

eFuture Information Technology Inc.
Form 20-F
June 30, 2008

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

FORM 20-F

(Mark One)

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

OR

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2007**

OR

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

Date of event requiring this shell company report _____

For the transition period from _____ to _____

Commission file number: 333-126007

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

Cayman Islands
(Jurisdiction of incorporation or organization)

No. 10 Building
BUT Software Park
No. 1 Disheng North Street
BDA, Yizhuang District
Beijing 100176, People's Republic of China
86-10-51650988

(Address of principal executive offices)

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

Ordinary Shares, par value \$0.0756 per share

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: 2,924,702 Ordinary Shares

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

U.S. GAAP

International Financial Reporting Standards

as issued by the

Other

International Accounting Standards Board

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17

Item 18

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

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SPECIAL CAUTIONARY NOTICE REGARDING FORWARD-LOOKING STATEMENTS

Certain matters discussed in this report may constitute forward-looking statements for purposes of the Securities Act of 1933, as amended (the “Securities Act”), and the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from the future results, performance or achievements expressed or implied by such forward-looking statements. The words “expect,” “anticipate,” “intend,” “plan,” “believe,” “seek,” “estimate,” and similar 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. and our wholly-owned subsidiary, eFuture (Beijing) Royalstone Information Technology Inc. (formerly known as “eFuture (Beijing) Tornado Information Technology Inc.”)

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 Financial Data**

	RMB					USD
	2003	For the Year Ended December 31,			2007	For the Year Ended December 31, 2007 (Unaudited)
		2004	2005	2006		
Total Revenues	¥ 28,453,099	¥ 34,703,297	¥ 39,244,001	¥ 47,843,530	¥ 84,070,361	\$ 11,525,013
Profit (Loss) From Operations	(1,165,482)	5,197,762	5,843,028	7,976,967	6,942,516	951,734
Earnings (Loss) Per Ordinary Share	(1.26)	5.64	4.73	4.72	2.58	0.35
Net Income (Loss)	(1,529,859)	4,525,190	5,470,263	8,104,726	(27,480,747)	(3,767,273)
Basic Earnings (Loss) Per Share	(1.66)	4.91	4.43	4.80	(10.23)	(1.40)
Diluted Earnings (Loss) Per Share	(1.66)	2.90	3.50	4.43	(10.23)	(1.40)

	RMB					USD
	2003	As of December 31,			2007	As of December 31, 2007 (Unaudited)
		2004	2005	2006		
Total Assets	¥ 34,746,298	¥ 25,893,808	¥ 31,657,674	¥ 83,025,047	¥ 208,313,747	28,557,254
Total Current Liabilities	(35,705,675)	(21,981,899)	(19,565,356)	(18,476,058)	(60,484,349)	(8,291,661)
Long-term Liabilities	(30,583,993)	(30,583,993)	—	—	(22,154,431)	(3,037,100)
Net Assets	(31,543,370)	(26,672,084)	12,092,318	64,548,989	64,548,989	8,271,163
Ordinary Shares	576,817	576,817	938,550	1,647,781	1,811,589	248,347
Dividends Declared Per Share	-	-	-	-	-	-

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 RMB7.2946 to US\$1.00, the noon buying rate in effect as of December 31, 2007. We make no representation that any RMB or U.S. dollar amounts could have been, or could be, converted into U.S. dollars or RMB, as the case may be, at any particular rate, or at all. The government of the People's Republic of China (the "PRC") imposes control over its foreign currency reserves in part through direct regulation of the conversion of RMB into foreign exchange and through restrictions on foreign trade. The Company does not currently engage in currency hedging transactions. The following table sets forth information concerning exchange rates between the RMB and the U.S. dollar for the periods indicated.

Period	Period-End	Noon Buying Rate		
		Average (1) (RMB per US Dollar)	Low	High
20032003	8.2767	8.2772	8.2800	8.2765
20042004	8.2765	8.2768	8.2771	8.2765
20052005	8.0702	8.1940	8.0702	8.2765
2006	7.8041	7.9723	7.8041	8.0702
2007	7.2946	7.6072	7.2946	7.8127
December	7.2946	7.3682	7.2946	7.4120
2008				
January	7.1818	7.2405	7.1818	7.2946
February	7.1115	7.1644	7.1100	7.1973
March	7.0120	7.0722	7.0105	7.1110
April	6.9870	6.9997	6.9840	7.0185
May	6.9400	6.9725	6.9377	7.0000
June (through June 27)	6.8618	6.9013	6.8618	6.9633

(1) Averages are calculated using the average of month-end rates of the relevant period.
Monthly averages and partial monthly averages are calculated using the average of the daily rates during the relevant period.

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

You should carefully consider all of the information in this Annual Report and, in particular, the risks outlined below.

Our customers are Chinese companies engaged in retail, distribution and logistics 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 the license of software products and related services to the Chinese retail, distribution and logistics industries, and our future growth is critically dependent on increased sales to these particular industries. The success of our customers is intrinsically linked to economic conditions in these industries, which in turn are subject to intense competitive pressures and are affected by overall economic conditions. We believe the license of our software solutions and the purchase of our related services is discretionary and generally involves a significant commitment of capital. As a result, although we believe our products can assist China's retailers, distributors, wholesalers, and logistics companies in a competitive environment, demand for our products and services could be disproportionately affected by instability or downturns in the retailing, distribution, wholesaling and logistics industries, which may cause customers to exit the industry or delay, cancel or reduce any planned expenditures for information management systems and software products. We have previously experienced this effect in connection with the impact that severe acute respiratory syndrome, or SARS, placed upon China's retailing industry in recent years. There can be no assurance that we will be able to continue our historical revenue growth or sustain our profitability on a quarterly or annual basis or that our results of operations will not be adversely affected by continuing or future downturns in these industries. Any adverse change in the Chinese retail, distribution and logistics 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.

Although we achieved profitability for the first time in 2004, since our formation we have generated a significant shareholders' deficit, and we cannot provide any assurance that our recent profitability will continue.

Though we achieved profitability from 2004 to 2006, we had an accumulative deficit of RMB44,898,716 as of December 31, 2007. As of December 31, 2007, our shareholders' equity was RMB125,674,968. 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 RMB27,480,747 in the fiscal year ended December 31, 2007.

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 2007, our service fee income increased by 301% in comparison to 2006, which was mainly due to our efforts of focusing on services and expanding our direct sales force in key geographic markets. 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.

We are heavily dependent upon the services of technical and managerial personnel who develop and implement our supply chain management software, 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 supply chain management software is substantially dependent upon our ability to locate, hire and train qualified personnel. As supply chain management concepts have only recently been adopted in China, the number of qualified technical, managerial and consulting personnel is limited. Many of our technical, managerial and consulting personnel possess skills that would be valuable to all companies engaged in software development, and the Chinese software industry is characterized by a high level of employee mobility and aggressive recruiting of skilled personnel. Consequently, we expect that we will have to actively compete with other Chinese software developers for these employees. Our ability to profitably operate is substantially dependent upon our ability to locate, hire, train and retain our technical, managerial and consulting personnel. Although we have not experienced difficulty locating, hiring, training or retaining our employees to date, there can be no assurance that we will be able to retain our current personnel, or that we will be able to attract and assimilate other personnel in the future. If we are unable to effectively obtain and maintain skilled personnel, the quality of our software products and the effectiveness of installation and training could be materially impaired.

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

We believe that while the Chinese market for supply chain management software is subject to intense competition, the number of significant competitors is relatively limited. According to the International Data Corporation, in 2006, total IT expenditures in China's retail market were \$552 million, the annual growth is projected to be 13.3% from 2006 to 2011. In 2007, total IT expenditures in China's retail market were \$625 million, and we generated approximately \$11,500,000. As such, while we believe that we effectively compete in our market, our competitors occupy a substantial competitive position. There can be no assurance that we will be able to effectively compete in our industry on an ongoing basis.

Our financial performance is dependent upon the sale and implementation of supply chain management software and related services, a single, concentrated group of products.

We derive all of our revenues from the license and implementation of eight software applications for the Chinese supply chain industry, an industry that did not effectively exist in China in recent years, and from 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 Chinese retail distribution, wholesaling and logistics industries. To the extent we are unable to continually improve our supply chain management software to address the changing needs of the Chinese supply chain front market, we may experience a significant decline in the demand for our programs. In such a scenario, our revenues may significantly decline.

The market for supply chain management software is intensely competitive.

We believe the principal competitive factors in our markets are:

- product quality;
- reliability;
- performance;
- price;
- vendor and product reputation;
- financial stability;
- features and functions;
- ease of use; and
- quality of support.

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 Chinese supply chain. Many of our existing competitors, as well as a number of potential new competitors, have significantly greater financial, technical and marketing resources than we do. We cannot guarantee that we will be able to compete successfully against current or future competitors. As a result of this product concentration and uncertain product life cycles, we may not be as protected from new competition or industry downturns as a more diversified competitor.

Our financial performance is directly related to our ability to adapt to technological change and evolving standards when developing and improving our supply chain management software products.

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. In addition, as the Chinese economy has only recently begun to incorporate various Western economic factors, the concept of supply chain management has only recently been adopted by Chinese businesses. As a result, our position in the Chinese supply chain management software industry could be eroded rapidly by the speed with which Chinese businesses continue to adopt Western business practices and technological advancements that we do not embrace. The life cycles of our software are difficult to estimate. Our software products must keep pace with technological developments, conform to evolving industry standards and address the increasingly sophisticated needs of Chinese retailers, wholesalers, distributors and logistics companies. In particular, we believe that we must continue to respond quickly to users' needs for broad functionality. While we attempt to upgrade our software every one to two years, we cannot guarantee that our software will continue to enjoy market acceptance. To the extent we are unable to develop and introduce products in a timely manner, we believe that participants in the Chinese supply chain will obtain products from our competitors promptly and our sales will correspondingly suffer. In addition, we strive to achieve compatibility between our products and retailing systems platforms that we believe are or will become popular and widely adopted. We invest substantial resources in development efforts aimed at achieving this compatibility. If we fail to anticipate or respond adequately to technology or market developments, we could incur a loss of competitiveness or revenue.

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

Our performance is substantially dependent on the performance of our executive officers and key employees. In particular, the services of:

- Adam Yan, our Chairman and Chief Executive Officer;
- Deliang Tong, our Chief Operating Officer;
- Qicheng Yang, our Technology Officer;
- Hongjun Zou, our Chief Innovation Officer;
- Ping Yu, our Chief Financial Officer; and
- Tony Zhao, our Chief Strategy Officer.

would be difficult to replace. 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 supply chain management software and develop new programs and enhancements.

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

We rely on a combination of trademark, trade secret, nondisclosure and copyright law to protect our supply chain management software, which may afford only limited protection. Although the Chinese government has issued us 16 copyrights on our software, we cannot guarantee that competitors will be unable to develop technologies that are similar or superior to our technology. 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.

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

In the future, we may receive notices claiming that we are infringing the proprietary rights of third parties. While we believe that we do not infringe and have not infringed upon the rights of others, we cannot guarantee that we will not become the subject of infringement claims or legal proceedings by third parties with respect to our current programs or future software developments. In addition, we may initiate claims or litigation against third parties for infringement of our proprietary rights or to establish the validity of our proprietary rights. Any such claims could be time consuming, result in costly litigation, cause product shipment delays or force us to enter into royalty or license agreements rather than dispute the merits of such claims, thereby impairing our financial performance by requiring us to pay additional royalties and/or license fees to third parties. We have not been the subject of an intellectual property claim since our formation.

Our supply chain management software may contain integration challenges, design defects or software errors that could be difficult to detect and correct.

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

We may not pay dividends.

We have not previously paid any cash dividends nor do we anticipate paying any dividends on our ordinary shares. Although we achieved profitability for the first time in 2004, we cannot assure you that our operations will continue to result in sufficient revenues to enable us to operate at profitable levels or to generate positive cash flows. Indeed, we had a net loss of RMB27,480,747 in the fiscal year ended December 31, 2007. 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 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 subsidiary.

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

The Chinese economy has grown at an approximately 9 percent rate for more than 25 years, making it the fastest growing major economy in recorded history. Much of this growth has occurred in our customers' industries. For example:

- China's economy grew by 11.4% in 2007, the fastest pace in 11 years
- in the last decade, the number of supermarkets in China increased from zero to more than 60,000;

- retail sales in China increased 10.2% in 2004;
- industrial growth in China increased 16.7% in 2004;
- enterprise software revenues for all industry participants generated from Chinese wholesale and retail customers increased 32.5% from \$22.52 million in 2002 to \$27.16 million in 2003; and
- enterprise software revenues for all industry participants generated from Chinese manufacturing customers increased 15.9% from \$140.3 million in 2002 to \$162.5 million in 2003.

We cannot assure you that growth of the Chinese economy will be steady or that any slowdown will not have a negative effect on our business. Several years ago, the Chinese economy experienced deflation, which may recur in the foreseeable future. More recently, the Chinese government announced its intention to use macroeconomic tools and regulations to slow the rate of growth of the Chinese economy, the results of which are difficult to predict. Adverse changes in the Chinese economy will likely impact the financial performance of the retailing, distribution, logistics and manufacturing industries in China. Consequently, under such circumstances, our customers may opt to delay discretionary expenditures like those for our software, which, in turn, could result in a material reduction in our sales.

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

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

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

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

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

The calculation of the value of our assets is based, in part, on the then market value of our 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 raise in our contemplated initial public offering, if any. We cannot assure you that we will not be a PFIC for any taxable year.

Any recurrence of severe acute respiratory syndrome, or SARS, pandemic avian influenza or another widespread public health problem, could adversely affect the Chinese economy as a whole and our ability to profitably develop and install our software products.

A renewed outbreak of SARS, pandemic avian influenza or another widespread public health problem in China, where all of our revenues are derived, and in Beijing, where our operations are headquartered, could have a negative effect on our operations. Our operations may be affected by a number of health-related factors, including the foregoing:

- quarantines or closures of some of our offices which would severely disrupt our operations;
- the sickness or death of our key officers and employees; and
- a general slowdown in the Chinese economy.

The possible quarantine of our offices or the sickness or death of our key officers and employees would restrict our ability to develop and implement our software products, thereby negatively impacting our sales. Any of the foregoing events or other unforeseen consequences of public health problems could adversely affect our markets or our ability to operate profitably. A slowdown of the Chinese economy as a whole could reduce the level of discretionary expenditures by Chinese business in the retailing, distribution, logistics and manufacturing industries, thereby resulting in a material reduction in the demand for our products.

Recent PRC regulations relating to acquisitions of PRC companies by foreign entities may create regulatory uncertainties that could limit our PRC subsidiary's ability to distribute dividends and/or pursue any acquisition strategy that we may implement in the future.

The PRC State Administration of Foreign Exchange ("SAFE") issued a public notice in January 2005 concerning foreign exchange regulations on mergers and acquisitions in China. The public notice states that if an offshore company intends to acquire a PRC company, such acquisition will be subject to strict examination by the relevant foreign exchange authorities. The public notice also states that the approval of the relevant foreign exchange authorities is required for any sale or transfer by the PRC residents of a PRC company's assets or equity interest to foreign entities, such as us, for equity interests or assets of the foreign entities.

In April 2005, SAFE issued another public notice clarifying the January notice. In accordance with the April notice, if an acquisition of a PRC company by an offshore company controlled by PRC residents had been confirmed by a Foreign Investment Enterprise Certificate prior to the issuance of the January notice, each of the PRC residents is required to submit a registration form to the local SAFE branch to register his or her respective ownership interests in the offshore company. The PRC resident must also amend such registration form if there is a material event affecting the offshore company, such as, among other things, a change to share capital, a transfer of shares, or if such company is involved in a merger and an acquisition or a spin-off transaction or uses its assets in China to guarantee offshore obligations. SAFE indicated that these registration provisions applied retroactively to offshore restructurings, like ours, that were completed prior to the initial public notice of the new requirements in January 2005. However, SAFE did not impose any time limit within which PRC residents must complete the mandated registration. The April notice also provided that failure to comply with the registration procedures set forth therein may result in the imposition of restrictions on the PRC company's foreign exchange activities and its ability to distribute profits to its offshore parent company.

On October 21, 2005, SAFE issued a new public notice concerning PRC residents' investments through offshore investment vehicles. This notice took effect on November 1, 2005 and replaces prior SAFE notices on this topic. According to the November 2005 notice:

- any PRC resident that created an off-shore holding company structure prior to the effective date of the November notice must submit a registration form to a local SAFE branch to register his or her ownership interest in the offshore company on or before May 31, 2006;
- any PRC resident that purchases shares in a public offering of a foreign company would also be required to register such shares and notify SAFE of any change of their ownership interest; and
- following the completion of an off-shore financing, any PRC shareholder may transfer proceeds from the financing into China for use within China.

To the extent a PRC investor desires to purchase our ordinary shares in the secondary market, such resident must obtain SAFE and other relevant government approval prior to such investment. Upon the sale of our ordinary shares in the secondary market, a PRC resident must promptly notify SAFE of a material change in ownership. As (a) we do not anticipate a significant number of PRC residents participating in our secondary market and (b) SAFE regulations generally focus upon the initial foreign exchange transaction by which a PRC resident will purchase our ordinary shares, we do not anticipate that SAFE regulations will impact the resale of our ordinary shares in any significant manner.

Most recently, on August 8, 2006, six PRC regulatory agencies, including the Ministry of Commerce, the State Administration for Industry and Commerce, CSRC and SAFE, jointly issued the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors. This regulation became effective on September 8, 2006 and includes provisions that purport to require offshore special purpose vehicles:

- controlled directly or indirectly by PRC companies or citizens; and
- formed for the purpose of effecting an overseas listing of a PRC company

to obtain the approval of CSRC prior to the completion of the overseas listing. On September 8, 2006, CSRC published procedures regarding the approval process associated with overseas listings of special purpose vehicles. There is little precedent as to how CSRC will interpret the new regulation and apply the related procedures.

We completed the formation of our offshore holding company structure prior to the implementation of the new regulation. Further, given that these new regulations are not retroactive in nature, we are not currently required to seek and obtain governmental approval to complete the offering contemplated hereby. The PRC government, however, could alter its interpretations of the regulation at any time. To the extent the PRC government alters its current practice of remaining silent regarding overseas listings of PRC businesses like ours, we may be required to seek additional government approval to complete this offering, and we cannot guarantee that we would obtain such approval.

eFuture Beijing is subject to restrictions on paying dividends and making other payments to us.

We are a holding company incorporated in the Cayman Islands and do not have any assets or conduct any business operations other than our investment in eFuture Beijing, our subsidiary. As a result of our holding company structure, we rely entirely on the dividends payments from eFuture Beijing. However, PRC regulations currently permit payment of dividends only out of accumulated profits, as determined in accordance with PRC accounting standards and regulations. eFuture Beijing may also be required to set aside a portion of their after-tax profits according to PRC accounting standards and regulations to fund certain reserve funds. The PRC government also imposes controls on the conversion of RMB into foreign currencies and the remittance of currencies out of China. We may experience difficulties in completing the administrative procedures necessary to obtain and remit foreign currency. Furthermore, if eFuture Beijing incurs debt on its own in the future, the instruments governing the debt may restrict its ability to pay dividends or make other payments. If we or our subsidiary are unable to receive all of the revenues from our operations through these arrangements, we may be unable to pay dividends on our ordinary shares.

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 subsidiary. Shortages in the availability of foreign currency may restrict the ability of our PRC subsidiary 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 is 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. On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the Renminbi to the U.S. dollar. Under the new policy, the Renminbi is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy has resulted in an appreciation of the Renminbi against the U.S. dollar. While the international reaction to the Renminbi revaluation has generally been positive, 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 subsidiary 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.

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 addition, the Chinese economy differs from the economies of most countries belonging to the Organization for Economic Cooperation and Development ("OECD"). These differences include:

- economic structure;
- level of government involvement in the economy;
- level of development;
- level of capital reinvestment;
- control of foreign exchange;
- methods of allocating resources; and
- balance of payments position.

As a result of these differences, our business may not develop in the same way or at the same rate as might be expected if the Chinese economy were similar to those of the OECD member countries.

If PRC law were to phase out the preferential tax benefits currently being extended to foreign invested enterprises and "new or high-technology enterprises" located in a high technology zone, we would have to pay more taxes, which could have a material and adverse effect on our financial condition and results of operations.

Under PRC laws and regulations, a foreign invested enterprise may enjoy preferential tax benefits if it is registered in a high-technology zone and also qualifies as a "new or high-technology enterprise". As a foreign invested enterprise as well as a certified "new or high-technology enterprise" located in a high-technology zone in Beijing, we are entitled to a three-year exemption from enterprise income tax beginning from our first year of operation, a 7.5% enterprise income tax rate for another three years followed by a 15% tax rate so long as we continue to qualify as a "new or high-technology enterprise." Furthermore, we may apply for a refund of the 5% business tax levied on our total revenues derived from our technology consulting services. If the PRC law were to phase out preferential tax benefits currently granted to "new or high-technology enterprises" and technology consulting services, we would be subject to the standard statutory tax rate, which currently is 25%, and we would be unable to obtain business tax refunds for our provision of technology consulting services.

China's legal system embodies uncertainties that could adversely affect our ability to engage in the development and integration of the supply chain management software.

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

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

Our corporate affairs are governed by our amended and restated memorandum and articles of association, by the Companies Law (2004 Revision) and the common law of the Cayman Islands. The rights of shareholders to take action against the directors, actions by minority shareholders, and the fiduciary responsibilities of our directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law in the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from English common law, the decisions of whose courts are of persuasive authority but are not binding on a court in the Cayman Islands. The rights of our shareholders and the fiduciary responsibilities of our directors under Cayman Islands law in this area may not be as clearly established as they would be under statutes or judicial precedent in existence in some jurisdictions in the United States. In particular, the Cayman Islands has a less developed body of securities laws as compared to the United States, and some states, such as Delaware, have more fully developed and judicially interpreted bodies of corporate laws. Moreover, our company could be involved in a corporate combination in which dissenting shareholders would have no rights comparable to appraisal rights which would otherwise ordinarily be available to dissenting shareholders of United States corporations. Also, our Cayman Islands counsel is not aware of a significant number of reported class actions or derivative actions having been brought in Cayman Islands courts. Such actions are ordinarily available in respect of United States corporations in U.S. courts. Finally, Cayman Islands companies may not have standing to initiate shareholder derivative action before the federal courts of the United States. As a result, our public shareholders may face different considerations in protecting their interests in actions against the management, directors or our controlling shareholders than would shareholders of a corporation incorporated in a jurisdiction in the United States, and our ability to protect our interests may be limited if we are harmed in a manner that would otherwise enable us to sue in a United States federal court.

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

We are a Cayman Islands exempt company, and our corporate affairs are governed by our Memorandum and Articles of Association and by the Cayman Islands Companies Law (2004 Revision) and other applicable Cayman Islands laws. Certain of our directors and officers reside outside of the United States. In addition, the Company's assets are located outside the United States. As a result, it may be difficult or impossible to effect service of process within the United States upon our directors or officers and our subsidiaries, or enforce against any of them court judgments obtained in United States courts, including judgments relating to United States federal securities laws. In addition, there is uncertainty as to whether the courts of the Cayman Islands and of other offshore jurisdictions would recognize or enforce judgments of United States courts obtained against us predicated upon the civil liability provisions of the securities laws of the United States or any state thereof, or be competent to hear original actions brought in the Cayman Islands or other offshore jurisdictions predicated upon the securities laws of the United States or any state thereof. Furthermore, because the majority of our assets are located in China, it would also be extremely difficult to access those assets to satisfy an award entered against us in United States court.

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

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

Item 4. Information on the Company

A. History and Development of the Company

eFuture (Beijing) Royalstone Information Technology Inc.

eFuture (Beijing) Tornado Information Technology Inc. ("eFuture Tornado") was established as a domestic Chinese company in April 2000 with total share capital of RMB500,000, of which Hainan Future Computer Company Limited ("Hainan Future") contributed RMB400,000 (80%) and Dafu Zou contributed 100,000 (20%). In July 2000, Mr. Zou transferred his shares to Johnson Li, our Vice President for RMB100,000. In July 2000, eFuture Tornado was reorganized and its capital was increased to RMB5,000,000. In connection with the recapitalization, Hainan Future increased its investment in eFuture Tornado to RMB4,000,000, and Mr. Li increased his investment to RMB1,000,000. Since its inception in January 2000, eFuture Tornado has developed and integrated software for China's supply chain front market.

On Feb 27, 2007, eFuture Tornado's capital was increased to RMB17,805,680 or \$2,300,000; and on August 28, 2007 eFuture Tornado was renamed "eFuture (Beijing) Royalstone Information Technology Inc." (together with eFuture Tornado, "eFuture Beijing").

eFuture Information Technology Inc.

We were established as an offshore company incorporated in the Cayman Islands on November 2, 2000. At the time of our formation, Adam Yan, our Chairman and Chief Executive Officer, purchased 20,000 ordinary shares for \$0.01 per share, which represented the par value of the shares at the time. On April 25, 2001, we issued 4,016,610 Series A preferred shares in a private placement of preferred securities to two venture capital firms for a price of \$0.6224 per share. Such price resulted from an arm's length negotiation with such investors. In addition, on that date, we also issued an aggregate of 6,945,000 ordinary shares to our executive officers at a price equal to \$0.01 per share, which represented the par value of the shares at the time. The price and amount of the ordinary shares that we issued to our executive officers resulted from an arm's length negotiation with our venture investors. The securities and share prices referenced in this paragraph do not reflect our 1-for-7.560678 reverse stock split effected as of June 16, 2005.

Our Holding Company Structure

In March 2001, Hainan Future and Mr. Li transferred all shares in eFuture Beijing to us for an aggregate of RMB5,000,000. Pursuant to an approval from the Beijing Municipal Government, eFuture Beijing became a wholly foreign owned enterprise with an operating period of 20 years. We were created by eFuture Beijing and its shareholders as a holding company in an effort to maintain intellectual property within China while creating a corporate structure that could more easily access foreign capital. eFuture Beijing has previously and will continue to conduct all of our software development operations.

Hainan Future Computer Company Limited

Hainan Future was established as a domestic Chinese company in April 1997 with registered capital of RMB1,500,000. At the time of its formation, Hainan Future was owned by Mr. Yan (75%) and Qicheng Yang, our Chief Technology Officer (25%). Hainan Future developed a software program with particular use in the Chinese supply chain management industry. In an effort to create a company that would qualify for preferential tax treatments associated with businesses in the high-technology industry, Hainan Future agreed to sell its software program and all related rights to eFuture Beijing in 2000 for RMB5,160,000. In connection with this transaction, Hainan Future agreed to provide eFuture technical support and development services related to the program for one year. On May 24, 2001, the PRC National Copyright Bureau issued eFuture Beijing a certificate approving the transfer of the software and granting eFuture Beijing the sole right to exploit the copyright. eFuture Beijing named the acquired software "eFuture ONE POS-ERP."

Following the sale of its software to eFuture Beijing in 2000, Hainan Future's operations were limited to the completion of existing contracts and the collection of existing accounts receivable. Consequently, its operations reduced dramatically. In May 2005, Mr. Yan transferred all of his shares in Hainan Future to Xuejun Zhang for ¥225,000 and Mr. Yang transferred all of his shares in Hainan Future to Ling Zhang for ¥75,000. Xuejun Zhang serves as the manager of our administration department. Ling Zhang serves as an employee in our accounting and finance department. While not executive officers, these individuals are senior employees who actively participate in our day-to-day operations. Noting the limited number of employees in our company, they may possess the potential to influence our executive officers, and, thereby, our business and its operations.

While these transactions were not among independent parties and, arguably, not at arm's length as a result of the employer-employee relationship between the parties, the parties to the transaction actively negotiated the purchase price of the shares sold. At the time of the transaction, Hainan Future was essentially dormant. The aggregate consideration paid by Messrs. Zhang of ¥300,000 was equal to the book value of Hainan Future's assets at the time of the transaction as determined by the then shareholders of Hainan Future in good faith. The parties to the transactions did not consider alternative payment structures.

As of December 31, 2001, we had advanced ¥3,195,956 to Hainan Future. The balance arose as the result of payments to suppliers on behalf of Hainan Future, cash advances to Hainan Future, Hainan Future's collection of cash receipts from our customers, and the sale of an investment in a company to Hainan Future, less the collection of cash receipts from Hainan Future's customers, less Hainan Future's payments to suppliers on our behalf, less the cost of software purchased from Hainan Future and less the purchase of two real estate parcels from Hainan Future. The value of the real estate parcels and the services we provided to Hainan Future was determined in good faith by our executive officers and our Board of Directors. Hainan Future has had no operations or employees since December 31, 2001. As a result, we made payments to, provided services to and collected cash receipts from Hainan Future's customers during the years ended December 31, 2003, 2004 and 2005. Those transactions along with the resulting balances receivable from Hainan Future were as follows:

	For the Years Ended December 31,			U.S. Dollars
	2003	2004	2005	For the Year Ended December 31, 2005 (Unaudited)
Balance at Beginning of Period	¥ 4,297,387	¥ 4,018,687	¥ 2,673,294	\$ 331,255
Payments of (refunds from) Hainan suppliers	23,500	155,307	(146,699)	(18,178)
Services provided to Hainan	1,000,000	—	—	—
Offset receivable from Hainan against payable to Hainan	—	—	(2,526,595)	(313,077)
Collection of cash receipts from Hainan's customers	(744,800)	(1,500,700)	—	—
Balance at End of Period	¥ 4,018,687	¥ 2,673,294	¥ —	\$ —

We owed Mr. Li and Hainan Future ¥1,000,000 and ¥4,000,000, respectively, for the acquisition of the Company's equity interest in eFuture Beijing. The balances due were unsecured, had no fixed terms of repayment and were considered due on demand. On August 12, 2005, we paid Hainan Future ¥575,722 towards the amount due to Hainan Future. On September 25, 2005, Hainan Future acquired Mr. Li's receivable from our company on terms negotiated by Mr. Li and shareholders of Hainan Future. The value of the receivable was based upon the book value of the receivable as reflected on the financial records of Hainan Future, which were maintained in good faith by the shareholders of Hainan Future. On November 18, 2005, we entered into an agreement with Hainan Future whereby ¥1,897,683 of the payable to Hainan Future was forgiven by Hainan Future and the remaining balance payable to Hainan Future of ¥2,526,595 was offset against the receivable from Hainan Future of the same amount. This transaction was approved by our Board of Directors and the Board of Directors of Hainan Future. We recognized this forgiveness of debt from this related party as a contribution to capital.

B. Business Overview

General

We are a leading provider of front-end supply chain management (“SCM”) software and services in China. We provide integrated software and service solutions to manufacturers, distributors, wholesalers, logistics companies and retailers in China’s front-end supply chain market, especially in the retail and consumer goods industries.

Our mission is to give our clients a sustained competitive advantage by strengthening and enhancing the foundation of the supply chain.

We currently serve more than 1,000 Chinese and international clients, including Fortune 500 companies, over 650 retailers and over 250 distributors operating in China. We are also one of IBM’s premier business partners in Asia Pacific and are a strategic partner with Oracle, Microsoft, JDA, Motorola and Samsung Network China. The company has 20 branch offices across China.

Our solutions are specifically designed to optimize demand processes from finished goods to customer checkout, and to address supply chain management, business processes, decision support, inventory optimization, collaborative planning and forecasting requirements. Our software solutions business is enhanced and supported by our consulting services and ongoing maintenance on existing software installations.

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 process management to sophisticated business analysis tools.

Our business-to-business (“B2B”) solutions leverage our company’s relationships with China’s retailers and suppliers to offer innovative Web-based platforms. Our 99114.com and Jindian.com.cn websites connect suppliers and retailers, enabling China’s local and overseas suppliers to enter into retail stores across the country. Our company’s www.bfuture.com.cn website serves as a SaaS platform that streamlines supply chain management operations by allowing retailers and suppliers to exchange business information, arrange payment online and access purchase orders, returns, payment status, inventory levels and sales data analysis.

Market Background

In the past, China's supply chain infrastructure served to restrain economic development and limit the performance of local and foreign companies. Compared with western countries, China has traditionally been hampered by poor infrastructure, a disorganized distribution system, local protectionism, difficulties with cash flow and accounts receivable, and an antiquated legal system at national, regional and local levels. As the Chinese economy matures, with the assistance of enterprise software systems, we believe that these disparities will decrease. At the present time, however, we believe that the following statistics accurately reflect the infancy of the Chinese supply chain industry:

- In 2000, logistics and transportation costs represented approximately 20% of the Chinese gross domestic product ("GDP") compared with 10% in the United States and 14% in Japan. Interestingly, by September 2001, China's total logistics and transportation costs reduced to 16.7% of China's GDP.
- The working capital turnover ratio in China ranges from 1.2 for manufacturing state-owned enterprises to 2.3 for commercial state-owned enterprises. In the United States, the average is between 15 and 20.
 - An average of 90% of a Chinese manufacturer's time is spent on logistics, with just 10% on manufacturing.
 - Many commodities in China cost 40% to 50% more to transport than they would in the United States.
 - Transportation and warehousing costs in China equal 30% to 40% of the total cost of goods sold.
- Logistics inefficiency and lag time in receiving market information resulted in more than U.S. \$480 billion worth of goods being stockpiled by year-end 2000, which was equivalent to 45% of China's GDP.

In recent years, the Chinese government has committed significant effort to modernizing China's logistics and transportation infrastructure. In particular, China's accession to the World Trade Organization in 2001 emphasized the liberalization and modernization of China's economic system. Under China's WTO agreement, the country will progressively remove the restrictions that prevent foreign companies from participating in the logistics and transportation sectors. We also expect China's WTO status to stimulate China's growth by opening its economy to competition and encouraging collaboration between local and foreign companies.

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

China's Economic Development

China's population of approximately 1.3 billion people is expected to grow by roughly 15 million people per year. The country's gross national product has grown at a rate of approximately 9 percent for more than 25 years, making it the fastest growing major economy in recorded history. In the same 25 year period, China has moved more than 300 million people out of poverty and quadrupled the average Chinese person's income. The tremendous potential for this market is noted by the fact that 400 of the world's largest 500 companies are investing in China.

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

In 2007, total retail sales of consumer goods reached RMB8.9 trillion, a growth of 16.8% which was 3.1 percentage points higher than the 2006 growth rate (RMB901.5 billion for December, up 20.2%). Of this total, the retail sales of consumer goods in cities stood at RMB6 trillion, up 17.2% and 2.9 percentage points over 2006 while the retail sales at and below county level reached RMB2.9 trillion, up 15.8%, or 3.2 percentage points higher. In terms of different sectors, the growth of wholesale and retail sectors was 16.7%, and the growth of the lodging and catering industry was 19.4%. The sales by wholesale and retail businesses above the designated size in the following sectors enjoyed over 20% growth: petroleum and petroleum products; automobiles; construction and decorating materials; communication equipment; furniture; household electric appliances and audio-video equipment; clothing, shoes, hats and textiles, cosmetics, and sports and recreation articles.

Growth trend of Chinese GDP in most recent 5 years

GDP is growing rapidly

Total Retail Sales of Consumer Goods in China
(amounts in RMB Billions)

***Retail spending
in China is increasing from
a low base***

Growth Drivers

We believe the following factors, among others, have contributed to our growth and the growth of our customers in the retail industry:

- Double-digit annual GDP growth;
- Increasing disposable income;
- Highly fragmented market; and
- Double-digit annual growth of retail sales of consumer goods.

We seek to build on our leading market share of approximately 8% by focusing on the retail industry consumer goods market as China increases expenditures on retail services and software. According to the International Data Corporation:

- In 2006, total IT expenditures in China's retail market were \$552 million; and
- By 2011, total IT expenditures are expected to increase to \$1.03 billion.

This level of projected growth, if achieved, would be equal to annual growth of 13.3% from 2006 to 2011.

eFuture Solutions

Upon the formation of eFuture Beijing in 2000, we began to develop our software products. Prior to the creation of our holding company structure in March 2001, we developed and released our first two software products:

- *eFuture ONE SCM/CRM*, a visual supply chain management and customer relationship management solution, which was released on December 19, 2000; and
- *eFuture ESCM/e-Market Place*, an e-supply chain management and marketplace solution, which was released on December 19, 2000.

We released a third program, eFuture ONE POS-ERP, a multi-format retail enterprise resources planning tool that we purchased from Hainan Future Computer Company Limited on July 31, 2000. In order to smoothly operate the Company and to apply for preferential tax treatments so as to solve the Company's problem of lacking software, on February 20, 2000, eFuture Beijing executed an agreement with Hainan Future, in which eFuture Beijing purchased from Hainan Future the copyright and the relevant intangible assets of one set of computer software (POS-ERP), which was independently developed by Hainan Future with the registration number of 2000SR1016, at a total price of RMB5,160,000 in which one year of customized development and technical support were included. As provided in this Agreement, eFuture Beijing was entitled to sell and develop new products based on the software at its own discretion. The PRC National Copyright Bureau issued a Certificate on May 24, 2001 proving the filing of the aforementioned transfer of the computer software, according to this certificate, as of April 11, 2001, eFuture Beijing would have the right to use, the licensing right and the right to get paid for the computer software within the time limit regulated by law. Through eFuture Beijing we developed our remaining software products following the creation of our holding company structure.

Our solutions integrate industry know-how with predictive information technologies, and the best practices of leading Chinese companies 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 solution. Our primary software solutions consist of three independently deployable groups of software products: Foundation Solutions, Collaborative Solutions, and Intelligent Solutions.

Our Foundation Solutions are used to meet client needs for services such as retail management, POS, vendor payment and control and loyalty card management. Our clients use various of our Foundation Solutions, depending on the type of customer and needs:

Type of Customer	eFuture ONE Solution
Manufacturer	eFuture ONE Visual DRP (Visual Distribution Resources Planning Solution) Released June 25, 2002.
Distributor	eFuture ONE DMS (Distributor Management System Solution) Released September 25, 2002.
Retailer	eFuture ONE POS-ERP (Multi-Format Retail Enterprise Resources Planning Solution) Released January 31, 2000. eFuture ONE eWalkman R2005 (Mobile POS-ERP solution) Released December 25, 2005.
Logistics/Distributor	eFuture ONE LRP (Logistics Resources Planning Solution) Released January 5, 2003.

Our Collaborative Solutions are used to meet client needs for services such as visual supply chain management and visual process management systems. Our clients use various of our Foundation Solutions, depending on the type of customer and needs:

Type of Customer	eFuture ONE Solution
Manufacturer	eFuture ONE CRM/VMI/CPFR Solution (Vendor Management Inventory/Collaborative Planning, Forecasting and Replenishment Solutions) Released November 8, 2001.
Retailer	eFuture ONE SCM/SRM/CRM (Visual Supply Chain Management, Supplier Relationship Management and Customer Relationship Management Solutions) Released December 19, 2000.
Third Party ASP Operator	eFuture ONE ESCM/e-Market Place (e-Supply Chain Management and e-Marketplace Solutions) Released December 19, 2000.

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

**Type of
Customer**

eFuture ONE Solution

Retailer	eFuture ONE BI/CM/Cleve (Business Intelligent, Category Management and Market Analysis Solution) Released October 5, 2001.
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Description of Software Solutions

Our software solutions include:

- *eFuture ONE Visual-DRP*. A web-based product designed to meet the distribution and network management needs of manufacturers. Based on IBM Websphere middleware, this program employs a 3-layer structure and combines advanced management models with up-to-date information technology methods to establish independent distribution channels with operations expanding to nationwide retail terminals. Customers who would benefit from this solution include large manufacturers of clothing, household appliances, automobiles, and tobacco.
- *eFuture ONE DMS*. A mini-enterprise resource planning application utilized by wholesalers and distributors, especially in the consumer goods industry. The essential functions of this program permit wholesalers and distributors to integrate their core business processes, such as procurement management, inventory management, sales order management and financial management. We offer several versions of this software to support different segments of wholesalers and distributors in terms of size, complexity of operation and information technology literacy.
- *eFuture ONE POS-ERP*. A software solution designed to meet the demands of retailers for goods flow, order flow, information flow and cash flow management, including merchandise operations management, merchandise planning and optimization, integrated store operations, financial management and logistics management from headquarters to regional headquarters to regional distribution centers to multi-format chain stores. This program is suitable for the operation of many retail formats, such as department stores, malls, supermarkets, hypermarkets, convenience stores, grocery stores, and specialty stores.
- *eFuture ONE LRP*. An application utilized by distributors or logistics companies to enable such companies to improve warehouse management, transportation management, and logistics management. The program can organize labor concentrations and warehouse organization. The program can integrate with other enterprise systems, material handling equipment and mobile technology.
- *eFuture ONE SCM*. A product designed for synergistic distribution designed to promote collaborative business between retailers and their suppliers. Developed with IBM Websphere application software, this program gives support to upstream enterprises to participate in retailing enterprises' vendor managed inventory processes and provides online analyses via the Internet. It enables retailers and suppliers to share consistent and accurate information such as promotion, sales and inventory data. Retailers and suppliers use this information to identify sales forecast exceptions, prevent out-of-stocks and reduce inventories. It also can help suppliers to verify their bills and confirm replenishment orders. Blue SCM Collaborative Products has developed an enhanced version of our SCM program to include a process by which our customers may synchronize planning, execution, tracking and evaluation of the Chinese supply chain through the use of real-time visibility of suppliers, distribution hubs and retailers in a given network.

- *eFuture ONE CPFR/VMI*. A program that provides customers with collaborative planning, forecasting and replenishment features. This solution collects, manages and analyzes supply and demand chain data to enable rapid response to changes in market conditions. It employs industry standards to accelerate the execution of the order flow and improve the accuracy of planning. VMI solution enables manufacturers and suppliers to coordinate their customers' inventory in real-time through the use of SKU (stock keeping units) management.
- *eFuture ONE CRM*. A system tool mining and analyzing customer data for retailing operations. It helps retailers to identify, acquire, activate, serve and retain the most profitable customers. It can also help retailers find, promote and expand potential customers.
- *eFuture ONE SRM*. A comprehensive approach to managing an enterprise's interactions with the organizations that supply the goods and services it uses. The goal of supplier relationship management ("SRM") is to streamline and make more effective the processes between retailers and their suppliers. The use of SRM software can lead to increased supply chain visibility, lower production costs and a higher quality, but less expensive end product.
- *eFuture ONE BI*. A program designed for intelligent distribution. This solution turns data about retail customers, merchandise and operations into knowledge that provides greater insight into performance and empowers retailers to make more informed decisions, gain a competitive advantage, strengthen customer and vendor loyalty, and improve profitability.
- *eFuture ONE eWalkman*. An all-in-one portable payment system which can place a full screen of easily viewed information at both the operator and customer locations. Using wireless connectivity, mobile POS allows retailers to bring the store to the customer and greatly decrease check-out times, helping retailers decrease operating costs and boost their competitive position by getting closer to their customers at every point of interaction, while increasing inventory turnover and employee productivity.

Benefits of Our Products

The benefits of our products include:

- Broad set of solutions for the Chinese supply chain in retail and FMCG industries;
- Efficient Consumer Response ("ECR") - enhanced decision making and responsiveness to consumer demands;
- Highly scalable software solutions; and
- Improved inventory management.

Research and Development

VPM Product. In 2007, our VPM solution was developed based on IBM China Research Lab's advanced Service Oriented Architecture ("SOA") ideologies and new technologies including BPEL process, sales logics, and operations rules. Users are only required to create a general layout and the whole process framework will be clearly presented, which enables developers to focus on the details of operations and process and increases the development efficiency. We are currently preparing to roll out our VPM solution in China's FMCG and retail industries.

We believe this solution can help our clients to become more efficient, process-driven enterprises. With its quality control model, real-time visualization of every transaction process, and vivid workflow tracking and illustration, VPM enables business nodes to connect and every department to be monitored and managed as a whole. We believe this system has improved our transaction efficiency, lowered our work errors, standardized our business operation procedures and provided a roadmap for our processes.

Our Store Operation System (“SOS”) and Customer Service System (“CSS”). Our SOS solution improved and optimized our store operation, including supply chain, marketing & sales, inventory management, category structure and inventory turnover. Our CSS solution has enabled us to integrate prepaid card and membership cards issued separately in Southern and Eastern China into a cross-region central customer service system.

Mobile POS. In 2007, we developed POS solutions and services based on Samsung Networks’ line of mobile POS equipment and devices. We expect that this partnership will result in a widespread rollout of mobile POS systems for retailers in China. Using the mobile POS solution developed by Samsung Networks and eFuture, consumers in retail stores can check out with a POS device anywhere in the store without having to wait in checkout lines at the cashier. Using wireless connectivity, we expect mobile POS to decrease customer lines and operating costs, while increasing inventory turnover and employee productivity. This mobile POS solution has replaced previous fixed POS terminals in many major department stores in Korea.

POS-ERP Product. In 2007, we started to develop a next-generation Service-Oriented Architecture (“SOA”) retail information system that employs a three layer web-based structure with state-of-the-art information technology to assist our retail customers with operations expanding nationally or world-wide. Our program includes advanced modules such as merchandise planning, revenue management and space and category management.

CRM/SRM Products. We are developing enhanced CRM and SRM solutions.

To date, we have provided our products and services to businesses located throughout China, as indicated below:

Software Upgrades

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

Maintenance Services

Following the installation of our software solutions, clients will typically require ongoing maintenance support to ensure the efficient operation of their system. These services are designed to assist our customer with integration issues and to answer questions that may arise. These services include:

- database operation maintenance, space management, data migration and database tune-ups;
- system servicing, device management, system updating and version control;

- application servicing, debugging, real-time servicing, and application of interfaces with other business systems;
- 24 hour call center services; and
- training in ongoing system operation.

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

	Regular Maintenance	Silver Maintenance	Gold Maintenance
Hotline Service	Standard	Standard	Standard
Program Debugging	Standard	Standard	Standard
Remote Servicing	Standard	Standard	Standard
Call Center Service	Standard	Standard	Standard
Inspection Service	Yearly	Quarterly	Monthly
Emergency Response	24-36 Hours	12-18 Hours	4-8 Hours
System Upgrades	2 Years	Yearly	Semi-Annually
Fieldwork Service	No	No	Yes

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

Project Management Services

As we assist customers in planning and executing their projects, we provide a variety of services throughout the process. We typically provide the following services at different stages in the management of a project:

Consulting Services

Our consulting services group 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.

These services include the design and planning of business systems focused on:

- profit enhancement;
- supply chain management enhancements;
- information technology planning;
- system back-ups; and
- network security.

To date, our consulting services have been utilized solely in connection with our ongoing relationships with our software licensees. We expect, however, to offer stand-alone consulting services unrelated to our software products in the future. For example, we expect to enter into consulting arrangements pursuant to which we will be engaged to optimize business processes of customers that may utilize software developed by our competitors.

Service fee income revenues increased 301% to RMB26.5 million or \$3.6 million in 2007 compared to 2006 and represented 32% and 14% of total revenues, respectively in these periods. We believe our large annual recurring maintenance revenue base provides significant stability and enhances our ability to maintain profitable operations.

Benefits of our Solutions

Our software offers a broad set of solutions for the Chinese supply chain. Our software solutions offer our customers a broad and functional set of demand-driven solutions designed to optimize their operations. Integration costs often represent a significant expenditure for our customers. We offer integration tools and services that reduce the overall effort necessary to deploy our solutions. We also believe that our solution suite encourages customers to adopt our solutions as an internal standard for business applications, allowing them to simplify their relationships with technology partners while reducing the overhead of managing multiple versions of products from disparate providers.

Our software offers enhanced decision making and responsiveness to consumer demands. Our solutions help customers better understand and fulfill consumer demands while improving operational efficiency. Our products enable vast amounts of consumer, sales and inventory data to be rapidly collected, organized, distributed and analyzed. Our customers can explore “what if” merchandising plans, track and analyze performance, business results and trends, monitor strategic plans, quickly implement operational strategies based upon sophisticated fact-based optimization techniques and adjust to changes in consumer purchasing patterns.

Our software is highly scalable. We have designed our software to be demand-driven with the goal of reducing our customers’ risk of making large investments in software that fails to expand with the customers’ businesses.

Our software offers improved inventory management. Our solutions enable customers to continuously monitor and reduce inventory levels, achieve higher gross margins, improve their inventory turnover rates and more effectively manage their order and distribution processes. We provide our clients with tools for vendor analysis, stock status monitoring, sales capture and analysis, merchandise allocation and replenishment, purchase order management and distribution center management.

We focus our business on the entire Chinese supply chain market that ranges from distribution to logistics to retail operations. Our eFuture ONE product series is a one-stop solution to address a litany of operational and strategic complexities that market participants must master in order to effectively and efficiently operate in the Chinese economy.

Our solutions integrate industry know-how with predictive information technologies, consulting services and the best practices of leading Chinese companies 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 solution. Our primary software solutions consist of three independently deployable groups of products: Foundation Solutions, Collaborative Solutions, and Intelligent Solutions.

Our Growth Strategy

We have the following three growth strategies:

- Organic Growth for Core Businesses;
- Best-of-Breed for Seeding Business; and
- Merger and Acquisition Strategies

Organic growth for core business

Based on China's growth opportunities for the next three years, we will constantly solidify our market position and expand our market share through organic growth in the front supply chain market, particularly in the retail and FMCG markets.

Operational Excellence, Increased Earnings Power

- stabilize the Company;
- reduce infrastructure;
- create efficiencies in R&D investments;
- ample operating leverage remains;
- balance our cash flow; and
- improve employee productivity and reduce operating expenses.

Increasing Market Share

- accelerate growth through greater involvement in customers' operations;
- substantial opportunities for cross-selling; and
- leverage IBM, Motorola, Oracle and JDA through shared marketing efforts.

Expand into New Markets

- more initial sales coverage from SMB and Global account markets;
- leverage existing products into new industries, such as electronics, high-tech, automotive, apparel and footwear, drugstore etc.
- add new products/services for our current industries and installed customers.

Best-of-lead for seeding business

We will take the lead in outsourcing, international business and SaaS service through business model innovation.

Outsourcing

- Software outsourcing in today's market requires careful consideration of the risks involved. The key to successful outsourcing for projects lies in the selection of an experienced and technically qualified offshore IT Services provider.

- We are ready to provide high quality software outsourcing services, and have already delivered our services to global customers, such as P&G.

International business

- In the world's top 100 retail companies and specialty companies, the current economic climate of decreased consumer confidence and increased competition puts even greater emphasis on retailers to do more for less. 42% of retailers surveyed, like Wal-mart, Home Depot and Lowe's are considering outsourcing to enable business growth.
 - We will provide the services to help those companies to reach their goals in China.
- We have delivered our services and solutions to P&G, B&Q, GUCCI, Changan-FORD, Jusco, Harbour house, Parkson, China Petroleum-BP, Kimberly-Clark and Unilever.

SaaS like www.salesforce.com

- SaaS is a model of software delivery where the software company provides maintenance, daily technical operation, and support for the software provided to their clients. SaaS is a model of software delivery rather than a market segment; software can be delivered using this method to any market segment including home consumers, small businesses, as well as medium and large businesses.
- We will focus on using this method to deliver software to small and medium size businesses in China, especially in B2B SCM Web, B2C Web, SMS marketing Web, Mini store, Specialty store as well as Chinese customers,
 - This is a huge market in China, and we believe we will do well with this business model.

We co-developed the SaaS of B2B (eFuture's blue supply chain management solution) service with IBM Research Lab and IBM Global service team in October of 2007.

We controlled 51% of the ownership in Beijing Fuji Biaoshang Information Technology Inc. by variable interest entity ("VIE") in December of 2007. In April of 2008, we launched this product as our www.bfuture.com.cn website, and Wangfujing Department Store Group, one of the largest department stores in China, became the first to use the online supply chain management platform. Since the launch of the website, we have brought over 1,000 suppliers to the platform, allowing them to exchange business information, arrange payment online and access purchase orders, returns, payment status, inventory levels and sales data analysis. In the future, we plan to bundle our enterprise resource planning platform into the www.bfuture.com.cn website as well. We are very excited about our first SaaS products and the synergies we see with our current software clients.

We placed our focus in 2007 on enhancing our SaaS-based applications allowing us to be a fully integrated software application company. A SaaS-based application allows us to obtain revenue by not only selling our software but also by selling a corresponding service agreement which brings in a consistent revenue stream.

Our goal is to help our customers execute their business strategies by providing them with overall, one-stop software solutions and service to enhance their effectiveness, improve customer relationships, prevent out-of-stock scenarios and reduce their total costs in the Chinese supply chain. In pursuing this goal, we intend to maintain and expand our status as a leading provider of fully scalable software solutions. Key elements of our strategy include:

We will increase our market share. We believe that as the Chinese economy continues to develop, Chinese companies will compete with international businesses at an increasing rate. Consequently, Chinese businesses will need to streamline their operations in order to maximize their competitive position. In order to increase our overall market share, we will focus on increasing the amount of business we do with the following customers:

Manufacturers. While we currently license our software solutions to some of the largest companies in China, we intend to focus a large part of our marketing efforts in this sector.

Distributors. We currently work with distributors in more than 140 different cities in China. Through our continued growth and development, we expect to license our software solutions to distributors in more than 200 cities within the next several years.

We will increase our emphasis on sales to small and medium-sized businesses. When the Chinese retail, logistics and distribution industries were in their infancy, only larger businesses were initially in a position to recognize and effectively implement our software solutions into their business operations. Over the last few years, however, as the marketplace continued to mature and competition among retailers, logistics companies and distributors has heightened, we have recognized that an increasing number of Chinese small and medium-sized businesses in these industries have begun to utilize our software solutions. We believe that the small and medium-sized businesses in our marketplace offer our company a significant opportunity because:

- these businesses have not previously adopted any supply chain management software solutions and our competition may not possess the ability to effectively market to these businesses;
- these businesses are more likely to purchase our less expensive software solutions on a more frequent basis, and we expect revenues from these more frequent purchases to stabilize our cash flow which may be less predictable if based solely upon the license of our more expensive (and less licensed) software solutions; and
- we expect to receive more timely payment for our software solutions from these businesses as they do not generally possess the economic power of larger businesses that may force us to be more flexible on payment terms.

National Chain Retailers. We currently license our products to national chain retailers throughout more than 80 Chinese cities. We expect to license additional products to additional customers in more than 150 cities within the next several years. We are now allocating a significant portion of the proceeds of our initial public offering to the expansion of our sales team such that our sales efforts will extend to up to 50 major Chinese cities and up to 300 regional cities throughout China.

We will provide services that generate high customer satisfaction levels. Chinese companies in our market are strongly influenced by formal and informal references. We believe that we have the opportunity to expand market share by attaining high levels of customer satisfaction with our current customers, thereby fostering strong customer references to support sales activities.

We will provide a tangible, measurable return on investment. By leveraging our success with our existing clients and a renewed focus on small-to-medium size businesses in China, we believe that we are uniquely positioned to become the preferred application and technology architecture provider for software solutions for the Chinese supply chain. We believe that our strong performance and reputation can be leveraged to develop a leading technology and best in business standard.

We will anticipate a rise in the need for Chinese supply chain management services. We anticipate that an expanding market and increasing customer demand will position the Chinese supply chain as a competitive differentiator. Since the Chinese government and industry now recognize the impact of China's supply chain performance gap, *status quo* performance will no longer be acceptable to consumers. As we continue to firmly establish our company in the supply chain management arena, we stand to benefit as demand for our services increases.

We utilize a significant portion of the proceeds of our first public offering to enhance our existing software while also developing new ECR, VMI and retailing payment systems.

Merger and Acquisition ("M&A") Strategies

We will utilize M&A strategies to achieve the following goals:

- Diversify product offerings;
- Expand regional coverage;
- Expand into the SMB market; and
- Develop new relationships with domestic and international retailers.

We will not miss any opportunity to acquire companies which can increase our shareholders' value and we will focus on the following types of acquisitions:

- Small fill-in acquisitions (Focus on products and territory coverage in front supply chain market)
- Larger mergers and acquisitions - sizeable recurring revenue streams (Focus on products and territory coverage in front supply chain market)

During 2007, four strategic acquisitions boosted our service fee income, software and hardware sales. These acquisitions allowed us to grow our market share while leveraging our core competency in delivering one-stop front-end supply chain management software to streamline operations and maximize our clients' competitive advantages.

- In January 2007, we acquired Nanjing Tangcheng Network Technology Development Corporation, a leading regional independent software vendor focusing on East China's retail market. We expect that this acquisition will allow us to respond quickly to meet regional market demands, improve customer service and expand our market share in Eastern China.
- In August 2007, we acquired Crownhead and its subsidiary Guangzhou Royalstone. With a senior operating team and extensive relationships, most notably in the supermarket sector of Southern China's retail and FMCG industries, we expect that this acquisition will increase our market share among China's top 100 domestic retailers and leading international retail companies.

Since August 2007, the combined business, which we renamed "eFuture Royalstone Information Technology Inc.", has been integrated according to plan. Under the leadership of Mr. Deliang Tong, Crownhead's former chairman and Chief Executive Officer, we have focused our consolidation efforts in three areas: integrating back office systems, product portfolios and retaining key personal. We believe that with synergies from combined networks, products and leading R&D teams, we will be able to increase our market share across China and attract more global accounts.

These two transactions bolstered our fourth quarter and full year 2007 financial performance. In fact, in aggregate, Crownhead and its subsidiary Guangzhou Royalstone represented \$3.5 million or 29.6% of our total revenues from August 2007 through the end of the fourth quarter of 2007 which included \$2.9 million of software and service revenue, or 30.5% of total software and service revenues.

We also made acquisitions that expanded our innovative offerings around our core business, specifically, SaaS, B2B, and Business to Consumer (“B2C”) platforms. These acquisitions include the following:

- In May 2007, we acquired a 20% ownership interest in Beijing Wangku Hutong Information Technology Co., Ltd. (www.99114.com.cn) by VIE which allows us to deploy our SaaS model and offer an innovative B2B platform that connects small to medium-sized suppliers with retailers. We are especially optimistic about the online marketing opportunity that this presents for both retailers and suppliers.
- In November 2007, we acquired a majority stake in Beijing Fuji Biaoshang Information Technology Inc. by VIE, a company that provides SaaS, such as a B2B supply chain management platform between suppliers and retailers and a B2C, Web-based store for retailers.

In the second quarter of 2008, we will also launch a new website - with the goal of helping retailers search for suppliers and to help regional suppliers enter into national retail stores. These acquisitions are expected to significantly increase our market share and enhance the services we offer to our clients and we are optimistic about their future potential.

We have two Strategic Acquisitions planned for 2008:

- Proadvancer Systems Inc. - A leading provider of logistics software and services in China and Asia. This acquisition is intended to expand our logistics products and services offerings to form a total front-end supply chain management solution.
- Beijing Wangku Hutong Information Technology - We have increased our equity interest in this company to 51%.

We intend to enter acquisitions in order to solidify our leading position in China’s front-end supply chain market for the retail and consumer goods industries. We plan to solidify our core business, developing new business opportunities through our SaaS model and explore additional strategic acquisitions.

Customers

We provide software solutions to all participants in China’s supply chain end market. These customers include manufacturers, distributors, wholesalers, logistics companies and retailers throughout China.

We now provide software products and services to more than 1,000 clients, including over 770 retailers and over 200 distributors and Fortune 500 companies that do business in China including Procter & Gamble, Unilever, Johnson & Johnson, Kimberly-Clark, the Chang’an Motors and Ford Motors joint venture, B&Q-Kingfisher China, GUCCI China, Jusco Guangzhou China, PARKSON China, SOGO China and Mickey’s Space stores (Disney franchises). Leading local companies include China Resources Vanguard, Belle, Lianhua, Suning, Wuhan Zhongbai, Wushang Group, Bubugao, Yonghui and China Duty-Free Stores.

Currently, our software solutions are utilized:

- in all provinces in China except Taiwan, Hong Kong and Macau;
 - in more than 200 cities;
- by more than 1,000 clients, including over 770 retailers who use over 790,000 suppliers, over 200 distributors, and several manufacturers;
 - by more than 50 companies listed on public markets in Shanghai, Shenzhen, Hong Kong or Singapore;
 - by over 10 foreign-owned enterprises;
 - by more than 10,500 multi-format stores;
 - by over 30 of the top 100 retailers and 23 of the 60 largest retailers in China;
 - at more than 2,000 distribution nodes; and
 - at more than 65,000 retailing points-of-sale.

Our manufacturing customers include:

- Procter & Gamble China
- Johnson & Johnson China
- Kimberly-Clark China
- Unilever China
- L'Oreal China
- Chongqing Chang'an Ford Group, Chinese joint venture
- Haier Group, one of China's leading household appliance manufacturers
- Changhong Group, one of China's leading household appliance manufacturers

Our retailing customers include many of the largest retailers in China including:

- Gucci China
- B&Q China
- Jusco China
- China Resources Vanguard
- BELLE
- Harber House China
- BONJOUR
- Shanghai Lianhua
- Robinson Mall China
- Jordan Mall China
- Super Brand Mall, one of the largest malls in Shanghai
- Parkson China Group, the largest department store chain in China, owned by Lion group in Malaysia
- China Duty-free Group
- Tianjin Tianshi Group

- Suning Appliance, China's second largest electronics chain
- Beijing Jingkelong Stores, Inc., a large chain of supermarkets and convenience stores
- Beijing Wangfujing Department Store (Group) Inc., the first large, state-operated department store in Chinese history
- Beijing the Orienthome Group, one of the largest Chinese home improvement stores
 - Beijing AYAYA group, the Chinese girls' adornment store chain
 - Beijing SOGO, a Beijing department store owned by SOGO Group
 - Beijing New Yansha Lufthansa Group
 - Beijing Urban and Rural trade center Co., Ltd.
 - Beijing Huaguan Supermarket
 - Hunan Bubugao Group
 - Fujian Yonghui Group
 - Xian Aijia Group
- Shandong Yinzuo Holdings Ltd., the first large department store and supermarket chain in Shandong province
 - Shandong Jiajiayue Supermarket Group
- Changchun Zuozhan Dept. Store Group, the first large department store in Jiling province
 - Zhejiang Huaji Shijie Group
 - Shanghai Hongmaolantu Group
- Shijiazhuang Beiren Group, the first large department store and supermarket chain in Hebei province
- Tianjin the Homeway Group, the first large hypermarket and home improvement chain in middle China, acquired by Home Depot
 - Chongqin Dept. Store Group, the first large department store and supermarket chain in western China
 - Wuhan Wushang Group Co., Ltd., the first large department store and hypermarket chain in middle China
 - Wuhan Zhongbai Group, Co., Ltd., the second large supermarket and hypermarket chain in middle China
 - Wuhan Zhongshang Group, the third large department store and hypermarket chain in middle China
- Wuhan Plaza Shopping Center, a joint venture between Wuhan Wushang Group and Hong Kong Chinachem Group
 - Shanghai Gujin Underwear Store Co. Ltd.
 - Guangzhou Friendship Dept. Store Group
 - Guangzhou Department Store Group
 - Hangzhou Jiefang Department Store Group
- Shenzhen Tongluowan Group, the largest shopping malls in many Chinese cities
 - Shenzhen Suibao Dept. Store Group
 - Shangyang Shangye Cheng
 - Zhejiang Huajishijie Group, one of the largest cell phone chain stores

Our distribution and logistics customers include over 200 customers:

- Yoshinoya D&C Co., Ltd., a Japanese fast food chain
- China Resources Vanguard Inc., one of the top 4 retailers in China

- Beijing Jingkelong Group, one of the largest FMCG distributor and supermarket chains in China
- Changan Minsheng Logistics Inc., the outsourcing service for Changan-Ford Automobile Co., Ford Motor Company's Chinese joint venture

- Jiuzhoutong Group, one of the largest drug distributors and store chains in China
- COFCO is a leading grain, oils and foodstuffs import and export group in China and one of its largest food manufacturers. The company has been successful in real estate, hotel business and financial services. Fortune magazine lists it as one of the world's top 500 enterprises.

· Beijing Yishang Meijie Co. Ltd.

· Beijing Jiazhixing Co. Ltd.

Headcount

We operate in 20 offices across China:

Headquartered in Beijing
Main R&D centers in Guangzhou and Wuhan
Regional service centers in Shanghai, Guangzhou and Wuhan

We are committed to R&D and customer service:

Over 650 employees
300 R&D and customization engineers
250 consultants and service personnel
100 sales and marketing staff

	January 1, 2008	January 1, 2007
Total	588	298
Mid and high level Manager	47	37
Sales	94	48
R&D and Customization	300	105
Service	250	92
Pre-sales	12	
Back-office	35	16

Full Year 2007 Operational Highlights

- Sales contracts in 2007 increased 135% to RMB129.3 million from 2006. Total new orders increased 147% to 892 from 361 in 2006.
- eFuture acquired Nanjing Tangcheng Network Technology Development Corporation in January 2007, a leading regional independent software vendor focusing on Eastern China's retail market.
- eFuture acquired a 20% ownership interest in Beijing Wangku Hutong Information Technology Co., Ltd. by VIE in May 2007, allowing eFuture to offer a leading B2B platform that connects retailers and small to medium-sized suppliers.
- eFuture acquired Crownhead and its subsidiary Guangzhou Royalstone in August 2007, significantly improving eFuture's market share among China's top 100 retailers and international retail accounts.

- eFuture acquired a majority stake in Beijing Fuji Biaoshang Information Technology Inc. by VIE in November 2007, a company that provides a SaaS and B2B supply chain management platform website (www.bfuture.com.cn) to connect suppliers and retailers and a B2C platform for retailers.
- We had new market penetration in addition to maintaining our competitive position and expanding our market share through organic growth in the front chain market, particularly in the retail and FMCG markets. We are leveraging our existing client base (over 600 retailers and over 250 distributors) into new areas such as B2B service between these retailers and their suppliers and we are exploring new media businesses based on our consumer community.
 - Ernst & Young was hired as eFuture's SOX Implementation Consultant from 2007 to 2008
 - We expanded our sales force in key geographic markets and continue to attract marquee global accounts in China including B&Q-Kingfisher, Unilever, Johnson & Johnson, Jusco, GUCCI, and Aeon. We are now supplying superior solutions to over 1,000 clients, which represents a 100% increase over our 500 clients in 2006.
- Also, in May 2007, through our installment acquisition of Beijing Wangku Hutong Information Technology Co., Ltd. we now offer a leading B2B platform to our clients, connecting retailers and numerous small and medium-sized suppliers, which not only enables eFuture to deploy a SaaS service based on the retail yellow pages but also further enhances our innovative business development in the B2B portal sector between suppliers and retailers. We expect to continue our selective acquisition strategy to enhance our market share and business performance. The website www.jindian.com.cn, will help retailers find suppliers and help regional suppliers to enter into national stores.
- We further developed our partnerships with international industry leaders in order to supply superior solutions to our clients. In January, IBM recognized eFuture with its best retail solution partner in the Asia Pacific award. We also became a partner with JDA with a new cooperation model of "Global Solution, Local Service." At the same time, we are VAR partners with Oracle, Microsoft, Samsung, Motorola and are continuing to develop leading software systems through our joint efforts.

Our Strengths

Our strengths include:

- *Ability to leverage current engagements.* Since our inception, we have developed an impressive litany of clients. By providing our solutions on a cost efficient basis and following through with outstanding client support, we believe we have the ability to generate additional projects from our existing client base.
- *Ability to leverage our knowledge of Chinese business culture.* Many of our competitors are based outside of China. As our operating subsidiary is based in Beijing, we believe we are in a strong position to emphasize Chinese culture and business knowledge to obtain new customers. We believe that many Chinese businesses would prefer to hire a Chinese company to assist in their business operations if a Chinese company exists with the ability to fulfill their needs on a timely and cost-efficient basis.
- *Ability to leverage our marketing activities with other businesses.* Our ability and willingness to co-market with larger organizations allows us to obtain access to business opportunities that may not otherwise be available to companies of our size. From time to time, we have entered into joint marketing arrangements with other computer and software companies. Pursuant to these arrangements, we are able to offer our solutions as part of a multi-faceted supply chain management arrangement with larger and more prestigious companies.

· As of the date of this end year reporting, we have entered into the following agreements with larger organizations to obtain business opportunities:

· In 2004, we entered into a Memorandum of Understanding with IBM China Company Limited whereby we agreed to collaborate with IBM China on the development of a business proved retail solution proof of concept. Upon the development of a proof of concept, we will negotiate with IBM China to determine an acceptable agreement relating to such development.

· In 2005, we entered into an ISV Advantage Agreement with IBM Technology Engineering (Shanghai) Co., Ltd. pursuant to which IBM agreed to provide us with technical assistance related to our developments based upon IBM middleware. In connection with this relationship, IBM Technology Engineering agreed to Market our business affiliation into IBM.

· In 2007, IBM awarded us its Solution Developer Partnership Award - Asian Pacific Region. We have partnered with IBM for seven years to provide customer management systems and integrated retail supply chain software systems throughout China. The award was presented to us by Steve Ladwig, General Manager of IBM Global Retail Store Solutions, at the IBM Retail Chain Solution Conference, held in the city of Sanya, Hainan in February 2007. The conference highlighted IBM's involvement in global retail chain management. Mr. Ladwig emphasized that strengthening relationships with key local partners was one focus of IBM's strategic efforts in 2007.

· 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.

· *Experienced, successful executive management team.* Our executive management team has significant experience and success in the supply chain management industry. They will be able to draw on their knowledge of the industry, their sales and marketing experience and their relationships in the industry.

· *Ability to leverage China's Cost Structure.* As one of the leading Chinese companies in the field, we believe that we possess an inherent advantage over foreign participants in our industry. Specifically, as a Chinese company, we believe we can operate our business on a much more cost effective basis. These costs savings are reflected in lower costs to our customers for comparable work.

Competition in the Supply Chain Management Software Industry

Market share. In 2007, total IT expenditures in China's retail industry were RMB4.3 billion (RMB1 billion in software & services). Estimated total IT expenditures in China's retail industry in 2010 are projected to be RMB8.5 billion (RMB2.5 billion in software and services), a compound annual growth rate of 25.5%. Our market share in the software and service of retail industry, increased from 5.5% to 8.3%.

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 the principal competitive factors in our markets are:

- cultural differences;
- feature and functionality;
- product reputation;
- quality of reference accounts;
- vendor viability;
- retail and demand chain industry expertise;
- total solution cost;
- technology platform; and
- quality of customer support.

In 2007, total revenues for software and maintenance for the Chinese enterprise application software market were approximately \$6 billion. During that year, we generated approximately \$11.5 million in comparable revenues. As such, while we effectively compete in our market, our competitors occupy a substantial position.

A few of our existing competitors, as well as a number of potential new competitors, have significantly greater financial, technical, marketing and other resources than we do, which could provide them with a significant competitive advantage over us. In addition, we could face competition from large, multi-industry technology companies that have historically not offered an enterprise solution set to the Chinese supply chain market. Further, the enterprise software market is consolidating, and this may result in larger, new competitors with greater financial, technical and marketing resources than we possess. Such a consolidation trend could negatively impact our business. This consolidation trend is evidenced by SAP AG's announcement on February 28, 2005 of a cash tender offer to purchase all of Retek, Inc.'s outstanding shares, which was followed on March 8, 2005 by a competing cash tender offer from Oracle Corporation to purchase all of Retek, Inc.'s outstanding shares. Pursuant to its tender offer, Oracle acquired Retek in April 2005. It is difficult to estimate what effect this acquisition will have on our competitive environment. We cannot guarantee that we will be able to compete successfully against our current or future competitors in the supply chain management software industry, or that competition will not have a material adverse effect on our business, operating results and financial condition.

Competitive Environment

The front supply chain market is segmented into a multiple tiers and we have a leading market share in China's front-end supply chain management market in both the retail and consumer goods industries.

Tier 1 Market. Global accounts and top 10 retailers operating in China, Global rivals, such as SAP, Oracle, JDA and Retailx are very active and aggressive. Our strategy is "global solution and local service" by collaborating with competitors, such as JDA (global retail solution provider) we help them to roll out solutions in China. Oracle has acquired many software companies in retail, such as Retek, Commerce360, and ProfitLogic. NEC China closed an acquisition of a local rival.

Tier 2 Market. Top 100 retailers and top 100 regional retailers in China. We are continually very competitive in this market. We plan to increase our earning power by continuing to streamline the infrastructure, increase our efficiency in R&D investment, and improve employee productivity, while reducing our operating expenses.

Tier 3 Market and Others. Rivals are local - over 150 Independent Software Vendors ("ISV") companies delivering solutions to small to medium clients, which are very competitive in one area or one segment of the market, such as drugstores or the fashion industry. There is increasing pricing pressure in this tier. We will focus on building an ecosystem and speed up our industry integration through M&A. Our goal is to increase our market share to between 25% and 30% in the next 5 years.

Competition in the Software Consulting Industry

To date, our consulting services have been rendered solely in connection with the implementation of our software products. Consequently, we have not experienced a significant amount of competition for these services. We expect, however, to offer stand-alone consulting services unrelated to our software products in the future. Our competitors in the supply chain management software industry are also our primary competitors in the software consulting industry. Many of our competitors possess significantly greater financial, technical, marketing and other resources than we do. Our larger competitors, particularly SAP AG and Retek/Oracle may be in a financial position to acquire smaller software consulting companies in China. Such consolidated entities may possess significant competitive advantages over us. We cannot guarantee that we will be able to compete successfully against our current or future competitors in the software consulting industry.

Proprietary Rights

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

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

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

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

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

China's Intellectual Property Rights Enforcement System

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

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

Regulation on Software Products

On October 27, 2000, the Ministry of Information Industry issued the Administrative Measures on Software Products, or the Software Measures, to strengthen the regulation of software products and to encourage the development of the Chinese software industry. Under the Software Measures, a software developer must have all software products imported into or sold in China tested by a testing organization approved by the Ministry of Information Industry. The software products must be registered with the Ministry of Information Industry or with its provincial branch. The sale of unregistered software products in China is forbidden. Software products can be registered for five years, and the registration is renewable upon expiration.

Regulation of Intellectual Property Rights

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

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

Trademark. The Chinese Trademark Law, adopted in 1982 and revised in 1993 and 2001, protects registered trademarks. The Trademark Office under the Chinese State Administration for Industry and Commerce handles trademark registrations and grants a term of ten years to registered trademarks. Trademark license agreements must be filed with the Trademark Office for record. China has a "first-to-register" system that requires no evidence of prior use or ownership. We have registered a number of our product names with the Trademark Office.

Sales Organization Compensation

We employ a sales staff designed to effectively market our suite of software solutions throughout China. Our ability to continue to grow our business is directly tied to the performance of our sales force. We structure our sales force compensation on a commission basis. Theoretically, each of our salespersons can earn more than each of our executive officers, and in recent years, several have achieved such distinction.

Recently Enacted Accounting Standards

In September 2006, the Financial Accounting Standards Board issued FASB Statement No. 157, Fair Value Measurements (or SFAS 157), which defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 applies to other accounting pronouncements that require or permit fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. However, on February 12, 2008, the FASB issued FSP FAS 157-2 which delays the effective date of SFAS 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). This FSP partially defers the effective date of Statement 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years for items within the scope of this FSP. Effective for 2008, we will adopt SFAS 157 except as it applies to those nonfinancial assets and nonfinancial liabilities as noted in FSP FAS 157-2. We are currently evaluating the potential impact on our financial statements, if any, upon adoption of this standard.

In December 2007, the Financial Accounting Standards Board issued FASB Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements — an amendment of ARB No. 51* (“SFAS 160”). SFAS 160 amends ARB No. 51 to establish accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. This Statement is effective for fiscal years and interim periods within those fiscal years, beginning on or after December 15, 2008. We believe there will be no material impact on our financial statements upon adoption of this standard.

In December 2007, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin 110 (“SAB 110”). SAB 110 states that the staff will continue to accept, under certain circumstances, the use of the simplified method for estimating the expected term of “plain vanilla” share options in accordance with SFAS 123(R) beyond December 31, 2007. We believe there will be no material impact on its financial statements upon adoption of this standard.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, (“SFAS No. 159”). SFAS No. 159 expands opportunities to use fair value measurement in financial reporting and permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS No. 159 is effective beginning the first fiscal years that begins after November 15, 2007. We do not currently intend to expand the use of fair value measurements in our financial reporting.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), “Business Combinations” (“SFAS No. 141(R)”), which replaces SFAS No. 141, “Business Combinations.” SFAS No. 141(R) retains the underlying concepts of SFAS No. 141 that require all business combinations to be accounted for at fair value under the acquisition method of accounting, however, SFAS No. 141 (R) significantly changes certain aspects of the prior guidance including: (i) acquisition-related costs, except for those costs incurred to issue debt or equity securities, will no longer be capitalized and must be expensed in the period incurred; (ii) non-controlling interests will be valued at fair value at the acquisition date; (iii) in-process research and development will be recorded at fair value as an indefinite-lived intangible asset at the acquisition date; (iv) restructuring costs associated with a business combination will no longer be capitalized and must be expensed subsequent to the acquisition date; and (v) changes in the deferred tax asset valuation allowances and income tax uncertainties after the acquisition date will no longer be recorded as an adjustment of goodwill, rather such changes will be recognized through income tax expense or directly in contributed capital. SFAS 141(R) is effective for all business combinations having an acquisition date on or after the beginning of the first annual period subsequent to December 15, 2008, with the exception of the accounting for valuation allowances on deferred taxes and acquired tax contingencies. SFAS 141(R) amends SFAS 109 such that adjustments made to valuation allowances on deferred taxes and acquired tax contingencies associated with acquisitions that closed prior to the effective date of SFAS 141(R) would also apply to provisions of SFAS 141(R). We are currently evaluating the effects that SFAS 141(R) may have on our financial statements.

C. Organizational structure

As of the date of this Annual Report, our ownership structure is as follows:

D. Property, plants and equipment

Facilities

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

Office	Address	Rental Term	Space
Beijing	#10 Building BUT Software Park No. 1 Disheng North Street, BDA Yizhang District	Expires December 31, 2008	544.93 sq. meters
Shanghai	Floor 19E,F,G Shentong Information Plaza 55 West Road of Huaihai Street Xu Jiahu District	Expires March 19, 2010	757.47 sq. meters

Nanjing	Floor 3,49 Jiangsu Software Park,169 Road of Longpan zhong street, Nanjing,Jiangsu province	Expires January 1, 2009	283 sq. meters
Shijiazhuang	R2108,Floor 21 Changan Plaza 289 East Road of Zhongshan Street Shijiazhuang, Hebei province	Expires January 1, 2009	400 sq. meters
Guangzhou	Rear Building Huicheng Plaza 130 Zhongshan Street Guangzhou, Hebei province	Expires March 5, 2010	1730 sq. meters
Wuhan	Floors 2 and 3 Office Building of Machine Bureau Fujiapo, Wuchang District Wuhan, Hubei Province	Expires September 19, 2008	846 sq. meters

Our new headquarters facility is located in a high-technology park developed on the outskirts of Beijing. This development has resulted from the Chinese government's decision to centralize high-technology companies in a currently under-utilized area of Beijing. Our new facility will offer benefits in the form of reduced rents and access to technologically advanced facilities. We believe that these facilities are adequate to meet our needs.

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 and our unaudited pro forma condensed consolidated financial statements, together with the respective notes thereto, included elsewhere in this prospectus. Our audited historical consolidated financial statements have been prepared in accordance with U.S. GAAP. Our unaudited pro forma financial information has been derived from our audited historical consolidated financial statements.

A. Operating Results

Overview

We believe that we are one of the leading businesses engaged in developing and selling enterprise resource planning software and providing one-stop solutions for distribution, retail and logistics businesses focused on the supply chain front market for manufacturers, retailers, distributors and third-party logistics companies in China. In addition, we

provide related system integration services. System integration services involve system design and system implementation through the application of the software as well as ongoing technical supporting services.

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Our business started in 2000 when we purchased our eFuture ONE POS-ERP software from Hainan Future Computer Company Limited (“Hainan Future”). Following its formation in 1997, Hainan Future developed this software program that possessed particular use in the Chinese supply chain management industry. In an effort to create a new company that would qualify for preferential tax treatment associated with businesses in the high-technology industry, we agreed to purchase this program and all related rights from Hainan Future in 2000 for RMB5,160,000. In connection with this transaction, Hainan Future agreed to provide us with technical support and development services related to the program for one year. On May 24, 2001, the PRC National Copyright Bureau issued eFuture (Beijing) Tornado Information Technology Inc., our wholly-owned subsidiary (“eFuture Beijing”) a certificate approving the transfer of the software and granting eFuture Beijing the sole right to exploit the copyright.

Since the acquisition of this program, we have continued to develop our core software to meet the needs of a wide range of customers, and today we have expanded to the small business market which is growing. We expect our revenues to continue to be cyclical during each year with a greater amount of revenues recognized in the last half of the year. This can cause a need for future borrowing from financial institutions. In the past, we have been able to borrow funds at reasonable interest rates and expect that we will be able to do so in the future. However, there is a possibility that funds may not be available and that unavailability could cause us significant difficulty in funding operations in the future.

Should there be a significant decline in the business climate in China, we would not be able to sustain our operations, and we would have to reduce operations and cut expenses to be able to continue in business. This could have a negative impact upon our financial position and results of operations. Such an event would probably have a significant effect on our ability to collect our trade receivables and would cause us to recognize an increase in bad debt allowances related to such receivables. We currently do not anticipate such a decline based on current trends in China.

Customers who license our software generally purchase maintenance contracts, typically covering renewable annual periods. In addition, customers may purchase consulting services, which are customarily billed at a fixed daily rate plus out-of-pocket expenses. Contract development services, including new product development services, are typically performed for a fixed fee. Our revenue growth has resulted from a combination of increased market penetration and expanding product offerings. Our investments in research and development and alliances have helped us bring new software solutions to market. Our investments have produced a suite of decision support solutions. To support our growth during these periods, we have also continued to invest in internal infrastructure by hiring employees throughout various departments of the organization. It is possible that in the future we may have difficulty in hiring qualified employees to fulfill our needs, but at the present time, it appears that there is an abundance of qualified individuals available to support our needs.

Critical Accounting Policies and Estimates

Revenue Recognition

We recognize revenues based on the following principles:

We generate revenue from the sale of software, related hardware, 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. Under certain of our license agreements, we will provide technical advisory services after the delivery of our products to help our customers exploit the full value and functionality of our products. Revenue from the sale of software licenses and technical advisory services under these agreements will be recognized as the services are performed over the contract period.

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 do not consider delivery to occur until products have been shipped or services have been provided to the client, risk of loss has transferred to the client and client acceptance has been obtained, client acceptance provisions have lapsed, or we have objective evidence that the criteria specified in client acceptance provisions have been satisfied. We do not consider the sales price to be fixed or determinable until 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 fulfilled the needs of our customers. Should other products or services be introduced in the market that compete with our products and services, our future customers may chose those products and services instead of ours and affect our ability to generate revenues. We are confident that our constant development of our software products will maintain us as a leader in our market.

For software sales, we recognize revenues in accordance with the provisions of Statement of Position No. 97-2, "Software Revenue Recognition," and related interpretations. Revenue from perpetual (one-time charge) licensed software is recognized at the inception of the license term. Revenue from term (monthly license charge) arrangements is recognized on a subscription basis over the period that the customer is using the license. Revenues from maintenance for the first year and initial training are included in the purchase price of the software. Initial training is provided at the time of installation and is recognized as income as part of the price of the software since it is minimal in value. Maintenance is valued based on a fee schedule we use for providing our regular level of maintenance on a stand alone basis. Maintenance revenue is included in the income statement under services and is recognized over the term of the agreement. We will recognize revenue upon the completion of the project and the inception of the license term. Revenues applicable to multiple-element fee arrangements are bifurcated among elements such as software, hardware, and post-contact service using vendor-specific objective evidence of fair value. Such evidence consists primarily of pricing of multiple elements sold as separate elements in the contract.

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

We provide services for system integration which involve the design and development of complex information technology systems to the customer's specifications. We provide these services on a fixed-price contract and the contract terms generally are short. We recognize revenue when delivery and acceptance is determined by a completion report signed by our customer.

Since our sales are based on customer acceptance of our software and services, we have experienced success in demonstrating the value of our products in the past, and our customers have accepted our software and services, we do not anticipate difficulty in gaining acceptance of our products in the future. However, it is impossible to know how future customers might react if other products are introduced that compete with our products and services. Accordingly, our estimate of acceptance of our software and services has a reasonably high likelihood of change.

We do not enter into contracts with customers unless collection of the contract amount is reasonably assured. We re-evaluate the customer's ability and intent to pay at the date of completion and acceptance of our products and base this assessment on a number of factors including deposits collected prior to completion of installation of our products, the customer's acceptance of our products and services and their commitment at that date to pay the remaining balance under the contract. Our assessment resulted in the conclusion that collection of the amounts due under the sales arrangements was reasonably assured at the time of the contracts and at the dates the contracts were completed, although, subsequent to completion and revenue recognition, there were significant bad debts associated with uncollectible accounts receivable. The bad debts, as explained below, were caused by reasons other than the probability of collection at the date of contract completion.

Allowance for Doubtful Accounts

From the date a contract for our products is signed through the date of customer acceptance, we generally require our customers to deposit up to 60% of the contract price. We also generally grant credit to customers allowing them to pay 20% to 30% of the contract price 30 to 60 days after acceptance and 5% to 10% of the contract price up to one year after acceptance. We have not been able to consistently enforce the credit terms provided to all of our customers. Although we thoroughly evaluate a customer's credit standing at the date we enter into a contract, there have been situations where the creditworthiness of customers has declined before we have collected the entire contract price, which has resulted in the write off of bad debts. We recognize that the passage of time and changes in customers' financial condition have caused deterioration of the collectability of past due accounts receivable.

During 2003 and 2004, bad debts increased mainly due to changes in the financial condition of customers prior to the due dates of the receivables, which caused us not to be able to consistently enforce the credit terms for collection of accounts receivable during and after those periods. During this time period our management team made little effort related to collection of accounts receivable because sales were increasing dramatically and cash flows were good. Our compensation policies contributed to our lack of effort related to collections as employees were motivated to pay more attention to new orders. In addition, there are a large number of national holidays in China during the first half of the year. Since most of our customers are in the retail trade, our customers typically hold on to cash longer during the first half of the year and use the cash for internal purposes instead of making timely payments to vendors under the granted credit terms. This cycle tends to increase the aging of accounts receivable during the first half of the year. During the first half of 2005, our efforts were focused on our products, on generating new sales and on obtaining financing, which resulted in less effort directed towards collecting accounts receivable. As a result, the aging of our accounts receivable increased significantly during the six months ended June 30, 2005. We realized that a stronger effort was needed on collection activities and our lack of focus on collections caused collectability of past due receivables to come into question and resulted in significant bad debts during that period.

Since September 2004, we have been focusing our sales efforts more on small to medium-sized customers rather than on larger, key customers, in order to broaden coverage nationally and to decrease fluctuations in cash flows from customers. These changes have improved collection of accounts receivable because we typically do not grant smaller customers long credit terms like we have granted to larger customers. In 2006, we saw an improved collection of accounts receivable and less bad debts.

We have developed standardized, turnkey products and standardized implementation processes for small to medium sized customers which are intended to decrease costs and save time for us and for customers during implementation of our software products. A significant portion of our bad debts have been from our larger, key customers. Our management has modified our method of serving our larger customers to use a three-month implementation cycle for determining and fulfilling the customer's needs. We believe this effort will shorten the time required to complete contracts with these customers, obtain their acceptance of our products and enable us to collect payments from these key customers more consistently.

We have provided additional training for our sales personnel and our implementation team to help them focus on the relationship between the need to identify customers' software requirements while meeting our cash flow requirements and collecting accounts receivable under the credit terms provided to the customers. Beginning in 2006, we provided our key sales and implementation personnel with a compensation bonus plan that is based upon cash collections from their respective customers.

These measures have been implemented so we will be able to consistently enforce the credit terms provided to our customers. However, there is no assurance that these efforts will be successful. If we are unable to enforce our credit terms in the future or if other identified changes to our sales and collection efforts are not successful, our cash flows from operating activities and our cash balance will decrease and the results of our operations will decline.

We have provided for doubtful accounts based on the aging of accounts receivable, with higher allowance percentages for older receivables. The factors used to compute our estimate of bad debts are based on historical experience and have been modified based upon general economic conditions. The estimate of the allowance is reasonably likely to change in the future. Since the allowance for doubtful accounts is based on matters that are highly uncertain, the allowance is highly sensitive to changes in the economy in China, our clients' acceptance of and satisfaction with our software and services, and the terms granted to clients to pay for the products and services. Each of these factors could have a material effect upon the estimated allowance for doubtful accounts, although we are not aware of the specific sensitivity of the allowance to any of these factors. As an example, if the aging of accounts receivable increases to be over one year, the allowance for doubtful accounts would likely increase by 70% to 100% of accounts receivable and there would be significant write offs of accounts receivable older than one year. The actual collectability of our accounts receivable, however, could differ from our current estimates, and that difference could adversely affect our financial position, results of operation or liquidity in the future.

Stock-Based Compensation

Through December 31, 2005, we have accounted for stock options issued to directors, officers and employees under Accounting Principles Board Opinion No. 25 and related interpretations (“APB 25”). Since January 1, 2006, we have accounted for stock options at their fair value in accordance with SFAS 123R. We account for options and warrants issued to non-employees at their fair value in accordance with SFAS No. 123, “Accounting for Stock-Based Compensation” (“SFAS 123”). We did not recognize any compensation cost during the years ended December 31, 2005 or 2006 from stock-based compensation.

In 2007, the Company granted 131,675 share options to its employees and directors. The Company recognizes the relevant share-based compensation expenses over the requisite service period.

We may use stock based compensation more extensively in the future to reward our employees and encourage loyalty to help our company grow. This could increase expenses related to stock-based compensation in the future.

Property and Equipment

We depreciate property and equipment on a straight-line basis over their estimated useful lives, which range from ten years for motor vehicles and five years for purchased software and communication and office equipment to three years for leasehold improvements. These estimated lives have been reasonably accurate in the past and have been based on historical experience and the estimated useful lives of similar assets by other software companies. These estimates are reasonably likely to change in the future since they are based upon matters that are highly uncertain such as the general economy, potential changes in technology and estimated cash flows from the use of these assets. Should any of these changes in the estimated lives of property and equipment occur, their remaining carrying value of ¥2,065,040 at December 31, 2007 could be depreciated completely in one year.

Intangible Assets

We charge all of our development costs to research and development until we have established technological feasibility. We acknowledge technological feasibility of our software when a detailed program design has been completed, or upon the completion of a working model. Upon reaching technological feasibility, we capitalize additional software costs until the software is available for general release to customers. Although we have not established a budget or time table for software development, we anticipate the need to continue the development of our software products in the future and the cost could be significant. We believe that, as in the past, the costs of development will result in new products that will increase revenue and therefore justify costs. There is, however, a reasonable possibility that we may be unable to realize the carrying value of our software, and the amount not so realized may adversely affect our financial position, results of operation or liquidity in the future.

We amortize the cost of intangible assets over the shorter of four years or the estimated period of realization of revenue from the related software. The estimated life of our software is based upon historical usefulness of similar software products and the rate of change in technology in general. Our estimate of the useful lives of our software has been reasonably accurate in the past, but it is reasonably likely to change in the future due to the highly uncertain nature of this estimate. Should economic conditions change or technological advances occur rapidly, our estimate of the useful lives of our software products could decline quickly, which would result in recognition of increased amortization.

Cost of Revenue

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

Valuation of Long-Lived Assets

We review the carrying values of our long-lived assets for impairment whenever events or changes in circumstances indicate that they may not be recoverable. When such an event occurs, we project undiscounted cash flows to be generated from the use of the asset and its eventual disposition over the remaining life of the asset. If projections indicate that the carrying value of the long-lived asset will not be recovered, we reduce the carrying value of the long-lived asset by the estimated excess of the carrying value over the projected discounted cash flows. In the past, we have not had to make significant adjustments to the carrying values of our long-lived assets, and we do not anticipate a need to do so in the future. However, circumstances could cause us to have to reduce the value of our capitalized software at a more rapid rate 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 by a material amount. The amount of possible change is discussed above under *Property and Equipment* and *Intangible Assets*.

Significant Trends and Developments in Our Business

Annual Guidance for 2008. The following summarizes our annual guidance for 2008 and includes ranges for total revenues that we believe are realistic and achievable:

	Guidance for 2008	
	Low End	High End
Total Revenues(in US\$)	\$19 million	\$20 million
Growth Rate over 2007	65%	74%

We currently have deferred contracts with unrecognized revenues of approximately US\$10.2 million. Based upon our robust organic growth, development of innovative business models and selective strategic acquisitions, we expect 2008 total revenues to be in the range of approximately US\$19 to \$20 million, representing annual growth of 65 to 74% over 2007. This forecast is a current and preliminary view and is subject to change.

It is normal for our business to experience quarterly fluctuations and as result, we do not plan to provide quarter-to-quarter guidance during 2008. We remain focused on delivering year-over-year growth and will only revise our annual guidance, as necessary during the course of the year.

We believe we are currently able to offer a one-stop breadth and depth of vertically focused solutions to the front-end supply chain market.

In April 2008 we acquired Proadvancer Systems Inc. (“Proadvancer”), a leading provider of logistics software and services in Mainland China and Asia. Proadvancer has 40 employees. The transaction is expected to grow our 2008 earnings per share. The acquisition has provided cross-selling opportunities for Proadvancer’s advanced optimization logistics solutions in our existing retail customer base and enabled us to significantly expand our presence with manufacturers, wholesalers and distributors.

We will continue to actively look for strategic acquisition opportunities in 2008. We have substantially completed the integration of the sales, customer support, consulting services and administrative functions from these acquisitions and have made significant progress in our plans for the integration of our combined solution suite and operating platform. As a result, we believe we are now ready to undertake another acquisition and are actively looking for strategic acquisition opportunities in 2008.

Summary of 2007 Results

During the year, we saw record full-year revenue of approximately RMB84.1 million, delivering top-line growth of over 76% year over year and exceeding revenue guidance. EBITDA increased 103% year-over-year to RMB21.1 million.

Our performance in the fourth quarter of 2007 represents strong operational and acquisition growth in software and software related service revenues. A well-balanced contribution from all regions of China and solid performances from our traditional and focus industries of retail and consumer goods also contributed to the results.

Full Year 2007 Financial Results Highlights

- 2007 total revenues were RMB84.1 million, an increase from RMB47.8 million of 76% over 2006
- 2007 service fee income was RMB26.5 million, an increase from RMB6.6 million of 301% over 2006
- 2007 gross profit was RMB38.1 million, an increase from RMB25.0 million of 52% over 2006
 - 2007 gross margin was 45%, compared to 52% in 2006
- 2007 EBITDA was RMB21.1 million, an increase from RMB11.0 of 92% over 2006
- 2007 net loss was RMB27.5 million, a decrease from net income RMB8.1 million of 439% over 2006
 - 2007 adjusted net income (non-GAAP) was RMB18.1 million, an increase of 67% over 2006.
- Diluted losses per share were RMB10.23; non-GAAP adjusted diluted earnings per share were RMB6.74.

The net loss in 2007 was primarily due to one-time conversion expenses related to a US\$10 million convertible note completed in October 2007.

EBITDA is not a measure of financial performance under GAAP. The EBITDA figure as calculated by us is net income before depreciation and amortization, interest expense (net of interest income), income tax expense, share-based compensation, income on investment, foreign currency exchange loss, and minority interest in earnings.

Reconciliation of reported net income to EBITDA

	(in millions of RMB)
Reported 2007 net income	(27.48)
Adjustment:	
Depreciation expense	0.50
Amortization of acquired technology	8.23
Amortization of software costs	2.89
Share-based compensation	2.66

Interest expense, net of interest income	35.24
Income on investment	(0.99)
Foreign currency exchange loss	0.20
Minority interest in earnings	(0.03)
Income tax expense	-
2007 EBITDA	21.22

We define adjusted net income (non-GAAP) as net income before depreciation and amortization, income tax expense, share-based compensation and interest expense-amortization of debt discount.

Reconciliation of reported net income to adjusted net income

	(in millions of RMB)
Reported 2007 net income	(27.48)
Adjustment:	
Depreciation expense	0.50
Amortization of acquired technology	8.23
Amortization of software costs	2.89
Share-based compensation	2.66
Interest expense-amortization of debt discount	31.32
Income tax expense	-
Adjusted 2007 net income	18.12

We delivered robust top-line growth and executed according to plan in 2007. During the year, we continued to grow organically while making strategic acquisitions that provide us with innovative new products that complement our core competencies. We believe our recently added SaaS, B2B and B2C business models and rapidly growing customer base give us a unique competitive advantage to further leverage our leading market position in China's front-end supply chain management industry.

Revenues

The following tables summarize the changes in the various components of revenues for the years ended December 31, 2007 and 2006.

	RMB		RMB		Change	% Change
	FY 2006	Percentage of Revenues	FY 2007	Percentage of Revenues		
Revenues						
Software sales	29,832,720	62.4%	41,360,165	49.2%	11,527,445	38.6%
Hardware sales	11,403,473	23.8%	16,198,402	19.3%	4,794,929	42.0%
Service fee income	6,607,337	13.8%	26,511,794	31.5%	19,904,457	301.2%
Total Revenues	47,843,530	100.0%	84,070,361	100.0%	36,226,831	75.7%

Software sales and total revenues increased 38.6% and 75.7%, respectively, in 2007 compared to 2006.

We believe our competitive position remains strong, and we continue to maintain consistent competitive win rates in our markets. Software sales to new customers increased RMB8.9 million or 102% in 2007 compared to 2006. In addition, software sales to new customers, as a percentage of total software sales, increased to 35% in 2007 from 21% in 2006. We continue to have strong back selling opportunities with our install-base customers where sales increased 23% in 2007 compared to 2006.

Software sales performance during 2007 continued to reflect the positive impact of the organizational changes that were made to six Strategy Business Areas ("SBA") teams during the second half of 2007. These changes significantly increased our business development efforts and improved the sales force execution and sales performance in every SBA. We have a solid pipeline of sales opportunities in the grocery, department stores, specialty stores, FMCG, key accounts and small and medium business software deals. The retail software sector is our largest sector and, as a

result, we believe the software sales performance in the retail industry will continue to be a key driver of our overall success.

We continue to experience large fluctuations in quarterly software sales performance in China.

Typically the first six months of every year are weak for Chinese retail followed by a significant increase in strength over the remaining six months.

· First half of the year has been weak in previous years and was again weak in 2008.

· We still see increasing retail sales and expenditures on front-end supply chain management software and systems.

2008 Revenue Guidance is in the range of US\$19-20 million, 65-74% year over year.

Although the retailing sector is generally strongest in the second half of the year, we believe we will continue to show strong revenue and market share growth in the seasonally weak first half. We plan to maintain our competitive position and expand market share through organic growth in the front chain market, particularly in the retail and FMCG markets. Although the retailing sector is generally strongest in the second half of the year we continued to show strong revenue and market share growth in the seasonally weak first half.

Service fee income revenues increased 301.2% to RMB26.5 million in 2007 compared to 2006 and represented 31.5% and 13.8% of total revenues, respectively in these periods. We believe our large annual recurring maintenance revenue base provides significant stability and enhances our ability to maintain profitable operations.

Research and development decreased RMB90,296 or 17% to RMB436,923 in 2007 compared to 2006. The decrease is due primarily to a decrease in average headcount in the R&D department, which resulted in a decrease in salaries and related benefits.

General and administrative expense increased RMB11.7 million or 160% to RMB18.9 million in 2007 compared to 2006. The increase is due primarily to a 27% increase in average headcount in this department, which resulted in a RMB3.2 million increase in salaries and related benefits, a RMB2.5 million increase in stock-based compensation and a RMB1.1 million increase in legal and accounting costs as a result of four acquisitions and the compliance costs incurred to implement internal control systems required by the 2002 Sarbanes-Oxley Act.

Selling and distribution expenses increased RMB2.5 million or 27% to RMB11.8 million in 2007 compared to 2006. The increase is due primarily to an increase in average headcount in this department, and an increase in sales commissions due to the 52% increase in software license sales and a RMB58,291 increase in stock-based compensation due to our improved operating performance. As of December 31, 2007 we had 87 employees in the sales and marketing function, compared to 58 at December 31, 2006, including quota carrying sales associates and related sales management. We plan for modest increases in our overall investment in sales and marketing in 2008.

The provision for doubtful accounts increased RMB2.6 million to RMB4.7 million in 2007 compared to 2006 primarily due to worsened collection efforts and the higher level of revenues recorded in 2007 compared to 2006 as well as a number of other factors including the percentage of total revenues that comes from software license sales which typically have installment payment terms, seasonality, shifts in customer buying patterns or industry mix of our customers, the timing of annual maintenance renewals, lengthened contractual payment terms in response to competitive pressures, the underlying mix of products and services, and the geographic concentration of revenues.

Our financial position is solid and we are generating positive cash flow from operations. Cash balances at December 31, 2007 and 2006 were RMB67.2 million and RMB61.5 million, respectively. We generated RMB18.4 million in cash flow from operations in 2007 compared to RMB12.6 million in 2006.

We expect cash flow from operations to be positive in 2008. We also believe our cash position is sufficient to meet our operating needs for the foreseeable future.

Results of Operations

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

	Chinese Yuan (Renminbi)			U.S. Dollars For the Year Ended December 31, 2007 (Unaudited)
	For the Years Ended December 31,			
	2005	2006	2007	
Revenues				
Software sales	¥ 25,177,810	¥ 29,832,720	¥ 41,360,165	\$ 5,669,970
Hardware sales	10,241,749	11,403,473	16,198,402	2,220,602
Service fee income	3,824,442	6,607,337	26,511,794	3,634,441
Total Revenues	39,244,001	47,843,530	84,070,361	11,525,013
Cost of revenues				
Cost of software	7,815,315	7,665,866	15,412,948	2,112,926
Cost of hardware	8,681,619	10,548,649	12,587,418	1,725,580
Cost of service fee income	901,973	1,887,676	6,857,161	940,032
Amortization of acquired technology	-	-	8,231,375	1,128,420
Amortization of software costs	2,305,835	2,727,198	2,889,118	396,063
Total Cost of Revenue	19,704,742	22,829,389	45,978,020	6,303,021
Gross Profit	19,539,259	25,014,141	38,092,341	5,221,992
Operating Expenses				
Research and development	93,814	527,219	436,923	59,897
General and administrative	7,811,742	7,298,980	18,957,385	2,598,824
Selling and distribution expenses	5,790,675	9,210,975	11,755,517	1,611,537
Total Operating Expenses	13,696,231	17,037,174	31,149,825	4,270,258
Profit from operations	5,843,028	7,976,967	6,942,516	951,734
Interest income	110,268	141,230	3,533,326	484,376
Interest expense	(483,033)	(13,471)	(841,277)	(115,329)
Interest expense- amortization of discount on notes payable	-	-	(31,320,836)	(4,293,702)
Interest expense- amortization of deferred loan costs	-	-	(6,610,234)	(906,182)
Income on investments	-	-	985,085	135,043
Foreign currency exchange loss	-	-	(201,847)	(27,671)
Minority interest in loss of consolidated subsidiary	-	-	32,520	4,458
Net Income (loss)	¥ 5,470,263	¥ 8,104,726	¥ (27,480,747)	\$ (3,767,273)
Earnings (loss) per ordinary share				
Basic	¥ 4.43	¥ 4.80	¥ (10.23)	\$ (1.40)

Diluted	¥	3.50	¥	4.43	¥	(10.23)	\$	(1.40)
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The following table sets forth certain selected financial information expressed as a percentage of total revenues for the periods indicated and cost of revenues and product development expenses expressed as a percentage of the related revenues: In addition, the table sets forth a comparison of selected financial information, expressed as a percentage change between 2007 and 2006.

	RMB		RMB		Change	
	FY 2006	Percentage of FY 2006 Revenues	FY 2007	Percentage of FY 2007 Revenues	FY 2006 v FY 2007	% Change
Revenues						
Software sales	29,832,720	62.4%	41,360,165	49.2%	11,527,445	38.6%
Hardware sales	11,403,473	23.8%	16,198,402	19.3%	4,794,929	42.0%
Service fee income	6,607,337	13.8%	26,511,794	31.5%	19,904,457	301.2%
Total Revenues	47,843,530	100.0%	84,070,361	100.0%	36,226,831	75.7%
Cost of Revenues						
Cost of software	7,665,866	16.0%	15,412,948	18.3%	7,747,082	101.1%
Cost of hardware	10,548,649	22.0%	12,587,418	15.0%	2,038,769	19.3%
Cost of service fee income	1,887,676	3.9%	6,857,161	8.2%	4,969,485	263.3%
Amortization of acquired technology	0	0.0%	8,231,375	9.8%	8,231,375	N/A
Amortization of software costs	2,727,198	5.7%	2,891,118	3.4%	161,920	5.9%
Total Cost of Revenue	22,829,389	47.7%	45,978,020	54.7%	23,148,631	101.4%
Gross Profit	25,014,141	52.3%	38,092,341	45.3%	13,078,200	52.3%
Operating Expenses						
Research and development	527,219	1.1%	436,923	0.5%	(90,296)	(17.1)%
General and administrative	7,298,980	15.3%	18,957,385	22.5%	11,658,405	159.7%
Selling and distribution expenses	9,210,975	19.3%	11,755,517	14.0%	2,544,542	27.6%
Total Operating Expenses	17,037,174	35.6%	31,149,825	37.1%	14,112,651	82.8%
Profit from operations	7,976,967	16.7%	6,942,516	8.3%	(1,034,451)	(13.0)%
Interest income	141,230	0.3%	3,533,326	4.2%	3,392,096	2,401.8%
Interest expense	(13,471)	-	(841,277)	(1.0)%	(827,806)	6,145.2%
Amortization of discount on notes payable	-	-	(31,320,836)	(37.3)%	(31,320,836)	N/A
Amortization of loan costs	-	-	(6,610,234)	(7.9)%	(6,610,234)	N/A
Income (loss) on investments	-	-	985,085	1.2%	985,085	N/A

Foreign exchange loss	-	-	(201,847)	(0.2)%	(201,847)	N/A
Minority interest in loss of consolidated subsidiary	-	-	32,520	0.0%	32,520	N/A
Net Income(loss)	8,104,726	16.9%	(27,480,747)	(32.7)%	(35,585,473)	(439.1)%
Earnings (loss) per ordinary share						
Basic	4.80		(10.23)		(15.02)	(313.2)%
Diluted	4.43		(10.23)		(14.65)	(331.1)%

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

	RMB		
	FY 2006	Gross Margin for FY 2006	FY 2007
			Gross Margin for FY 2007
Revenues			
Software sales	29,832,720		41,360,165
Hardware sales	11,403,473		16,198,402
Service fee income	6,607,337		26,511,794
Total Revenues	47,843,530		84,070,361
Cost of Revenues			
Cost of software	7,665,866	74.3%	15,412,948
Cost of hardware	10,548,649	7.5%	12,587,418
Cost of service fee income	1,887,676	71.4%	6,857,161
Amortization of acquired technology	0		8,231,375
Amortization of software costs	2,727,198		2,891,118
Total Cost of Revenue	22,829,389		45,978,020
Gross Profit	25,014,141	52.3%	38,090,341
			45.3%

Year Ended December 31, 2007 Compared to Year Ended December 31, 2006

The operating results for 2007 only include the impact of Royalstone from the date of acquisition (i.e., August 1, 2007) through December 31, 2007.

Revenue

Total revenue. Total revenue is comprised of software sales, hardware sales and service fee revenue. Total revenue increased 76% from RMB47.8 million in 2006 to RMB84.1 million in 2007.

Software sales. Our software sales increased 39% from RMB29.8 million in 2006 to RMB41.4 million in 2007. This increase is primarily attributable to our decision to focus our marketing efforts upon small and medium-sized businesses in our marketplace and the impact of our four acquisitions. The number of small and medium-sized businesses in China has grown dramatically, and we expect to see this trend continue in future fiscal periods. In addition, we also believe that as such businesses mature their need for our products and services will correspondingly increase. These customers are essential to the growth and development of our company. We expect to witness more intensive competition in the Chinese retail market in the near future.

Sales contracts in 2007 increased 135% to RMB129.3 million from 2006. Total new orders in 2007 increased 147% to 892 from 361 in 2006.

Software sales from acquisitions were 23% of the total software sales:

A. In January 2007, we acquired Nanjing Tangcheng Network Technology Development Corporation, a leading regional independent software vendor focusing on Eastern China's retail market.

B. In May 2007, we acquired a 20% ownership interest in Beijing Wangku Hutong Information Technology Co., Ltd., allowing us to offer a leading B2B platform that connects retailers and small to medium-sized suppliers.

C. In August 2007, we acquired Crownhead and its subsidiary Guangzhou Royalstone, significantly improving our market share among China's top 100 retailers and international retail accounts.

D. In November 2007, we acquired a majority stake in Beijing Fuji Biaoshang Information Technology Inc., a company that provides SaaS and B2B supply chain management platform to connect suppliers and retailers and a B2C platform for retailers.

E. We have penetrated new markets in addition to maintaining our competitive position and expanding our market share through organic growth in the front chain market, particularly in the retail and FMCG markets. We are also leveraging our existing client base (over 770 retailers and over 200 distributors) into new areas such as B2B service between these retailers and their suppliers and exploring new media business based on the consumer community.

Hardware sales. Our hardware sales increased 42% from RMB11.4 million in 2006 to RMB16.2 million in 2007. In recent years, we decided to de-emphasize hardware sales in an increasingly competitive hardware sales market. The margins that we are able to achieve from hardware sales have diminished significantly. As a relatively young company, we don't believe that we are in a business position to leverage a low margin, high volume sales sector. Consequently, while we will continue to sell computer hardware in connection with our software sales, we have not emphasized and do not expect to emphasize hardware sales as part of our marketing and sales strategies. Nonetheless, there may be occasions where we may profitably include hardware in projects that we complete for clients that possess superior credit. This occurred in 2007, when several customers required the purchase of new hardware for integration into their software products. As a result, we experienced an increase in hardware sales in comparison to 2006. Over time, however, we expect to experience reduced hardware sales as we focus our efforts on higher margin areas of our business. We expect that, in the short-term, we may fail to capture additional revenues for hardware sales, but our management believes that the long-term health of our company is substantially dependent upon the licensing of our software products. As a result of our decision to de-emphasize hardware sales, we have altered our revenue structure in an effort to enhance our software sales and service fees.

Service fee income. Our service fee income increased 301% from RMB6.6 million in 2006 to RMB26.5 million in 2007. This increase is primarily attributable to the following factors:

A. We generated service fee income from SaaS in 2007. We will focus on using this method to deliver our software to small and medium-sized businesses in China, especially in specialty stores, in future fiscal periods;

B. The free service periods for many contracts previously signed began to expire during 2007, and further services are charged on an annual basis, resulting in increased service fee income. Maintenance services revenues increased 60% in 2007 compared to 2006; and

C. The increase in software sales provided additional opportunities for our company to generate service fees associated with such software.

As we continue to refine our business model, we expect to continue to experience increased service fees.

Cost of revenues

Cost of software. Cost of software consists of wages, materials, handling charges and other expenses associated with the development of our software. Cost of software essentially increased 101.1% from RMB7.7 million in 2006 to RMB15.4 million in 2007. This increase resulted from our expanded sales force in key geographic markets. We will continue to pursue marquee global accounts in China including B&Q-Kingfisher, Johnson & Johnson, Jusco and Aeon as well as leading domestic software providers such as Beijing Jade Bird Sihua and others. We are now supplying solutions to over 1,000 clients, which represents a 100% increase over our 500 clients in 2006. As such, these projects require more integration services to reach completion. Over time, however, we believe that as our customer base grows, our cost of license and related maintenance revenue will increase as we hire personnel for our customer support organization. As a percentage of software sales, cost of software was 26% for 2006 and 37% for 2007. This increase was primarily attributable to the fact that in 2007, we sold more software products and third party royalties. We expect that as we continue to develop and license newer products and have more sales on software for which we pay royalties, cost of software as a percentage of software sales will likely increase.

Cost of hardware. Cost of hardware consists primarily of fees for third party hardware products that are utilized in connection with our software products. Cost of hardware increased by 19.3% from RMB10.5 million in 2006 to RMB12.6 million in 2007. This increase resulted directly from the increase in hardware sales we experienced in 2007. As a percentage of hardware sales, cost of hardware was 93% in 2006 and 78% in 2007. This decrease was primarily attributable to our selective high margin deal in hardware sales.

Cost of service fee income. Cost of service fee income includes salaries and related expenses of our consulting organization and an allocation of our facilities and depreciation expenses. Cost of services increased 263% from RMB1.9 million for 2006 to RMB6.9 million for 2007. The increase resulted directly from the dramatic increase in our service fee income and the increased size in our labor force necessary to fulfill our service obligations.

Amortization of acquired technology. The amortization of acquired software technology in 2007 resulted from amortization of software technology acquired in the four acquisitions.

Amortization of software costs. Intangible assets represent the cost of computer software we acquired and developed. These costs are amortized over the useful life of the software. Costs included are mostly salary and employee benefits for those involved in the development of the software. Amortization expense increased 5.9% from RMB2.7 million in 2006 to RMB2.9 million in 2007. The increase is due to the increase of software products being amortized at December 31, 2007. Because we are continually developing our products, we expect amortization to increase in future years based upon our success in developing new products for our customers.

Operating expenses

Research and development. Research and development expenses, which are expensed as incurred, consist primarily of salaries and related costs of our engineering organization; consultants; and an allocation of our facilities and depreciation expenses. We believe that our success depends on continued enhancement of our current products and our ability to develop new technologically advanced products that meet the increasingly sophisticated requirements of our customers. Research and development expenses decreased 17.1% from RMB527,219 in 2006 to RMB436,923 in 2007. The decrease in these expenses was primarily attributable to the fact that in 2007 we focused our attention on upgrading software products to meet the evolving complexities of our customers' businesses. We did not focus on research and development in 2006. Rather, we opted to gain market acceptance of our software products that were developed in previous fiscal periods. Research and development represented 1.1% of total revenue for 2006 and 0.52% of total revenue for 2007.

General and administrative. General and administrative expenses consist primarily of costs from our finance and human resources organizations; third party legal and other professional services fees; and an allocation of our facilities costs and depreciation expenses. General and administrative expenses increased 160% from RMB7.3 million in 2006 to RMB19.0 million in 2007. The increase in general and administrative expenses was attributable to a 27% increase in average headcount, which resulted in a RMB3.2 million increase in salaries and related benefits, a RMB2.5 million increase in incentive compensation due to the Company's improved operating performance and a RMB1.1 million increase in legal and accounting costs as result of the larger combined company and compliance costs incurred to implement the internal control system required by the 2002 Sarbanes-Oxley Act.

General and administrative expenses were 15% of total revenue for 2006 and 22% of total revenue for 2007. This increase in general and administrative expenses as a percentage of revenue was attributable to the increase of general and administrative expenses noted above. We expect that as a public company we will likely experience an increase in general and administrative expenses as a percentage of total revenues in future fiscal periods. These expenses include additional legal and accounting fees and public relations costs.

Selling and distribution expenses. Selling and distribution expenses consist primarily of salaries and related costs of our sales and marketing organization: sales bonuses; costs of our marketing programs, including public relations, advertising, trade shows, and collateral sales bonuses; and an allocation of our facilities and depreciation expenses. Selling and distribution expenses increased 27.6% from RMB9.2 million in 2006 to RMB11.8 million in 2007. The increase in selling and distribution expenses was due to additional labor costs associated with the expansion of our sales force. During this time period we added 26 employees to our sales department. We anticipate that sales and marketing expenses will increase to support our intended expansion of our sales and marketing organization. Selling and distribution expenses were 19% of total revenue for 2006 and 14% of total revenue for 2007. This decrease in selling and distribution expenses as a percentage of revenue was attributable to the fact that the costs associated with our larger sales department were offset by increased sales that we could recognize in 2007.

Other Expenses

Interest Income. Our interest income represents the interest accrued as a result of bank deposits. Our interest income increased 24 times from RMB141,230 in 2006 to RMB3.5 million in 2007. The increase is primarily due to interest earned in 2007 on the proceeds of our initial public offering.

Interest Expense. Our interest expense increased dramatically from RMB13,471 in 2006 to RMB38.8 million in 2007. This increase primarily resulted from the interest on the Convertible Notes issued to institutional investors on March 13, 2007.

Holding Company Structure

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

B. Liquidity and Capital Resources

The working capital balances at December 31, 2007 and December 31, 2006 were RMB50.7 million and RMB56.4 million, respectively.

We expect cash flow from operations to be positive in 2008. We also believe our cash position is sufficient to meet our operating needs for the foreseeable future.

Operating activities provided cash of RMB18.5 million in 2007 compared to RMB12.6 million in 2006. The principle sources of our cash flow from operations are net income adjusted for depreciation, software amortization, the amortization of discounts on notes payable, the amortization of deferred loan costs and compensation expenses for directors and employees.

Investing activities used cash of RMB68.3 million in 2007 and RMB3.6 million in 2006. The primary use of cash in investing activities in 2007 included RMB53.2 million in payment of direct costs related to the Royalstone and other acquisitions and RMB1.5 million in capital expenditures.

Financing activities provided cash of RMB58.1 million in 2007 and RMB44.3 million in 2006. Financing activities in 2007 included RMB69.1 million of proceeds from the convertible notes completed in March, the proceeds from the warrants issued to the underwriter in the IPO and the RMB12.0 million payment of the make-whole obligation on the convertible notes. Financing activities in 2006 included proceeds of RMB47.1million from the IPO and the repayment of RMB2.8 million the short-term loans.

We believe our cash and cash equivalents and net cash provided from operations will provide adequate liquidity to meet our normal operating requirements for the foreseeable future. A major component of our positive cash flow is the collection of accounts receivable and the generation of cash earnings.

Indebtedness

On March 13, 2007, we entered into and closed a Securities Purchase Agreement with three funds associated with two institutional investors (the "PIPE Investors"), pursuant to which we issued and the PIPE Investors purchased \$10,000,000 of our convertible notes (the "Convertible Notes"), 184,077 Series A Warrants (the "Series A Warrants") and 230,097 Series B Warrants (the "Series B Warrants"). The Series A and Series B Warrants were issued in proportion to the amount of Convertible Notes purchased by each PIPE Investor. In addition, our placement agent, Westminster Securities Corp. ("WSC") and certain of its employees received, in the aggregate, 73,291 Placement Agent Warrants (the "Placement Agent Warrants" and, together with the Series A and Series B Warrants, the "PIPE Warrants") with terms substantially similar to those issued to the PIPE Investors.

Other than as discussed in this section, there has not been any material change in our indebtedness, commitments and contingent liabilities since December 31, 2006.

C. Research and Development, Patents and Licenses, etc.

We charge all of our development costs to research and development until we have established technological feasibility. We acknowledge technological feasibility of our software when a detailed program design has been completed, or upon the completion of a working model. Upon reaching technological feasibility, we capitalize additional software costs until the software is available for general release to customers. Although we have not established a budget or time table for software development, we anticipate the need to continue the development of our software products in the future and the cost could be significant. We believe that, as in the past, the costs of development will result in new products that will increase revenue and therefore justify costs. There is, however, a reasonable possibility that we may be unable to realize the carrying value of our software, and the amount not so realized may adversely affect our financial position, results of operation or liquidity in the future

Research and development expenses, which are expensed as incurred, consist primarily of salaries and related costs of our engineering organization; consultants; and an allocation of our facilities and depreciation expenses. We believe that our success depends on continued enhancement of our current products and our ability to develop new technologically advanced products that meet the increasingly sophisticated requirements of our customers. Research and development expenses decreased 17.1% from RMB0.5 million in 2006 to RMB0.4million in 2007. The decrease in these expenses was primarily attributable to the fact that in 2007 we focused our attention on upgrading software products to meet the evolving complexities of our customers' businesses. We did not focus on research and development in 2006. Rather, we opted to gain market acceptance of our software products that were developed in previous fiscal periods. Research and development represented 1.1% of total revenue for 2006 and 0.5% of total revenue for 2007.

D. Trend Information

In the first quarter of 2008, our new sales contracts increased 102% to RMB18 million from RMB8.8 million in the first quarter of 2007. Total new orders increased 350% to 117 order from 26 in the first quarter of 2007.

Service sales contracts increased 663% to RMB8.6 from RMB1.1 million in the first quarter of 2007. It is our policy to provide free maintenance for our products in the first year of operation. After the first year, we start to charge maintenance and support fees. This allows us to expand partnerships with existing customers by delivering more value.

During the first quarter of 2008, we placed a strong emphasis on integrating our acquisitions completed in 2007 into a single platform and smoothly incorporating new cultures into our company. This organic growth strategy has translated into a 10% increase in gross margins, if we exclude amortization of the acquired technology.

Specifically, we have been working to strengthen our back-office resource integration in order to reduce headcount.

We are working to improve our processes to decrease software implementation costs. At the same time, we are condensing multiple versions of similar software into full-featured, single versions, which we believe will reduce our R&D costs in the long-term.

During the first quarter of 2008, we also organized our software business into six vertical strategic business areas. These areas will focus on delivering software that is optimized for the specific needs of specific market segments. The new areas are: Department Store and Shopping Mall, Grocery and Supermarket, Specialty Retail, Fast-Moving Consumer Goods, Small-to-Medium Business and Key Accounts.

We are excited about our business to business services, including www.bfuture.com.cn and www.jindian.com.cn that will go to market in 2008 to increase value for retailers and their suppliers, and we expect our B2B service business to contribute an increasing amount to our full-year 2008 revenue.

During the quarter, we completed the co-development of our B2B SaaS platform with IBM China Research Lab and IBM Global service team, which we began in October, 2007. In April, we launched this product as our www.bfuture.com.cn website, and Wangfujing Department Store Group, one of the largest department stores in China, became the first to use the online supply chain management platform. Since the launch of the website, we have brought over 1,000 suppliers to the platform, allowing them to exchange business information, arrange payment online and access purchase orders, returns, payment status, inventory levels and sales data analysis. In the future, we plan to bundle our enterprise resource planning platform into the [bfuture.com.cn](http://www.bfuture.com.cn) website as well. We are very excited about our first SaaS products and the synergies we see with our current software clients. While our SaaS model did not contribute to first quarter earnings, we believe that our SaaS products may contribute as much as \$1.2 million to our full-year 2008 revenue.

In April 2008, we launched our www.jindian.com.cn website in conjunction with Wangku. China Jindian is a B2B website for small to medium-size suppliers and retailers. The goal of the website is to help local suppliers enter into stores across China by giving them a platform to connect to retailers nationwide. We will complete the 100-day public pilot test of the website in August, but in the meantime, we are gathering valuable information on the specific requirements of both suppliers and retailers that we expect will help us maximize the value of the user experience for the final website.

Also in April 2008, we acquired Proadvancer Systems, a leading logistics company operating in China and Asia. The acquisition has already brought us two significant contracts to retrofit Chaopi Trading Company's distribution center and provide logistics software licenses and digital picking equipment to WuShang BulkSale Chain Company. The acquisition has given us a powerful logistics offering, and we expect Proadvancer, which is now called eFuture Logistical Business Unit, to be accretive in the third quarter. Additionally, we plan to have completed the major integration of our acquisition of Proadvancer Systems by August and expect the rest of our integration will proceed smoothly and provide valuable, long-term synergies.

In May 2008, we completed the acquisition of a 51% stake in Wangku, a leading e-commerce company in China with a focus on the retail and fast-moving consumer goods industries. We expect Wangku to contribute about 15% to 20% to our full-year 2008 revenue.

As we push forward in 2008, we plan to leverage our extensive relationships throughout China's retail industry to begin offering B2C software-as-a-service, while continuing the rollout of new software solutions and pushing the development and adoption of our B2B SaaS platform. In the third quarter, we plan to deploy a B2C solution that will allow our clients to launch their own e-commerce websites.

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. In addition, we have not entered into any derivative contracts that are indexed to our own shares and classified as shareholders' equity, or that are not reflected in our financial statements. Furthermore, 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, 2007:

	Payments Due By Period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Convertible Notes, Net of Debt Discount	¥ 10,419,491	-	-	¥ 10,419,491	-
Capital (Finance) Lease Obligations					
Operating Lease Obligations	¥ 2,700,559	¥ 2,337,662	¥ 362,897	-	-
Purchase Obligations	¥ 26,115,895	¥ 19,698,925	¥ 6,416,970	-	-
Make-Whole Obligation	¥ 10,454,198	¥ 1,164,116	¥ 6,397,605	¥ 2,892,477	-
Total	¥ 49,327,246	¥			