

# FINAL TRANSCRIPT

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## **EFUT - Q2 2010 eFuture Information Technology Inc. Earnings Conference Call**

**Event Date/Time: Sep. 16. 2010 / 12:00PM GMT**



Sep. 16. 2010 / 12:00PM, EFUT - Q2 2010 eFuture Information Technology Inc. Earnings Conference Call

## CORPORATE PARTICIPANTS

**Troe Wen**

*eFuture Information Technology Inc. - Secretary of the Board*

**Adam Yan**

*eFuture Information Technology Inc. - Chairman, CEO, Acting CFO*

**Dehong Yang**

*eFuture Information Technology Inc. - President*

## CONFERENCE CALL PARTICIPANTS

**John Banks**

*BG Capital Management - General Partner*

## PRESENTATION

**Operator**

Good evening, and thank you for standing by for the eFuture Second Quarter 2010 Earnings Conference Call. At this time all participants are in 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.

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

Hello everyone. Welcome to eFuture's second quarter 2010 earnings conference call. We distributed eFuture's second quarter 2010 earnings release last night and a copy can be found on our website at [www.e-future.com.cn](http://www.e-future.com.cn).

Joining me on the call today are Adam Yan, Chairman, CEO and acting CFO, and Dehong Yang, President. Following the prepared remarks, Adam and Dehong 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 Legislation 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 is 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 call is being recorded. In addition, a webcast and presentation of this conference call are available on our website at [www.e-future.com.cn](http://www.e-future.com.cn). I will now turn the call over to Adam Yan.

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**Adam Yan** - *eFuture Information Technology Inc. - Chairman, CEO, Acting CFO*

Thank you, Troe. Good morning and good evening. (interpreted) Welcome to eFuture's second quarter 2010 earnings conference call. My interpreter will now read my speech on my behalf.



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I'm pleased to report that our strong growth in the first quarter 2010 accelerated during the second quarter. As slide six shows, we achieved revenue growth of 61% year-on-year, exceeding guidance. As slide eight shows, our strong revenue growth was driven by particularly high demand for our Logistics, FMCG and Grocery solutions.

Demand from existing customers was a key driver during the quarter, as our strong relationships meant that existing customers turned to us for additional solutions as their own businesses expanded amid the market upturn. Turning to slide nine, during the first quarter of 2010, we restructured our sales organization to promote cross-selling across verticals and strengthened penetration into Tier 2 and Tier 3 cities.

Efficiencies achieved via the restructuring of our sales organization in the first quarter of 2010 allowed us to achieve higher revenue with minimal rise in headcount and other sales costs during the second quarter. Combined with economies of scale these efficiencies resulted in adjusted EBITDA of RMB2.1 million on revenue of RMB35.8 million.

I will now turn to our President, Dehong, to tell you more about the results of our sales organization restructuring.

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**Dehong Yang** - eFuture Information Technology Inc. - President

(interpreted) Thank you, Adam. It gives me great pleasure to share with our investors the business performance of eFuture for second quarter 2010. Now my interpreter will read my speech on my behalf.

As mentioned in the earnings release, a key current retail trend is for customers to expand operations geographically and across verticals. For example, a supermarket chain might open stores in a new province or establish a logistics operation.

Customers are increasingly demanding one-stop solutions, something that eFuture is very well placed to provide following the restructuring of our sales organization during the first quarter to reflect these retail industry developments. As shown on slide nine, our matrix sales organization consists of six verticals and three regional sales teams.

This matrix sales organization helped us enjoy enhanced relationships with key accounts, leading to strong revenue growth as these key customers placed additional orders with eFuture as they expanded to take advantage of good market conditions. As well as making cross-selling easier across verticals, our matrix organization also helped us gain new business in Tier 2 and Tier 3 cities due to greater geographical reach.

In the second quarter, we built on the sales efficiency initiatives established during the first quarter by implementing additional measures. For example, we now hold weekly business review meetings to motivate sales staff to meet targets, and we give awards to staff who achieve the highest sales. And in addition, we are offering sales and management skills training to sales staff located throughout China.

Our sales efforts were supported by marketing initiatives, including sponsorship of the China CIO Forum, an event designed for the most senior IT leaders in 2010, and also 2010 ECR China Conference aimed at managers in the FMCG sector, and as well as the 2010 (Fifth) China Retailers Conference & Exhibition. We also held regional seminars to enable us to better meet regional customer needs.

During the second quarter, we also began complementing this additional sales effort with customer care initiatives. For example, senior management visit key account customers periodically, and a Vice President is assigned to each key account in order to maintain relationships.

I will now hand back to Adam to give you further operational updates and then take you through the financials. Adam?

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**Adam Yan** - eFuture Information Technology Inc. - Chairman, CEO, Acting CFO

(interpreted) Thank you, Dehong, and my interpreter will continue to make this introduction on my behalf.

As you may be aware, eFuture recently sold its 51% stake in SaaS provider, bFuture, to bFuture's Founder and CEO, Mr. Peter Jiang, for RMB3.468 million. The transaction is not expected to have a material impact on eFuture's financial results or ongoing business activity. However, we believe this move represents a financially prudent decision for eFuture and its shareholders.

On the management side, Ms. Ping Yu resigned from the position of CFO in July this year and Mr. Deliang Tong resigned at the start of September from the position of COO of eFuture and President of eFuture's wholly owned subsidiary, eFuture Beijing. Dehong, President of eFuture, has also been appointed President of eFuture Beijing.

In the meantime, we are actively seeking a new CFO, and we look forward to updating you on our progress soon. Both Ms. Yu and Mr. Tong continue to serve as Directors of eFuture. With that, I will walk you through the financials.

Total revenue for the second quarter 2010 increased 61.1% to RMB35.8 million from RMB22.2 million in the second quarter 2009.

Turning to slide 11, software license revenue increased 76.2% year-over-year to RMB18.7 million, primarily attributable to a continued rebound in Logistics, FMCG and Grocery solutions.

Service fee income was RMB11.6 million, in line with the second quarter 2009. Service fee income, which tends to relatively stable and recurring, accounted for 32.4% of total revenue in the second quarter of 2010.

As slide 12 shows, during the second quarter of 2010, gross profit increased 105% year-over-year to RMB20.1 million from RMB9.8 million in the second quarter of 2009. Consolidated gross margin for the second quarter 2010 was 56.3%, compared with 44.2% in the second quarter of 2009. The increase was primarily due to some higher margin software license sales resulting from the rollout of key projects piloted in 2009, with rollout costs being lower than pilot costs.

Selling and distribution expenses for the second quarter 2010 increased 18.3% year-over-year to RMB11.2 million, or 31.2% of total revenue, compared with RMB9.4 million, or 42.5% of total revenue in the second quarter 2009.

eFuture's sales organization restructuring during the first quarter resulted in the rise in selling and distribution expenses being significantly smaller than the rise in total revenue, and in selling and distribution decreasing as a proportion of total revenue. As a result, second quarter 2010 net loss was RMB1.7 million, a significant improvement from a net loss of RMB11.4 million in the second quarter 2009.

Adjusted net income for the second quarter was RMB3.5 million, compared to an adjusted net loss of RMB6.7 million in the second quarter 2009. Basic and diluted losses per share in the second quarter 2010 were RMB0.48, compared to basic and diluted losses per share of RMB3.39 in the second quarter of 2009. Second quarter 2010 adjusted diluted earnings per share were RMB0.96, compared to adjusted diluted losses per share of RMB1.98 in the second quarter 2009.

As you will see from slide 13, as of June 30, 2010, cash and cash equivalents was RMB31.9 million, a 46.1% decrease compared with RMB59.1 million at the end of December 2009. This decrease was mainly due to the final cash payment for Proadvancer, the logistics solutions and service provider that eFuture acquired in 2008. All payments for Proadvancer have now been completed.

Total accounts receivable as of June 30, 2010 decreased 36.4% to RMB9.5 million from RMB15.0 million as of December 31, 2009. This decrease was mainly attributable to enhanced management of accounts receivable collections.



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Turning to slide 15, in terms of guidance, we expect total revenue for the third quarter 2010 to be in the range of approximately \$3.5 million to \$4.2 million. Adjusted EBITDA for the third quarter 2010 is expected to range between approximately minus \$0.7 million to minus \$0.2 million.

Looking forward, as outlined on slide 16, our strategy remains to strengthen our higher margin software core business, increase our more stable recurring service fee revenue, expand penetration into Tier 2 and Tier 3 cities, and use innovation to further broaden our solutions and service offerings. Following a strong first half, we look forward to capitalizing on the continuing growth in China's retail and consumer goods market expected during coming months.

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

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions). Hold one moment for the first question. You have a question from the line of John Banks

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**John Banks** - BG Capital Management - General Partner

Hi guys. Congratulations on a great quarter. Looks like you guys gained some momentum going forward. My first question -- I have about three, four quick questions. My first question is on long-term margins, our goal 50%, 60%, can I model that in?

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**Adam Yan** - eFuture Information Technology Inc. - Chairman, CEO, Acting CFO

(interpreted) Actually, eFuture has always been committed to improve our margins, especially in the areas of software and service.

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**John Banks** - BG Capital Management - General Partner

Okay. My second question was regarding the new CFO. I know she remains a Board member. Do we think we can get a new CFO this year?

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**Adam Yan** - eFuture Information Technology Inc. - Chairman, CEO, Acting CFO

(interpreted) As a matter of fact, we have been reviewing several candidates for the new CFO through all our channels and contacts. We hope through our concerted efforts we will be able to find a new CFO as soon as possible.

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**John Banks** - BG Capital Management - General Partner

Okay. I hope they are as good as what it seems like Mr. Yang has been doing.

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**Dehong Yang** - eFuture Information Technology Inc. - President

Thank you.

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**John Banks** - BG Capital Management - General Partner

No problem. My next question on just the news release if you can comment on -- on July 16, 2010 in the China Tech News there is a report on the Chinese B2B website 99114.com which eFuture is a majority holder. It was quoted as saying that the value of this Company right now was listed at -- they invested RMB10 million into a subsidiary. The Company was quoted, said the current market value of this subsidiary was RMB1 billion, obviously Chinese denomination. Any comment on that? That seems like a huge number.

**Adam Yan** - eFuture Information Technology Inc. - Chairman, CEO, Acting CFO

(interpreted) Actually, because I have not been informed about this news release so I am afraid I will not be able to make any comments based on this piece of information.

**John Banks** - BG Capital Management - General Partner

Okay. I will email it to you guys today because that is a huge discrepancy. That is RMB1 billion denomination or basically \$100 million plus market and our market cap's \$20 million, so it looked like it was good news, but it was published in the newspaper. I will email it to you today.

**Adam Yan** - eFuture Information Technology Inc. - Chairman, CEO, Acting CFO

(interpreted) Okay, thank you.

**John Banks** - BG Capital Management - General Partner

My next -- my final question -- I am just trying to get a feel, as you guys know we're big long-term shareholders in the Company -- I am trying to get a feel for say three to five years out. Can eFuture be \$100 million, \$200 million revenue company? Is that the goal? Am I being too optimistic on that number and, generally, on basically the size of the market? Thank you.

**Adam Yan** - eFuture Information Technology Inc. - Chairman, CEO, Acting CFO

(interpreted) As you know, in the long-term of course we expect eFuture to maintain sustainable robust growth. The growth comes from two aspects. Firstly, in terms of organic growth we have proved to have been holding a good track record in terms of organic growth.

And as to merger and acquisitions we have been looking for and reviewing opportunities in this regard too. So our expectation is to maintain strong growth in the coming three to five years and tap in the fast growth of FMCG and the retail market in China.

**John Banks** - BG Capital Management - General Partner

Okay. Thank you for your time. I will get off the line for now.

**Adam Yan** - eFuture Information Technology Inc. - Chairman, CEO, Acting CFO

Thank you.



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**Operator**

(Operator Instructions). And there are no audio questions at this time. Excuse me, you have a question from the line of John Banks.

**John Banks** - *BG Capital Management - General Partner*

What is the Company's goal to basically increase more shareholder interest with institutional clients and research clients? And my final question, are you guys going to be in New York anytime soon?

**Adam Yan** - *eFuture Information Technology Inc. - Chairman, CEO, Acting CFO*

(interpreted) Actually, we have the plan to strengthen our communications with institutional shareholders this year. I plan to visit the United States for a road show with our institutional shareholders in the second half of 2010.

**John Banks** - *BG Capital Management - General Partner*

Okay. Thank you, guys, so much. Keep up the momentum and I will send you that email on the website, but thank you for your time. It was very informative this morning.

**Adam Yan** - *eFuture Information Technology Inc. - Chairman, CEO, Acting CFO*

Thank you.

**Operator**

And there are no audio questions at this time.

**Adam Yan** - *eFuture Information Technology Inc. - Chairman, CEO, Acting CFO*

(interpreted) Thank you for joining us today. We will update you on our progress in the near future.

**Operator**

Thank you for your participation. This concludes today's call. You may now 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.

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