

THOMSON REUTERS STREETEVENETS

EDITED TRANSCRIPT

EFUT - Q4 and Full Year 2011 eFuture Information Technology
Inc.Earnings Conference Call and Webcast

EVENT DATE/TIME: MARCH 13, 2012 / 12:00PM GMT



CORPORATE PARTICIPANTS

Troe Wen *eFuture Information Technology Inc - Secretary of the Board*

Adam Yan *eFuture Information Technology Inc - Chairman & CEO*

Dehong Yang *eFuture Information Technology Inc - President*

Sean Zheng *eFuture Information Technology Inc - CFO*

CONFERENCE CALL PARTICIPANTS

John Banks *B&G Capital Management - Analyst*

PRESENTATION

Operator

Good evening, and thank you for standing by for eFuture's fourth quarter and full year 2011 earnings conference call. At this time, all participants are in a listen-only mode. After management's prepared remarks, there will be a question and answer session. Today's conference is being recorded.

I would now like to turn the meeting over to your host for today's conference, Ms Troe Wen, eFuture's Secretary of the Board.

Troe Wen - *eFuture Information Technology Inc - Secretary of the Board*

Hello, everyone. Welcome to eFuture's earnings conference call. We distributed our fourth quarter and full year 2011 earnings release last night, and a copy can be found on our website at www.e-future.com.cn.

Joining me on the call today are Adam Yan, Chairman and CEO; Dehong Yang, President; and Sean Zheng, CFO. Following their prepared remarks Adam, Dehong, and Sean will be available to answer your questions.

Before we continue, please note that the discussion today will contain forward-looking statements made under the Safe Harbor provisions of the US Private Securities Litigation Reform Act of 1995.

eFuture does not undertake any obligation to update any forward-looking statements, except as required under applicable law. Some of these risks are beyond the Company's control, and could cause actual results to differ materially from those mentioned in today's press release, and this discussion.

A general discussion of the risk factors that could affect eFuture's business and financial results will be included in certain filings of this Company with the Securities and Exchange Commission, including its annual report on Form 20-F.

As a reminder, this conference is being recorded. In addition, a webcast will be available on our website.

I will now turn the call over to Adam Yan.

Adam Yan - *eFuture Information Technology Inc - Chairman & CEO*

Good morning, and good evening. (interpreted) Thank you for joining us during our earnings conference call. I will now let my interpreter read my remarks. As you will have seen from our earnings release, our fourth quarter results exceeded guidance during what is traditionally our strongest quarter of the year.



The 13% top line growth we achieved, on a year-over-year basis, during both the fourth quarter and the full year, illustrates the fundamental strength of our revenue model, as increased revenue from our more stable service fee offering helped mitigate the impact on our software revenue of some of our larger clients, particularly in the grocery industry, postponing new store openings.

Last year, we successfully completed our delivery team restructuring, which was a major initiative designed to enable us to take on more projects, as well as to manage our cost base more effectively. The positive effects of this restructuring should be apparent from this year on, as we are now positioned to increase margins by achieving a more equal balance between our higher margin software revenue, and our more stable service fee income.

That said, even before the delivery team restructuring was complete, we still managed to achieve a 24% year-over-year decline in operating expenses during the fourth quarter 2011, despite industry-wide wage inflation.

Looking ahead, we expect revenue, in the short and midterm, to be driven primarily by product upgrades, and the development of new products within our established business lines. Nevertheless, we continue to invest in the development of additional new products and services that have the potential to contribute to revenue over the long term.

Our Cloud Service business is an example of this, and we are pleased with the progress we have made so far. We signed our first mobile Cloud Service client in December, and signed an additional client earlier this year, a major global food and beverage company. We now have a total user base of over 1,000 paying subscribers, and we are piloting the service with a number of consumer goods companies.

I believe this is a good start, considering we only launched the business in October last year. As a reminder, our Cloud Services offering is a mobile based sales force automation, or SFA platform, that is targeted at FMCG companies, and can be accessed via both Android and iPhone.

Sales reps can access real time information on replenishment and promotions while they're out on the road and can, therefore, work more effectively, and focus more intently on making sales.

Our mobile Cloud Service platform will help even out our revenue stream as it provides recurring revenue on a monthly basis. In terms of generating sales, we are using techniques such as microblogging and social networking to raise awareness, and to complement our traditional sales generation methods such as speaking at industry conferences, and making direct sales.

We believe this approach is positive for the margin potential of our Cloud Service business, and we will continue to focus on this method of revenue generation.

Before handing over to Dehong, to take you through some of our operational initiatives, I'd just like to briefly mention the share repurchase program, for which we secured shareholder approval at the end of December.

The \$2 million program is to be funded by working capital, and we look forward to executing on this program, depending on market conditions, and during open windows, as stipulated by relevant regulations.

During 2012 we plan to innovate further within the Cloud Services space, to explore its long-term revenue potential, while simultaneously solidifying our leading position within China's retail and consumer goods industry.

Our overall focus remains on driving top line growth, as well as investing to capture long-term opportunities within the growing mobile internet and social commerce market.

I will now ask Dehong to update you on some of the operational highlights.



Dehong Yang - *eFuture Information Technology Inc - President*

(interpreted) Thanks, Adam. My interpreter will now read my remarks.

I'd like to begin by updating you on some of our achievements relating to the delivery team restructuring that we completed in 2011. As you will remember, our delivery team carries out the important job of delivering software or services to clients, and, therefore, plays a crucial role in the completion of client contracts.

To further improve customer experience and enhance the value to clients of eFuture's projects and services, we established work processes, during the fourth quarter, to optimize workflow efficiencies between regional delivery teams and Company level technical support teams.

We also honed the team's ability to plan, organize, and manage resources, by putting over 80 project managers through training courses. In addition, the on and off the job training we have given to new joiners has resulted in them being able to quickly reach the required standard to carry out complex delivery work.

These enhancements to the efficiency and capability of our delivery team were complemented by the opening of a Shenzhen branch office during the fourth quarter. The opening of this additional office further extends our geographical reach, and brings us closer to clients, therefore enabling us to build a deeper rapport and increase the stickiness of our client base.

With the completion of our delivery team restructuring, we are well placed to take on more projects and execute them with greater levels of efficiency, and at lower cost than previously. We ultimately expect this restructuring to reduce inventory cycle time, and to have a positive effect on margins.

As well as completing the delivery team restructuring, we also have completed our product line integration initiative, which involves streamlining our product lines, in order to optimize profitability.

We now offer one main product line for each industry vertical, rather than several per vertical. And we have eliminated products that do not fit with our long-term strategy.

Finally, I'd like to update you on some of the external activities we've been involved with recently, as we seek to protect and enhance our reputation.

As you may remember, we celebrated the launch of our Cloud Service offering at the 13th China Retail Industry Convention and China Chain Store Expo, which was held in November 2011, and attended by senior executives from China's top 100 retailers, as well as industry experts and representatives from leading media outlets.

In addition, the official opening of our Shenzhen office provided an ideal opportunity to build relations with local clients, and raise our profile within the local community.

I'm pleased to report that the success of our profile raising activities was enhanced by the winning of awards for our superior service offering. Integrated IT service provider, Digital China, named eFuture best solution partner in the distribution industry for 2011, with the award being presented at the 2011 Mobile Application Alliance Forum in October.

We were also recognized as best logistics service provider in the business services sector at an event convened by the Chinese General Chamber of Commerce and the China Business Herald.

Awards such as these help e-Future cement its reputation for thought leadership, and for delivering innovative and attractive products and services.

We plan to continue attending similar industry events in 2012 and beyond, and in fact, we attended IBM's annual Partner World conference just last month.



That conference provides an invaluable platform for the continued exchange of ideas among other industry leading companies in our field, and helps solidify our strong relationship with IBM, which has been a strategic partner of ours since 1998.

Finally, we continued to invest in training during the fourth quarter, to ensure our management team is equipped to maximize the gains from recently completed and ongoing initiatives.

The training focused on leadership, management and project management, and was in addition to the delivery team training I mentioned earlier, and the more technical training we provide to our staff, on an ongoing basis.

We believe the benefits of investing in this type of training far outweigh the costs, as the growth of our organization and the need to deliver increasingly complex projects necessitates a strong cohesive culture, and effective communication across disciplines and geographies.

In summary, we have made encouraging progress with these strategic initiatives in 2011, providing us with a solid foundation as we move into 2012.

I will now hand over to Sean, to take you through the financials.

Sean Zheng - *eFuture Information Technology Inc - CFO*

Thank you, Dehong. Total revenue for fourth quarter of 2011, increased 13%, to RMB83.3 million. Total Software License revenue for fourth quarter 2011 decreased 5%, year over year, to RMB26.8 million, mainly as a result of lower sales to the grocery industry as existing customers in this vertical delayed new store openings.

However, Service Fee income increased 15%, year over year, to RMB31.2 million, mainly due to strong growth in the provision of consulting services to the logistics industry.

For the full year 2011, total revenues increased 13% to RMB171 million, with the lower grocery industry sales also pushing Software License revenue down 18% for the full year.

However, Service Fee income grew strongly, rising 54%, year over year, to RMB80.3 million, mainly due to increased demand from existing customers for customization, maintenance, and consulting services.

Gross profit for the fourth quarter decreased 23% to RMB27 million. And the consolidated gross margin was 32%, compared to 48% in the fourth quarter of 2010. The decrease was mainly due to lower margins on Service Fee income, due to higher labor costs resulting from wage inflation.

Gross profit for the full year decreased 9%, year over year to RMB55.2 million. And the consolidated gross margin was 32%, compared to 40% in 2010. As in the fourth quarter, wage inflation played a significant role in pushing up labor costs.

Operating income in fourth quarter 2011 was RMB2.4 million, compared to RMB2.7 million in the fourth quarter 2010. For the full year 2011, our operating loss moderated to RMB18.8 million, compared to RMB21.7 million in 2010.

Net loss for the fourth quarter was RMB10 million, compared to net income of RMB0.1 million in the prior year period. This translates into basic and diluted losses per share of RMB2.42. For the full year 2011, net loss was RMB20.9 million, compared to a net loss of RMB17.3 million in 2010.

Basic and diluted net losses per share in 2011 were RMB5.06. Adjusted net income for fourth quarter was RMB1.9 million, compared to RMB8.9 million in the year earlier period.

Adjusted diluted earnings per share were RMB0.47, compared to RMB2.16 in the fourth quarter 2010. Adjusted net loss for 2011 was RMB1.6 million, compared to adjusted net income of RMB5.6 million in 2010. Adjusted basic and diluted net losses per share for 2011 totaled RMB0.38.



Adjusted EBITDA for the fourth quarter was RMB8.9 million, compared to RMB10.6 million in fourth quarter 2010. Adjusted EBITDA for 2011 was RMB1.7 million, compared to RMB3.3 million in 2010.

Turning to the balance sheet, cash and cash equivalents increased RMB16.1 million during 2011 to reach RMB57.2 million at the end of December. This decrease was due to substantial expenditure on inventory and work in progress in response to increased client demand during 2011, as well as capital expenditure on R&D projects, and the \$1 million cash paid for the redemption of convertible notes in November 2011.

The decrease was partially offset by cash collections relating to the completion of client projects, and from the disposal of our 51% stake in Wangku, in March 2011.

In terms of total accounts receivable, the 15% increase during 2011, to RMB16.7 million at December 31, 2011, was due to the higher proportion of service fee income within the revenue mix. According to contractual terms, the cash collection period for the service fee contracts tends to be longer for other business lines, therefore impacting accounts receivable.

I'd like to point out that the 162% rise in refundable VAT, as of December 31, 2011, to RMB7 million, was due to delays in tax refunds, resulting from changes in the refunds procedure.

Finally, I'd like to let you know that we are currently working with an independent appraisal firm to assess the level of intangible asset impairments relating to the fourth quarter 2011.

There may be an impairment charge in fourth quarter 2011. The amount of the impairment charge may be substantial, and could have a material adverse effect on the results of operations for the fourth quarter, and the full year ended at December 31, 2011, including gross profit, net income, and earnings per share. As the assessment is still ongoing, we will provide the actual audited information as a part of our next 20F filing.

With that, I'd like to turn the call back to Adam to discuss the outlook for 2012.

Adam Yan - *eFuture Information Technology Inc - Chairman & CEO*

(interpreted) Thank you, Sean. As you will have heard, China's GDP forecast for 2012 was recently cut to 7.5%, signaling a more challenging business environment than originally expected for the year ahead. However, I believe that our recent restructuring has positioned us to help offset this more conservative macro outlook. We expect growth for 2012 to derive primarily from two sources.

The first is an improved performance from our software segment, boosted, in particular, by sales to the logistics industry. And the second is Service Fee income, especially recurring maintenance fees, partly because we have now built a dedicated sales team to focus on this revenue stream.

In terms of guidance, we are factoring in the rise in our contracts backlog from \$14 million at the end of December 2010 to \$18 million at the end of December 2011. We therefore expect revenue for the first quarter, which is our seasonally slowest quarter, to total between RMB23 million and RMB26 million, representing year-over-year growth of 20% to 35%.

Adjusted EBITDA, for the first quarter 2012 is expected to be in the range of approximately minus RMB2 million to minus RMB4 million.

Sean, Dehong, and I would now be happy to take your questions. Operator.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions) [John Banks], B&G Capital Management.



John Banks - *B&G Capital Management - Analyst*

Congratulations on the backlog and, obviously, it seems like you're heading in the right direction. I've got three main questions. My first question is for Adam, just regarding the competitive landscape of the industry. Just to clarify, eFuture has what, 6% to 7% market share? Generally, the top five or six probably have like 25%, 30% market share, and the rest of the industry is fragmented. Are we going to see consolidation in that industry? What's the game plan or outcome?

I haven't seen anybody come out and become a dominant position. I don't know if eFuture is gaining market share, or anybody else. I haven't seen too many mergers and acquisitions. You would think, at this point, you'd see a lot of takeovers, and a lot of consolidation in the industry. And I know the rest of the industry is what, 60%, 65%? It seems like it's small, fragmented, firms. What's going on there? Who's going to be the dominant company coming out of this? That's my first question for Adam.

Adam Yan - *eFuture Information Technology Inc - Chairman & CEO*

(interpreted) First of all, according to the data from IDC, we have been the market leader for quite some time. And you can also tell the market structure of the Chinese retail industry is quite fragmented. If you add up the total market share of the top 100 retailers in China, the market share is only 12% in aggregation for the past three years.

However, this also represents a potential opportunity for eFuture. As the market is fragmented, you can tell also the solutions provided to the retail businesses are now provided by over 200 players in the market. Although we are already leader in this market, we only have a share of 6% to 7%. However, we believe this percentage is a little bit underestimating our actual strengths, because it accounts for revenue, but does not account for backlog. So if we also add backlog, then I think we are in a better shape.

We see a trend, in the coming five years, of consolidation among the retail businesses in China. This means that we should take this opportunity, as the market leader for retail solutions and service providers, to consolidate our own industry. We have full confidence in continuing to be the market leader, and have a bigger market share.

So we are making preparations towards this objective in three ways. First of all, in the past several years, we have continuously invested heavy resources in developing internal talents, in order to be well-prepared for the future market growth and consolidation.

Secondly, in the past five years, we accumulated a rich experience in conducting M&A transactions. We acquired very important companies of different scales in the areas such as logistics solutions, supermarkets, and regional retail markets. This has built a very solid foundation for future consolidation in the industry.

Certainly, innovation can be considered as the lifeblood for eFuture, which affords us the liveliness and dynamism. For example, we have been continuously investing in technologies such as mobile computing, social computing, and social commerce. I believe such investments in R&D will drive the future growth of the organization.

You may also have found that, in the past couple of years, we have achieved important technological breakthroughs in terms of Cloud computing. Thank you.

John Banks - *B&G Capital Management - Analyst*

My next question; in the second quarter of last year, Sean has been talking about driving gross margins to 50% plus. My question is, what's your plans; are you guys going to be able to do that now?

Sean Zheng - *eFuture Information Technology Inc - CFO*

While we anticipate fluctuations in our gross margins throughout the year, we believe that a gross margin in the low 40% range should be within our reach for the full year 2012.

John Banks - *B&G Capital Management - Analyst*

Okay, so 40% in 2012? Okay, great. Sean, my next question to you, I know a year ago we talked about, there was a government, maybe business incentive plan for the software industry. There's been a lot of news about the China stimulus. Is there anything with the Chinese Government regarding your industry should we see for this year?

Sean Zheng - *eFuture Information Technology Inc - CFO*

So far this year, we haven't seen any of the new regulation target for the software industry, but last year we continued the VAT refund, even the precise (inaudible) low. Even so, at this moment, we haven't got the refund yet, even the (inaudible) need [verification] for their comments. They're still in the approval process. But we're confident that we'll get this money quite soon.

John Banks - *B&G Capital Management - Analyst*

Okay, great. How much money is that, anyway, on the refund?

Sean Zheng - *eFuture Information Technology Inc - CFO*

About RMB7 million.

John Banks - *B&G Capital Management - Analyst*

Okay. My final question; who's your main partner or platform for your Cloud Service product line?

Dehong Yang - *eFuture Information Technology Inc - President*

(interpreted) We generally have two different kinds of partners; the first category is offering data center service for eFuture. So we place our servers in their data center, I mean one local Chinese company.

Secondly, because our mobile solutions are based on mobile phones, so we are starting cooperation with Chinese major service providers. Thank you.

John Banks - *B&G Capital Management - Analyst*

Okay, my last question, I guess; who's your main competitor? Is it Kingdee, Oracle, is it just fragmented? But on a competitor landscape, what's the one or two companies that you guys come up against the most?

Adam Yan - *eFuture Information Technology Inc - Chairman & CEO*

(interpreted) For the high end market, I mean the global accounts or top 10 accounts in China, our main competitor currently remains SAP. However, we have the biggest number of clients among the top 100 retailers in China, and with global accounts. So we own about 30% of the accounts among the Chinese top 100 retailers. Our rivals have only two or three such accounts.

John Banks - *B&G Capital Management - Analyst*

Okay. Let me make sure I heard that right. You guys have about 30% market share, you think, in the top 100 retailers; is that right?

Adam Yan - *eFuture Information Technology Inc - Chairman & CEO*

(interpreted) Yes, you're right.

John Banks - *B&G Capital Management - Analyst*

Okay. That's it. Thank you so much for the detailed answers; I appreciate it.

Operator

(Operator Instructions). Thank you, it seems that there are no further questions as of now. I'll hand the call back to Adam.

Unidentified Company Representative

Thank you very much for your questions. We look forward to talking to you again soon.

Operator

Ladies and gentlemen, that does conclude our conference for today. Thank you for participating, you may all disconnect.

Editor

Portions of this transcript that are marked (interpreted) were spoken by an interpreter present on the live call. The interpreter was provided by the Company sponsoring this Event.

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2012, Thomson Reuters. All Rights Reserved.