

QUARTERLY REPORT

OF

BCP (SINGAPORE) VI CAYMAN FINANCING CO. LTD.

For the quarterly period ended March 31, 2016

190 Elgin Avenue, George Town
Grand Cayman KY1-9005
Cayman Islands

TABLE OF CONTENTS

PART I.	FINANCIAL INFORMATION	4
ITEM 1.	QUARTERLY FINANCIAL STATEMENTS (Unaudited).....	4
a)	Condensed Consolidated Balance Sheets (Unaudited) as of December 31, 2015 and March 31, 2016.....	4
b)	Condensed Consolidated Statements of Operations (Unaudited) for the three months ended March 31, 2015 and the three months ended March 31, 2016	6
c)	Condensed Consolidated Statements of Comprehensive Loss (Unaudited) for the three months ended March 31, 2015 and the three months ended March 31, 2016.....	7
d)	Condensed Consolidated Statements of Changes in Equity (Unaudited) for the three months ended March 31, 2015 and the three months ended March 31, 2016.....	8
e)	Condensed Consolidated Statements of Cash Flows (Unaudited) for the three months ended March 31, 2015 and the three months ended March 31, 2016.....	9
f)	Notes to the Unaudited Condensed Consolidated Financial Statements.....	10
ITEM 2.	MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	31
ITEM 3.	QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK ...	38
PART II.	OTHER INFORMATION	40
ITEM 1.	LEGAL PROCEEDINGS.....	40
ITEM 1A.	RISK FACTORS.....	41

FORWARD-LOOKING STATEMENTS

Except for historical information, the statements contained in this report are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The Private Securities Litigation Reform Act of 1995 contains certain safe harbors regarding forward-looking statements. These forward-looking statements can be identified by terminology such as "will," "expects," "anticipates," "future," "intends," "plans," "believes," "estimates," "target," "going forward," "outlook" and similar statements. Such statements are based upon management's current expectations and current market and operating conditions, and relate to events that involve known or unknown risks, uncertainties and other factors, all of which are difficult to predict and many of which are beyond the control of the Company (as defined below), which may cause the Company's actual results, performance or achievements to differ materially from those in the forward-looking statements. Potential risks and uncertainties include, but are not limited to, the Company's dependence on a limited number of clients for a significant portion of its revenues, any macroeconomic weakness in its principal geographic markets, the quality and portfolio of its service lines and industry expertise, the availability of a large talent pool in the People's Republic of China (the "PRC") and inflation of qualified professionals' wages and the Chinese government's investment in infrastructure construction and adoption of various incentives in the information technology ("IT") service industry. All information provided in this report is as of the date of this report, and the Company does not undertake any obligation to update any forward-looking statement as a result of new information, future events or otherwise, except as required under applicable law.

PART 1. FINANCIAL INFORMATION

ITEM 1. QUARTERLY FINANCIAL STATEMENTS (UNAUDITED)

BCP (SINGAPORE) VI CAYMAN FINANCING CO. LTD.

Condensed Consolidated Balance Sheets (Unaudited)

(U.S. dollars in thousands, except share data)

	<u>December 31, 2015</u>	<u>March 31, 2016</u>
ASSETS		
Cash and cash equivalents	\$ 87,304	\$ 57,899
Restricted cash	13,965	13,900
Term deposits	193	201
Accounts and notes receivable, net of allowance for doubtful accounts of \$11,945 and \$11,688 as of December 31, 2015 and March 31, 2016, respectively	284,722	327,822
Amounts due from related parties - current	6,546	7,638
Prepaid expenses and other current assets	20,273	20,709
Deferred tax assets - current	7,245	5,843
Total current assets	420,248	434,012
Equity method investments	412	365
Amounts due from related parties - non-current	7,129	3,643
Property, plant and equipment, net	89,811	88,754
Land use right, net	24,306	24,318
Intangible assets, net	101,454	103,217
Goodwill	136,977	150,799
Other assets	18,937	5,459
Deferred tax assets - non-current	3,380	6,404
Total assets	\$ 802,654	\$ 816,971
LIABILITIES AND EQUITY		
Short-term borrowings	\$ 18,220	\$ 41,565
Accounts payable	3,281	2,974
Accrued expenses and other payables	132,858	117,081
Contingent acquisition consideration payable - current	5,522	6,761
Income taxes payable	13,411	13,891
Other taxes payable	20,296	22,449
Deferred tax liabilities - current	3,352	3,387
Total current liabilities	196,940	208,108

BCP (SINGAPORE) VI CAYMAN FINANCING CO. LTD.
Condensed Consolidated Balance Sheets (Unaudited) (Continued)
(U.S. dollars in thousands, except share data)

	<u>December 31, 2015</u>	<u>March 31, 2016</u>
Contingent acquisition consideration payable - non-current	3,353	6,747
Unrecognized tax benefits - non-current	969	969
Deferred tax liabilities - non-current	20,372	21,617
Senior secured notes	264,118	264,524
Other liability	1,100	977
Total liabilities	\$ 486,852	\$ 502,942
Shareholder's Equity		
Common shares (\$0.0001 par value, 500,000,000 shares authorized, 45,243,029 shares issued and outstanding as of December 31, 2015 and March 31, 2016)	4	4
Additional paid-in capital	323,370	323,545
Statutory reserve	23,396	23,396
Accumulated deficit	(14,041)	(19,190)
Accumulated other comprehensive loss	(16,927)	(13,726)
Total shareholders' equity	315,802	314,029
Total liabilities and equity	\$ 802,654	\$ 816,971

See accompanying notes to the condensed consolidated financial statements.

BCP (SINGAPORE) VI CAYMAN FINANCING CO. LTD.
Condensed Consolidated Statements of Operations (Unaudited)
(U.S. dollars in thousands)

	Three months ended March 31,	
	2015	2016
Net revenues	\$ 172,527	\$ 189,084
Cost of revenues	(132,534)	(145,558)
Gross profit	39,993	43,526
Operating expenses:		
General and administrative expenses	(29,706)	(31,062)
Selling and marketing expenses	(11,066)	(10,647)
Change in fair value of contingent consideration	(54)	(222)
Total operating expenses	(40,826)	(41,931)
(Loss) Income from operations	(833)	1,595
Other (expenses) income		
Interest expenses	(6,307)	(6,355)
Interest income	460	98
Exchange loss	(771)	(174)
Change in fair value of foreign currency forward contract	(10)	(34)
Total other expenses	(6,628)	(6,465)
Loss before income tax benefit (expenses)	(7,461)	(4,870)
Income tax benefit (expenses)	209	(231)
Loss before loss in equity method investments	(7,252)	(5,101)
Loss in equity method investments	(5)	(48)
Net loss	\$ (7,257)	\$ (5,149)

See accompanying notes to the condensed consolidated financial statements.

BCP (SINGAPORE) VI CAYMAN FINANCING CO. LTD.
Condensed Consolidated Statements of Comprehensive Loss (Unaudited)
(U.S. dollars in thousands)

	Three months ended March 31,	
	2015	2016
Net loss	\$ (7,257)	\$ (5,149)
Other comprehensive income (loss), net of tax of nil for the three months ended March 31, 2015 and 2016, respectively:		
Change in cumulative foreign currency translation adjustment	(280)	3,201
Comprehensive loss	\$ (7,537)	\$ (1,948)

See accompanying notes to the condensed consolidated financial statements.

BCP (SINGAPORE) VI CAYMAN FINANCING CO. LTD.
Condensed Consolidated Statements of Changes in Equity (Unaudited)
(U.S. dollars in thousands, except share data)

	Common shares		Additional paid-in capital	Statutory reserve	Retained earnings (Accumulated deficit)	Accumulated other comprehensive loss	Total equity
	Shares	Amount					
Balance as of January 1, 2015	45,243,029	\$ 4	\$ 319,510	\$ 22,105	\$ 5,058	\$ (1,444)	\$ 345,233
Share-based compensation	-	-	1,442	-	-	-	1,442
Net loss	-	-	-	-	(7,257)	-	(7,257)
Foreign currency translation adjustments	-	-	-	-	-	(280)	(280)
Balance as of March 31, 2015	45,243,029	\$ 4	\$ 320,952	\$ 22,105	\$ (2,199)	\$ (1,724)	\$ 339,138
 Balance as of January 1, 2016	 45,243,029	 \$ 4	 \$ 323,370	 \$ 23,396	 \$ (14,041)	 \$ (16,927)	 \$ 315,802
Share-based compensation	-	-	175	-	-	-	175
Net loss	-	-	-	-	(5,149)	-	(5,149)
Foreign currency translation adjustments	-	-	-	-	-	3,201	3,201
Balance as of March 31, 2016	45,243,029	\$ 4	\$ 323,545	\$ 23,396	\$ (19,190)	\$ (13,726)	\$ 314,029

See accompanying notes to the condensed consolidated financial statements.

BCP (SINGAPORE) VI CAYMAN FINANCING CO. LTD.
Condensed Consolidated Statements of Cash Flows (Unaudited)
(U.S. dollars in thousands)

	Three months ended March 31,	
	2015	2016
Cash flows from operating activities:		
Net loss	\$ (7,257)	\$ (5,149)
Adjustments to reconcile net loss to net cash used in operating activities:		
Allowance for doubtful accounts	(156)	(335)
Loss on disposals of property, plant and equipment	29	32
Depreciation	3,211	2,983
Loss on change in fair value of foreign currency forward contract	10	34
Amortization of intangible assets	2,032	2,896
Amortization of land use right	138	133
Share-based compensation expenses	1,442	175
Loss on changes in fair value of contingent consideration	54	222
Loss in equity method investments	5	48
Changes in operating assets and liabilities:		
Accounts and notes receivable	(28,365)	(38,735)
Prepaid expenses and other current assets	2,477	1,520
Amounts due from related parties - current	(3,613)	(1,092)
Other assets	45	(48)
Accounts payable	379	(810)
Accrued merger of equals with VanceInfo Technologies Inc. ("MOE") related cost	(14)	(190)
Accrued privatization related cost	-	(297)
Accrued expenses and other payables	5,724	(15,676)
Income taxes payable	23	280
Other taxes payable	1,848	1,900
Deferred taxes	(3,434)	(2,270)
Other liability	(59)	(129)
Net cash used in operating activities	<u>(25,481)</u>	<u>(54,508)</u>
Cash flows from investing activities:		
Decrease in term deposits	6,000	-
Decrease in restricted cash	143	179
Purchase of property, plant and equipment	(3,079)	(2,016)
Proceeds received from the sales of property, plant and equipment	-	55
Purchase of building	-	(764)
Payment to ex-shareholders of Pactera	(1,067)	-
Payment for business acquisition	(1,080)	-
Amounts received from a business acquisition	-	550
Repayment of loan from a related party	-	5,000
Net cash provided by investing activities	<u>917</u>	<u>3,004</u>
Cash flows from financing activities:		
Proceeds from short-term borrowings	-	25,836
Repayment of short-term borrowings under offshore revolver	-	(3,000)
Deferred and contingent consideration paid for business acquisitions	(2,334)	(439)
Net cash (used in) provided by financing activities	<u>(2,334)</u>	<u>22,397</u>
Effect of exchange rate changes	190	(298)
Net decrease in cash and cash equivalents	(26,708)	(29,405)
Cash and cash equivalents at beginning of period	114,801	87,304
Cash and cash equivalents at end of period	<u>\$ 88,093</u>	<u>\$ 57,899</u>

See accompanying notes to the condensed consolidated financial statements.

BCP (SINGAPORE) VI CAYMAN FINANCING CO. LTD.

**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL
STATEMENTS**

(U.S. dollars in thousands, except share data or as otherwise noted)

1. BASIS OF PREPARATION

BCP (Singapore) VI Cayman Financing Co. Ltd. (together with its subsidiaries, the "Company") was incorporated in the Cayman Islands on August 29, 2013. The Company is wholly owned by BCP (Singapore) VI Cayman Acquisition Co. Ltd. (the "Parent"), which is a company incorporated in the Cayman Islands. The Company provides information technology outsourcing services primarily in the PRC, Hong Kong, the United States of America, Japan, Europe, Asia South and Australia.

On March 27, 2014 (the "Merger Date"), pursuant to the agreement and plan of merger dated as of October 17, 2013 among Pactera Technology International Ltd. (together with its subsidiaries, "Pactera" or "Predecessor"), Parent, the Company and BCP (Singapore) VI Cayman Merger Co. Ltd. (the "Merger Sub") (the "Merger Agreement"), Merger Sub merged with and into Pactera with Pactera as the surviving entity in a transaction hereinafter referred to as the Merger. As a result of the Merger, Pactera survived as a directly wholly owned subsidiary of the Company. Pactera is considered to be the predecessor of the Company as the Company succeeded to substantially all of the business of Pactera and the Company's own operations prior to the succession were insignificant relative to the operations assumed or acquired.

The unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP").

In the opinion of the management of the Company, the unaudited condensed consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments, which are necessary for a fair presentation of the results for the interim periods presented. The Company has prepared the unaudited condensed consolidated financial statements using the same accounting policies as set out in its audited financial statements included in its annual report for the year ended December 31, 2015. These financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company's annual report for the fiscal year ended December 31, 2015. The results of operations for the interim periods presented are not indicative of the operating results to be expected for any subsequent interim period or for the Company's fiscal year ending December 31, 2016.

In the three months ended March 31, 2016, the Company adopted Accounting Standards Update ("ASU") No. 2015-03, Interest-Imputation of Interest (subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs (ASU 2015-03). In connection with the adoption of ASU 2015-03, the Company reclassified debt issuance costs related to the Senior Secured Notes (as defined below) and revolving credit facilities from other assets to Senior Secured Notes and short-term borrowings, as a deduction to the carrying amount of the our Senior Secured Notes and short-term borrowings in the condensed consolidated balance sheets as of December 31, 2015 and March 31, 2016. The adoption of ASU 2015-03 did not have a material impact on the condensed consolidated financial statements of the Company.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of estimates

The preparation of condensed consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements, and the reported amounts of revenues and expenses for the reporting periods and the accompanying notes. Significant accounting estimates reflected in the condensed consolidated financial statements include, but are not limited to, revenue recognition, provision for income taxes, share-based compensation, impairment of goodwill and indefinite-lived intangible assets, allowance for doubtful accounts, purchase price allocation in business combinations, contingent consideration, valuation allowance of deferred tax assets, useful life of property, plant and equipment, and economic life of intangible assets. Actual results could differ from those estimates.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and highly liquid investments which are unrestricted as to withdrawal or use and have original maturities of three months or less when purchased.

Term deposits

The Company's term deposits are classified as held-to-maturity and carried at amortized cost. The term deposits mature within one year from the contractual dates and are subject to penalty for early redemption before their maturity.

Allowance for doubtful accounts

Accounts receivables represent those receivables derived in the ordinary course of business. Notes receivables are bank accepted and commercial accepted drafts related to trade receivables of revenue with a maturity less than six months. The Company maintains an allowance for doubtful accounts for estimated incurred losses on uncollected accounts receivables and notes receivables. Management considers the following factors when determining the collectability of specific accounts: credibility of the customers, aging of the receivables, historical loss experience and other specific circumstances related to the accounts.

Concentration risk

Financial instruments that potentially expose the Company to concentrations of credit risk consist primarily of cash and cash equivalents, restricted cash, term deposits and accounts and notes receivable. The Company places its cash and cash equivalents, restricted cash and term deposits with authorized financial institutions, which refer to (i) banks incorporated in China, which are all authorized to operate banking business by China Banking Regulatory Commission and other relevant agencies, and (ii) overseas financial institutions regulated by competent regulatory authorities in their relevant jurisdictions such as Hong Kong. The credit risk on cash and cash equivalent, restricted cash and term deposits is limited because the counterparties are banks with high credit ratings. The Company conducts credit evaluations of its clients and generally does not require collateral or other security from them. The maximum exposure to credit risk is represented by their carrying amounts in the condensed consolidated balance sheet. There was no customer accounting for 10% or more of the Company's net revenues for the three months ended March 31, 2016 and no customer accounting for 10% or more of its accounts receivable as of March 31, 2016.

Property, plant and equipment, net

Property, plant and equipment, net, are stated at cost less accumulated depreciation. Depreciation is provided using the straight-line method over the following estimated useful lives:

Building	30 years
Furniture, fixtures and electronic equipment & software	3-5 years
Transportation equipment	5 years
Leasehold improvements	Shorter of useful life of the asset or the lease term

Land use right

Generally, land in the PRC is owned by the PRC government. The government in the PRC, according to the relevant PRC law, may grant the right to the enterprise to use the land for a specified period of time. Land use right is stated at cost less accumulated amortization. Amortization is provided over the contractual term of the land use right on a straight-line basis.

The relevant land use right for a building owned by the Company located in Beijing was pledged for the Secured Short-term Borrowing Facility (as defined and described in Note 10).

Amortization expenses for the three months ended March 31, 2015 and 2016 were \$138 and \$133, respectively.

Intangible assets

Acquired intangible assets, other than goodwill, are initially measured and recorded at their fair values. Subsequently, the indefinite-lived trade name is stated at cost less impairment loss and the acquired definite-lived intangible assets are stated at cost less accumulated amortization and impairment loss. Certain non-compete agreements and software technology are amortized using the straight-line method and other acquired intangible assets are amortized using the estimated attrition pattern. The estimated economic lives are as follows:

Customer relationship	3 years - 7.75 years
Trade name	4.75 years - Indefinite
Software technology	2.61 years - 4.75 years
Contract backlog	1 year - 3.75 years
Non-compete agreement	2 years - 4.75 years

Impairment of long-lived assets with definite lives

The Company evaluates the recoverability of long-lived assets, including property, plant and equipment and intangible assets with determinable useful lives, whenever events or changes in circumstances indicate that an asset's carrying amount may not be recoverable. The Company measures the carrying amount of a long-lived asset against the estimated undiscounted future cash flows associated with it. Impairment exists when the sum of the expected future net cash flows is less than the carrying value of the asset being evaluated. Impairment loss is calculated as the amount by which the carrying value of the asset exceeds its fair value. Fair value is estimated based on various valuation techniques, including the discounted value of estimated future cash flows. The evaluation of asset impairment requires the Company to make assumptions about future cash flows over the life of the asset being evaluated. These assumptions require significant judgment and actual results may differ from assumed and estimated amounts.

Impairment of goodwill and indefinite-lived intangible assets

Goodwill and intangible assets with indefinite useful lives are not amortized, but tested for impairment annually or more frequently if events and circumstances indicate that they might be impaired.

The excess of the purchase price over the fair value of net assets acquired is recorded on the condensed consolidated balance sheet as goodwill. Absent from any impairment indicators, the Company performs its annual impairment test on December 31st each year, following a two-step process. The first step compares the fair value of each reporting unit to its carrying amount, including goodwill. If the fair value of each reporting unit exceeds its carrying amount, goodwill is not considered to be impaired and the second step will not be required. If the carrying amount of a reporting unit exceeds its fair value, the second step compares the implied fair value of goodwill to the carrying value of a reporting unit's goodwill. The implied fair value of goodwill is determined in a manner similar to accounting for a business combination with the allocation of the assessed fair value determined in the first step to the assets and liabilities of the reporting unit. The excess of the fair value of the reporting unit over the amounts assigned to the assets and liabilities is the implied fair value of goodwill. An impairment loss is recognized for any excess in the carrying value of goodwill over the implied fair value of goodwill.

The Company has determined that certain trade names of the Company do not have determinable useful lives. Consequently, the carrying amounts of these trade names are not subject to amortization but are tested for impairment at least annually or if events or changes in circumstances indicate that the asset might be impaired. Such impairment test compares the fair values of assets with their carrying value amounts and an impairment loss is recognized if and when the carrying amounts exceed the fair values. The estimates of fair values of intangible assets not subject to amortization are determined using various discounted cash flow valuation methodologies. Significant assumptions are inherent in this process, including estimates of discount rates.

Revenue recognition

The Company enters into contractual sales arrangements related to its technology outsourcing services. For each contract, revenues are recognized when all of the following criteria are met: persuasive evidence of sales arrangement exists; delivery has occurred or services have been rendered; the price is fixed or determinable; and collectability is reasonably assured.

Arrangements for technology outsourcing services are either on a time-and-material or fixed-price basis.

Revenues from time-and-material contracts are recognized as billable services are rendered, assuming all other basic revenue recognition criteria are met.

Revenues from fixed-price contracts are recognized using the proportional performance method as determined by the proportional relation of the contract costs incurred to date relative to the estimated total contract costs at completion. Estimated contract costs are obtained from budgets that are reviewed monthly and revised as necessary. The Company reviews the estimated revenues and estimated costs on each project at the end of each reporting period. Any revisions to existing estimates are made when required by members of management having the relevant authority. As part of the review process, management regularly compares and analyzes the actual costs incurred and the estimate of costs to complete the projects to the total estimated costs and the total contract price. Management makes revisions to existing estimates as needed based on the analysis performed and with proper level of approval in the period in which changes become known. As a Company policy, provisions for estimated losses on such engagements will be made during the period in which a loss becomes probable and can be reasonably estimated.

Reimbursable out-of-pocket expenses and material costs are recognized as revenues when billed.

Details of net revenues by contract type for the periods presented were as follows:

	Three months ended March 31,	
	2015	2016
Time-and-material	\$ 148,066	\$ 160,586
Fixed-price	24,461	28,498
Total	<u>\$ 172,527</u>	<u>\$ 189,084</u>

Value-added tax ("VAT")

Since 2012, a pilot program transitioning specified industries from being subject to business tax to VAT was formally commenced in certain provinces and subsequently expanded nationwide in 2013. As a result, since August 1, 2013, most of the Company's PRC subsidiaries have been subject to VAT at a rate of either 6% or 3%. However, some of the Company's PRC subsidiaries have revenues which are still subject to business tax.

Some of the Company's PRC subsidiaries are subject to VAT at a rate of 17% on revenues from product sales and services and are paid after deducting input VAT on purchases. Output VAT is reported as a deduction to revenue and the net VAT balance between input VAT and output VAT is reflected under other taxes payable or other taxes receivable.

Business tax

Some of the Company's PRC subsidiaries are subject to a business tax of 5% and related surcharges on the revenues earned from providing services. The business tax is recorded as a reduction in revenues when incurred, and the outstanding balance has been recorded under other taxes payable.

Government subsidies

Government subsidies mainly represent amounts granted by local government authorities as an incentive for companies to promote development of the local technology industry. The Company receives government subsidies related to government sponsored projects and records such government subsidies as a liability when it is received. The Company records government subsidies as deductions of the related expenses when there is no further performance obligation.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Payments made under operating leases are charged to the condensed consolidated statements of operations on a straight-line basis over the lease periods.

Income taxes

Current income taxes are provided for in accordance with the laws of the relevant tax authorities. Deferred income taxes are recognized when temporary differences exist between the tax bases of assets and liabilities and their reported amounts in the condensed consolidated financial statements. Net operating loss carry forwards and credits are applied using enacted statutory tax rates applicable to future years. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more-likely-than-not that a portion of or all of the deferred tax assets will not be realized. The components of the deferred tax assets and liabilities are individually classified as current and non-current based on their characteristics. The impact of an uncertain income tax position on the income tax return is recognized at the largest amount that is more-likely-than-not

to be sustained upon audit by the relevant tax authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. Interest and penalties on income taxes will be classified as a component of the provisions for income taxes.

Foreign currency translation

The functional and reporting currency of the Company is the United States dollar ("U.S. dollar"). The financial records of the Company's subsidiaries located in the PRC, the United States, Japan, Hong Kong, Singapore, Australia, Spain, Italy, Malaysia, Mauritius, Switzerland and Hungary are maintained in their local currencies, the Renminbi ("RMB"), U.S. dollar, Japanese Yen ("Yen"), Malaysia Ringgit ("MYR"), Hong Kong dollar ("HK\$"), Singapore dollar ("S\$"), Australian dollar ("AU\$"), Euro ("Euro"), Mauritian rupee ("MUR"), Swiss franc ("CHF") and Hungary forint ("HUF"), respectively, which are also the functional currencies of these entities.

Monetary assets and liabilities denominated in currencies other than the functional currency are translated into the functional currency at the rates of exchange prevailing on the balance sheet date.

Transactions in currencies other than the functional currency during the year are converted into functional currency at the applicable rates of exchange prevailing when the transactions occurred.

The entities with functional currency other than U.S. dollar translate their operating results and financial position into the U.S. dollar, the Company's reporting currency. Assets and liabilities are translated using the exchange rates prevailing on the balance sheet date. Equity amounts are translated at historical exchange rates. Revenues, expenses, gains and losses are translated using the average rate for the year. Translation adjustments are reported as foreign currency translation adjustments and are shown as a separate component of other comprehensive income (loss).

Comprehensive loss

Comprehensive loss for the period includes net loss and foreign currency exchange translation adjustments and is reported in the condensed consolidated statements of comprehensive loss.

Financial instruments

Financial instruments consist of cash and cash equivalents, restricted cash, term deposits, accounts and notes receivable and accounts payable.

The carrying values of cash and cash equivalents, restricted cash, term deposits, accounts and notes receivable and accounts payable approximate their fair values due to the short-term maturities.

Fair value

Fair value is the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Company considers the principal or most advantageous market in which it would transact and it considers assumptions that market participants would use when pricing the asset or liability.

Authoritative literature provides a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. An asset or liability categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement as follows:

Level 1

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

Level 2

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

Level 3

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

Fair value of contingent consideration is discussed in Note 13.

Share-based compensation

Share-based payment transactions with employees, such as stock options, are measured based on the grant date fair value of the equity instrument. The Company recognizes the compensation costs, net of expected forfeitures, using the graded vesting method over the requisite service period of the award, which is generally the vesting period of the award. The estimate of forfeitures will be adjusted over the requisite service period to the extent that actual forfeitures differ, or are expected to differ, from such estimates. Changes in estimated forfeitures are recognized through a cumulative catch-up adjustment in the period of change and will also impact the amount of stock compensation expenses to be recognized in future periods. For options or similar instruments on shares that require cash settlement or permit the employees to elect either cash or share settlement, the award is classified as a liability.

Business combinations

Business combinations are recorded using the acquisition method of accounting. The assets acquired, the liabilities assumed, and any non-controlling interest of the acquiree at the acquisition date, if any, are measured at their fair values as of that date. Goodwill is recognized and measured as the excess of the total consideration transferred plus the fair value of any non-controlling interest of the acquiree, if any, at the acquisition date over the fair values of the identifiable net assets acquired.

Common forms of the consideration made in acquisitions include cash and common equity instruments. Consideration transferred in a business acquisition is measured at the fair value as of the date of acquisition.

Where the consideration in an acquisition includes contingent consideration, the payment of which depends on the achievement of certain specified post-acquisition conditions, the contingent consideration is recognized and measured at its fair value as of the date of the acquisition and recorded as a liability and subsequently carried at fair value with changes in fair value reflected in the condensed consolidated statements of operations.

Recent accounting pronouncements adopted

In February 2015, the Financial Accounting Standards Board issued a new pronouncement

which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU.

For non-public business entities, the amendments are effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early adoption of the amendments is permitted for financial statements that have not been previously issued.

The amendments should be applied on a retrospective basis, wherein the balance sheet of each individual period presented should be adjusted to reflect the period-specific effects of applying the new guidance. Upon transition, an entity is required to comply with the applicable disclosures for a change in an accounting principle. These disclosures include the nature of and reason for the change in accounting principle, the transition method, a description of the prior-period information that has been retrospectively adjusted, and the effect of the change on the financial statement line items (i.e., debt issuance cost asset and the debt liability).

The effects of this pronouncement have been reflected in the condensed consolidated financial statements.

3. ACQUISITIONS

(i) Acquisition of a China-based IT Outsourcing Company

On May 9, 2015, the Company acquired 100% equity interest of a China-based IT outsourcing company that primarily provides IT services to the banking, financial services and insurance ("BFSI") industry, with a cash consideration of \$1.2 million. The consideration has been fully paid by December 31, 2015.

The preliminary purchase price allocation of the transaction, determined by the Company with the assistance of an independent appraiser, was allocated to assets acquired and liabilities assumed as of the date of acquisition as follows:

		Estimated useful life
Net tangible assets:		
Current assets	\$ 2,178	
Non-current assets	692	
Current liabilities	(3,315)	
Total	(445)	
Intangible assets acquired:		
Customer relationship	600	5 years
Software technology	390	3 years
Non-compete agreement	215	2 years
Deferred tax liability	(301)	
Goodwill	749	
Total	\$ 1,653	
Total consideration	\$ 1,208	

The fair value of the intangible assets was determined using the "income approach-excess earnings" and "income approach-within or without" valuation methods. In performing the purchase

price allocation, the Company considered, among other factors, forecasted financial performance and market performance of the acquired business in China. The Company expects to record amortization expenses of \$300, \$287, \$138, \$80 and \$24 for the nine months ending December 31, 2016, and for the years ending December 31, 2017, 2018, 2019, and 2020, respectively.

The goodwill is mainly attributable to intangible assets that cannot be recognized separately as identifiable assets under US GAAP, and comprise (a) the assembled work force and (b) the expected market growth. Such market growth does not meet the criteria for recognition as an identifiable intangible asset.

(ii) Acquisition of a Business Team from a China-based IT Service Firm

In December 2015, the Company acquired a business team from a China-based IT service firm that provides IT services to clients in the BFSI industry, with a consideration of:

- cash consideration of \$0.1 million paid in December 2015; and
- contingent consideration of \$0.7 million based on the performance of the business team from January 1, 2016 to December 31, 2018.

		Estimated useful life
Intangible assets acquired:		
Customer relationship	\$ 269	3 years
Non-compete agreement	122	3 years
Deferred tax liability	(98)	
Goodwill	456	
Total	<u>\$ 749</u>	
Total consideration	<u>\$ 749</u>	

The Company believes that the acquisition will expand the Company's business in the financial industry and increase the Company's service offerings in China.

The fair value of the intangible assets was determined using the "income approach-excess earnings" and "income approach-within and without" valuation methods. In performing the purchase price allocation, the Company considered, among other factors, forecasted financial performance and market performance of the acquired business in China.

The goodwill is mainly attributable to intangible assets that cannot be recognized separately as identifiable assets under US GAAP, and comprise (a) the assembled work force and (b) the expected market growth. Such market growth does not meet the criteria for recognition as an identifiable intangible asset.

(iii) Acquisition of Blue Fountain Media

On January 1, 2016, the Company acquired 100% equity interest of Blue Fountain Media, Inc. ("BFM"), a US-based company that provides website development and online marketing strategies services, with a consideration of:

- cash consideration of \$13.0 million paid in December 2015; and
- contingent consideration of \$4.8 million based on the performance of BFM from January 1, 2016 to December 31, 2017.

According to the acquisition agreement, an additional consideration of \$3.0 million is contingent upon BFM's original shareholder's continuing employment with the Company for two years after the acquisition. As such contingent consideration arrangement would be automatically forfeited if the original shareholder terminates his employment with the Company, the amount has been accounted for as employment compensation for post-combination services of the original shareholder.

The preliminary purchase price allocation of the transaction, determined by the Company with the assistance of an independent appraiser, was allocated to assets acquired and liabilities assumed as of the date of acquisition as follows:

		Estimated useful life
Net tangible assets:		
Current assets	\$ 2,001	
Non-current assets	293	
Current liabilities	(1,028)	
Total	1,266	
Intangible assets acquired:		
Trade name	\$ 1,884	5 years
Contract backlog	1,347	1 year
Customer relationship	922	3 years
Non-compete agreement	502	3 years
Deferred tax liability	(1,955)	
Goodwill	13,820	
Total	\$ 16,520	
Total consideration	\$ 17,786	

The fair value of the intangible assets was determined using the "income approach-relief of royalty", "income approach-excess earnings" and "income approach-within or without" valuation methods. In performing the purchase price allocation, the Company considered, among other factors, forecasted financial performance and market performance of the acquired business in the United States. The Company expects to record amortization expenses of \$1,644, \$992, \$814, \$347 and \$310 for the nine months ending December 31, 2016, and for the years ending December 31, 2017, 2018, 2019 and 2020, respectively.

The goodwill is mainly attributable to intangible assets that cannot be recognized separately as identifiable assets under US GAAP, and comprise (a) the assembled work force and (b) the expected market growth. Such market growth does not meet the criteria for recognition as an identifiable intangible asset.

4. ACCOUNTS AND NOTES RECEIVABLE

Accounts and notes receivable, net, consist of:

	December 31, 2015	March 31, 2016
Notes receivable	\$ 3,567	\$ 2,343
Billed accounts receivable	109,930	112,734
Unbilled accounts receivable	183,170	224,433
	296,667	339,510
Less: Allowance for doubtful accounts	11,945	11,688
	\$ 284,722	\$ 327,822

Accounts and notes receivable represent amounts earned under revenue contracts. Revenue in excess of billings is recorded as unbilled accounts receivable and included in accounts receivable. These accounts receivable become billable according to the underlying contract terms.

5. PREPAID EXPENSES AND OTHER CURRENT ASSETS

	December 31, 2015	March 31, 2016
Prepaid rent and other prepaid expenses	\$ 14,751	\$ 13,857
Deposits	3,088	3,186
Other current assets	1,078	2,372
Advances to suppliers	962	925
Advances to employees	394	369
Total	<u>\$ 20,273</u>	<u>\$ 20,709</u>

6. PROPERTY, PLANT AND EQUIPMENT, NET

	December 31, 2015	March 31, 2016
Building ⁽ⁱ⁾	\$ 75,105	\$ 75,606
Furniture, fixtures, electronic equipment and software	46,267	46,020
Transportation equipment	1,808	1,820
Leasehold improvements	15,868	15,866
	<u>\$ 139,048</u>	<u>\$ 139,312</u>
Less: Accumulated depreciation	49,237	50,558
Property, plant and equipment, net	<u>\$ 89,811</u>	<u>\$ 88,754</u>

- (i) Includes a building located in Beijing with a cost of \$49,927 and an accumulated depreciation of \$4,496, which was pledged for the Secured Short-term Borrowing Facility described in Note 10.

Depreciation expenses for the three months ended March 31, 2015 and March 31, 2016 were \$3,211 and \$2,983, respectively.

7. INTANGIBLE ASSETS

Intangible assets and their related accumulated amortization as of December 31, 2015 and March 31, 2016 were as follows:

	<u>Contract backlog</u>	<u>Customer base and customer relationship</u>	<u>Trade name</u>	<u>Non- compete agreement</u>	<u>Software technology</u>	<u>Total</u>
Gross carrying amount						
Balance as of December 31, 2015	\$ 3,100	\$ 42,969	\$ 64,700	\$ 1,937	\$ 3,889	\$ 116,595
Balance as of March 31, 2016	<u>\$ 4,447</u>	<u>\$ 43,893</u>	<u>\$ 66,584</u>	<u>\$ 2,440</u>	<u>\$ 3,889</u>	<u>\$ 121,253</u>
Accumulated amortization						
Balance as of December 31, 2015	\$ 3,080	\$ 8,284	\$ 1,884	\$ 657	\$ 1,236	\$ 15,141
Balance as of March 31, 2016	<u>\$ 3,420</u>	<u>\$ 10,250</u>	<u>\$ 2,095</u>	<u>\$ 791</u>	<u>\$ 1,480</u>	<u>\$ 18,036</u>
Carrying amount						
Balance as of December 31, 2015	\$ 20	\$ 34,685	\$ 62,816	\$ 1,280	\$ 2,653	\$ 101,454
Balance as of March 31, 2016	<u>\$ 1,027</u>	<u>\$ 33,643</u>	<u>\$ 64,489</u>	<u>\$ 1,649</u>	<u>\$ 2,409</u>	<u>\$ 103,217</u>

An indefinite-lived trade name of \$62,200 was included in the gross carrying amount of intangible assets as of December 31, 2015 and March 31, 2016. The carrying amounts of this trade name is not subject to amortization but is tested for impairment at least annually or if events or changes in circumstances indicate that the asset might be impaired.

Amortization expenses for the three months ended March 31, 2015 and March 31, 2016 were \$2,032 and \$2,896, respectively.

8. GOODWILL

The Company has only one reporting unit and the changes in the carrying amount of goodwill are as follows:

	Three Months ended March 31, 2016
Balance as of December 31, 2015	\$ 136,977
Goodwill acquired in business acquisitions	13,820
Foreign currency translation adjustments	2
Balance as of March 31, 2016	<u>\$ 150,799</u>

The Company performs its annual impairment test for goodwill on December 31 of each year. There was no impairment charge for the three months ended March 31, 2015 or March 31, 2016.

9. ACCRUED EXPENSES AND OTHER PAYABLES

	December 31, 2015	March 31, 2016
Employee payroll and welfare payables	\$ 67,379	\$ 48,050
Subcontractors fees	11,931	13,806
Advance from customers	10,345	11,458
Accrued interest expenses	4,691	10,231
Other payable	8,490	9,274
Accrued disbursement to employees	7,484	6,331
Accrued operating expenses	5,998	4,534
Accrued privatization related cost	4,200	3,903
Amounts payable for construction of building and purchase of property, plant and equipment	5,066	3,622
Accrued technical service fee	2,663	3,061
Accrued travel expenses	881	770
Government grant payable	699	704
Accrued rental expenses	1,825	579
Share-based compensation expenses payable	664	406
Cash payable for acquisition of Pactera	202	202
Accrued MOE related cost	340	150
Total	<u>\$ 132,858</u>	<u>\$ 117,081</u>

10. SHORT-TERM BORROWINGS

In December 2015, the Company entered into an agreement with a PRC commercial bank to obtain a loan facility totaling \$10.0 million which bears interest at 2.0% plus 6-month LIBOR per annum with a maturity date of June 30, 2016. The loan was secured by a bank deposit.

In November 2015, the Company entered into a short-term borrowing facility agreement of \$77.5 million with a PRC commercial bank (the "Secured Short-term Borrowing Facility"), secured by a pledge of the building owned by the Company located in Beijing and the relevant land use right. In February and March 2016, the Company obtained two one-year loans totaling \$26.2 million under the Secured Short-term Borrowing Facility, each of which bears an interest rate of 5.22% per annum, which was equal to 120 percent of the People's Bank of China ("PBOC") one year short-term borrowing base rate at the time when the loans were obtained.

Short-term borrowings also include the revolving credit facilities described in Note 11.

11. REVOLVING CREDIT FACILITIES

Offshore Revolving Credit Facility

On March 27, 2014, the Company entered into an offshore credit agreement, together with security and other agreements, which provided the Company with a \$30.0 million equivalent revolving credit facility with a final maturity date of March 27, 2019 (the "Offshore Revolver").

Borrowings under the Offshore Revolver will bear interest at a rate per annum equal to an applicable margin plus one of a number of base rates at the Company's option. In addition to paying interest on outstanding principal under the Offshore Revolver, the Company will be required to pay a quarterly commitment fee to the lenders under the Offshore Revolver in respect of the unutilized commitments thereunder. The Company will also pay customary letter of credit and agency fees. The Company recorded a commitment fee of \$38.0 and \$32.0 for the three months ended March 31, 2015

and 2016, respectively, and an agency fee of \$19.0 for the three months ended March 31, 2015 and 2016.

On May 6, 2015, the Company borrowed \$5.0 million under the Offshore Revolver, of which \$3.0 million was repaid on January 14, 2016.

As of March 31, 2016, the Company had outstanding drawings of \$2.0 million under the Offshore Revolver, with an interest rate of 3.94% per annum, which has been renewed on a monthly basis.

Onshore Revolving Credit Facility

On March 27, 2014, the Company entered into an onshore credit agreement, together with a security and other agreements, which provides for a \$20.0 million equivalent onshore revolving credit facility with a final maturity date of March 27, 2019 (the "Onshore Revolver"). Proceeds of the loans under the Onshore Revolver may be used for working capital and general corporate purposes in accordance with applicable laws and to replace, backstop or cash collateralize existing letters of credit, guarantees and performance and similar bonds.

Borrowings under the Onshore Revolver bear interest at a rate per annum equal to a certain percentage above the base interest rate applicable to RMB denominated loans published by the PBOC on the rate fixing date for the period of six months. In addition to paying interest on outstanding principal under the Onshore Revolver, the Company is required to pay an annual commitment fee payable quarterly in arrears to the lenders under the Onshore Revolver in respect of the unutilized commitments thereunder. The Company is also required to pay customary letter of credit and agency fees. The Company recorded a commitment fee of \$25.0 and \$19.0 for the three months ended March 31, 2015 and 2016, respectively, and an agency fee of \$12.0 for the three months ended March 31, 2015 and 2016.

On May 4, 2015, the Company borrowed RMB30.0 million (\$4.8 million) under the Onshore Revolver, which has been renewed every three months.

As of March 31, 2016, the Company had outstanding drawings of RMB30.0 million (\$4.6 million) under the Onshore Revolver, with an interest rate of 5.22% per annum.

The financing related fees in relation to the Offshore Revolver and Onshore Revolver were \$2.1 million as of the Merger Date which were recorded as a direct deduction from the outstanding balance of revolving credit facilities and amortized as interest expenses over the five-year borrowing period. Interest expenses of \$0.1 million were recorded for the three months ended March 31, 2016.

The balance of revolving credit facilities consisted of the following:

	December 31, 2015		March 31, 2016
Outstanding balance of the Onshore Revolver	\$ 4,620	\$	4,652
Outstanding balance of the Offshore Revolver	5,000		2,000
Less: unamortized financing related fees	(1,400)		(1,292)
Net balance of the revolving credit facilities	<u>\$ 8,220</u>	<u>\$</u>	<u>5,360</u>

As a result of adopting the new guidance related to the presentation of debt issuance costs (see Note 2), the Company's condensed consolidated balance sheet as of December 31, 2015 has been retrospectively adjusted to reduce short-term borrowings by \$1.4 million and other assets by \$1.4 million, respectively.

12. SENIOR SECURED NOTES

On March 27, 2014, as part of the financing of the Merger, the Company issued \$275.0 million in aggregate principle amount of 8.0% senior secured notes due on April 15, 2021 ("Senior Secured Notes" and, for the purpose of this Note 12, the "Notes").

Notes issuance costs were \$13.6 million as of the Merger Date and were recorded as a direct deduction from the face value of the Notes, which are being amortized as interest expenses over the term of the Notes. The net proceeds from the issuance of the Notes were \$261.4 million. The Company pays interest at an annual rate of 8.0% on the Notes, payable semi-annually in arrears on April 15 and October 15 of each year, commencing on October 15, 2014. The Company recorded such interest as interest expenses on an accrual basis based on an annual effective interest rate of 8.76%. Interest expenses of \$5.9 million were recorded for the three months ended March 31, 2016, of which \$0.4 million was amortization of issuance costs. The net balance of the Senior Secured Notes consisted of the following:

	December 31, 2015		March 31, 2016
Principal amount	\$ 275,000	\$	275,000
Less: unamortized debt issuance cost	(10,882)		(10,476)
Net balance of the Senior Secured Notes	<u>\$ 264,118</u>	<u>\$</u>	<u>264,524</u>

The main terms of the Notes are summarized as follows:

Guarantees

The Notes are fully and unconditionally guaranteed, jointly and severally, on a senior secured basis, by the Parent ("Guarantor") and subject to certain exceptions, each of the Company's existing and future material wholly-owned restricted subsidiaries to the extent such entities guarantee indebtedness under the Company's Offshore Revolver (see Note 11) or the Company's other indebtedness or indebtedness of any subsidiary guarantor (collectively, the "Guarantors").

Collateral

Following the consummation of the Merger, the Notes and the guarantees thereof are secured, subject to certain exceptions and permitted liens, on a first-priority lien basis, by the assets that secure the Company and the Company's Guarantors' obligations under the Company's Offshore Revolver. Under the terms of the security documents and/or inter-creditor agreement, however, the proceeds of any collection or other realization of collateral received in connection with the exercise of remedies are applied first to repay amounts due under the Company's Offshore Revolver, and any additional "super-priority" obligations that the Company is permitted to incur in the future, before the holders of the Notes receive such proceeds.

Ranking

The Notes and the guarantees thereof are the Company and the Guarantors' senior obligations and rank equally in right of payment with all of the Company's and the Guarantors' existing and

future senior obligations (without giving effect to security interests), and senior in right of payment to any of the Company and the Guarantors' subordinated indebtedness. Pursuant to the terms of the security documents and/or inter-creditor agreement, claims under the Notes and guarantees thereof effectively rank behind the claims of holders of "super-priority" obligations, including interest, in respect of proceeds from the enforcement of remedies or other realization of collateral. The Notes and the guarantees are structurally subordinated to all existing and future liabilities (including trade payables) of the Company's subsidiaries that do not guarantee the Notes.

Redemption

Mandatory Redemption: If the Company undergoes a change of control or sell certain assets, the Company may be required to offer to repurchase the Notes.

Optional Redemption: The Company may redeem at any time and from time to time prior to April 15, 2017, some or all of the Notes at 100% of their principal amount thereof plus accrued and unpaid interest to the redemption date plus the applicable "make-whole premium." Prior to April 15, 2017, during any 12 month period, the Company also may redeem at any time and from time to time up to 10% of the aggregate principal amount of the issued notes at a price equal to 103% of the principal amount thereof, plus accrued and unpaid interest. From and after April 15, 2017, the Company may redeem at any time and from time to time some or all of the notes at the applicable redemption prices set forth below:

Year	Percentage
2017	106.0%
2018	104.0%
2019	102.0%
2020 and thereafter	100.0%

In addition, on or prior to April 15, 2017, the Company may redeem up to 40% of the aggregate principal amount of the Notes with the proceeds from certain equity offerings at the applicable redemption prices. In the event of certain developments affecting taxation, the Company may redeem all, but not less than all, of the Notes.

Certain Covenants

The Notes contain a number of negative covenants that, subject to certain limitations and exceptions, limit the ability of the Company and the ability of certain of the Company's subsidiaries to:

- incur or guarantee additional debt or issue certain capital stock;
- pay dividends and make other distributions on, or redeem or repurchase, capital stock;
- prepay subordinated debt;
- make certain loans and investments;
- incur certain liens;
- enter into transactions with affiliates;
- consolidate, merger or transfer all or substantially all assets; and
- enter into agreements that restrict the ability of restricted subsidiaries to make dividends.

Any failure to comply with such covenants would constitute an event of default under the Notes. If an event of default is continuing, the lenders would have the right to accelerate the Notes repayment together with accrued interest. The Company was in compliance with all the covenants for the three months ended March 31, 2016. As a result, the Notes were carried as long-term borrowings as of March 31, 2016.

As a result of adopting the new guidance related to the presentation of debt issuance costs (see Note 2), the Company's condensed consolidated balance sheet as of December 31, 2015 has been retrospectively adjusted to reduce Senior Secured Notes by \$10.9 million and other assets by \$10.9 million, respectively.

13. FAIR VALUE

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The Company measured its financial assets and liabilities, including cash equivalents, term deposits, restricted cash, accounts and notes receivable, accounts payable, foreign currency forward contracts and contingent consideration on a recurring basis as of March 31, 2016. Cash equivalents, term deposits, restricted cash and short-term borrowings are classified within Level 1 of the fair value hierarchy because they are valued based on the quoted market price in an active market. The carrying amounts of accounts and notes receivable and accounts payable approximate their fair values due to their short-term maturity.

Contingent consideration

The contingent consideration in connection with acquisitions made by Pactera before the Merger were determined at fair value based on, among other factors, forecasted financial performance of the acquired business and discount rate (Level 3 inputs).

The Company estimates and records the acquisition date estimated fair value of contingent consideration as part of purchase price consideration for acquisitions. Additionally, at the end of each reporting period, the Company calculates the changes in the fair value of contingent consideration, and recognizes such changes in the condensed consolidated statements of operations.

An increase in the earn-out expected to be paid will result in a charge to operations in the period that the anticipated fair value of contingent consideration increases, while a decrease in the earn-out expected to be paid will result in a credit to operations in the period that the anticipated fair value of contingent consideration decreases. The estimate of the fair value of contingent consideration requires subjective assumptions to be made of future operating results, discount rates, and timing of earn-out payments. Future revisions to these assumptions could materially change the estimate of the fair value of contingent consideration and, therefore, materially affect the Company's future financial results.

The fair value measurement of the contingent consideration encompasses the following significant unobservable inputs:

Unobservable Inputs	Range
Estimated contingent consideration payments	\$227 - \$3,017
Discount rate	4.25% - 8.90%
Timing of cash flows	0.08 – 3.58 years

The fair value of contingent acquisition consideration payable as of March 31, 2016 was \$13.5 million, of which \$6.8 million was recorded as current liability and \$6.7 million was recorded as non-current liability.

Assets and Liabilities Measured at Fair Value on a Non-recurring Basis

The Company's financial assets and liabilities measured at fair value on a non-recurring basis include equity method investments, acquired assets and liabilities in connection with business acquisitions and non-current amount due from a related party based on Level 3 inputs.

14. INCOME TAXES

The Company accounts for income taxes in accordance with standards established by US GAAP, which requires the recognition of tax benefits or expenses on the temporary differences between the financial reporting and tax bases of its assets and liabilities. The Company also earns income in certain foreign countries, and this income is subject to the laws of taxing jurisdictions within those countries, as well as U.S. federal and state tax laws. Deferred tax assets and liabilities are measured using statutorily-enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Valuation allowances are established when necessary to reduce the deferred tax assets to the amounts expected to be realized.

Income tax expenses were \$0.2 million for the three months ended March 31, 2016, compared with income tax benefit of \$0.2 million for the three months ended March 31, 2015. Excluding the effect of the non-deductible interest expenses incurred and withholding tax incurred at the Company, the effective tax rate for the three months ended March 31, 2016 was 19.9%, as compared to 19.0% for the three months ended March 31, 2015. The 2015 and 2016 effective tax rates were lower than the statutory tax rate of 25.0% in the PRC primarily because of the impact of lower preferential tax rates enjoyed by some of the Company's PRC subsidiaries.

The Company accounts for uncertain tax positions by prescribing a minimum recognition threshold that a tax position is required to meet before being recognized in the condensed consolidated financial statements. During the three months ended March 31, 2016, there was no change in unrecognized tax positions as compared to the same corresponding period last year.

15. COMMON SHARES

On August 29, 2013, the date of incorporation of the Company, the Company authorized 5,000,000 common shares with a par value of \$0.01 each and had one common share outstanding. On March 20, 2014, the shareholder of the Company approved a share split at a 1 to 100 ratio. On March 26, 2014, the Company issued a total of 45,242,929 common shares, with a par value of \$0.0001 each, to Parent. The number of common shares was adjusted retroactively for all periods presented for the share split.

As of March 31, 2016, the Company had 500,000,000 authorized common shares with a par value of \$0.0001 each and had 45,243,029 common shares issued and outstanding.

16. SHARE-BASED COMPENSATION

Replacement Award

On the Merger Date, certain options, restricted shares ("RSs") and restricted share units ("RSUs") of the Predecessor were rolled over into options, RSs and RSUs of Parent (the "Replacement Awards"). As the rollover of such Predecessor options, RSs and RSUs were contractually required under the Merger Agreement, the portions of the Replacement Awards that are attributable to pre-Merger and post-Merger services, respectively, are determined as of the Merger Date.

The terms and conditions of the Replacement Awards granted by Parent are equivalent to the terms and conditions of the exchanged Predecessor options, RSs and RSUs. No additional vesting

conditions were imposed on the holders of Replacement Awards. The remaining unrecognized share-based compensation expenses associated with the unvested Replacement Awards would be recognized over the period from the Merger Date through the end of the requisite service period of the Replacement Awards.

Cash-out Award

On the Merger Date, other than options, RSs and RSUs that were settled in cash at the time of the Merger or rolled over into Replacement Awards as discussed above, Parent also granted a cash-out award for each remaining outstanding option, RS or RSU of the Predecessor ("Cash-out Award"). Each Cash-out Award has the same vesting period as the Predecessor option, RS or RSU that it replaced. The unvested portion of a Cash-out Award is subject to forfeiture if the grantee's employment is terminated prior to vesting. As of the Merger Date, each Cash-out Award entitled the grantee to receive a cash amount equal to the merger consideration of \$7.30 per share upon vesting. Share-based compensation expenses for the Cash-out Awards are recognized ratably over the remaining service period.

2014 Omnibus Incentive Plan

On August 13, 2014, the board of directors of Parent approved Parent's Omnibus Incentive Plan ("2014 Omnibus Incentive Plan"). The maximum number of options and nonvested share units that may be granted under this plan will not exceed 15,834,895. Parent granted the following options and nonvested share units to the employees and directors of the Company under the 2014 Omnibus Incentive Plan:

Grant Date	Stock options	Time-Based Nonvested Share Units	Performance-Based Nonvested Share Units
October 1, 2014	1,814,088	4,676,566	4,093,894
January 1, 2015	720,216	-	337,000
April 1, 2015	423,000	-	408,000
July 1, 2015	125,000	-	125,000
October 1, 2015	950,000	-	45,000
January 1, 2016	304,455	-	-
March 10, 2016	-	11,416	-
Outstanding as of March 31, 2016	4,336,759	4,687,982	5,008,894

As the employees and directors entitled to the awards mainly provide service to the Company, the related compensation expenses were recorded at the Company rather than Parent.

Stock Options

Vesting of Options

Unless earlier terminated or forfeited, 25% of the options will vest on a date specified in the share award agreement, and the remaining 75% will vest pro-rata on the last day of each of the succeeding 12 calendar quarters.

Exercise of Options

The options may not be exercised until the occurrence of an initial public offering.

Termination of Options

Immediately upon cessation of the employment of an option grantee, any portion of such option that is unvested at the time of cessation of employment will be forfeited. The portion of the option that is vested will also terminate and no longer be exercisable and all received shares will be forfeited upon such cessation of employment if such cessation is due to an act or failure to act constituting cause as defined in the 2014 Omnibus Incentive Plan.

Time-Based Nonvested Share Units

The time-based nonvested share units will be fully vested upon satisfaction of both the event-based vesting conditions and the time-based vesting conditions.

Event-Based Vesting

Unless earlier terminated or forfeited, the nonvested share units shall be vested if (a) an initial public offering, or (b) a covered transaction that results in the majority shareholder (or its affiliates) of Parent holding less than fifty percent (50%) of the total fair market value of the shares of the Company or the sale or transfer of all or substantially all of the assets of the Company occurs on or before the tenth (non-U.S. taxpayers) or seventh (U.S. taxpayers) anniversary of the date of grant.

Time-Based Vesting

Unless earlier terminated or forfeited, 25% of the nonvested share units will be vested on a date specified in the share award agreement, and the remaining 75% will be vested pro-rata on the last day of each of the succeeding 12 calendar quarters.

Performance-Based Nonvested Share Units

The performance-based nonvested share units will be fully vested upon satisfaction of both the event-based vesting conditions and the performance-based vesting conditions.

Event-Based Vesting

Unless earlier terminated or forfeited, the nonvested share units shall be vested if (a) an initial public offering, or (b) a covered transaction that results in the majority shareholder (or its affiliates) of Parent holding less than fifty percent (50%) of the total fair market value of the shares of the Company or the sale or transfer of all or substantially all of the assets of the Company occurs on or before the tenth (non-U.S. taxpayers) or seventh (U.S. taxpayers) anniversary of the date of grant.

Performance-Based Vesting

Unless earlier terminated or forfeited, the nonvested share units shall be vested based on conditions which are based on Parent's earnings before interest and taxes from 2014 to 2017.

The Company did not record any compensation expenses in the condensed consolidated statements of operations for stock options and nonvested share units granted under the 2014 Omnibus Incentive Plan for the three months ended March 31, 2015 and 2016.

Set forth below is the impact on the result of operations of recording share-based compensation for the periods presented:

	Three months ended March 31,	
	2015	2016
Cost of revenues	\$ 6	\$ -
General and administrative expenses	1,628	233
Selling and marketing expenses	23	5
Total	<u>\$ 1,657</u>	<u>\$ 238</u>

17. AMOUNT DUE FROM RELATED PARTIES

Nature of the relationships with related parties:

Name	Relationship with the Company
Parent	Parent company of the Company
Tiak Koon Loh	Chief Executive Officer of the Company

As of December 31, 2015 and March 31, 2016, the following balances were due from the related parties:

	December 31, 2015	March 31, 2016
Amounts due from Parent ⁽ⁱ⁾	\$ 6,546	\$ 7,638
Amounts due from Tiak Koon Loh ⁽ⁱⁱ⁾	\$ 7,129	\$ 3,643

(i) The balance represents an unsecured interest-free loan provided to Parent with no fixed repayment terms.

(ii) In November 2014, the Company entered into a loan agreement with Tiak Koon Loh ("Mr. Loh"), the chief executive officer of the Company, to provide Mr. Loh a loan of \$10.0 million. Pursuant to the loan agreement, the loan bears no interest and is due for payment no later than five years from the date the loan was received by Mr. Loh (the "Loan Period"). During the Loan Period, the loan is secured by a first ranking perfected equitable mortgage over all of the securities that Mr. Loh owned of Parent.

The fair value of this loan was determined using a discount rate of 8.76% for a 5-year loan period. The discount rate was estimated by considering the effective interest rate of the Senior Secured Notes under which the Company received its financing in March 2014. The difference between the principle and the fair value of the loan was treated as deferred cost and amortized over the loan period using the effective interest rate. In March 2016, Mr. Loh repaid \$5.0 million of the loan.

18. SUBSEQUENT EVENTS

On April 1, 2016, Parent granted 30,000 share options, 79,616 time-based nonvested share units and 51,750 performance-based nonvested share units to the employees of the Company under the 2014 Omnibus Incentive Plan.

On April 1, 2016, the Company borrowed RMB65.0 million (\$10.1 million) under the Onshore Revolver, which bears interest at a per annum rate of 5.22% and will mature on June 30, 2016.

On April 1, 2016, the Company obtained a one-year loan of \$10.1 million under the Secured Short-term Borrowing Facility (see Note 10), which bears an interest rate of 5.22% per annum, which was equal to 120 percent of the PBOC one year short-term borrowing base rate on the date when the loan was obtained.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

In this report, the "Company," "we," "us" and "our" refer to BCP (Singapore) VI Cayman Financing Co. Ltd. and its subsidiaries, and "Pactera" refers to Pactera Technology International Ltd. and its subsidiaries. The following discussion should be read in conjunction with the condensed consolidated financial statements (unaudited) of the Company and the related notes contained elsewhere in this report. In addition to historical information, this discussion includes forward-looking information that involves risks and assumptions, which could cause actual results to differ materially from management's expectations. See "Forward-Looking Statements" included elsewhere in this report.

Executive Overview

We are a leading global China-based IT services provider to top multinational and Chinese corporations. Our business is distinguished by our portfolio of blue-chip clients, a uniquely balanced geographic mix of revenues, an extensive Asia footprint, and leading positions in both the market for global offshoring of IT services into China and the Chinese domestic IT services outsourcing market. Our clients include 90 Fortune 500 companies, whom we serve throughout the world via our global sales and delivery footprint. We form long term relationships with our clients, for many of whom we are their sole or largest China-based IT services provider.

Our service offerings comprise (i) IT services ("ITS"), comprising 68.6% of the net revenues of the Company for the three months ended March 31, 2016, which consist of outsourced application development and maintenance services ("ADM") and consulting and packaged software services ("CPS"); (ii) research and development services ("RDS"), comprising 28.2% of the net revenues of the Company for the three months ended March 31, 2016, which consist of providing development, testing and localization services for software and hardware products developed by our clients; and (iii) business process outsourcing services ("BPO"), comprising 3.2% of the net revenues of the Company for the three months ended March 31, 2016.

As the China-based IT services player with the largest international business in terms of revenues, we have a unique ability to participate in two large, attractive and fast growing markets: (i) IT services offshoring into China and (ii) the domestic Chinese IT outsourcing services market.

- *Offshoring of IT services into China* — We have been serving international clients' global and Asia based operations from dedicated delivery centers in China since our founding in 1996. Clients headquartered outside of China contributed 51.5% of the net revenues of the Company for the three months ended March 31, 2016.
- *Chinese domestic IT outsourcing services* — We have leveraged our expertise serving international clients to build a leading position in the Chinese domestic IT services outsourcing market. We focus on industry verticals which we believe provide the most attractive opportunities, such as the BFSI vertical. Clients headquartered in China accounted for 48.5% of the net revenues of the Company for the three months ended March 31, 2016.

We have strong industry expertise in high technology ("High Tech"), BFSI, and manufacturing, with clients from these industries representing 51.8%, 32.1% and 14.0% of the net revenues of the Company for the three months ended March 31, 2016, respectively. Our High Tech clients are primarily served by our RDS business, where we support them with development, testing and localization services to improve the performance of and shorten the time-to-market for their products. Our BFSI clients, which include some of the world's largest banks, are primarily served by our ITS business, where we provide both ADM and CPS services, with a focus on banking solutions.

We support our manufacturing clients through a combination of ITS and RDS services, addressing their internal IT infrastructure needs and supporting their product development.

Consolidated Results of Operations

Comparison of the Three Months ended March 31, 2015 and the Three Months ended March 31, 2016

Net Revenues

Net revenues were \$189.1 million for the first quarter of 2016, compared to \$172.5 million for the first quarter of 2015, representing an increase of \$16.6 million, or 9.6%. The increase was due to an increase in net revenues from ITS and BPO, partly offset by a decrease in net revenues from RDS.

Net Revenues by Service Line

The following table sets forth the net revenues by type of service offering for the periods indicated.

	Three Months Ended March 31, 2016		Three Months Ended March 31, 2015		Year-over-Year % Change
	(\$ in thousands, except percentages)				
ITS	129,749	68.6%	112,115	65.0%	15.7%
CPS	49,697	26.3%	42,626	24.7%	16.6%
ADM	80,052	42.3%	69,489	40.3%	15.2%
RDS	53,314	28.2%	55,553	32.2%	(4.0)%
BPO	6,021	3.2%	4,859	2.8%	23.9%
Total Net Revenues	189,084	100.0%	172,527	100.0%	9.6%

Net revenues from ITS were \$129.7 million for the first quarter of 2016, an increase of 15.7% from \$112.1 million for the corresponding period in 2015. The growth was primarily driven by the increasing demand for and expanded offerings of our CPS and ADM services in the first quarter of 2016. From the first quarter of 2015 to the first quarter of 2016, net revenues of CPS offerings increased by \$7.1 million, or 16.6%, and net revenues from ADM service offerings increased by \$10.6 million, or 15.2%.

Net revenues from RDS were \$53.3 million for the first quarter of 2016, compared to \$55.6 million for the corresponding period in 2015.

Net revenues from BPO were \$6.0 million for the first quarter of 2016, compared to \$4.9 million for the corresponding period in 2015. The increase in net revenues from BPO was mainly driven by increasing demand from our BPO clients.

Net Revenues by Geographic Markets

The following table sets forth the net revenues by location of clients' headquarters for the periods indicated.

	Three Months Ended March 31, 2016		Three Months Ended March 31, 2015		Year-over-Year % Change
	(\$ in thousands, except percentages)				
Greater China ¹ :	91,741	48.5%	72,315	41.9%	26.9%
United States	68,403	36.2%	67,518	39.1%	1.3%
Japan	13,675	7.2%	12,128	7.0%	12.8%
Europe	9,195	4.9%	12,054	7.0%	(23.7)%
Asia South	6,070	3.2%	8,512	5.0%	(28.7)%
Total Net Revenues	189,084	100.0%	172,527	100.0%	9.6%

From the first quarter of 2015 to the first quarter of 2016, net revenues from clients headquartered in Greater China increased by \$19.4 million, or 26.9%, as we continued to expand our business with existing and new clients in Greater China. Net revenues from clients headquartered in the United States increased by \$0.9 million, or 1.3%. Net revenues from clients headquartered in Japan increased by \$1.5 million, or 12.8%. Net revenues from clients headquartered in Europe decreased by \$2.9 million, or 23.7%, mainly due to the decreasing demand from our clients headquartered in Europe in the first quarter of 2016. Net revenues from clients headquartered in Asia South decreased by \$2.4 million, or 28.7%, mainly due to the decreasing demand from our clients headquartered in Asia South in the first quarter of 2016.

The following table sets forth the net revenues based on the location of clients' contracting entities for the periods indicated:

	Three Months Ended March 31, 2016		Three Months Ended March 31, 2015		Year-over-Year % Change
	(\$ in thousands, except percentages)				
Greater China	129,103	68.3%	113,273	65.7%	14.0%
United States	27,821	14.8%	24,668	14.3%	12.8%
Asia South	15,771	8.3%	20,930	12.1%	(24.6)%
Japan	13,673	7.2%	11,122	6.4%	22.9%
Europe	2,716	1.4%	2,534	1.5%	7.2%
Total Net Revenues	189,084	100.0%	172,527	100.0%	9.6%

Net Revenues by Industry

The following table sets forth the net revenues based on industry for the periods indicated:

	Three Months Ended March 31, 2016		Three Months Ended March 31, 2015		Year-over-Year % Change
	(\$ in thousands, except percentages)				
High Tech	97,920	51.8%	91,971	53.3%	6.5%
BFSI	60,765	32.1%	57,006	33.0%	6.6%
Manufacturing	26,444	14.0%	20,804	12.1%	27.1%
Others	3,955	2.1%	2,746	1.6%	44.0%
Total net revenues	189,084	100.0%	172,527	100.0%	9.6%

¹ "Greater China" refers to the People's Republic of China, including, for the purpose of this report, Taiwan and the special administrative regions of Hong Kong and Macau.

Net revenues from High Tech clients increased by \$5.9 million, or 6.5%, from the first quarter of 2015 to the first quarter of 2016, primarily driven by the increasing demand of our High Tech clients in the PRC. Net revenues from BFSI clients increased by \$3.8 million, or 6.6%, from the first quarter of 2015 to the first quarter of 2016, primarily driven by our strengthened capabilities in BFSI solution offerings in the PRC. Net revenues from Manufacturing clients increased by \$5.6 million, or 27.1%, from the first quarter of 2015 to the first quarter of 2016, primarily driven by the increasing demand for our services from our Manufacturing clients in the PRC.

We aim to continue to strengthen our expertise in the High Tech and BFSI industries to leverage our existing industry knowledge to serve more clients within these industries and to penetrate additional sub-segments within these industries.

Cost of Revenues

The cost of revenues was \$145.6 million for the first quarter of 2016, representing an increase of 9.8% over the comparable period in 2015. The increase in cost of revenues reflected the growth in our net revenues for the same period.

Gross Profit and Gross Margin

The gross profit was \$43.5 million for the first quarter of 2016, compared to \$40.0 million for the corresponding period in 2015. Gross margin was 23.0% in the first quarter of 2016, which remained relatively stable compared to 23.2% in the first quarter of 2015. Our gross margin exhibits seasonality, where the first quarter of a year usually has a lower gross margin as compared with other quarters due to the Chinese New Year and related holidays.

Operating Expenses

Total operating expenses were \$41.9 million for the first quarter of 2016 compared to \$40.8 million for the corresponding period in 2015, representing an increase of 2.7%.

General and Administrative Expenses

The general and administrative expenses slightly increased to \$31.1 million in the first quarter of 2016 from \$29.7 million in the first quarter of 2015.

Selling and Marketing Expenses

The selling and marketing expenses slightly decreased to \$10.6 million in the first quarter of 2016 from \$11.1 million in the first quarter of 2015.

Selling and marketing expenses in the first quarters of 2015 and 2016 included amortization of intangible assets acquired in mergers and acquisitions which were \$1.8 million and \$2.3 million, respectively. The intangible assets primarily consisted of the value of the acquired customer relationship and trade name. The selling and marketing expenses, excluding amortization of intangible assets, were approximately \$9.3 million and \$8.3 million for the first quarters of 2015 and 2016, respectively.

Operating Income (Loss) and Operating Margin

As a result of the above analysis, operating income for the first quarter of 2016 was \$1.6 million, compared to an operating loss of \$0.8 million for the corresponding period in 2015.

Operating margin was 0.8% for the first quarter of 2016, compared to negative 0.5% for the corresponding period in 2015.

Other Expenses

Other expenses were \$6.5 million for the first quarter of 2016 compared to \$6.6 million for the corresponding period in 2015.

Income Tax Benefit (Expenses)

Income tax expenses were \$0.2 million in the first quarter of 2016, as compared to income tax benefit of \$0.2 million in the first quarter of 2015.

Net loss

As a result of the above analysis, the net loss was \$5.1 million in the first quarter of 2016 compared to a net loss of \$7.3 million in the first quarter of 2015.

Non-GAAP Financial Measures

To supplement the consolidated financial results presented in accordance with US GAAP, the Company uses the following measures defined as non-GAAP financial measures by the U.S. Securities and Exchange Commission: EBITDA, adjusted EBITDA and adjusted EBITDA margin, which exclude IT infrastructure development expenses, lay-off expenses for certain senior management, privatization-related expenses, share-based compensation, change in fair value of contingent consideration, compensation expenses related to acquisition and loss on disposals of property, plant and equipment. The presentation of the non-GAAP financial measure is not intended to be considered in isolation or as a substitute for or superior to the financial information prepared and presented in accordance with US GAAP or as being comparable to results reported or forecasted by other companies.

The Company believes that the non-GAAP financial measures provide meaningful supplemental information regarding its performance by excluding certain expenses and expenditures that may not be indicative of its operating performance. The Company believes that both management and investors benefit from referring to the non-GAAP financial measures in assessing the Company's performance and when planning and forecasting future periods. A limitation of using EBITDA, adjusted EBITDA and adjusted EBITDA margin is that the non-GAAP measure excludes IT infrastructure development expenses, lay-off expenses for certain senior management, privatization-related expenses, share-based compensation, change in fair value of contingent consideration, compensation expenses related to acquisition and loss on disposals of property, plant and equipment that have been and will continue to be, for the foreseeable future, significant recurring expenses in the business. Management compensates for these limitations by providing specific information regarding the US GAAP amounts excluded from the non-GAAP measure. The following section provides more details on the reconciliations between US GAAP financial measures that are comparable to non-GAAP financial measures.

The following table sets forth a reconciliation of net loss to EBITDA, which refers to earnings before interest, taxes, depreciation and amortization, and adjusted EBITDA for the periods presented:

	Three months ended March 31,	
	2015	2016
	(U.S. dollars in thousands, except percentages)	
Net loss	\$ (7,257)	\$ (5,149)
Income tax (benefit) expenses	(209)	231
Interest income, interest expenses and change in fair value of foreign currency forward contract	5,857	6,291
Amortization (of intangible assets and land use right)	2,170	3,029
Depreciation	3,211	2,983
EBITDA	3,772	7,385
IT infrastructure development expenses	360	447
Lay-off expenses for certain senior management	315	-
Privatization-related expenses	106	82
Share-based compensation	1,657	238
Change in fair value of contingent consideration	54	222
Compensation expenses related to acquisition	552	897
Loss on disposals of property, plant and equipment	29	32
Adjusted EBITDA	\$ 6,845	\$ 9,303
Adjusted EBITDA Margin	4.0%	4.9%

Liquidity and Capital Resources

Cash Flow and DSO

As of March 31, 2016, the Company had cash and cash equivalents and restricted cash totaling \$71.8 million (including cash payable for the acquisition of Pactera in the amount of \$0.2 million), compared to \$101.3 million as of December 31, 2015.

The operating cash flow for the first three months of 2016 was a net outflow of \$54.5 million, compared to a net outflow of \$25.5 million for the corresponding period of 2015. The net cash used in operating activities for the first three months of 2016 was primarily due to an increase in accounts and notes receivables and a decrease in accrued expenses and other payables.

The net cash provided by investing activities for the first three months of 2016 was \$3.0 million, compared to net cash provided by investing activities of \$0.9 million for the corresponding period of 2015. The net cash provided by investing activities for the first three months of 2016 was primarily due to repayment of loan from a related party and cash acquired from a business acquisition, which were partly offset by purchase of property, plant and equipment and purchase of building.

The net cash provided by financing activities for the first three months of 2016 was \$22.4 million, compared to net cash used in financing activities of \$2.3 million for the corresponding period of 2015. The net cash provided by financing activities for the first three months of 2016 was primarily

attributable to proceeds received from short-term borrowings, which were partly offset by repayment of short-term borrowings.

Days of sales outstanding ("DSO") were 141 days for the first three months of 2016 and 135 days for the year ended December 31, 2015, driven by the strong growth of our business with our clients headquartered in Greater China, which generally have significantly higher DSO compared to our clients headquartered outside Greater China.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to various market risks in its daily operations. Changes in foreign exchange rates, interest rates, inflation rates or other market conditions could have a material impact on the Company's results of operations.

Foreign Exchange Risk

We use the U.S. dollar as our functional and reporting currency for our financial statements. All transactions in currencies other than the U.S. dollar during the year are re-measured at the exchange rates prevailing on the respective relevant dates of such transactions. Monetary assets and liabilities existing at the balance sheet date denominated in currencies other than the U.S. dollar are re-measured at the exchange rates prevailing on such date. Exchange differences are recorded in our condensed consolidated income statement. The financial records of each of our subsidiaries are maintained in the subsidiary's respective local currency. Assets and liabilities are translated at the exchange rates at the balance sheet date, equity accounts are translated at historical exchange rates and revenues, expenses, gains and losses are translated using the average rate for the year. Translation adjustments are reported as cumulative translation adjustments and are shown as a separate component of accumulated other comprehensive income under shareholders' equity. Transaction gains and losses are recognized in our statements of operations under general and administrative expenses.

The majority of our revenues are generated in Renminbi, U.S. dollar and Japanese Yen, while the majority of our costs are denominated in Renminbi. Accordingly, changes in exchange rates, especially relative changes in exchange rates among the Renminbi, U.S. dollar and Japanese Yen, may have a material effect on our revenues, costs and expenses, gross margin and net income. Moreover, the relative value of assets and liabilities denominated in different currencies fluctuates along with changes in the exchange rates between those currencies. Considering the amount of our cash and cash equivalents as of March 31, 2016, a 1% change in the exchange rates between the Renminbi and the U.S. dollar would result in an increase or decrease of \$0.3 million to our total cash and cash equivalents and a 1% change in exchange rates between the U.S. dollar and the Japanese Yen would result in an increase or decrease of \$43.9 thousand to our total cash and cash equivalents.

The U.S. dollar and Japanese Yen are freely convertible currencies with floating exchange rates.

Although the Renminbi is no longer pegged to the U.S. dollar, movements in the Renminbi exchange rate remain tightly controlled by the PBOC. However, the Renminbi may appreciate or depreciate significantly in value against the U.S. dollar and other currencies in the medium to long term, and the PRC authorities may allow the Renminbi to fluctuate more freely in the future.

We have in the past entered into a limited number of currency forward contracts, mainly as to Renminbi and Japanese Yen to partially hedge our exposure to risks relating to fluctuations in the Renminbi-Yen exchange rate, and we periodically review the need to enter into hedging transactions to protect against fluctuations in the Renminbi-Yen and Renminbi-U.S. dollar exchange rates. These foreign currency forward contracts typically mature over a period of six to twelve months. We recorded a loss of \$34.0 thousand in the first quarter of 2016 on account of currency forward contracts. We mark to market these contracts at the end of each reporting period and recognize the change in fair value in earnings immediately. As of March 31, 2016, we held foreign exchange forward contracts with an aggregate notional amount of approximately \$12.4 million. As of March 31, 2016, the fair value of the forward contracts was nil.

Interest Rate Risk

Our exposure to interest rate risk primarily relates to interest income generated by excess cash, which is mostly held in interest-bearing bank deposits. We have not used derivative financial

instruments in our investment portfolio. Interest-earning instruments carry a degree of interest rate risk. A 1% decrease in each applicable interest rate would deduct \$0.1 million from our interest income in the first quarter of 2016. We have not been exposed, nor do we anticipate being exposed, to material risks due to changes in market interest rates. However, our future interest income may fall short of expectations due to changes in market interest rates.

Inflation

Inflation in China has not materially impacted our results of operations in recent years. According to the National Bureau of Statistics of China, the consumer price index in China increased by 2.1% in the three months ended March 31, 2016 as compared to the corresponding period in 2015. Although we have not been materially affected by inflation in the past, we may be affected if China experiences higher rates of inflation in the future.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The legal proceedings set forth under the caption "Legal Proceedings" in the annual report of the Company for the year ended December 31, 2015 are incorporated herein by reference.

ITEM 1A. RISK FACTORS

The risk factors set forth under the caption "Risk Factors" in the annual report of the Company for the year ended December 31, 2015 are incorporated herein by reference.