 %
Cost of hardware	(31,282,457)	12.6 %	(32,412,956)	16.5 %	(23,862,880)	16.2 %
Cost of service fee income	(30,748,994)	41.1 %	(57,885,408)	30.3 %	(62,409,787)	30.9 %
Amortization of acquired customer relationships and softwares	(10,353,492)		(7,838,965)		(4,157,333)	
Amortization of software costs	(4,734,364)		(3,319,857)		(2,767,041)	
Impairment loss of intangible assets	(2,401,502)		(4,135,194)		-	
Total Cost of Revenues	(91,473,235)		(118,251,248)		(119,848,749)	
Gross Profit	60,429,449	39.8 %	56,197,232	32.2 %	78,506,120	39.6 %

Comparison of Years Ended December 31, 2012 and 2011

Revenue

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

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

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

Total revenue. Total revenue is comprised of software sales, hardware sales and service fee revenue. Total revenue increased 13.7% from RMB174.4 million in 2011 to RMB198.4 million (US$31.8 million) in 2012. Benefit from the upgrade of our delivery team in 2011, our workflow efficiencies between regional delivery teams and company-level technical support teams helped support the increase in revenue in 2012. In addition, the expansion of our business into tier 2 and tier 3 cities in China and the mid- to small-scale customers in recent years had a positive effect on our business. Most of the backlog as of the end of 2011 had been realized to revenue in 2012. From the customers' aspect, the completion of the process of consolidation in our existing customers and the retail industry as a whole resulted in the reboot of their new store opening in 2012. In addition, 2012 revenues benefited from the increased demand from existing customers for customization, maintenance and consulting services.

Software sales. Our software sales increased 51.2% from RMB52.6 million in 2011 to RMB79.5 million (US$12.8 million) in 2012. Due to the decline of China's domestic economic development in 2011, our existing customers and the retail industry as a whole started to consolidate in 2011. At the same time, the new store openings of our clients were delayed. In 2012, in line with the completion of the process of consolidation, new store openings of our clients occurred and the demands for the purchase of our software licenses increased accordingly. Most of the increase in the software sales was from shopping malls, grocery stores and supermarket clients.

Hardware sales. Our hardware sales decreased 26.7% from RMB38.8 million in 2011 to RMB28.5 million (US$4.6 million) in 2012 in line with the decreased one-stop solution services business for distribution, retail and logistics businesses focused on the supply chain front market for manufacturers, retailers, distributors and third party logistics in 2012.

In recent years, we have de-emphasized hardware sales, since the hardware sales market has become increasingly competitive and more price sensitive. As a relatively young company, we do not believe that it is strategic for us to leverage this 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 plan to emphasize hardware sales as part of our marketing and sales strategies. Accordingly, hardware sales decreased this year.

Service fee income. Service fee income increased 8.9% from RMB83.0 million in 2011 to RMB90.4 million (US$14.5 million) in 2012, which was primarily attributable to the strong growth from customization, maintenance and consulting services in line with our business expansion and market penetration which has occurred in recent years. In particular, because of the benefit from the upgrade of delivery team in 2011, our delivery efficiency improved and the quantity of contracts completed increased in 2012, which resulted in the increase of implementation service income of 37.8% in 2012. Service fee income revenues represented 47.5% and 45.6% of our total revenues in 2011 and 2012, respectively.

Cost of Revenues

Our cost of revenues includes labor costs, materials, overhead expenses, business taxes related to certain services revenues and other expenses associated with the development of software, sales of hardware, and technical support services. We expect our cost of revenue to grow more slowly than that of our revenues. 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 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 and impairment loss of intangible assets subject to amortization also affect the cost of revenues.

Cost of software sales. Cost of software sales consists of labor costs, materials, overhead expenses and other expenses associated with the development of our software. Cost of software sales increased 110.5% from RMB12.7 million in 2011 to RMB26.7 million (US$4.3 million) in 2012.

As a percentage of software sales, cost of software sales was 24.1% for 2011 and 33.5% for 2012. The significant increase was primarily attributable to the customization of certain software license projects in the logistic industry which largely increased labor costs, and accordingly, the negative gross profit margin of approximately 300%. We have reviewed other potential loss contracts and accrued RMB2.6 million (US$0.4 million) for the future expected losses as of December 31, 2012.

Cost of hardware sales. Cost of hardware sales consisted primarily of payments for third party hardware products that are utilized in connection with our software products. Cost of hardware sales decreased by 26.4% from RMB32.4 million in 2011 to RMB23.9 million (US$3.8 million) in 2012, which was primarily attributable to the decrease in hardware sales.

As a percentage of hardware sales, cost of hardware sales was 83.5% in 2011 and 83.8% in 2012, which, as a percentage, remained stable in 2011 and 2012. Gross margins were 16.5% and 16.2% in 2011 and 2012, respectively.

Cost of service fee income. Cost of service fee income includes labor costs, business taxes and costs related to technical support service. Cost of service fee income increased 7.8% from RMB57.9 million in 2011 to RMB62.4 million (US$10.0 million) in 2012, which was primarily attributable to the increase in service fee income. However this was less than the increase of service fee income.

As a percentage of service fee income, cost of service fee income was 69.7% in 2011 and 69.1% in 2012, respectively. The 2012 decrease was primarily attributable to the continuous improvement in delivery efficiency resulted from the upgrade of delivery team in 2011.

Amortization of acquired customer relationships and softwares. The amortization of acquired software technology in 2011 and 2012 resulted from amortization of software technology acquired in a variety of acquisitions. The amortization of acquired technology expense decreased 47.0% from RMB7.8 million in 2011 to RMB4.2 million (US$0.7 million) in 2012, which was primarily attributable to the complete amortization of parts of our acquired technology in 2012.

Amortization of software costs. Intangible assets include the cost of computer software we acquired and developed. These costs are amortized over the useful lives of the software. Costs primarily consist of salary and employee benefits for those involved in the development of the software. Amortization expense decreased 16.7% from RMB3.3 million in 2011 to RMB2.8 million (US$0.4 million) in 2012.

The decreases are due in part to the intangible assets capitalized in previous years in the amount of RMB2.8 million (US$0.4 million), which had been fully-amortized at the end of 2011. In addition, the full impairment charge of RMB4.5 million (US$0.7 million) for part of the intangible assets which could not generate sufficient future cashflow also resulted in the decrease of amortization of software.

Impairment loss of intangible assets subject to amortization. We perform an impairment test for our intangible assets on an annual basis and identified impairment on certain internally generated software that is not expected to generate future revenue, or be sellable to a third party, and do not fit our future development strategy. In addition, we also identified impairment on a trade name acquired during the business combination in 2007 as its appraised fair value did not exceed its carrying value. As a result, we recorded an intangible assets impairment loss of RMB4.1 million for the year ended December 31, 2011. No intangible assets impairment loss was recorded for the year ended December 31, 2012.

Operating Expenses

Research and development expenses. Research and development expenses, which are expensed as incurred, consist primarily of salaries and related costs of our R&D centre, consultants, and an allocation of our facilities and depreciation expenses. We believe that our success significantly 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 decreased 19.9% from RMB4.7 million in 2011 to RMB3.7 million (US$0.6 million) in 2012, which was primarily attributable to the fact that most research projects had completed the research phase and entered into development phase, and therefore, capitalized in 2012. Research and development expenses represented 2.7% of total revenue for 2011 and 1.9% of total revenue for 2012.

General and administrative expenses. General and administrative expenses consist primarily of costs from our finance, human resources and administration departments, third party legal and other professional services fees and an allocation of our facilities costs and depreciation expenses. General and administrative expenses decreased 29.1% from RMB46.2 million in 2011 to RMB32.8 million (US$5.3 million) in 2012. Firstly, it was attributable to the cost control in administrative related expenses, which resulted in the decrease of listed company related expenditure of

RMB0.8 million (US$0.1 million), and the decrease of travel expenses and office expenditure of RMB3.9 million (US$0.6 million). Secondly, we reassessed the function of each of our China offices. The purpose of some of the offices changed from administration to sales or serving our projects. Accordingly, part of the rental expenses was reclassified to selling and distribution expenses and cost of revenues. Thus, rental expenses for executive offices decreased RMB5.9 million (US$0.9 million). In addition, due to the completion of the vesting period in 2012 for some stock options granted in prior year, the share-based compensation cost decreased of RMB1.2 million (US$0.2 million). General and administrative expenses were 26.5% of total revenues in 2011 and 16.5% of the total revenues in 2012.

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 a cost allocation related to our facilities. Selling and distribution expenses increased 62.8% from RMB24.8 million in 2011 to RMB40.4 million (US$6.5 million) in 2012, which was primarily due to increased salary and bonus of RMB9.9 million (US$1.6 million) in line with the increase of revenue in 2012, increased sales commissions for newly-signed contracts in 2012 of RMB 3.4 million (US$0.5 million), increased travel related expenses for sales personnel of RMB2.0 million (US$0.3 million), and an increase of business development expenditures in relation to seed businesses. We anticipate that sales and marketing expenses will increase to support the planned expansion of our sales and marketing organization, as well as the business development of new businesses. Selling and distribution expenses were 14.2% of total revenues in 2011 and 20.4% of total revenues in 2012.

Other Expenses

Interest Income. Interest income represents the interest accrued as a result of bank deposits. Our interest income decreased 6.9% from RMB534,203 in 2011 to RMB497,457 (US$79,847) in 2012, which primarily contributed to the decrease of average cash and cash equivalents balance throughout 2012.

Interest Expense. Interest expense represents the interest on our outstanding senior convertible notes. As a result of our repurchase of the senior convertible notes by the end of 2011, the interest expense was eliminated in 2012.

Interest expenses - amortization of discount on convertible notes payable, Interest expenses - amortization of deferred loan costs. In the fourth quarter of 2011, we bought back the outstanding senior convertible notes, and all the unamortized discount on senior convertible notes and deferred loan costs were charged in the consolidated financial statements. The amortization of discount on senior convertible notes payable and amortization of deferred loan costs were RMB6.4 million and RMB474,399 for the year ended December 31, 2011, respectively. After the repurchase, no such interst expenses were incurred for the year ended December 31, 2012.

Gain on Derivative. On March 13, 2007, the Company raised $10 million through the issuance of senior 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 decreased from RMB347,565 in 2011 to RMB3,168 (US$508) in 2012, which mainly contributed to the lower volatility of our share price throughout 2012.

Other income (expenses). The increase of other expenses was mainly contributed to the accruals of the obligations under the Settlement Agreement with Microsoft Corporation.

Income tax expenses (benefit). It turned from income tax benefit of RMB0.6 million in 2011 to income tax expenses of RMB4.5 million (US$0.7 million) in 2012, which was primarily attributable to the increased taxable income in eFuture Beijing in 2012. We also recognized the deferred tax assets of RMB7.9 million (US$1.3 million) as of December 31, 2012 as we believed that there would be sufficient taxable income in eFuture Beijing to realize the deferred tax assets in the future.

Gain from discontinued operations. Our gain from discontinued operations decreased from RMB5.6 million in 2011 to nil in 2012 as we have disposed Wangku in March 2011.

Comparison of Years Ended December 31, 2010 and 2011

Revenue

Total revenue. Total revenue is comprised of software sales, hardware sales and service fee revenue. Total revenue increased 14.8% from RMB151.9 million in 2010 to RMB174.4 million in 2011, which was primarily attributable to the upgrade of our delivery team which enabled us to complete more projects, further improve customer experience and enhance the value to clients of eFuture's products and services. We established work processes during the fourth quarter of 2011 to optimize workflow efficiencies between regional delivery teams and company-level technical support teams. In addition, 2011 revenues benefited from strong growth in the provision of consulting services to the logistics industry and the increased demand from existing customers for customization, maintenance and consulting services.

Software sales. Our software sales decreased 17.7% from RMB63.9 million in 2010 to RMB52.6 million in 2011, which was primarily attributable to lower sales to the grocery industry as existing customers in this vertical delayed new store openings. In line with the decline of China's domestic economic development, which can be inferred by the lower GDP growth rate in recent years, our existing customers and the retail industry as a whole was in the process of consolidation in 2011, which resulted in the delay of new store openings.

Hardware sales. Our hardware sales increased 8.5% from RMB35.8 million in 2010 to RMB38.8 million, as a result of the completion of several significant hardware contracts for the logistics industry in 2011.

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. It resulted in the relatively low growth rate this year.

Service fee income. Service fee income increased 59.0% from RMB52.2 million in 2010 to RMB83.0 million in 2011, which was primarily attributable to the strong demand from existing customers for customization, maintenance and consulting services in 2011. This resulted from the consolidation of our existing customers in 2011, as they were more focused on maintenance or customization services for existing systems than they were on the expansion and the opening of new stores. Service fee income revenues represented 34.4% and 47.6% of our total revenues in 2010 and 2011, respectively.

Cost of Revenues

Cost of software sales. Cost of software sales consists of labor costs, materials, overhead expenses and other expenses associated with the development of our software. Cost of software sales increased 5.9% from RMB12.0 million in 2010 to RMB12.7 million in 2011.

As a percentage of software sales, cost of software sales was 18.7% for 2010 and 24.1% for 2011. The significant increase was primarily attributable to the increase in labor cost and third party purchases which carried lower profit margins, compared with self-developed software licenses.

Cost of hardware sales. Cost of hardware sales consists primarily of payments for third party hardware products that are utilized in connection with our software products. Cost of hardware sales increased by 3.6% from RMB31.3 million in 2010 to RMB32.4 million in 2011, which was primarily attributable to increased hardware sales.

As a percentage of hardware sales, cost of hardware sales was 87.4% in 2010 and 83.5% in 2011. The 2011 decrease was primarily attributable to our intentional selection of hardware projects with higher margins in 2011. Our comprehensive knowledge in the logistics industry has helped facilitate this initiative.

Cost of service fee income. Cost of service fee income includes labor costs, business taxes and costs related to technical support services. Cost of services fee income increased 88.3% from RMB30.7 million in 2010 to RMB57.9 million in 2011, which was primarily attributable to the increase in service fee income, however the increase of cost of service fee income was slower than the increase of service fee income.

As a percentage of service fee income, cost of service fee income was 58.9% in 2010 and 69.7% in 2011. The 2011 increase was primarily attributable to higher labour costs resulting from wage inflation.

Amortization of acquired customer relationships and softwares. The amortization of acquired software technology in 2010 and 2011 resulted from amortization of software technology acquired in a variety of acquisitions. The amortization of acquired technology expense decreased 24.3% from RMB10.4 million in 2010 to RMB7.8 million in 2011, which was primarily attributable to the complete amortization of parts of our acquired technology in 2011.

Amortization of software costs. Intangible assets include the cost of computer software we acquired and developed. These costs are amortized over the useful lives of the software. Costs primarily consist of salary and employee benefits for those involved in the development of the software. Amortization expense decreased 29.9% from RMB4.7 million in 2010 to RMB3.3 million in 2011.

The decreases were due to part to the fact that intangible assets capitalized in previous years had been fully-amortized at the end of 2010. In addition, the impairment charge for part of the intangible assets which could not support sufficient future cashflow also contributed to the decrease of amortization of software.

Impairment loss of intangible assets. We performed an impairment test for our intangible assets on an annual basis and identified impairment on certain internally generated software that was not expected to generate future revenue or be sellable to a third party, and did not fit our future development strategy. In addition, we also identified impairment on a trade name acquired during the business combination in 2007 as its appraised fair value did not exceed its carrying value. As a result, we recorded an intangible assets impairment loss of RMB4.1 million for the year ended December 31, 2011.

Operating Expenses

Research and development expenses. Research and development expenses, which are expensed as incurred, consist primarily of salaries and related costs of our R&D centre, consultants and an allocation of our facilities and depreciation expenses. We believe that our success depends on continued enhancement of our current products and our ability to develop new technologically advanced products that meet the increasingly sophisticated requirements of our customers. Total research and development expenditure was RMB12.1 million and RMB15.2 million for the years ended December 31, 2010 and 2011, respectively. The increase was primarily attributable to the increased compensation for R&D personnel. As most of our R&D projects have entered into their capitalization phase in 2011, the research and development expenses decreased 42.8% from RMB8.2 million in 2010 to RMB4.7 million, while the capitalized amounts increased from RMB3.9 million in 2010 to RMB10.5 million in 2011. Research and development expenses represented 5.4% of total revenue for 2010 and 2.7% of total revenue for 2011.

General and administrative expenses. General and administrative expenses consist primarily of costs from our finance, human resources and administration departments, third party legal and other professional services fees and an allocation of our facilities costs and depreciation expenses. General and administrative expenses increased 17.8% from RMB39.3 million in 2010 to RMB46.2 million in 2011, which was attributable to higher compensation costs from RMB10.5 million in 2010 to RMB15.2 million in 2011 due to increased compensation, and increased spending on rent for new branch offices from RMB5.9 million in 2010 to RMB8.0 million in 2011, resulting from the business expansion. General and administrative expenses were 25.8% and 26.5% of total revenues in 2010 and in 2011, respectively.

Selling and distribution expenses. Selling and distribution expenses consist primarily of salaries and related costs of our sales and marketing departments, sales bonuses, costs of our marketing programs, public relations, advertising, trade shows, collateral sales bonuses, and an allocation of our facilities. Selling and distribution expenses decreased 28.5% from RMB34.8 million in 2010 to RMB24.8 million in 2011, which was primarily due to improved efficiency in generating sales and decreased commission payments following the introduction of a revised incentive scheme in 2011. The new incentive scheme introduced in 2011 no longer linked the bonuses for sales personnel only to the cash collection, which was the way followed in prior years, but also weighted the gross profit margin and contracts signed. Although we achieved a revenues increase in 2011, cashflow provided by the operating activities decreased. This was a major contributing factor to the decrease in commission payments. We believed the more optimized incentive scheme will be a positive factor on our sales personnel and will positively affect our revenue growth in the future. Selling and distribution expenses were 22.9% of total revenues in 2010 and 14.2% of total revenues in 2011.

Other Expenses

Interest Income. Interest income represents the interest accrued as a result of bank deposits. Our interest income decreased 9.2% from RMB588,600 in 2010 to RMB534,203 in 2011, which primarily contributed to the decrease of cash and cash equivalents in 2011.

Interest Expense. Our interest expense decreased from RMB636,050 in 2010 to RMB550,338 in 2011, which was primarily due to the decrease in foreign exchange rate throughout 2011 as our senior convertible notes subject to interest expenses were dominated in U.S. dollars.

Interest expenses - amortization of discount on convertible notes payable, Interest expenses - amortization of deferred loan costs. In the fourth quarter of 2011, we repurchased outstanding senior convertible notes, and all the unamortized discount on senior convertible notes and deferred loan costs were charged in the consolidated financial statements. The amortization of the discount on the senior convertible notes payable and amortization of deferred loan costs were RMB6.4 million and RMB474,399, respectively.

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

Our gain on derivatives decreased from RMB3.4 million in 2010 to RMB347,565 in 2011, which mainly contributed to the lower volatility of our share price throughout 2011.

Other income. In 2011 we held the customers meetings and received sponsor fee as other income. In addition, certain aged liabilities were extinguished and recorded as other income in the consolidated financial statements.

Income tax benefit. Our income tax benefit decreased from RMB1.8 million in 2010 to RMB0.6 million in 2011, which was primarily attributable to the recognition of withholding taxes for profit appropriation from eFuture Beijing to eFuture Information Technology Inc. of RMB1.0 million and the recognition of corporate income tax of RMB1.1 million derived from taxable income of eFuture Beijing, netting of the realization of the deferred tax liability resulting from the amortization of the intangible assets acquired from the acquisition of Royalstone and Proadvancer and deferred tax liabilities of eFuture Beijing of RMB2.7 million.

Gain from discontinued operations. Our gain from discontinued operations increased from RMB63,471 in 2010 to RMB5.6 million in 2011, which was primarily attributable to a decrease in loss before income taxes generated by the discontinued operations of Biaoshang and Wangku from RMB3.3 million in 2010 to RMB1.1 million in 2011, and the increase of gain on disposal of investments from RMB3.4 million in 2010 to RMB6.7 million in 2011.

Holding Company Structure

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

Critical Accounting Policies and Estimates

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

Revenue Recognition

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

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

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

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

For software sales, 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 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 professional services 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 professional 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 100% revenue when delivery and acceptance is determined by a completion report signed by our customer.

Allowance for Doubtful Accounts

Trade receivables, net are stated as the amount management expects to collect from outstanding balances. An estimate for doubtful accounts is made when collection of the full amount is no longer probable. We maintain an allowance for potentially uncollectible trade receivables based on our assessment of the collectability of trade receivables. In evaluating the collectability of individual receivable balances, we consider many factors, including the age of the balance, the customer's past payment history, its current credit-worthiness and current economic trends. Our allowance for doubtful accounts was RMB3.0 million in 2010, RMB4.1 million in 2011 and RMB2.3 million (US$0.4 million) in 2012.

Inventory and Work in Process

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

Provisions are made for excess, slow moving and obsolete purchased hardware and software held for resale, as well as for inventories and work in process with carrying values in excess of net realizable value. We use the future selling price less the estimated taxes and future expenditure as the estimates of net realizable value on contract basis.

Share-Based Compensation

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

Property and Equipment

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

Research and Development and Intangible 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. The subsequent expenditure in connection with major upgrade for the developed intangible assets is capitalized as incurred.

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

Valuation of Long-Lived Assets

We evaluate long-lived assets, such as fixed assets and purchased or internally developed intangible assets with finite lives, for impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable in accordance with ASC subtopic 360-10, Property, Plant and Equipment: Overall. When such events occur, we assess the recoverability of the asset group based on the undiscounted future cash flow the asset group is expected to generate and 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 asset group, if any, is less than the carrying value of the asset group. If we identify an impairment, we reduce the carrying amount of the asset group to its estimated fair value based on a discounted cash flow approach or, when available and appropriate, to comparable market values. We have made impairment loss of intangible assets of RMB2.4 million, RMB4.1 million and nil for the years ended December 31, 2010, 2011 and 2012, respectively. We use estimates and judgments in our impairment tests and if different estimates or judgments had been utilized, the timing or the amount of any impairment charges could be different. Asset groups to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell, and no longer depreciated. The assets and liabilities of a disposal group classified as held for sale would be presented separately in the appropriate asset and liability sections of the balance sheet. However, circumstances could cause us to have to reduce the value of our capitalized software more rapidly than we have in the past if our revenues were to significantly decline. Estimated cash flows from the use of the long-lived assets are highly uncertain and therefore the estimation of the need to impair these assets is reasonably likely to change in the future. Should the economy or acceptance of our software change in the future, it is likely that our estimate of the future cash flows from the use of these assets will change materially. The amount of possible change is discussed above under Property and Equipment and Intangible Assets.

Goodwill

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

We completed our annual impairment test as of December 31, 2012, and the fair value of the reporting unit exceeded its carrying value by 33.7%. We utilized an income approach to estimate the fair value of each reporting unit. We selected this method because we believe that it most appropriately measures the income-producing capability of the reporting unit. The income approach is based on the projected cash flows, which are discounted to their present value using discount rates that consider the timing and risk of the forecasted cash flows. We believe that this approach is appropriate because it provides a fair value estimate based upon the reporting unit's expected long-term operating cash performance. Fair value is estimated using internally-developed forecasts and assumptions. The discount rate used is the average estimated value a market participant's cost of capital a debt, derived using the customary market metrics. Other significant assumptions include terminal growth rates, future capital expenditures, and changes in future working capital requirements. We also compare and reconcile our overall fair value to our market capitalization. The discount rate and terminal growth rate used in our impairment test were 23% and 3%, respectively. If the discount rate increased by 100 basis points, the fair value of the reporting unit would decrease by approximately RMB4.4 million which exceeded its carrying value by 30.4%. A decrease of 100 basis points in the terminal growth rate would result in approximately RMB1.6 million of declines in the fair value of the reporting unit which exceeded its carrying value by 32.6%. Such changes will not result in the failure of step 1 test in annual impairment test. Although there are inherent uncertainties related to the assumptions used and to our application of these assumptions to this analysis, we believe that the income approach provides a reasonable estimate of the fair value of our reporting unit.

Fair Values of Financial Instruments

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

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

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

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

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

The carrying amount of cash and cash equivalents, trade receivables, other receivables, other receivables due from previously consolidated entities, advances to suppliers, refundable value added tax, advances to employees, prepaid expenses, trade payables, taxes payable, other payables, accrued liabilities and advances from customers approximates fair value due to their immediate or short-term nature. The single compound embedded derivative within senior convertible notes we issued was recorded at fair value at the date of issuance, which was measured by using unobservable (Level 3) inputs.

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, although there was a significant increase in current liabilities due to the accruals of year-end bonuses for our greater cash collections than in prior years as of December 31, 2012. 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 debt securities or borrow from banks.

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

	2011	2012
	(In millions of RMB)	
Cash and cash equivalents	57.2	79.4
Net cash provided by (used in) operating activities	(6.5)	37.9
Net cash used in investing activities	(3.7)	(14.1)
Net cash used in financing activities	(6.3)	(1.6)
Change in cash and cash equivalents of discontinued operations	(0.5)	-

Operating activities provided cash of RMB37.9 million (US$6.1 million) in 2012 compared to using cash of RMB6.5 million in 2011. 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 senior convertible notes and share-based compensation expenses for directors and employees. The increase in cash provided by operating activities was primarily due to an increase in the inventory and work in progress of RMB22.7 million (US$3.6 million), in the accrued expenses of RMB12.1 million (US$1.9 million), in the refundable value added tax of RMB6.2 million (US$1.0 million) and in the taxes payable of RMB14.3 million (US$2.3 million), and the decrease in cash advances from customers of RMB9.6 million (US$1.5 million).

The working capital decreased from RMB24.7 million as of December 31, 2011 to RMB10.6 million (US$1.7 million) as of December 31, 2012, which was mainly attributable to the increased accrual of year-end bonuses. In spite of the increase of revenues in 2012, advances from customers decreased slightly. We have increased the quantity of contracts signed and accordingly the cash advances from customers increased. On the other hand, the improvement on the delivery efficiency also resulted in completion of more projects in 2012 than in prior years. As a result, more advances from customers converted to revenues and more inventory converted to cost of revenues in 2012. It resulted in the decrease of advances from customers and inventory.

Investing activities used cash of RMB3.7 million in 2011 and RMB14.1 million (US$2.3 million) in 2012. In 2012, the primary increase in use of cash in investing was attributable to the decrease of cash collection for the disposal of investments of RMB5.9 million (US$0.9 million) in 2011 and the increase of cash paid for intangible assets related expenditure of RMB3.7 million (US$0.6 million) in 2012.

Financing activities used cash of RMB6.3 million in 2011, which mainly included cash paid for the redemption of senior convertible notes. RMB1.6 million (US$0.3 million) in 2012 represented the cash paid for ordinary shares repurchase.

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 senior convertible notes were initially convertible into 400,160 of our ordinary shares 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 ordinary shares 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 ordinary share, subject to adjustment. The Series B warrants to purchase an aggregate of 230,097 ordinary shares at an initial exercise price of $24.99 per Share expired on September 8, 2008. Likewise, the Placement Agent warrants to purchase 73,291 ordinary shares of the Company at an initial price of $24.99 per Share within five years on any day on or after September 9, 2007.

On October 3, 2007, one of the investors converted RMB37,529,400 ($5,000,000) of the senior convertible notes into 200,080 ordinary shares. In July and August of 2008, another investor converted RMB27,326,700 ($4,000,000) of the senior convertible notes into 210,526 ordinary shares.

On November 25, 2011, we announced the repurchase of senior convertible notes with a total aggregate outstanding principal amount equal to US$1 million. The purchase was made from our cash reserves. The notes were issued by the Company to certain institutional investors on March 13, 2007 and were due on March 12, 2012. We repurchased the notes for the aggregate outstanding principal amount. The note holders agreed to waive all outstanding interest payments. The payment is not expected to have a material impact on the Company's business operations or growth plans.

C. Research and Development

Our success depends on continued enhancement of our current products and our ability to develop new technologically advanced products that meet the increasingly sophisticated requirements of our customers. Research and development expenses were RMB8.2 million, RMB4.7 million and RMB3.7 million (US$0.6 million) in 2010, 2011 and 2012, respectively. The information provided under Item 5.A, "Operating Results" details the Company's research and development activities.

D. Trend Information

China Outlook

China's presence in the global consumer market has grown dramatically in recent years. China is already the biggest vehicle market and the second largest luxury market and is expected to become the world's largest consumer market within the next ten years. These statistics, combined with our attractive offerings, deep market knowledge and strong sales capabilities give us many reasons to be excited about our future. We are optimistic about the outlook for 2013.

Industry and Market Outlook

In the wake of benefiting from China's booming retail and consumer goods industries, we believe that our innovative and attractive software and services offerings will facilitate our ongoing growth. Through our sales efforts, we have grown our project pipeline, and with it, our backlog. As of December 31, 2012 our contract backlog amounted to approximately RMB186.3 million (US$29.9 million).

Top Line Growth Drivers

As of December 31, 2012, our uncompleted project base was RMB186.3 million (US$29.9 million), including RMB38.4 million (US$6.2 million) of software license income, RMB121.5 million (US$19.5 million) of service fee income and RMB26.4 million (US$4.2 million) of hardware income, of which we expect to recognize approximately 70% in 2013.

We anticipate strengthening our software core business while increasing more stable recurring service and consulting service revenues.

We anticipate pursuing profitable growth by improving our delivery cost and operating expense structure.

We seek to use innovation to further broaden cloud service offerings.

We intend to continue to penetrate China's tier 2 and tier 3 cities.

E. Off-Balance Sheet Arrangements

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

F. Tabular Disclosure of Contractual Obligations

The following table sets forth our contractual obligations as of December 31, 2012:

	Payments Due By Period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Operating Lease Obligations	¥13,159,084	¥6,325,849	¥6,250,703	¥582,532	¥-
Total	¥13,159,084	¥6,325,849	¥6,250,703	¥582,532	¥-

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. Directors and Senior Management

The following table sets forth our executive officers and directors, their ages and the positions held by them as of April 25, 2013.

Name	Age	Position
Adam Yan (1)(8)	45	Chairman and Chief Executive Officer
Dehong Yang (1)	50	President
Sean Zheng (1)	44	Chief Financial Officer
Qicheng Yang (1)	47	Chief Technology Officer
Tony Zhao (1)	48	Senior Vice President
Hongjun Zou (1)	45	Senior Vice President
Ping Yu (1)(7)	43	Director
Deliang Tong (1)(8)	48	Director
Dong Cheng, Ph.D. (1)(3)(4)(5)(9)	45	Independent director
John Dai (1)(3)(4)(5)(8)	50	Independent director
Dennis O. Laing (3)(6)(7)	67	Independent director
Brian Lin (1)(3)(4)(9)	48	Independent director
Weiquan Ren (1)(3)(4)(5)(7)	50	Independent director
Ming Zhu (2)(4)(5)(10)	54	Independent director

(1) The individual's business address is c/o eFuture Information Technology Inc., 8/F Topnew Tower, 15 Guanghua Road, Chaoyang District, Beijing 100026, China.
(2) Mr. Zhu's business address is c/o RMCC Investments, LLC. 2800 Sugarberry Lane, Midlothian, VA 23113.
(3) Member of audit committee.
(4) Member of compensation committee.
(5) Member of corporate governance committee.

(6) Mr. Laing’s business address is 3781 Westerre Parkway, Richmond, Virginia 23233.
(7) Class II director whose term expires in 2013.
(8) Class III director whose term expires in 2014.
(9) Served as Class I director through December 28, 2012.
(10) Class I director whose term expires in 2015.

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

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

Sean Zheng. Mr. Zheng has served as Chief Financial Officer since January 2011. He was most recently with New York Stock Exchange (NYSE) listed Advanced Micro Devices (AMD), where he served in financial controller roles in both China and the United States. Prior to joining AMD, Mr. Zheng was China Financial Controller at U.S.-headquartered Walbro Engine Management. He spent the earlier part of his career at NYSE-listed Motorola, where he worked for over 10 years in financial controller and financial management roles at the company's China operations. Mr. Zheng holds an MBA degree from Arizona State University and a bachelor's degree in economics from Tianjin University of Finance and Economics in China. Mr. Zheng's strong finance and accounting track record with leading U.S.-listed companies operating in the technology sector makes him ideally suited to lead eFuture's finance function.

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

Tony Zhao. Dr. Zhao, serves as Senior Vice President, rejoined eFuture in December 2011 to focus on innovation, including the development of the Company's cloud services and social commerce business. He previously served as eFuture's Chief Strategy Officer and Vice President until April 2011 after initially joining eFuture in May 2007. Dr. Zhao served as chief editor of "E-commerce World", a leading magazine covering B2B and B2C in China, from 2000 to 2007. He has also served as an e-commerce expert to the National Development and Reform Commission and the Ministry of Commerce of the People's Republic of China. Dr. Zhao holds bachelor's and master's degrees in precision optoelectronic engineering and a doctorate degree, all from Chongqing University. Dr. Zhao's extensive experience, coupled with his technical background, make him ideally placed to develop eFuture's cloud services business, as well as to provide strategic guidance on how to capitalize on market opportunities and remain at the forefront of the industry.

Hongjun Zou. Currently Senior Vice President and Chief Innovation Officer, Mr. Zou co-founded eFuture in 1997 and previously served as Chief Operating Officer. From 1993 to 1997, Mr. Zou was General Manager and Chief Technology Officer of Hainan Fujie Industrial Company. He has a bachelor’s degree in computer science from Chongqing University. Mr. Zou brings to eFuture a wealth of industry experience and the ability to broaden eFuture’s solutions and service offerings.

Ping Yu. Ms. Yu is Chief Financial Officer of Prudent Energy. Prior to joining Prudent, Ms. Yu was CFO of Lentuo International and led its successful NYSE IPO in 2010. She was previously CFO of NASDAQ-listed eFuture Information Technology Inc., and has also worked as an auditor and consultant with Golf & Wrobleski in New York, as well as gaining additional professional experience in the banking and real estate industries. Ms. Yu received her bachelor’s degree in accounting from Hubei University and her master’s degree in business administration from Rutgers University. She is a Certified Public Accountant in the United States. Ms. Yu's experience in both the U.S. and China, together with her in-depth knowledge of eFuture gained as its former Chief Financial Officer, make her ideally placed to advise on finance and strategy.

Deliang Tong. Mr. Tong served as Chief Operating Officer of eFuture from July 2008 to September 2010, as well as President of wholly-owned subsidiary, eFuture (Beijing). He founded Guangzhou Royalstone System Integration Co. Ltd. In 1992, and served as its Chairman and Chief Executive Officer. Mr. Tong holds a bachelor's degree in electronics and a master's degree in software engineering, both from the University of Electronic Science and Technology of China. He served as department manager for Sichuan Xinchao Computing Group from 1989 to 1991, and as general manager for South China for Beijing Stone Group from 1991 to 1992. Mr. Tong's over 20 years of management experience and his extensive software and services industry background enable him to provide key insights into the development and management of an efficient and effective operational platform.

Dong Cheng, Ph.D. Dr. Cheng served as a director from 2005 to 2012. He has been at the School of Business, Renmin University of China, since 1993, working as an Assistant Professor from 1993 to 1995, an Associate Professor from 1995 to 2002, and as a Full Professor since 2002. Dr. Cheng has written numerous articles on the development of Chinese business practices. He holds bachelor's and master's degrees in computer software from Xi'an Jiao Tong University. He also holds a doctorate degree in business administration from Renmin University, and was a doctorate candidate in Computer Science at Peking University. Dr. Cheng leverages his role as Professor at Renmin University's business school to provide insight into emerging trends within China's economic and business development.

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

Dennis O. Laing. Mr. Laing has practiced law in Richmond, Virginia for over 30 years. He specializes in corporate law with a special interest in the energy, healthcare and technology sectors. Mr. Laing holds a bachelor's degree in government from the University of Virginia and a master's degree in law from the University of Richmond. He also serves as a director of NASDAQ-listed Sino-Global Shipping America, Ltd. Mr. Laing draws on over three decades of corporate law practice to offer the Board expert legal advice and guidance on regulations and compliance.

Brian Lin. Mr. Lin served as a director from 2007 to 2012. Mr. Lin is Chief Executive Officer and a director of China Fire & Security Group, Inc., a leading total solution provider of industrial fire protection systems in China. From 2001 to 2005, he served as Chief Executive Officer of Beijing Linkhead Technologies. Prior to Linkhead, Mr. Lin held technical and managerial positions in various companies in the United States and Canada. Mr. Lin holds a bachelor's degree in electrical engineering from Huazhong University of Science and Technology and a master's degree in Electrical Engineering from University of Toronto. His successful corporate career in managing listed companies allows him to advise eFuture on the most effective and efficient ways to further create shareholder value.

Weiquan Ren. Mr. Ren is now serving as Executive President and a senior partner at Cybernaut-Capital since 2006. He served as Chief Executive Officer of Shanghai Stock Exchange listed Shanshan Corporation from 2011 to 2012, and as Vice Dean at Zhejiang University Institute from 2007 to 2011. He previously held senior management positions at Peking University, and worked at Founder Group Corp. from 1993 to 2006. He was Chief Executive Officer of Hong Kong-listed Founder Electronics from 2001 to 2006, Vice President of Shanghai-listed Founder Technology Group Corp. from 1998 to 2001, and General Manager of the Eastern China Region of Founder Group in

1998 and general manager of the Hangzhou branch of Founder Group from 1993 to 1997. Before joining Founder, Mr. Ren spent seven years as a university professor. He holds a master's degree in engineering from the Department of Electric Machine Engineering of Zhejiang University and a bachelor's degree in engineering from the Department of Information Science and Electronic Engineering of Zhejiang University. Mr. Ren leverages his vast experience in the role of Chief Executive Officer in the technology industry to provide the Board with key insights into the financial and operational management.

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

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

B. Compensation

For the fiscal year ended December 31, 2012, we paid an aggregate compensation of RMB4.1 million (US$652K) in cash to our executive officers. Our subsidiaries are required by law to make contributions equal to certain percentages of each employee's salary for his or her pension insurance, medical insurance, unemployment and other statutory benefits. Other than the above-mentioned pension insurance mandated by applicable PRC law, we have not set aside or accrued any amount to provide pension, retirement or other similar benefits to our executive officers and directors. We made contributions of RMB9.0 million (US$1.4 million) to statutory staff social benefit for all the employees including our executive officers for the fiscal year ended December 31, 2012.

Executive and Director Compensation

The following table shows the annual compensation paid by us to our executive officers and directors for the year ended December 31, 2012, which includes some bonus for the fiscal year 2011.

	Annual Compensation for Year Ended December 31, 2012				
Name		Salary		Bonus	All Other Compensation
Adam Yan	¥	540,000	¥	81,179	—
Chairman, Chief Executive Officer and Director					
Dehong Yang	¥	1,080,000	¥	164,552	—
President					
Deliang Tong	¥	120,000	¥	30,000	—
Ex-Chief Operating Officer and Director					
Sean Zheng	¥	642,000	¥	79,134	—
Chief Financial Officer					
Qicheng Yang	¥	504,000	¥	131,523	—
Chief Technology Officer					
Hongjun Zou	¥	576,000	¥	111,000	—
Senior Vice President					
Ping Yu	$	13,500		—	—
Director					
Ming Zhu	$	12,600		—	—
Director					
Dong Cheng, Ph.D. *	$	13,500		—	—
Director					
John Dai	$	12,500		—	—
Director					
Dennis O. Laing	$	10,800		—	—
Director					
Brian Lin *	$	10,600		—	—
Director					
Weiquan Ren	$	13,500		—	—

Director

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* Served as a Class I director through December 28, 2012.

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Incentive Compensation Plans

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

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

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

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

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

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

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

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

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

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

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

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

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

Summarized details of 2005 Plan I, 2005 Plan II, 2009 Plan and 2011 Plan are as follows.

	2005 Plan I	2005 Plan II		2009 Plan			2011 Plan	
	Option	Option	Option	Option	Restricted shares	Restricted shares	Option	Restricted shares
Total Option/Restricted Shares Granted	65,875	65,800	8,000	175,000	153,000	54,000	253,000	134,000
Grant Date	31-Jan-07	17-Sep-09	29-Jun-12	11-Dec-09	11-Dec-09	23-May-12	29-Jun-12	29-Jun-12
Exercise Price	$25.42	$11.71	$4.56	$6.55	N/A	N/A	$4.56	N/A
Vesting Period	5 years	5 years	cliff vest	3 years	3 years	3 years	3 years	3 years
Vesting Terms	20%	20%	100%	25%(1)	25%(1)	25%(1)	25%(1)	25%
Expired Period	10 years	10 years	2.61 years	10 years	N/A	N/A	8.61 years	N/A
Grant date fair value per option/restricted share	$25.72	$8.27	$1.64	$5.02	$6.55	$4.56	$1.92	$3.21

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

As of December 31, 2012, the total compensation cost related to stock options and restricted shares not yet recognized were RMB2.0 million (US$0.3 million) and RMB3.1 million (US$0.5 million), respectively, which are expected to be recognized over a weighted-average period of 2.4 years and 2.4 years, respectively.

Total compensation cost for share-based payment arrangement recognized for the years ended December 31, 2010, 2011 and 2012 were RMB5.5 million, RMB5.3 million and RMB5.8 million (US$0.9 million), respectively.

C. Board Practices

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

Board of Directors and Board Committees

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

The directors are divided into three classes. Class I directors shall face re-election at our annual general meeting of shareholders in 2015 and every three years thereafter. Class II directors shall face re-election at our annual general meeting of shareholders in 2013 and every three years thereafter. Class III directors shall face re-election at our annual general meeting of shareholders in 2014 and every three years thereafter.

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

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

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

Currently, three committees have been established under the board: the audit committee, the compensation committee and the corporate governance committee. The audit committee is responsible for overseeing the accounting and financial reporting processes of our company and audits of the financial statements of our company, including the appointment, compensation and oversight of the work of our independent auditors. For the fiscal year ended 2012, the audit committee consisted of Dr. Cheng, Mr. Laing and Mr. Lin. The audit committee presently consists of Mr. Ren, Mr. Dai and Mr. Laing.

The compensation committee of the board of directors reviews and makes recommendations to the board regarding our compensation policies for our officers and all other forms of compensation, and also administers our incentive compensation plans and equity-based plans (but our board retains the authority to interpret those plans). For the fiscal year ended 2012, the compensation committee consisted of Dr. Cheng, Mr. Dai and Mr. Lin. The compensation committee presently consists of Mr. Dai, Mr. Ren and Mr. Zhu.

The corporate governance committee of the board of directors is responsible for the assessment of the performance of the board, considering and making recommendations to the board with respect to the nominations or elections of directors and other governance issues. For the fiscal year ended 2012, the corporate governance committee consisted of Dr. Cheng, Mr. Dai and Mr. Laing. The corporate governance committee presently consists of Mr. Zhu, Mr. Ren and Mr. Dai.

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

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

D. Employees

As of December 31, 2012, we had 822 employees, all of whom were based in China. We believe that our relations with our employees are good. We have never had a work stoppage, and our employees are not subject to a collective bargaining agreement. As of December 31, 2012, 2011 and 2010, we had 822, 869 and 740 employees, respectively.

	December 31, 2010	December 31, 2011	December 31, 2012
Total	740	869	822
General & Administrative	88	75	71

Sales & Marketing	75	97	85
Research & Development	160	105	144
Software Development & Services	417	592	522

E. Share Ownership

The following table sets forth information with respect to beneficial ownership of our ordinary shares and options as of the date of this annual report, for all of our executive officers and directors individually. Beneficial ownership is determined in accordance with the rules of the SEC and includes voting or investment power with respect to the securities. Except as indicated below, and subject to applicable community property laws, the persons named in the table have sole voting and investment power with respect to all ordinary shares shown as beneficially owned by them. The number of our ordinary shares outstanding used in calculating the percentage for each listed person includes our ordinary shares underlying options held by such persons, but excludes ordinary shares underlying options held by any other person. Percentage of beneficial ownership is based on 4,445,671 ordinary shares, which includes 3,977,221 ordinary shares currently outstanding and 468,450 options to purchase ordinary shares which have vested or will vest within 60 days. These shareholders do not possess voting rights that differ from our other shareholders.

	Amount of Beneficial Ownership (1)	Percentage Ownership (2)	
Adam Yan (3)	544,907	12.26	%
Dehong Yang (4)	37,500	*	
Qicheng Yang (5)	52,944	1.19	%
Hongjun Zou (6)	175,793	3.95	%
Ping Yu (7)	21,750	*	
Deliang Tong (8)	179,747	4.04	%
Dong Cheng, Ph.D.(9)	32,500	*	
John Dai (10)	20,500	*	
Dennis O. Laing (11)	16,950	*	
Brian Lin (10)	20,500	*	
Ming Zhu (11)	16,750	*	
Directors and executive officers as a group (11 people)(12)	1,119,841	25.19	%

* Less than 1%.

(1) Beneficial ownership is determined in accordance with the rules of the SEC and includes voting or investment power with respect to the ordinary share.
(2) The number of our ordinary shares outstanding used in calculating the percentage for each listed person includes the ordinary shares underlying currently exercisable options held by such person.
(3) Includes 5,000 vested restricted shares, currently exercisable options to purchase 3,875 ordinary shares and 152,604 ordinary shares through eFuture Inc, whose beneficial owner is Adam Yan.
(4) Includes 27,500 vested restricted shares.
(5) Includes 11,500 vested restricted shares and currently exercisable options to purchase 4,000 ordinary shares.
(6) Includes 7,750 vested restricted shares and currently exercisable options to purchase 4,000 ordinary shares.
(7) Includes 11,750 vested restricted shares and currently exercisable options to purchase 10,000 ordinary shares.
(8) Includes 6,000 vested restricted shares.
(9) Includes 20,500 vested restricted shares and currently exercisable options to purchase 12,000 ordinary shares.

(10) Includes 20,500 vested restricted shares.
(11) Includes 16,750 vested restricted shares.
(12) Includes 164,500 vested restricted shares and currently exercisable options to purchase 33,875 ordinary shares.

Share Incentive Plan

As of December 31, 2012, we had three share incentive plans in effect. 131,675 shares were reserved under our 2005 Share Incentive Plan, 332,000 shares were reserved under our 2009 Share Incentive Plan and 393,745 shares were reserved under our 2011 Share Incentive Plan. The following table displays the number of shares outstanding under each plan that have been granted and the number remaining under each plan as of the date of filing.

	2005 Share Incentive Plan	2009 Share Incentive Plan	2011 Share Incentive Plan
Shares Granted under Plan (1)	107,325	306,750	369,000
Remaining Shares Available under Plan (2)	24,350	25,250	24,745
Total	131,675	332,000	393,745

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

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

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. Major Shareholders

The following table sets forth information with respect to beneficial ownership of our ordinary shares and options as of the date of this annual report, for all of our executive officers and directors individually. Beneficial ownership is determined in accordance with the rules of the SEC and includes voting or investment power with respect to the securities. Except as indicated below, and subject to applicable community property laws, the persons named in the table have sole voting and investment power with respect to all ordinary shares shown as beneficially owned by them. The number of our ordinary shares outstanding used in calculating the percentage for each listed person includes our ordinary shares underlying options held by such persons, but excludes ordinary shares underlying options held by any other person. Percentage of beneficial ownership is based on 4,445,671 ordinary shares, which includes 3,977,221 ordinary shares currently outstanding and 468,450 restricted shares and options to purchase ordinary shares which have vested or will vest within 60 days. These shareholders do not possess voting rights that differ from our other shareholders.

	Amount of Beneficial Ownership (1)	Percentage Ownership (2)
Adam Yan (3)	544,907	12.26%
Zhu-Xu 2006 Charitable Remainder Unitrust	397,175	8.93%

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

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

(3) Includes 5,000 vested restricted shares, currently exercisable options to purchase 3,875 ordinary shares and 152,604 ordinary shares held by eFuture Inc., whose beneficial

owner is Adam Yan.

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B. Related Party Transactions

On March 15, 2010, the Company acquired 15% of the equity interest of cFuture, and cFuture became a related party of the Company. For the period from March 15, 2010 to December 31, 2010, eService purchased from cFuture was RMB367,000, and the implementation service fee revenue derived from cFuture was RMB35,460. No such transaction occurred in 2011 or 2012.

The senior Vice President of the Company, Hongjun Zou, is the Chief Executive Officer of cFuture. The Company paid his salary and statutory social welfare on behalf of cFuture of RMB137,939 and RMB150,000 for the years ended December 31, 2009 and 2010, respectively. No such transaction occurred in 2011 or 2012.

On September 23, 2010, the Company signed a Share Purchase Agreement (“September Agreement”) to sell 337,685 ordinary shares to 13 purchasers. The price of the shares is equal to US$5.37 per share, the average closing price of the Company’s ordinary shares for the 20 consecutive trading days ending on, and including, September 23, 2010. 152,604 of the shares was purchased by eFuture Inc., a Cayman Islands holding company controlled by the Company’s chairman and Chief Executive Officer, Adam Yan. 78,212 and 36,320 of the shares were sold to a board member (other than independent directors) and executive management of the Company, respectively. The issuance or register of such shares was completed on January 6, 2011.

In April 2011, the Company paid car rental fee of RMB135,000 (US$21,449) to Hongjun Zou, the senior Vice President of the Company. For the years ended December 31, 2011 and 2012, RMB67,500 and RMB67,500 (US$10,834) was amortized to the income statement prescribed by the contractual term, respectively.

C. Interests of Experts and Counsel

Not applicable.

ITEM 8. FINANCIAL INFORMATION

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

Legal and Administrative Proceedings

On October 19, 2011, the plaintiff, Microsoft Corporation, filed four software copyright infringement claims against eFuture Beijing at Wuhan Intermediate People’s Court. On December 4, 2012, the Wuhan Intermediate People’s Court rendered four court judgments against eFuture Beijing. The four court judgments awarded Microsoft monetary damages as well as reimbursement of the legal expenses and reasonable expenses of RMB3,944,898 (US$633,200) in total. On March 28, 2013, eFuture Beijing entered into a confidential dispute settlement (the “Settlement Agreement”) with Microsoft Corporation in respect to Microsoft’s claims of product infringement against the Company. The settlement resolved all claims between the parties and the amount of the settlement was lower than the judgment previously awarded to Microsoft Corporation. We do not believe its obligations under the Settlement Agreement will have a material adverse effect on our business, operations or financial results. The Group made provision of such obligations under the Settlement Agreement as of December 31, 2012.

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

ITEM 9. THE OFFER AND LISTING

A. Offer and Listing Details

Our ordinary shares are listed on the NASDAQ Capital Market under the symbol "EFUT." The following table sets forth the high and low market prices for (i) the Company's most recent five fiscal years, (ii) the quarterly periods for the Company's last two fiscal years and the first two quarters of 2012, and (iii) the most recent six months on a monthly basis.

Full Financial Years	Low	High
January 1, 2012 – December 31, 2012	$ 3.06	$ 5.24
January 1, 2011 – December 31, 2011	$ 3.18	$ 6.05
January 1, 2010 – December 31, 2010	$ 4.35	$ 7.39
January 1, 2009 – December 31, 2009	$ 4.71	$ 13.84
January 1, 2008 – December 31, 2008	$ 2.51	$ 19.44

Fiscal Quarters	Low	High
April 1, 2013 – April 19, 2013	$ 3.07	$ 3.43
January 1, 2013 – March 31, 2013	$ 2.91	$ 4.19
October 1, 2012 – December 31, 2012	$ 3.15	$ 4.44
July 1, 2012 – September 30, 2012	$ 3.29	$ 4.23
April 1, 2012 – June 30, 2012	$ 3.06	$ 5.24
January 1, 2012 – March 31, 2012	$ 3.87	$ 4.85
October 1, 2011 – December 31, 2011	$ 3.18	$ 4.71
July 1, 2011 – September 30, 2011	$ 3.52	$ 6.00
April 1, 2011 – June 30, 2011	$ 3.31	$ 5.68
January 1, 2011 – March 31, 2011	$ 4.83	$ 6.05

Monthly	Low	High
April 2013 (through April 19, 2013)	$ 3.07	$ 3.43
March 2013	$ 2.91	$ 4.19
February 2013	$ 3.42	$ 3.86
January 2013	$ 3.87	$ 4.16
December 2012	$ 4.00	$ 4.44
November 2012	$ 4.02	$ 4.36

B. Plan of Distribution

Not applicable.

C. Markets

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

D. Selling Shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expenses of the Issue

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

A. Share Capital

Not applicable.

B. Memorandum and Articles of Association

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

C. Material Contracts

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

D. Exchange Controls

Exchange Controls in China

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

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

Dividend Distribution

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

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

Notice 75

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

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

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

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