

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 20-F

(Mark One)

- Registration statement pursuant to Section 12(b) or 12 (g) of the Securities Exchange Act of 1934
or
 Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2011.
or
 Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____
or
 Shell company report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
Date of event requiring this shell company report _____
For the transition period from _____ to _____
Commission file number: 001-33857

VanceInfo Technologies Inc.

文思信息技术有限公司

(Exact name of Registrant as Specified in Its Charter)

N/A

(Translation of Registrant's Name Into English)

Cayman Islands

(Jurisdiction of Incorporation or Organization)

3/F Building 8, Zhongguancun Software Park, Haidian District
Beijing 100193, People's Republic of China
(Address of Principal Executive Offices)

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3/F Building 8, Zhongguancun Software Park, Haidian District
Beijing 100193, People's Republic of China

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

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

Title of Each Class

Name of Each Exchange On Which Registered

American Depositary Shares, each representing one ordinary share, par value US\$0.001 per share

New York Stock Exchange

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

None

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

(Title of Class)

Indicate the number of outstanding shares of each of the Issuer's classes of capital or common stock as of the close of the period covered by the annual report.

44,714,963 ordinary shares, par value US\$0.001 per share, as of December 31, 2011.

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

U.S. GAAP International Financial Reporting Standards as issued by the International Accounting Standards Board Other

If "other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17 Item 18

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

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS.)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes No

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INTRODUCTION

In this annual report, except where the context otherwise requires and for purposes of this annual report only:

- “ADS(s)”, refers to the American depositary share(s) of VanceInfo Technologies Inc. 文思信息技术有限公司, a Cayman Islands company, each representing one ordinary share of VanceInfo Technologies Inc. 文思信息技术有限公司, par value US\$0.001 per share;
- “attrition rate”, with respect to an information technology, or IT service company or its business unit during a specified period, refers to the ratio of the number of professionals that have left that company during the period, excluding employees employed for less than six months, to the number of full-time professionals that were on that company’s payroll at the ending date of the same period;
- “China” or “PRC” refers to the People’s Republic of China, excluding, for purposes of this annual report only, Taiwan, Hong Kong and Macau;
- “Euro” refers to the common legal currency of the members of the European monetary union;
- “Greater China” refers to the People’s Republic of China, including, for purposes of this annual report only, Taiwan, Hong Kong and Macau;
- “Hong Kong Dollar” refers to the legal currency of Hong Kong;
- “Huawei” refers to Huawei Technologies Co., Ltd. and certain of its affiliates;
- “IBM” refers to International Business Machines China Company Limited, IBM Global Services (China) Company Limited and IBM Solution and Services (Shenzhen) Co., Ltd.;
- “JPY” or “Japanese Yen” refers to the legal currency of Japan;
- “Microsoft” refers to Microsoft Corporation, Microsoft (China) Co., Ltd., and Microsoft Development Co., Ltd.;
- “professionals”, with respect to an IT service company, refer to employees executing IT services for its clients;
- “TIBCO” refers to TIBCO Software Inc.;
- “US\$,” “U.S. dollar” or “\$” refers to the legal currency of the United States;
- “we,” “us,” “our company,” “our” and “VanceInfo” refer to VanceInfo Technologies Inc. 文思信息技术有限公司, a Cayman Islands company, its predecessor, the IT services business of Beijing Wensi Chuangyi Software Technology Co., Ltd. and its subsidiaries ;
- all shares and per share data have been adjusted to reflect a 100-for-1 split that became effective on March 10, 2005 and a further 10-for-1 split that became effective on November 3, 2005; and
- all discrepancies in any table between the amounts identified as total amounts and the sum of the amounts listed therein are due to rounding.

Our financial statements are expressed in the U.S. dollar, which is our reporting and functional currency. However, a majority of the revenues and expenses of our consolidated operating subsidiaries are denominated in Renminbi, or RMB, the legal currency of China. This annual report contains translations of certain Renminbi amounts into U.S. dollars at specified rates. With respect to amounts not recorded in our consolidated financial statements, all translations from Renminbi to U.S. dollars were made at the exchange rate refers to the noon buying rate as set forth in the H.10 statistical release of the Federal Reserve Board. Unless otherwise noted, all translations from Renminbi to U.S. dollars have been made at a rate of RMB6.2939 to US\$1.00, the noon buying rate in effect as of December 30, 2011. We make no representation that any Renminbi or U.S. dollar amounts could have been, or could be, converted to U.S. dollars or Renminbi, as the case may be, at any particular rate, or at all. On April 20, 2012, the noon buying rate was RMB6.3080 to US\$1.00.

This annual report on Form 20-F includes our audited consolidated statements of operations for the years ended December 31, 2009, 2010 and 2011, and consolidated balance sheet data as of December 31, 2010 and 2011.

We and certain selling shareholders of our company completed the initial public offering of 8,797,500 ADSs, each representing one ordinary share, par value US\$0.001 per share, on December 17, 2007. In December 2007, we listed our ADSs on the New York Stock Exchange, or NYSE, under the symbol “VIT.”

FORWARD-LOOKING INFORMATION

This annual report on Form 20-F contains statements of a forward-looking nature. These statements relate to events involving known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from those expressed or implied by the forward-looking statements. These statements are made under the “safe harbor” provisions of the U.S. Private Securities Litigation Reform Act of 1995. You can identify these forward-looking statements by terminology such as “may,” “will,” “expects,” “anticipates,” “future,” “intend,” “plan,” “believe,” “estimate,” “is/are likely to” , “could”, “potential”, “should”, “would” or other and similar expressions. The accuracy of these statements may be impacted by a number of risks and uncertainties that could cause actual results to differ materially from those projected or anticipated. Such risks and uncertainties include, but are not limited to, the following:

- our expansion plans;
- our anticipated growth strategy;
- our plans to recruit more employees;
- our plans to invest in research and development to enhance our service lines;
- our future business development, results of operations and financial condition;
- expected changes in our net revenues and certain cost or expense items;
- our ability to attract and retain clients; and
- trends and competition in the offshore IT services industry.

These risks are not exhaustive. We operate in an emerging and evolving environment. New risk factors emerge from time to time and it is impossible for our management to predict all risk factors, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statement.

This annual report on Form 20-F also contains estimates, projections and statistical data related to the IT services market in China. This market data, including data from International Data Corporation, or IDC, an independent market research firm, speaks as of the date it was published and includes projections that are based on a number of assumptions and are not representations of fact. You should not place undue reliance on these forward-looking statements.

We would like to caution you not to place undue reliance on forward-looking statements and you should read these statements in conjunction with the risk factors disclosed in Item 3 of this annual report, “Key Information—Risk Factors.” We do not undertake any obligation to update or revise the forward-looking statements except as required under applicable law.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not Applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not Applicable.

ITEM 3. KEY INFORMATION

A. Selected Financial Data

The following table presents selected consolidated financial information for our company. You should read the following information in conjunction with Item 5, “Operating and Financial Review and Prospects” below.

The selected consolidated statement of operations data for the years ended December 31, 2009, 2010 and 2011 and the consolidated balance sheet data as of December 31, 2010 and 2011, have been derived from our audited consolidated financial statements, which are included in this annual report. The selected consolidated balance sheet data as of December 31, 2009 have been derived from our audited consolidated financial statements for 2009, which are not included in this annual report. The selected consolidated statement of operations data for the years ended December 31, 2007 and 2008, reflecting the adoption of Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 810-10-65, Transition Related to FASB Statement No. 160, Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51 (“ASC Topic 810-10-65”) on January 1, 2009, retrospectively, have been derived from our audited consolidated financial statements for 2007 and 2008, which are not included in this annual report. The selected consolidated balance sheet data as of December 31, 2008, reflecting the adoption of ASC Topic 810-10-65, have been derived from our audited consolidated financial statements for 2008, which are not included in this annual report. The selected consolidated balance sheet data as of December 31, 2007, except for the impact of adoption of ASC Topic 810-10-65, which were reflected in this annual report, have been derived from our audited financial statements for 2007, which are not included in this annual report. Our consolidated financial statements are prepared and presented in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). The historical results are not necessarily indicative of results to be expected in any future period.

	VanceInfo				
	For the Year Ended December 31,				
	2007 (as adjusted)	2008 (as adjusted)	2009	2010	2011
	(in US\$ thousands, except for share, per share and per ADS data)				
Consolidated Statement of Operations Data					
Net revenues	62,714	102,663	148,066	211,550	283,137
Cost of revenues ⁽¹⁾	(38,544)	(62,911)	(90,830)	(130,035)	(184,518)
Gross profit	24,170	39,752	57,236	81,515	98,619
Selling, general and administrative expenses ⁽¹⁾	(16,180)	(25,905)	(34,710)	(51,901)	(81,848)
Total operating expenses ⁽¹⁾	(16,180)	(25,905)	(34,710)	(51,901)	(81,848)
Change in fair value of contingent consideration payable for business acquisitions	—	—	(62)	221	920
Other operating income	(860)	858	413	2,036	3,172
Income from operations	8,850	14,705	22,877	31,871	20,863
Net income	9,621	16,089	21,508	29,863	22,193
Net (income)/loss attributable to noncontrolling interest	(52)	84	—	—	—
Deemed dividend on Series A convertible redeemable preferred shares — accretion of redemption premium	(632)	—	—	—	—
Income attributable to VanceInfo Technologies Inc. shareholders	8,937	16,173	21,508	29,863	22,193
Income per ordinary share:					
Basic	\$ 0.22	\$ 0.43	\$ 0.56	\$ 0.74	\$ 0.51
Diluted	\$ 0.19	\$ 0.40	\$ 0.52	\$ 0.69	\$ 0.49
Income per ADS:					
Basic	\$ 0.22	\$ 0.43	\$ 0.56	\$ 0.74	\$ 0.51
Diluted	\$ 0.19	\$ 0.40	\$ 0.52	\$ 0.69	\$ 0.49
Weighted average ordinary shares used in calculating net income per ordinary share:					
Basic	11,426,183	37,276,306	38,389,495	40,298,060	43,103,190
Diluted	13,446,087	40,695,982	41,576,217	43,406,080	45,248,469

	VanceInfo				
	For the Year Ended December 31,				
	2007 (as adjusted)	2008 (as adjusted)	2009	2010	2011
Other Consolidated Financial Data					
Gross margin ⁽²⁾	38.5%	38.7%	38.7%	38.5%	34.8%
Operating margin ⁽³⁾	14.1	14.3	15.5	15.1	7.4
Net margin ⁽⁴⁾	15.3%	15.7%	14.5%	14.1%	7.8%

(1) Includes share-based compensation expenses as follows:

	VanceInfo				
	For the Year Ended December 31,				
	2007	2008	2009	2010	2011
	(in US\$ thousands)				
Share-based compensation expenses included in:					
Cost of revenues	(111)	(265)	(313)	(492)	(762)
Selling, general and administrative expenses	(885)	(1,126)	(1,252)	(2,755)	(7,682)

- (2) Gross margin represents gross profit as a percentage of net revenues.
(3) Operating margin represents income from operations as a percentage of net revenues.
(4) Net margin represents net income as a percentage of net revenues.

	As of December 31,				
	2007 (as adjusted)	2008 (as adjusted)	2009	2010	2011
	(in US\$ thousands)				
Consolidated Balance Sheet Data:					
Cash and cash equivalents	76,835	79,963	64,057	161,265	96,170
Term deposits and short-term investments	1,371	1,466	22,122	18,208	14,401
Accounts receivable	24,708	36,827	60,524	85,437	126,389
Total assets	129,076	155,451	205,191	351,639	385,896
Total liabilities	18,068	23,948	42,629	55,472	82,452
Shareholders' equity	110,008	131,503	162,562	296,167	303,444
Total liabilities, convertible redeemable preferred shares and shareholders' equity	129,076	155,451	205,191	351,639	385,896

B. Capitalization and Indebtedness

Not Applicable.

C. Reasons for the Offer and Use of Proceeds

Not Applicable.

D. Risk Factors

Risks Related to Our Company and Industry

Because our business depends significantly on clients headquartered in Greater China, the United States, Europe and Japan, any economic slowdown in these regions or other factors that affect IT offshore outsourcing from the United States, Europe or Japan could have a material adverse effect on our business and operating results.

As of December 31, 2011, substantially all of our net revenues were derived from clients headquartered in Greater China, the United States, Europe and Japan. These economies were impacted by the global economic downturn in 2008. The recovery from the lows of 2008 and 2009 was uneven and it is facing new challenges, including the escalation of the European sovereign debt crisis since 2011. It is unclear whether the European sovereign debt crisis will be contained and what effects it may have. There is considerable uncertainty over the long-term effects of the expansionary monetary and fiscal policies that have been adopted by the central banks and financial authorities of some of the world's leading economies, including China. There have also been concerns about the economic effect of the earthquake, tsunami and nuclear crisis in Japan. There have also been

concerns over unrest in the Middle East and Africa, which have resulted in higher oil prices and significant market volatility, and over the possibility of a war involving Iran and Syria. Economic conditions in China are sensitive to global economic conditions, as well as changes in domestic economic and political policies and the expected or perceived overall economic growth rate in China. Some of these factors have had certain adverse effects on our business and results of operations in 2011, including weaker than expected net revenues growth in Japanese market, increased pricing pressures from some of our clients and some delays in obtaining new projects from existing clients. If these adverse changes to the macro-economic conditions of our or our key clients' key markets become extremely severe or continue for a relatively long period of time, our clients may cancel, reduce or defer their IT spending or change their IT outsourcing strategy, and our utilization and billing rates for our professionals could decline, which could have a material adverse effect on our business and operating results.

Furthermore, IT offshore outsourcing is becoming an increasingly politically sensitive issue in the United States, Europe and Japan. For example, many organizations and public figures in the United States and Europe have publicly expressed concern about a perceived association between offshore outsourcing providers and the loss of jobs in their home countries. As a result, current or prospective clients may elect to perform such services themselves or may be discouraged from transferring these services from onshore to offshore providers. Any slowdown or reversal of existing industry trends towards offshore outsourcing in response to political pressure would harm our ability to compete effectively with competitors that operate out of onshore facilities and adversely affect our business and financial results.

We depend on a limited number of clients for a significant portion of our revenues and any loss of business from these clients could reduce our revenues and significantly harm our business.

We have derived, and believe that in the foreseeable future we will continue to derive, a significant portion of our revenues from a limited number of clients. In 2009, each of Huawei, Microsoft and a European mobile handset manufacturer accounted for 10% or more of our net revenues, and in the aggregate accounted for 47.0% of our net revenues. In 2010, each of Huawei and Microsoft accounted for 10% or more of our net revenues, and in the aggregate accounted for 37.8% of our net revenues. In 2011, each of Huawei and Microsoft accounted for 10% or more of our net revenues, and in the aggregate accounted for 36.9% of our net revenues. Our top five clients accounted for approximately 56.3%, 55.5% and 53.1% of our net revenues in 2009, 2010 and 2011, respectively. Our ability to maintain close relationships with these clients is essential to the growth and profitability of our business.

A number of factors other than our performance could cause the loss of or reduction in business or revenue from a client and these factors are not predictable. A client may demand price reductions, change its outsourcing strategy, switch to another IT outsourcing service provider or return work in-house. For example, it was recently announced that Huawei and one of our competitors has formed a joint venture specializing in software outsourcing business. Huawei may also approach us or our other competitors for a similar joint venture arrangement, and may enter into similar alliances with our other competitors. If we enter into discussion on joint venture or similar alliance, there is no assurance that we can negotiate terms that are favorable to us. We generally do not have long-term commitments from any of our clients to purchase our services. Although we usually enter into master service agreements, or MSAs, with clients, these MSAs are not commitments to purchase our services, and statements of work, or SOWs, from clients are required for specific orders to purchase our services. In addition, the MSAs and SOWs typically may be terminated by our clients on short notice. If we fail to enter into or renew MSAs with one or more of our major clients in any particular period, if major clients reduce their service volumes under SOWs, or if any existing MSAs or SOWs with major clients are terminated, some or all of the business of our major clients could be lost or reduced, which could have a material adverse effect on our business, results of operations and financial condition. In addition, disruption or slowdown of our clients' business expansion due to various factors including legal obstacles or regulatory scrutiny may result in a reduction of their demands of our services, which will in turn negatively impact our business, results of operations and prospects.

Our revenues are highly dependent on a limited number of industries and any decrease in demand for outsourced services in these industries could reduce our revenues and adversely affect our results of operations.

For the years ended December 31, 2009, 2010 and 2011, a majority of our net revenues were derived from clients in the telecommunications and high technology industries. Our business growth largely depends on continued demand for our services from clients in these industries and other industries that we may target in the future, as well as on trends in these industries to outsource research and development services, or R&D services, enterprise solutions, application development and maintenance, or ADM, quality assurance and testing, globalization and localization and other IT services. A downturn in any of our targeted industries, particularly the telecommunications and high technology industries, a slowdown or reversal of the trend to outsource IT services in any of these industries or the introduction of regulations which restrict or discourage companies from outsourcing could result in a decrease in the demand for our services and adversely affect our results of operations.

Other developments may also lead to a decline in the demand for our services in these industries. For example, consolidation in any of these industries or acquisitions, particularly involving our clients, may decrease the potential number of buyers of our services.

Any significant reduction in or the elimination of the use of the services we provide within any of these industries would result in reduced revenues and harm our business. Our clients may experience rapid changes in their prospects, substantial price competition and pressure on their profitability. This, in turn, may result in increasing pressure on us from clients in these key industries to lower our prices, which could negatively affect our business, results of operations and financial condition.

We face intense competition from onshore and offshore IT outsourcing companies and, if we are unable to compete effectively, we may lose clients and our revenues may decline. Our clients may also choose to use internal resources to provide the IT services they need, thereby causing us to lose revenues.

The market for IT services is highly competitive and we expect competition to increase due to a number of factors. We believe that the principal competitive factors in our markets are industry experience, quality of the services offered, reputation, marketing and selling skills, as well as price. We face significant competition from various competitors, including:

- other China-based IT services companies, such as, Chinasoft International Limited, or Chinasoft International, HiSoft Technology International Limited, or Hisoft, Neusoft Corporation, or Neusoft, SinoCom Software Group Limited, or SinoCom, iSoftStone Holdings Limited, or iSoftStone, Camelot Information Systems Inc., or Camelot, and Beyondsoft Corporation, or Beyondsoft;
- Indian IT services companies, such as Cognizant Technology Solutions Corporation, or Cognizant, HCL Technologies Ltd., or HCL, Infosys Limited, or Infosys, Tata Consultancy Services Ltd, or TCS, and Wipro Limited, or Wipro;
- in-house IT departments of large corporations; and
- offshore IT service providers in emerging outsourcing destinations with low wage costs such as Southeast Asia, Latin America and Eastern Europe.

In addition, the trend towards offshore outsourcing, international expansion by foreign and domestic competitors and continuing technological changes will result in new and different competitors entering our markets. These competitors may include entrants from the communications, software and data networking industries or entrants in geographic locations with lower costs than those in which we operate. Some of these existing and future competitors have greater financial, human and other resources, longer operating histories, greater technological expertise, more recognizable brand names and more established relationships in the industries that we currently

serve or may serve in the future. Moreover, some of our competitors may enter into strategic or commercial relationships among themselves or with larger, more established companies in order to increase their ability to address client needs, or enter into similar arrangements with potential clients. Clients tend to engage multiple IT services outsourcing providers instead of using an exclusive service provider, which could reduce our revenues to the extent that clients obtain services from other providers. Clients may prefer service providers that have facilities located globally or that are based in countries more cost-competitive than China.

Therefore, we cannot assure you that we will be able to retain our clients while competing against such competitors. Increased competition, our inability to compete successfully against competitors, pricing pressures or loss of market share could harm our business, financial condition and results of operations.

Wage increase in China may prevent us from sustaining our competitive advantage and could reduce our profit margins.

Wage costs for our professionals and other employees form a significant part of our costs. For instance, in 2009, 2010 and 2011, our compensation and benefit expenses in respect of our professionals, excluding share-based compensation expenses, was US\$71.7 million, US\$107.1 million and US\$157.4 million, accounting for 78.9%, 82.3% and 85.3% of our cost of revenues, respectively. Wage costs in China have historically been significantly lower than wage costs in Japan, the United States and other developed countries for comparably skilled professionals. However, because of rapid economic growth and increased competition for skilled employees in China, wages for highly skilled employees in China, in particular middle- and senior-level managers, are increasing at a higher rate than in Japan, the United States and Europe. We may need to increase our levels of employee compensation more rapidly than in the past to remain competitive in attracting and retaining the quality and number of employees that our business requires. Increases in the wages and other compensation we pay our employees in China could reduce the competitive advantage we have enjoyed against onshore service providers in Japan, the United States and other countries. Furthermore, if increase in wage costs of our professionals exceeds increase in our professionals' billing rate, we may suffer from decrease in profit margins. In addition, the issuance of equity-based compensation to our professionals and other employees would also result in additional dilution to our shareholders.

We do not have long-term commitments from our clients, and our clients may terminate contracts before completion or choose not to renew contracts, which could adversely affect our business and reduce our revenues.

Our clients are not obligated for any long-term commitments to us. Many of our MSAs are either renewable for one-year period or have no fixed terms, and our SOWs are typically project-based and are generally valid for not more than one year. In addition, our clients can terminate many of our MSAs and SOWs with or without cause, and in most cases without any cancellation charge. Some of our MSAs specify that if a change of control of our company occurs during the term of the contract, the client has the right to terminate the contract. If any future event triggers any change-of-control provision in our client contracts, these contracts may be terminated, which would result in our loss of revenues. Most of the MSAs we have entered into with our clients require us to purchase and maintain specified insurance coverage during the terms of the MSAs, including commercial general insurance or public liability insurance, umbrella insurance, product liability insurance, and workmen's compensation insurance. As the insurance industry in China is still in an early stage of development, a number of these types of insurance are not available on reasonable terms in China. We have purchased general commercial liability insurance for our facilities in China for the period from October 13, 2011 to October 13, 2012, and we have also purchased information and network technology errors or omissions liability insurance for our facilities in China for the period from October 13, 2011 to October 13, 2012, but we still do not satisfy the contractual requirement of certain of our key clients. Although to date no client has brought any claims against us for such failure, our clients have the right to terminate these MSAs.

Failure to perform or observe any contractual obligations could result in cancellation or non-renewal of a contract, which could cause us to experience a higher than expected number of unassigned employees and an

increase in our cost of revenues as a percentage of revenues, until we are able to reduce or reallocate our headcount. The ability of our clients to terminate MSAs makes our future revenues uncertain. We may not be able to replace any client that elects to terminate or not renew its contract with us, which would adversely affect our business and revenues.

Furthermore, in some of our MSAs, our clients are also entitled to request us to transfer, to them or their designees, the assets of our offshore development centers in China, or CDCs, that serve them and all of the operating relationships, including leases for the premises of the CDCs, employment relationships with the employees dedicated to the CDCs and contracts with subcontractors, at a pre-agreed transfer price which is generally a multiple of our monthly service fees from the relevant client for CDC services prior to the transfer. This transfer fee will either be reduced ratably based on the elapsed operation term of the CDC or subject to a maximum amount. In addition to the above amounts, the relevant client is also required to pay the lower of fair market value or net book value for the assets to be transferred that have not already been charged to the client. If our clients exercise these rights, we may lose some of our business and key employees, or may be required to transfer our assets and employees to a third party, and our losses may not be fully covered by the contractual payment.

Our quarterly operating results are difficult to predict and could fall below investor expectations or estimates by securities research analysts, which may cause the trading price of our ADSs to decline.

Our revenues and operating results can vary significantly from quarter to quarter due to a number of factors, many of which are outside of our control, such as variations in the volume of business from clients resulting from changes in our clients' operations, the business decisions of our clients regarding the use of our services, delays or difficulties in expanding our operational facilities and infrastructure, changes to our pricing structure or that of our competitors, inaccurate estimates of resources and time required to complete ongoing projects and currency fluctuations. For example, some of our MSAs permit our clients to reduce or modify the volume of services under any SOW at any time. As many of our employees and customers take long vacations during the Chinese New Year in the first quarter, our revenues in that quarter are relatively low compared to the other quarters. Moreover, our results may vary depending on our clients' business needs and IT spending patterns. Due to the annual budget cycles of most of our clients, we may not be able to estimate accurately the demand for our services beyond the immediate calendar year, which could adversely affect our business planning and may have a material adverse effect on our business, results of operations and financial condition. In addition, the volume of work performed for specific clients is likely to vary from year to year, particularly since we typically are not the exclusive outside service provider to our clients. Thus, a major client in one year may not provide the same amount or percentage of our revenues in any subsequent year.

The long sales cycle for our services, which typically ranges from three to twelve months, and the internal budget and approval processes of our prospective clients make it difficult to predict the timing of new client engagements. Accordingly, the financial benefit of gaining a new client may be delayed due to delays in the implementation of our services. In addition, some of our testing projects and ADM projects last several months. Due to the foregoing and other factors, our operating results have fluctuated significantly from quarter to quarter.

These fluctuations are likely to continue in the future and operating results for any period may not be indicative of our performance in any future period. If our operating results for any quarterly period fall below investor expectations or estimates by securities research analysts, the trading price of our ADSs may decline.

We may face difficulties in offering new and existing service lines and managing increasingly large and complex projects, which could lead to clients discontinuing their work with us, thereby reducing our revenues and adversely affecting our ability to implement our growth plans.

We have been expanding the scope of our services by offering additional industry practices and service lines. The success of these new and expanded practices and service lines is dependent, in part, upon demand for such

services by our existing and new clients and our ability to meet this demand in a cost-competitive and effective manner. We cannot be certain that we will be able to attract existing and new clients for such new services or effectively meet our clients' needs.

We intend for the expansion of our practices and service lines to result in larger and more complex projects for our clients. To achieve this result, we need to establish closer relationships with our clients and develop a thorough understanding of their operations. Our ability to establish such relationships will depend on the proficiency of our management personnel, professionals and, if necessary, subcontractors, as well as other competitive factors such as our performance and delivery capabilities. Larger and more complex projects may involve multiple engagements or stages, and there is a risk that a client may choose not to retain us for additional stages or may cancel or delay additional planned engagements. Such cancellations or delays make it difficult to plan for project resource requirements, and failure to plan appropriately may have a negative impact on our business, results of operations and financial condition.

We may be unable to effectively manage our rapid growth and expansion, which could place significant strain on our management personnel, systems and resources. We may not be able to achieve anticipated growth and expansion, which could materially and adversely affect our business and prospects.

We have experienced rapid growth and significantly expanded our business recently. Our net revenues grew to US\$283.1 million in 2011 from US\$148.1 million in 2009. Since 2009, we have completed a number of acquisitions and established or acquired a number of offices in Greater China, the United States, Europe, Japan, Malaysia, Singapore and Australia. We have also set up a number of CDCs. As of December 31, 2011, we had 13,424 professionals, as compared to 7,542 professionals as of December 31, 2009. We are actively looking at additional locations to establish new offices and expand our current offices and CDCs. We intend to continue expansion in the foreseeable future to pursue existing and potential market opportunities.

This rapid growth places significant strain on our management personnel, systems and resources. To accommodate our growth, we will need to implement a variety of new and upgraded operational and financial systems, procedures and controls, including the improvement of our accounting, human resources and other internal management systems, all of which require substantial management efforts. We also will need to continue to expand, train, manage and motivate our workforce and manage our client relationships. Moreover, as we introduce new services or enter into new markets, we may face new market, technological and operational risks and challenges with which we are unfamiliar. All of our endeavors will involve risks and require substantial management effort and skill. As a result of any of these problems associated with expansion, our business, results of operations and financial condition could be materially and adversely affected. Furthermore, we may not be able to achieve anticipated growth, which could materially and adversely affect our business and prospects.

If we fail to integrate acquired companies efficiently, or if the acquired companies do not perform to our expectations, we may not be able to realize the benefits envisioned for such acquisitions, and our overall profitability and growth plans may be adversely affected.

Historically, we have expanded our service capabilities and gained new clients through selective acquisitions such as our acquisitions of VanceInfo Shanghai Technologies Limited, or VanceInfo Shanghai, TP Teleservices Limited, TP Consultants Limited, TP (Taiwan) Limited, TP (Hong Kong) Limited, or TP Hong Kong, and TP Software Technology (Shanghai) Co., Ltd., or TP Shanghai (together with TP Teleservices Limited, TP Consultants Limited, TP (Taiwan) Limited and TP Hong Kong, the "TP Companies"), VanceInfo Financial Service Limited (formerly named Link Result Limited), or VanceInfo Financial Service, and its subsidiary, VanceInfo Data Service (Shanghai) Co., Ltd. (formerly named A-IT (Shanghai) Software Services Co., Ltd.), or VanceInfo Data, Beijing Viatt Information Technology Co., Ltd., or Beijing Viatt, Lifewood Technology Limited, or Lifewood Technology, Lifewood Data Technology Limited, or Lifewood Data, Lifewood Data Technology (Shenzhen) Limited, or Lifewood Shenzhen, Lifewood Data Technology (Dongguan) Limited, or Lifewood Dongguan (together with Lifewood Technology, Lifewood Data and Lifewood Shenzhen, the "Lifewood Companies"), VanceInfo Technologies Australia Pty. Ltd. (formerly named Salsatec Corporation Pty.

Ltd.), or VanceInfo Australia, Beijing Data Pioneer Information Technology Co., Ltd., or Beijing DPC, Beijing Kang Pu Wei Century Information Technology Co., Ltd., or Beijing KPW, and Beijing Sunwin Technology Co., Ltd., or Beijing Sunwin in the past. Our growth strategy involves gaining new clients and expanding our service lines, both organically and through strategic acquisitions. Our ability to successfully integrate an acquired entity and its operations may be adversely affected by a number of factors. These factors include:

- diversion of management's attention;
- difficulties in retaining clients of acquired companies;
- difficulties in retaining personnel of acquired companies;
- entry into unfamiliar markets;
- unanticipated problems or legal liabilities; and
- tax and accounting issues.

Furthermore, the acquired companies may not perform to our expectations for various reasons, including legislative or regulatory changes that affect the products or services in which a company specializes, and the loss of key clients and personnel, any of which could have a material adverse effect on our business and results of operations. If we are not able to realize the benefits envisioned for such acquisitions, our overall profitability and growth plans may be adversely affected.

Our interests may conflict with our joint venture partners and disputes with joint venture partners may adversely affect our business.

In February 2012, we acquired 100% equity interest in Beijing Sunwin, a China-based company providing IT consulting and solutions to companies in Chinese airline industry. Beijing Sunwin has a 50% equity interest in a PRC joint venture company, namely Beijing Yunxiang Weiye Information Technology Co., Ltd., or Beijing Yunxiang. As we continue to grow, we expect to acquire interests in more joint venture enterprises in China or abroad to execute our expansion plans by utilizing our partners' skills, experiences and resources. In accordance with PRC law, certain material matters relating to a joint venture, including increase or reduction of the registered capital of the joint venture, amendments to its articles of association, merger or division of the joint venture, and termination and dissolution of the joint venture, may require our joint venture partners' consents. Our future joint venture enterprises to be established abroad may involve more legal implications in other jurisdictions.

In addition, joint ventures involve risks that our joint venture partners may:

- have economic or business interests or goals that are inconsistent with or adverse to ours;
- take actions contrary to our instructions or requests or contrary to our policies or objectives;
- be unable or unwilling to fulfill their obligations under the relevant joint venture agreements;
- have financial difficulties; or
- have disputes with us as to the scope of their responsibilities and obligations.

Our present or future joint venture projects may not be successful. We cannot assure you that we will not have disputes or encounter other problems with respect to our present or future joint venture partners or that we will be able to resolve such disputes and solve such problems in a timely manner, or at all. Any failure of us to address these potential disputes or conflict of interests effectively could have a material adverse effect on our business, financial condition, and results of operations.

We expect that a significant portion of our revenues may continue to be generated from our projects with a fixed price; we may fail to accurately estimate costs and determine resource requirements in relation to our projects, which would reduce our margins and profitability.

In 2011, approximately 32.6% of our revenues were generated from fixed-price contracts. We expect that a significant portion of our revenues may continue to be generated from our projects with a fixed price. Our projects often involve complex technologies and must often be completed within compressed timeframes and meet increasingly sophisticated client requirements. We may be unable to accurately assess the time and resources required for completing projects and to price our projects profitably. An underestimation of required time and resources may result in cost overruns and mismatches in project staffing. Conversely, an overestimation of our costs may result in our submitting uncompetitive bids and loss of business. Furthermore, any failure to complete a project within the stipulated timeframe could also expose us to contractual or other liabilities and may damage our reputation. These and other factors could adversely affect our business, results of operations and financial condition.

Due to intense competition for highly skilled personnel, we may fail to attract and retain enough sufficiently trained employees to support our operations; our ability to bid for and obtain new projects may be negatively affected and our revenues could decline as a result.

The IT services industry relies on skilled employees, and our success depends to a significant extent on our ability to attract, hire, train and retain qualified employees. The IT services industry experiences high employee turnover. We may encounter higher attrition rates in the future. There is significant competition in China for professionals with the skills necessary to perform the services we offer to our clients. Increased competition for these professionals, in the IT services industry or otherwise, could have an adverse effect on us. A significant increase in the attrition rate among employees with specialized skills could decrease our operating efficiency and productivity and could lead to a decline in demand for our services.

In addition, our ability to maintain and renew existing engagements and obtain new business will depend, in large part, on our ability to attract, train and retain skilled personnel that enable us to keep pace with growing demands for outsourcing, evolving industry standards and changing client preferences. Our failure to attract, train and retain personnel with the qualifications necessary to fulfill the needs of our existing and future clients or to assimilate new employees successfully could have a material adverse effect on our business, financial condition and results of operations. Our failure to retain our key personnel on client projects or find suitable replacements of the key personnel upon their departure may lead to termination of some of our MSAs or cancellation of some of our SOWs, which could materially adversely affect our business.

Our business depends substantially on the continuing efforts of our senior executives and other key personnel, and our business may be severely disrupted if we lose their services.

Our future success heavily depends upon the continued services of our senior executives and other key employees. In particular, we rely on the expertise and experience of Chris Shuning Chen, our founder, chairman and chief executive officer. In addition, we rely on David Lifeng Chen, our executive vice chairman and co-president, Sidney Xuande Huang, our co-president and chief financial officer, Frances Hong Zhang, our chief operating officer, Stanley Ying Zhou, our chief administrative officer, to run our business operations. If one or more of our senior executives or key employees are unable or unwilling to continue with us, we may not be able to replace them easily or at all. Even though we can replace them eventually, we may incur additional expenses to recruit, train and retain replacement personnel. Consequently, our business may be severely disrupted, and our financial condition and results of operations may be materially adversely affected.

If any of our senior executives or key employees joins a competitor or forms a competing company, we may lose clients, suppliers, know-how and key professionals and staff members to them. Also, if any of our business development managers who keep a close relationship with our clients joins a competitor or forms a competing company, we may lose clients, and our revenues may be materially adversely affected. Each of our senior

executives has entered into employment agreements with us that contain non-competition provisions. However, if any dispute arises between our executive officers and us, such non-competition provisions may not be enforceable, especially in China, where most of these executive officers and key employees reside, in light of the uncertainties with China's legal system. See “—Risks Related to Doing Business in China—Uncertainties with respect to the PRC legal system could adversely affect us.”

The growth and success of our business depends on our ability to anticipate and respond in a timely manner to the evolving demands for IT services.

The IT services market is characterized by rapid technological change, evolving industry standards, changing customer preferences and new product and service introductions. Our future growth and success depend significantly on our ability to anticipate developments in IT services, and offer and develop new product and service lines to meet our clients' evolving needs. We may not be successful in anticipating or responding to these developments in a timely manner, or if we do respond, the services or technologies we develop may not be successful in the marketplace. Further, products, services or technologies that are developed by our competitors may render our services non-competitive or obsolete.

Moreover, the emergence of new national and international industry standards could render our products or those of our clients unmarketable or obsolete and may require us to incur substantial unanticipated costs to comply with any such new standards. Should we fail to adapt to the rapidly changing IT services market or if we fail to develop suitable services to meet the evolving and increasingly sophisticated requirements of our clients in a timely manner, our business and operating results could be materially and adversely affected.

Some of our client contracts contain provisions which, if triggered, could result in lower future revenues and have an adverse effect on our results of operations.

Some of our MSAs provide that, if during the term of such MSAs, we offer or accept lower prices for our services that are similar to those we provide under these MSAs, to or from any other clients while all other terms and conditions are similar, we will be obligated to offer equally favorable prices to the clients under these MSAs. Such provisions, if triggered, would result in lower future revenues and profits to us under these MSAs. Certain other contracts of ours allow clients in certain circumstances to request a semi-annual benchmarking report comparing our direct costs and operating costs, measured as a percentage of revenues, with those of an agreed list of other service providers for comparable services. Based on the results of the study and depending on the reasons for any unfavorable variance, we may be required to make improvements to future services we provide or there may be reduction in new business from the clients. The triggering of any of these contractual provisions could have an adverse effect on our business, results of operations and financial condition.

Our ability to expand our business and procure new contracts or enter into beneficial business arrangements may be affected by non-competition clauses in our agreements with existing clients.

Certain of our existing MSAs and other agreements have non-competition clauses, which restrict us from providing services to customers of our existing clients. Many of our MSAs contain clauses that restrict our employees working for a particular client from providing services to a competitor of that client. Such clauses may restrict our ability to offer services to different clients in a specific industry or market.

Our MSAs with some of our clients provide that, during the term of the MSA and for a twelve-month period thereafter and under specified circumstances, we may not accept any assignments from, or render similar services to, those clients' customers. Some of our contracts also provide that, although we are free to render other services to clients' customers prior to the receipt of SOWs from our clients, such services may not create any conflicts of interest with the services we provide to those clients, and we must obtain our clients' prior written consent to continue providing services to their customers before we begin rendering similar services to our clients.

Moreover, we may not compete with our clients, or bid for or accept any assignment which our client is bidding for or is negotiating. These restrictions may hamper our ability to compete for and provide services to other clients in a specific industry or market in which we have expertise and may adversely affect our revenues and future profitability.

If we cause disruptions to our clients' businesses or provide inadequate service, our clients may have claims for substantial damages against us, and as a result our profits may be substantially reduced.

Most of our contracts with clients contain performance requirements. Failure to consistently meet service requirements of a client or errors made by our professionals in the course of delivering services to our clients could disrupt the client's business and result in a reduction in revenues or a claim for substantial damages against us. In addition, a failure or inability to meet a contractual requirement could seriously damage our reputation and affect our ability to attract new business.

The services we provide are often critical to our clients' businesses, and any failure to provide those services could result in a reduction in revenues or a claim for substantial damages against us, regardless of whether we are responsible for that failure. Our CDC methodology requires us to maintain active data and voice communications between our main development centers in China and our international clients' offices. Any significant failure of our equipment or systems, or any major disruption to basic infrastructure like power and telecommunications in the locations in which we operate, could impede our ability to provide services to our clients, have a negative impact on our reputation, cause us to lose clients, reduce our revenues and harm our business.

Under our contracts with our clients, our liability for breach of our obligations is generally limited to actual damages suffered by the client. To the extent that our contracts contain limitations on liability, such limitations may be unenforceable or otherwise may not protect us from liability for damages. In addition, certain liabilities, such as claims of third parties for which we may be required to indemnify our clients, are generally not limited under our contracts. Although we have purchased general commercial liability insurance for our facilities in China for the period from October 13, 2011 to October 13, 2012, and we have also purchased information and network technology errors or omissions liability insurance for our facilities in China for the period from October 13, 2011 to October 13, 2012, the successful assertion of one or more large claims against us could still have a material adverse effect on our business, reputation, results of operations, financial condition and cash flows.

We may be liable to our clients for damages caused by unauthorized disclosure of sensitive and confidential information, whether through our employees or otherwise.

We are typically required to manage, utilize and store sensitive or confidential client data in connection with the services we provide. Under the terms of our client contracts, we are required to keep such information strictly confidential. We seek to implement specific measures to protect sensitive and confidential client data. We require our employees and subcontractors to enter into non-disclosure arrangements to limit access to and distribution of our clients' sensitive and confidential information as well as our own trade secrets. We can give no assurance that the steps taken by us in this regard will be adequate to protect our clients' confidential information. If our clients' proprietary rights are misappropriated by our employees or our subcontractors or their employees, in violation of any applicable confidentiality agreements or otherwise, our clients may consider us liable for that act and seek damages and compensation from us. However, we currently do not have any insurance coverage for mismanagement or misappropriation of such information by our subcontractors or employees. Any litigation with respect to unauthorized disclosure of sensitive and confidential information might result in substantial costs and diversion of resources and management attention.

We may not be able to prevent others from unauthorized use of intellectual property of our clients, which could harm our business and competitive position.

We rely on software licenses from our clients with respect to certain individual projects. To protect proprietary information and other intellectual property of our clients, we require our employees to enter into confidentiality

agreements with us. These agreements may not provide meaningful protection for trade secrets, know-how or other proprietary information in the event of any unauthorized use, misappropriation or disclosure of such trade secrets, know-how or other proprietary information. Implementation of intellectual property-related laws in China has historically been lacking, primarily because of ambiguities in the PRC laws and difficulties in enforcement. Accordingly, protection of intellectual property rights and confidentiality in China may not be as effective as that in the United States or other developed countries. Policing unauthorized use of proprietary technology is difficult and expensive. The steps we have taken may be inadequate to prevent the misappropriation of proprietary technology of our clients. Reverse engineering, unauthorized copying or other misappropriation of proprietary technologies of our clients could enable third parties to benefit from our or our clients' technologies without paying us for doing so, and our clients may hold us liable for that act and seek damages and compensation from us, which could harm our business and competitive position.

We may face intellectual property infringement claims that could be time-consuming and costly to defend. If we fail to defend ourselves against such claims, we may lose significant intellectual property rights and may be unable to continue providing our existing services.

It is critical that we use and develop our technology and services without infringing the intellectual property rights of third parties, including patents, copyrights, trade secrets and trademarks. Intellectual property litigation is expensive and time-consuming and could divert management's attention from our business. A successful infringement claim against us, whether with or without merit, could, among other things, require us to pay substantial damages, develop non-infringing technology, or re-brand our name or enter into royalty or license agreements that may not be available on acceptable terms, if at all, and cease making, licensing or using products that have infringed a third party's intellectual property rights. Protracted litigation could also result in existing or potential clients deferring or limiting their purchase or use of our products until resolution of such litigation, or could require us to indemnify our clients against infringement claims in certain instances. Also, we may be unaware of intellectual property registrations or applications relating to our services that may give rise to potential infringement claims against us. Parties making infringement claims may be able to obtain an injunction to prevent us from delivering our services or using technology containing the allegedly infringing intellectual property. Any intellectual property litigation could have a material adverse effect on our business, results of operations or financial condition.

We may be exposed to legal proceedings, which, if determined adversely to us, could cause us to pay significant damages or otherwise adversely affect our business and operation.

From time to time, we may be subject to legal proceedings, investigations and claims incidental to the conduct of our business. In November 2010, Jonathan Jianguo Jiang, or Jiang, filed an action naming us, our subsidiary VanceInfo Technologies Inc., a Delaware corporation, or VanceInfo US, and our executives Chris Shuning Chen and David Lifeng Chen as defendants in the Superior Court of California, County of San Mateo. See Item 8, "Financial Information—Consolidated Statements and Other Financial Information—Legal Proceedings." This action has been settled, however, any future legal proceedings against us may divert our management's attention regardless of the final results of the legal proceedings. Furthermore, these proceedings, if determined adversely to us, could cause us to pay significant damages or otherwise adversely affect our business and operation.

We may be unsuccessful in identifying and acquiring suitable acquisition candidates, which could impede our growth and negatively affect our revenues and net income.

We expect a portion of our future growth to come from acquisitions of high-quality IT services companies. It is possible that in the future we may not succeed in identifying suitable acquisition candidates. Even if we identify suitable candidates, we may not be able to consummate an acquisition on terms commercially acceptable to us. Many of our competitors are likely to be seeking to acquire the same targets that we are looking to acquire. Such competitors may have substantially greater financial resources than we do and may be able to outbid us for the targets. If we are unable to complete suitable acquisitions, our growth strategy may be impeded and our revenues and net income could be negatively affected.

We may face certain risk with respect to construction of our new headquarters and research and development center.

In November 2009, we entered into agreements with a Beijing-based developer regarding our proposed acquisition of the use right to two parcels of land with an area of appropriately 21,700 square meters in Zhongguancun Software Park, Haidian District, Beijing. In July 2011, we entered into a land use right grant agreement with the Beijing Municipal Bureau of Land and Resources pursuant to which we will acquire land use right with a 50-year term. We have fully paid approximately US\$24.1 million, taking into account the exchange rate effect, relating to the land use right as of December 31, 2011. We have obtained the land use right certificate and certain other government permits for construction and have commenced construction on these two parcels of land. However, given this initial construction stage, there is uncertainty regarding whether we may successfully complete the construction or obtain the real estate title certificate for the buildings constructed. If we fail to timely build our office premises on these parcels of land as planned or obtain the real estate title certificate for the construction, our expansion plan may be affected. In addition, we plan to move our headquarters and research and development center to the new office premises built on these parcels of land in the future. Due to the concentration of our operations, any future problem in our facilities such as loss of power or earthquake may limit our ability to conduct our business.

If we fail to maintain an effective system of internal control over financial reporting, we may lose investor confidence in the reliability of our financial statements, which could adversely affect the market price of our ADSs.

We are subject to the reporting obligations under the U.S. securities laws following our initial public offering in December 2007. The Securities and Exchange Commission, or the SEC, as required under Section 404 of the Sarbanes-Oxley Act, has adopted rules requiring every public company to include a report of management on the effectiveness of such company's internal control over financial reporting in its annual report, which contains management's assessment of the effectiveness of the company's internal control over financial reporting. In addition, an independent registered public accounting firm must issue an attestation report on the effectiveness of the company's internal control over financial reporting. These requirements apply to this annual report on Form 20-F for the fiscal year ended December 31, 2011.

Our management has concluded that our internal control over financial reporting was effective as of December 31, 2011. Our independent registered public accounting firm has issued an audit report, which has concluded that we maintained, in all material aspects, effective internal control over financial reporting as of December 31, 2011. See "Item 15. Controls and Procedures." However, if we fail to maintain effective internal control over financial reporting in the future, our management and our independent registered public accounting firm may not be able to conclude that we have effective internal control over financial reporting at a reasonable assurance level. This could negatively affect the reliability of our financial information and result in the loss of investors' confidence in our reported financial information, which in turn could negatively impact the trading price of our ADSs. Furthermore, we have incurred and anticipate that we will continue to incur considerable costs, management time and other resources in an effort to comply with Section 404 and other requirements of the Sarbanes-Oxley Act.

Failure to adhere to the regulations that govern our business could result in our being unable to effectively perform our services. Failure to adhere to regulations that govern our clients' businesses could result in breaches of contracts with our clients.

Our clients' business operations are subject to certain rules and regulations in China or otherwise. Our clients may contractually require that we perform our services in a manner that would enable them to comply with such rules and regulations. Some of our contracts concluded with clients headquartered in the United States and elsewhere provide that we shall comply with the United States export regulations while handling any information, process, product or service and that we shall adhere to regulations that apply to our clients' businesses. Some of our IT services provided to certain banking clients for their Japanese operations are required

to comply with the regulations promulgated by Japanese regulators. Failure to perform our services in such a manner could result in breaches of contract with our clients and, in some limited circumstances, civil fines and criminal penalties for us. In addition, we are required under various Chinese laws to obtain and maintain permits and licenses for the conduct of our business. For example, we recently established an IT training center in Nanjing, the operation of which needs us to obtain necessary permits and licenses. If we do not maintain our licenses or other qualifications to provide our services, we may not be able to provide services to existing clients or be able to attract new clients and could lose revenues, which could have a material adverse effect on our business and results of operations.

The financial soundness of financial institutions with which we place our cash and cash equivalents could affect our financial conditions, business and result of operations.

We place our cash and cash equivalents with authorized financial institutions, which include (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. However, unlike certain other jurisdictions, there are no applicable government laws and regulations that require banks provide deposit insurance or similar protections to depositors in China. Any deterioration of financial soundness of these banks would cause credit risks to our cash and cash equivalents placed with them and thus could have a material adverse effect on our financial conditions, business and results of operations.

The financial soundness of our clients and vendors could affect our business and results of operations.

As a result of the disruptions in the financial markets and other macro-economic challenges currently affecting the economy of the United States and other parts of the world, our clients, subcontractors, suppliers and other vendors may experience cash flow concerns. As a result, clients may modify, delay or cancel plans to purchase our services and vendors may reduce their output, change terms of sales, or stop providing goods or services to us. Additionally, if clients' or vendors' operating and financial performance deteriorates, or if they are unable to make scheduled payments or obtain credit, clients may not be able to pay, or may delay payment of, accounts receivable owed to us and vendors may restrict credit or impose different payment terms, or stop providing goods or services to us. Any inability of current or potential clients to pay us for our services or any demands by vendors for different payment terms may adversely affect our earnings and cash flow. Furthermore, if one or more of our vendors stops providing goods or services to us, or interrupts its provision of goods or services to us, our business could be disrupted and we may incur higher costs.

We may incur losses resulting from business interruptions resulting from occurrence of natural disasters, health epidemics and other outbreaks or events, and we have limited insurance coverage.

Our CDCs and other operational facilities may be damaged in natural disasters such as earthquakes, floods, heavy rains, sand storms, tsunamis and cyclones, or other events such as fires. Such natural disasters or other events may lead to disruption of information systems and telephone service for sustained periods. Damage or destruction that interrupts our provision of outsourcing services could damage our relationships with our clients and may cause us to incur substantial additional expenses to repair or replace damaged equipment or facilities.

We may also be liable to our clients for disruption in service resulting from such damage or destruction. We have purchased general commercial liability insurance for our facilities in China for the period from October 13, 2011 to October 13, 2012, and we have also purchased information and network technology errors or omissions liability insurance for our facilities in China for the period from October 13, 2011 to October 13, 2012, but our insurance coverage may not be sufficient. Prolonged disruption of our services as a result of natural disasters or other events would also entitle our clients to terminate their contracts with us.

Our business could be adversely affected by the effects of H1N1, or swine flu, avian flu, severe acute respiratory syndrome, or SARS, or another epidemic or outbreak. For example, an outbreak of swine flu in Mexico and the United States in the summer of 2009 has spread to China and human cases of swine flu were discovered in China.

Such spread of swine flu impedes, to some extent, business travels of our staff between China and the United States. Therefore, any occurrence of swine flu, avian flu, SARS or other adverse public health developments in China may have a material adverse effect on our business operations. Our operations may be impacted by a number of health-related factors, including, among other things, quarantines or closures of our facilities which could severely disrupt our operations, and the sickness or death of our key officers and employees. Any of the foregoing events or other unforeseen consequences of public health problems could adversely affect our business and results of operations. We have not adopted any written preventive measures or contingency plans to combat any future outbreak of swine flu, avian flu, SARS or any other epidemic.

Fluctuations in exchange rates could adversely affect our business.

The value of the Renminbi against the U.S. dollar, Euro and other currencies is affected by, among other things, changes in China's political and economic conditions and China's foreign exchange policies. On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the Renminbi to the U.S. dollar. Under the new policy, the Renminbi was permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy caused the Renminbi to appreciate approximately 21.5% against the U.S. dollar over the following three years. For almost two years after reaching a high against the U.S. dollar in July 2008, however, the Renminbi traded within a narrow band against the U.S. dollar. In June 2010, the PRC government announced its plan to increase the flexibility of Renminbi exchange rate. Since that time, the Renminbi has gradually appreciated against the U.S. dollar. There remains significant international pressure on the PRC government to adopt a more flexible currency policy, which could result in greater fluctuation of the Renminbi against the U.S. dollar.

As a majority of our costs and expenses are denominated in Renminbi, a resumption of the appreciation of the Renminbi against the U.S. dollar would further increase our costs in U.S. dollar terms. In addition, as our operating subsidiaries in China receive revenues primarily in Renminbi, any significant depreciation of the Renminbi against the U.S. dollar may have a material adverse effect on our revenues in U.S. dollar terms and financial condition, and the value of, and any dividends payable on, our ordinary shares. For example, to the extent that we need to convert U.S. dollars into Renminbi for our operations, appreciation of the Renminbi against the U.S. dollar would have an adverse effect on the Renminbi amount we receive from the conversion. Conversely, if we decide to convert our Renminbi into U.S. dollars for the purpose of making payments for dividends on our ordinary shares or ADSs or for other business purposes, appreciation of the U.S. dollar against the Renminbi would have a negative effect on the U.S. dollar amount available to us. We also receive a portion of our revenues in Hong Kong Dollar, Japanese Yen and Euro. Any significant depreciation of the Hong Kong Dollar, Japanese Yen or Euro against the Renminbi or U.S. dollar would adversely affect our revenues in Renminbi or U.S. dollar terms, respectively.

Furthermore, the value of our shares may be affected by the foreign exchange rate between U.S. dollars and RMB because the value of our business is effectively denominated in RMB, while our shares are traded in U.S. dollars. Depreciation of the value of the U.S. dollar will also reduce the value of the cash we hold in U.S. dollars, which we may use for purposes of future acquisitions or other business expansion.

We incurred net foreign exchange losses of US\$119,000, US\$1.0 million and US\$0.9 million in 2009, 2010 and 2011, respectively. As very limited types of hedging transactions are available in the PRC to reduce our exposure to exchange rate fluctuations, we have not entered into any such hedging transactions, except for a forward exchange contract to purchase US\$5.0 million for JPY448.75 million due in October 2010, a forward exchange contract to purchase US\$5.0 million for JPY432.5 million due in July 2011 and a forward exchange contract to purchase US\$5.0 million for JPY403.35 million to be due in July 2012. Accordingly, we still cannot predict the impact of future exchange rate fluctuations on our results of operations and may incur net foreign exchange losses in the future. In addition, our foreign currency exchange losses may be magnified by PRC exchange control regulations that restrict our ability to convert Renminbi into foreign currencies. See “—Risks Related to Doing Business in China—Restrictions on currency exchange may limit our ability to receive and use our revenues or financing effectively.”

If tax benefits currently available to our subsidiaries are reduced or repealed, our business and results of operations could suffer.

Prior to January 1, 2008, companies established in China were generally subject to a state and local enterprise income tax, or EIT, at statutory rates of 30% and 3%, respectively. Under the applicable PRC rules and policies, an enterprise qualified as a “high and new technology enterprise” located in the Beijing New Industry Development Pilot Zone was entitled to a preferential EIT rate of 15% and was further entitled to a three-year EIT exemption from either its first year of operation or, if it was incorporated in the second half of a calendar year, its second year of operation if so selected, and a 50% reduction of its applicable EIT rate for the succeeding three years. VanceInfo Creative Software Technology Ltd., or VanceInfo Beijing, was qualified as “high and new technology enterprises” located in the Beijing New Industry Development Pilot Zone, and enjoyed preferential tax treatment as a result of this status. VanceInfo Beijing was entitled to enjoy a 7.5% EIT rate from 2008 to 2010.

On March 16, 2007, the National People’s Congress of China enacted a new EIT Law, which took effect beginning January 1, 2008. On December 6, 2007, the State Council also adopted the Implementing Rules for the Enterprise Income Tax Law, or the Implementing Rules, which also took effect beginning January 1, 2008. Moreover, on December 26, 2007, the State Council circulated the Notice on Implementation of the Transitional Preferential Policies in respect of Enterprise Income Tax, which took effect beginning December 26, 2007. On February 22, 2008, the Ministry of Finance and the State Administration of Taxation issued the Notice of the Ministry of Finance and State Administration of Taxation on Several Preferential Policies in respect of Enterprise Income Tax, which took effect beginning February 22, 2008. Under the new EIT Law, foreign invested enterprises, or FIEs, such as VanceInfo Beijing, and Chinese domestic companies are subject to EIT at a uniform rate of 25%. Preferential tax treatments will continue to be granted to entities that are classified as “high and new technology enterprises strongly supported by the State” or that conduct business in encouraged sectors, whether FIEs or domestic companies. On April 14, 2008, Ministry of Science and Technology, Ministry of Finance and State Administration of Taxation enacted the Administrative Measures for Certifying High and New Technology Enterprises, which retroactively became effective on January 1, 2008. Under the new EIT Law, enterprises that had been established and already enjoyed then applicable preferential tax treatment prior to March 16, 2007 will continue to enjoy it subject to the following qualifications: (i) in the case of preferential tax rates, for a period of five years from January 1, 2008, or (ii) in the case of a preferential tax exemption or reduction for a specified term, until the expiration of such term. In addition, certain qualified high-technology companies may still benefit from a preferential tax rate of 15% if they own their core intellectual properties and are classified into certain industries strongly supported by the State set forth by certain departments of the State Council.

VanceInfo Beijing was qualified as a “high and new technology enterprise” with a valid term of three years in December 2008 and is entitled to the preferential EIT rate of 7.5% from 2008 to 2010. VanceInfo Beijing was again qualified as a “high and new technology enterprise” with a valid term of three years in October 2011 and is entitled to the preferential EIT rate of 15% from 2011 to 2013. VanceInfo Shanghai was qualified as a “high and new technology enterprise” in December 2008, which entitled it to a 15% preferential EIT rate in 2008, and was further recognized as a “key software enterprise under the State plan” in December 2009, which entitled it to enjoy a 10% preferential EIT rate in 2009. VanceInfo Shanghai was again qualified as a “high and new technology enterprise” in December 2009, which entitled it to enjoy a 15% preferential EIT rate in 2010 and 2011. TP Shanghai, which we acquired in July 2009, was qualified as a “high and new technology enterprise” in December 2008 with a valid term of three years and is entitled to the preferential tax rate of 15% in 2009 and 2010. Nanjing VanceInfo Creative Software Technology Limited, or VanceInfo Nanjing, was recognized as a “software enterprise” in 2009 and was entitled to be exempted from EIT in 2009 and 2010 and a 50% reduction of its applicable EIT rate with the reduced applicable EIT rate of 12.5% from 2011 to 2013. VanceInfo Data became one of our wholly owned subsidiaries in 2010. VanceInfo Data was incorporated in 2002 and was recognized as a “software enterprise” in 2007, and therefore, it was entitled to be exempted from EIT in 2007 and 2008, and was entitled to a 50% tax reduction of its applicable EIT rate with the reduced applicable EIT rate of 10%, 11%, and 12% in 2009, 2010, and 2011, respectively. VanceInfo Shenzhen was recognized as a “software

enterprise” in 2009 and was entitled to an exemption of EIT in 2010 and 2011 and a 50% tax reduction of its applicable EIT rate with the reduced applicable EIT rate of 12.5% from 2012 to 2014. However, continued qualification as a “high and new technology enterprise” is subject to a review every three years by the relevant government authorities in China, and in practice certain local tax authorities also require annual evaluation of the qualification; continued qualification as a “key software enterprise under the State plan” or “software enterprise” is subject to an annual assessment by the relevant government authorities in China. Consequently, there is no assurance that our subsidiaries will continue to meet the qualifications or that the relevant government authorities will not revoke our subsidiaries’ “high and new technology enterprise”, “key software enterprise under the State plan”, or “software enterprise” statuses in the future. Any increase in our PRC subsidiaries’ EIT rate pursuant to the new EIT law may have a material adverse effect on our results of operations.

In addition, pursuant to relevant tax rules, our PRC subsidiaries may enjoy exemption from business tax with respect to the software development business and related technology consultancy services that it engages in, which falls under the definition of technology development business, although such business tax exemption policy has not been implemented. Our PRC subsidiaries except for Lifewood Dongguan may enjoy exemption from business tax with respect to the offshore outsourcing service. Expiration of, or changes to, these tax benefits or treatments will have a material adverse effect on our operating results.

Our subsidiaries in Shanghai or other regions in China may be subject to PRC value added tax, or VAT, instead of business tax, which may increase our tax rate and adversely affect our business, financial condition and results of operations.

The PRC government recently adopted a PRC tax pilot program, which was initiated in Shanghai and may be extended to other cities in the future. On October 16, 2011, the Ministry of Commerce and the State Administration of Taxation jointly issued the Circular on the Pilot Program for the Collection of Value Added Tax Instead of Business Tax, or Circular 110, which became effective on October 16, 2011, and the Circular on the Pilot Program for the Collection of Value Added Tax Instead of Business Tax in the Transportation and Certain Modern Service Sectors in Shanghai, or Circular 111, which became effective on January 1, 2012. According to Circular 110 and Circular 111, as on January 1, 2012, companies which are classified by Shanghai local tax authorities in transportation and certain modern service sectors are required to pay VAT instead of business tax. Specifically, a 17% VAT rate applies to movable property leasing services, an 11% VAT rate applies to transportation services and a 6% VAT rate applies to certain other modern services, such as research and development, technological services, culture, logistics and consultation. In addition, pursuant to Circular 111, our subsidiaries located in Shanghai can enjoy exemption from VAT with respect to the offshore outsourcing service. Although Circular 110 and Circular 111 are applicable to our subsidiaries located in Shanghai, namely VanceInfo Shanghai, VanceInfo Shanghai Creative, VanceInfo Data, and TP Shanghai, since January 1, 2012, such laws and regulations are new and evolving, and their interpretation and enforcement involve significant uncertainty. As a result, at this stage, it is unclear as to which VAT rate would apply to the relevant subsidiaries, which VAT-related expenses are deductible, and accordingly the net impact of such tax pilot program on us is currently uncertain. If such tax pilot program results in unfavorable tax consequences to us, it may adversely affect our business, financial condition and results of operations.

Restrictions on immigration may affect our ability to compete for and provide services to customers in the United States or other countries, which could hamper our growth and cause our revenues to decline.

The vast majority of our employees are Chinese nationals. Some of our projects require a portion of the work to be undertaken at our clients’ facilities which are sometimes located outside China. The ability of our professionals to work in the United States, Europe, Japan and other countries outside China depends on their ability to obtain the necessary visas and work permits. Immigration laws in the United States and in other countries are subject to legislative change, as well as to variations in standards of application and enforcement due to political forces and economic conditions. It is difficult to predict the political and economic events that could affect immigration laws, or the restrictive impact they could have on obtaining or monitoring business visas for our employees. Our reliance on visas for a number of employees makes us vulnerable to such changes

and variations as it affects our ability to staff projects with professionals who are not citizens of the country where the work is to be performed. As a result, we may not be able to obtain a sufficient number of visas for our employees or we may encounter delays or additional costs in obtaining or maintaining such visas.

Risks Related to Doing Business in China

Adverse changes in political and economic policies of the PRC government could have a material adverse effect on the overall economic growth of China, which could reduce the demand for our services and materially and adversely affect our competitive position.

Substantially all of our business operations are currently conducted in China. Accordingly, our business, financial condition, results of operations and prospects are affected significantly by economic, political and legal developments in China. Since the late 1970s, the PRC government has been reforming the economic system in China. These reforms have resulted in significant economic growth. However, we cannot predict the future direction of economic reforms or the effects such measures may have on our business, financial position or results of operations. Furthermore, while the economy of China has experienced significant growth in the past twenty years, growth has been uneven, both geographically and among various sectors of the economy. In addition, the PRC economy has shown signs of inflation in recent periods. In order to control inflation, the PRC government has imposed controls on bank credits, limits on loans for fixed assets and restrictions on state bank lending. Such an austere policy can lead to a slowing of economic growth and could materially and adversely affect our business and prospects. Furthermore, the current global economic crisis is adversely affecting the economy in the U.S. and many other countries and regions around the world. As the PRC economy has become increasingly linked with the global economy, China is affected in various respects by downturns and recessions of major economies around the world. The various economic and policy measures enacted by the PRC government to forestall economic downturns or bolster China's economic growth could materially affect our business. Any adverse change in the economic conditions in China, in policies of the PRC government or in laws and regulations in China, could have a material adverse effect on the overall economic growth of China and market demand for our IT services. Such developments could adversely affect our businesses, lead to reduction in demand for our services and adversely affect our competitive position.

Uncertainties with respect to the PRC legal system could adversely affect us.

We are a holding company, and we conduct our business primarily through our subsidiaries incorporated in China. The PRC legal system is based on written statutes. Prior court decisions may be cited for reference but have limited precedential value. Since 1979, PRC legislation and regulations have significantly enhanced the protections afforded to various forms of foreign investments in China. However, since the PRC legal system continues to rapidly evolve, the interpretations of many laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involve uncertainties, which may limit legal protections available to us. In addition, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention.

Our global income and the dividends we receive from our PRC subsidiary may be subject to PRC tax under the new EIT Law, which would have a material adverse effect on our results of operations.

Under the new EIT Law and the Implementing Rules, an enterprise established outside of the PRC with "de facto management bodies" within the PRC is considered as a resident enterprise and will be subject to a PRC income tax on its global income. According to the Implementing Rules, "de facto management bodies" refer to "establishments that carry out substantial and overall management and control over the manufacturing and business operations, personnel, accounting, properties, etc. of an enterprise." Accordingly, our holding company, VanceInfo Technologies Inc. 文思信息技术有限公司, may be considered a resident enterprise and may therefore be subject to a PRC income tax on our global income. The State Administration of Taxation issued the Notice Regarding the Determination of Chinese-Controlled Offshore Incorporated Enterprises as PRC Tax Resident Enterprises on the Basis of De Facto Management Bodies, or Circular 82, on April 22, 2009. Circular 82

provides certain specific criteria for determining whether the “de facto management body” of a Chinese-controlled offshore incorporated enterprise is located in China. Although Circular 82 only applies to offshore enterprises controlled by PRC enterprises, not those invested in by PRC individuals, like our company, the determining criteria set forth in Circular 82 may reflect the State Administration of Taxation’s general position on how the “de facto management body” test should be applied in determining the tax resident status of offshore enterprises, regardless of whether they are controlled by PRC enterprises or controlled by or invested in by PRC individuals. Further to Circular 82, on July 27, 2011, the State Administration of Taxation issued Administrative Measures of Enterprise Income Tax of Chinese-controlled Offshore Incorporated Resident Enterprises (Trial), or Bulletin No. 45, to provide more guidance on the implementation of Circular 82, which became effective on September 1, 2011. Bulletin No. 45 made clarification in the areas of resident status determination, post-determination administration, as well as competent tax authorities. We do not believe our holding company and our subsidiaries located outside of the PRC are PRC resident enterprises. However, if we are considered a resident enterprise and earn income other than dividends from our PRC subsidiaries, such PRC income tax on our global income could significantly increase our tax burden and materially and adversely affect our cash flow and profitability.

Under the applicable PRC tax laws in effect before January 1, 2008, dividend payments to foreign investors made by foreign-invested enterprises such as our PRC subsidiary, VanceInfo Beijing, were exempt from PRC withholding tax. Pursuant to the new EIT Law and the Implementing Rules which are effective as of January 1, 2008, however, dividends generated after January 1, 2008 and payable by a foreign-invested enterprise to its foreign investors will be subject to a 10% withholding tax if the foreign investors are considered as non-resident enterprises without any establishment or place within China or if the dividends payable have no connection with the establishment or place of the foreign investors within China, unless any such foreign investor’s jurisdiction of incorporation has a tax treaty with China that provides for a different withholding arrangement. The Cayman Islands, where our holding company is incorporated, does not have such a tax treaty with China. VanceInfo Technologies Limited, or VanceInfo Hong Kong, our wholly owned subsidiary and the direct holder of a 100% equity interest in VanceInfo Tianjin and VanceInfo Shenzhen, is incorporated in Hong Kong. TP Hong Kong, our wholly owned subsidiary and the direct holder of a 100% equity interest in TP Shanghai, is incorporated in Hong Kong. VanceInfo Financial Service, our wholly owned subsidiary and the direct holder of a 100% equity interest in VanceInfo Data, is also incorporated in Hong Kong. Lifewood Data, our wholly owned subsidiary and the direct holder of a 100% equity interest in Lifewood Shenzhen and Lifewood Dongguan, respectively, is incorporated in Hong Kong. According to the Arrangement between Mainland China and Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion in August 2006, or the Mainland and the Hong Kong Taxation Arrangement, dividends paid by a foreign-invested enterprise in China to its direct holding company in Hong Kong will be subject to withholding tax at a rate of no more than 5% (if the foreign investor owns directly at least 25% of the shares of the foreign-invested enterprise). Under the new EIT Law and the Implementing Rules, if each of VanceInfo Hong Kong, TP Hong Kong, VanceInfo Financial Service or Lifewood Data is regarded as a resident enterprise, the dividends payable to VanceInfo Hong Kong from VanceInfo Tianjin and VanceInfo Shenzhen, dividends payable to TP Hong Kong from TP Shanghai, dividends payable to VanceInfo Financial Service from VanceInfo Data, and dividends payable to Lifewood Data from Lifewood Shenzhen and Lifewood Dongguan will be exempt from PRC income tax. If each of VanceInfo Hong Kong, TP Hong Kong, VanceInfo Financial Service or Lifewood Data is regarded as a non-resident enterprise, subject to the confirmation of the local tax authorities, a 5% withholding tax will be imposed for any dividends payable to VanceInfo Hong Kong from VanceInfo Tianjin and VanceInfo Shenzhen, any dividends payable to TP Hong Kong from TP Shanghai, any dividends payable to VanceInfo Financial Service from VanceInfo Data, and any dividends payable to Lifewood Data from Lifewood Shenzhen and Lifewood Dongguan. Furthermore, the State Administration of Taxation promulgated the Notice on How to Understand and Determine the Beneficial Owners in Tax Agreement on October 27, 2009, or Circular 601, which provides guidance for determining whether a resident of a contracting state is the “beneficial owner” of an item of income under China’s tax treaties and tax arrangements. According to Circular 601, a beneficial owner generally must be engaged in substantive business activities. An agent or conduit company will not be regarded as a beneficial owner and, therefore, will not qualify for treaty benefits. The conduit company normally refers to

a company that is set up for the purpose of avoiding or reducing taxes or transferring or accumulating profits. We cannot assure you that our subsidiaries in Hong Kong will not be deemed as conduit companies, or any dividends to be distributed by us to our non-PRC shareholders and ADS holders whose jurisdiction of incorporation has a tax treaty with China providing for a different withholding arrangement will be entitled to the benefits under the relevant withholding arrangement.

In addition, because there remains uncertainty regarding the interpretation and implementation of the new EIT Law and its Implementation Rules, if we are regarded as a PRC resident enterprise, then any dividends to be distributed by us to our non-PRC shareholders or any gains realized by non-PRC shareholders or ADS holders from transfer of our shares or ADSs may be subject to PRC withholding tax. If we are required under the new EIT Law to withhold PRC income tax on the above dividends or gains, the investment in our shares or ADSs may be materially and adversely affected.

The strengthened scrutiny over acquisition transactions by the PRC tax authorities may have a negative impact on our acquisition strategy.

In order to strengthen its scrutiny over the direct or indirect transfer of equity interest in a PRC resident enterprise by a non-resident enterprise, the State Administration of Taxation issued, on December 10, 2009, the Notice on Strengthening the Management on Enterprise Income Tax for Non-resident Enterprises Equity Transfer, or Circular 698, which became effective retroactively on January 1, 2008. Under Circular 698, the PRC State Administration of Taxation is entitled to redefine the nature of an equity transfer where offshore vehicles are interposed for tax-avoidance purposes and without reasonable commercial purpose. Since we consistently pursue acquisitions as one of our growth strategies, and have conducted and may conduct acquisitions involving complex corporate structures, the PRC tax authorities may, at their discretion, adjust the capital gains or request us to submit additional documentation for their review in connection with any of our acquisitions, thus causing us to incur additional acquisition costs.

Restrictions on currency exchange may limit our ability to receive and use our revenues or financing effectively.

A majority of our revenues and expenses are denominated in Renminbi. If our revenues denominated in Renminbi increase or expenses denominated in Renminbi decrease in the future, we may need to convert a portion of our revenues into other currencies to meet our foreign currency obligations, including, among others, payment of dividends declared, if any, in respect of our ordinary shares or ADSs. Under China's existing foreign exchange regulations, our wholly owned subsidiaries in PRC, such as VanceInfo Beijing, are able to pay dividends in foreign currencies, without prior approval from the State Administration of Foreign Exchange, or the SAFE, by complying with certain procedural requirements. However, we cannot assure you that the PRC government will not take further measures in the future to restrict access to foreign currencies for current account transactions.

Foreign exchange transactions by our PRC subsidiaries under capital accounts continue to be subject to significant foreign exchange controls and require the approval of, or registration with, PRC governmental authorities. In particular, if our PRC subsidiaries borrow foreign currency loans from us or other foreign lenders, these loans must be registered with or approved by the SAFE, and if we finance them by means of additional capital contributions using, for instance, proceeds from a public offering, these capital contributions must be approved or registered by certain government authorities including the SAFE, the Ministry of Commerce or their local counterparts. These limitations could affect the ability of our PRC subsidiaries to obtain foreign exchange through debt or equity financing, and could affect our business and financial condition.

On August 29, 2008, the SAFE promulgated the Circular on the Relevant Operating Issues Concerning the Improvement of the Administration of the Payment and Settlement of Foreign Currency Capital of Foreign Invested Enterprises, or SAFE Circular 142, a notice regulating the conversion by a foreign-invested company of

foreign currency into Renminbi by restricting how the converted Renminbi may be used. SAFE Circular 142 requires that Renminbi converted from the foreign currency-denominated registered capital of a foreign-invested company may only be used for purposes within the company's business scope approved by the applicable governmental authority and may not be used for equity investments within the PRC unless specifically provided for otherwise in its business scope. In addition, the SAFE strengthened its oversight of the flow and use of Renminbi funds converted from the foreign currency-denominated registered capital of a foreign-invested company. The use of such Renminbi may not be changed without approval from the SAFE, and may not in any case be used to repay Renminbi loans if the proceeds of such loans have not yet been used. Violations of SAFE Circular 142 may result in severe penalties, including substantial fines as set forth in the Foreign Exchange Administration Regulations. As a result, SAFE Circular 142 may significantly limit our ability to transfer the net proceeds from a public offering to our PRC subsidiaries in the PRC, which may adversely affect our liquidity and our ability to fund and expand our business in the PRC, and we may not be able to convert the net proceeds from a public offering into Renminbi to invest in or acquire any other PRC companies.

Our failure to obtain prior approval of the China Securities Regulatory Commission, or CSRC, of the listing and trading of our ADSs on the New York Stock Exchange could have a material adverse effect on our business, operating results, reputation and trading price of our ADSs.

On August 8, 2006, six PRC regulatory agencies, including the Ministry of Commerce, the State Assets Supervision and Administration Commission, the State Administration for Taxation, the State Administration for Industry and Commerce, the CSRC and the SAFE, jointly issued the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, which became effective on September 8, 2006. This regulation, among other things, includes provisions that purport to require that an offshore special purpose vehicle formed for the purposes of overseas listing of equity interests in PRC companies and controlled directly or indirectly by PRC companies or individuals obtain the approval of the CSRC prior to the listing and trading of such special purpose vehicle's securities on an overseas stock exchange. On September 21, 2006, the CSRC published on its official website procedures regarding its approval of overseas listings by special purpose vehicles. The CSRC approval procedures require the filing of a number of documents with the CSRC and it would take several months to complete the approval process.

The application of this new PRC regulation remains unclear with no consensus currently existing among leading PRC law firms regarding the scope of the applicability of the CSRC approval requirement.

We completed the initial listing and trading of our ADSs on the New York Stock Exchange in December 2007. We did not seek CSRC approval in connection with our initial public offering. Our PRC counsel, Fangda Partners, has advised us that, based on their understanding of the current PRC laws and regulations as well as the procedures announced on September 21, 2006:

- The CSRC currently has not issued any definitive rule or interpretation concerning whether offerings like our public offerings are subject to this new procedure;
- In spite of the above, given that we have completed our restructuring before September 8, 2006, the effective date of the new regulation, this regulation does not require an application to be submitted to the CSRC for its approval of the issuance and sale of our ADSs and ordinary shares, or the listing and trading of our ADSs on the New York Stock Exchange; and
- The issuance and sale of our ADSs and ordinary shares and the listing and trading of the ADSs on the New York Stock Exchange do not conflict with or violate this new PRC regulation.

However, if the CSRC or another PRC regulatory agency subsequently determines that CSRC approval was required for our public offerings, we may face regulatory actions or other sanctions from the CSRC or other PRC regulatory agencies. These regulatory agencies may impose fines and penalties on our operations in the PRC, limit our operating privileges in the PRC, delay or restrict the repatriation of the proceeds from our initial public

offering into the PRC, or take other actions that could have a material adverse effect on our business, financial condition, results of operations, reputation and prospects, as well as the trading price of our ADSs. Also, if later the CSRC requires that we obtain its approval, we may be unable to obtain a waiver of the CSRC approval requirements, if and when procedures are established to obtain such a waiver. Any uncertainties and/or negative publicity regarding this CSRC approval requirement could have a material adverse effect on the trading price of our ADSs.

PRC regulations relating to the establishment of offshore special purpose companies by PRC residents may subject our PRC resident shareholders and beneficial owners to personal liability and limit our ability to inject capital into our PRC subsidiary, limit our subsidiary's ability to increase its registered capital, distribute profits to us, or otherwise adversely affect us.

On October 21, 2005, the SAFE issued the Notice on Issues Relating to the Administration of Foreign Exchange in Fund-raising and Reverse Investment Activities of Domestic Residents Conducted via Offshore Special Purpose Companies, or Notice 75, which became effective as of November 1, 2005. According to Notice 75, prior registration with the local SAFE branch is required for PRC residents to establish or to control an offshore company for the purposes of financing that offshore company with assets or equity interests in an onshore enterprise located in the PRC, or offshore special purpose company. An amendment to registration or filing with the local SAFE branch by such PRC resident is also required for the injection of equity interests or assets of an onshore enterprise in the offshore special purpose company or overseas funds raised by such offshore company, or any other material change involving a change in the capital of the offshore special purpose company. Moreover, Notice 75 applies retroactively. As a result, PRC residents who have established or acquired control of offshore special purpose companies that have made onshore investments in the PRC in the past are also required to make relevant registration procedures with their local SAFE branch. To further clarify the implementation of Notice 75, since May 2007, SAFE has issued guidance to its local branches regarding the operational procedures for such registration, which provides more specific and stringent requirements on the registration relating to SAFE Notice 75, including the most recent Notice of SAFE on Printing and Distributing the Implementing Rules for the Administration of Foreign Exchange in Fund-raising and Round-trip Investment Activities of Domestic Residents Conducted via Offshore Special Purpose Companies, or Circular 19, which came into effect on July 1, 2011. The guidance imposes obligations on PRC subsidiaries of the offshore special purpose company to coordinate with and supervise the beneficial owners of the offshore entity who are PRC citizens or residents to complete the SAFE registration process. If the shareholders or beneficial owners fail to comply, the PRC subsidiaries are required to report the noncompliance to the local branches of SAFE.

We have urged our shareholders and beneficial owners who are PRC residents to make the necessary applications and filings as required under Notice 75 and other related rules. Mr. Chris Shuning Chen, our founder, chairman and chief executive officer, Mr. Stanley Ying Zhou, our chief administrative officer, and Mr. Kevin Zhong Liu, one of our employees, have made the requisite SAFE registration with respect to their investment and beneficial ownership in us in January 2010. However, due to uncertainty concerning the reconciliation of Notice 75 and Circular 19 with other approval or registration requirements, it remains unclear how Notice 75 and Circular 19, and any future legislation concerning offshore or cross-border transactions, will be interpreted, amended and implemented by the relevant government authorities. We will attempt to comply, and attempt to ensure that our shareholders and beneficial owners who are subject to these rules comply, with the relevant requirements. However, we cannot provide any assurances that all of our shareholders and beneficial owners who are PRC residents will comply with our request to make or obtain any applicable registrations, such as any amendment registrations with local SAFE in relation to their ownership changes in us, or comply with other requirements required by Notice 75 and Circular 19 or other related rules.

The failure or inability of our PRC resident shareholders or beneficial owners to make any required registrations or comply with other requirements may subject such shareholders or beneficial owners to fines and legal sanctions, result in potential liability for our PRC Subsidiaries, and in some instances, for their legal representatives and other liable individuals, limit our ability to contribute additional capital into or provide loans

to (including using the proceeds from our public offerings) our wholly owned subsidiaries in PRC, such as VanceInfo Beijing, and may also limit their ability to pay dividends or otherwise distribute profits to us, or otherwise adversely affect us.

A failure to comply with PRC regulations regarding the registration of shares and share options held by our employees who are PRC citizens may subject such employees or us to fines and legal or administrative sanctions.

Pursuant to the Implementation Rules of the Administrative Measures on Individual Foreign Exchange, or the Individual Foreign Exchange Rules, promulgated on January 5, 2007 by SAFE and the Notices on Issues concerning the Foreign Exchange Administration for Domestic Individuals Participating in Share Incentive Plans of Overseas-listed Company, or the Share Option Rules, promulgated on February 15, 2012 by SAFE, which terminated the Operating Procedures on Administration of Foreign Exchange for Domestic Individuals Participating in Employee Share Ownership Plans and Share Option Plans of Overseas-listed Company issued by SAFE in March 2007, PRC citizens or residents habitually residing in the PRC continuously for over one year, who are granted shares or share options by an overseas-listed company according to its employee share option or share incentive plan are required, through the PRC subsidiary of such overseas-listed company or qualified PRC agents, to register with SAFE and complete certain other procedures related to the employee shareholding plan, share option plan or other similar share incentive plans. Concurrent with the registration with SAFE, the PRC subsidiary or qualified PRC agent shall obtain the approval for an annual allowance with respect to the foreign exchange in connection with the share holding or share option exercises as well as the approval of opening a special foreign exchange account at a PRC domestic bank to hold the funds required in connection with the share purchase or share option exercise, returned principal or profits upon sale of shares, dividends issued on the stock and any other income or expenditures approved by SAFE. Currently, the participating PRC residents' foreign exchange income received from the sale of share and dividends distributed by the overseas-listed company must be fully remitted into the domestic foreign currency account before distribution to such participants. In addition, the PRC agents are required to amend or deregister the registrations with SAFE in case of any material change in, or termination of, the share incentive plans, within the time periods provided by the Share Option Rules.

We and the participants of our 2005 Stock Plan and 2007 Share Incentive Plan who are PRC resident employees are subject to these rules, and we made the registration of our 2005 Stock Plan and 2007 Share Incentive Plan with the local SAFE. In addition, in October 2011, one of our wholly owned subsidiaries incorporated in the British Virgin Islands, VanceInfo Financial Solutions Limited, or VanceInfo Financial Solutions, adopted its 2011 Share Incentive Plan, or the VFS 2011 Share Incentive Plan. There is no detailed guidance over procedures for PRC citizens who are granted shares or the options by an overseas company prior to listing to apply for approval from or registration with SAFE. Therefore, VanceInfo Financial Solutions has not made any registration of VFS 2011 Share Incentive Plan with the local SAFE. It's uncertain whether the failure to register the options or restricted share units granted and vested before listing is deemed as incompliance by SAFE. If future participants of our 2005 Stock Plan and 2007 Share Incentive Plan fail to comply with Share Option Rules and other relevant rules, or the failure to register the options or restricted share units granted and vested before listing by VanceInfo Financial Solutions is deemed as incompliance by SAFE, we and those participants of our employee stock option plan who are PRC resident employees may be subject to fines and legal sanctions and be prevented from further granting options and restricted share units, under our employee stock option plan to our employees, which could adversely affect our business operations.

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

As of March 31, 2012, we had approximately 15,208 employees in the PRC. On June 29, 2007, the PRC Government promulgated a new labour law, namely, the Labour Contract Law of the PRC, or the Labour Contract Law, which became effective on January 1, 2008.

The Labor Contract Law establishes more restrictions and increases costs for employers to dismiss employees under certain circumstances, including specific provisions related to fixed-term employment contracts,

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

Furthermore, according to the Labor Contract Law and its implementing rules, if we intend to enforce the non-competition provisions with our employees in the employment agreements or confidentiality agreements, we have to compensate our employees on a monthly basis during the term of the restriction period after the termination or ending of the employment contract, which may cause extra expenses to us.

The audit report included in this annual report are prepared by auditors who are not inspected by the Public Company Accounting Oversight Board and, as such, you are deprived of the benefits of such inspection.

Our independent registered public accounting firm that issues the audit reports included in our annual reports filed with the SEC, as auditors of companies that are traded publicly in the United States and a firm registered with the Public Company Accounting Oversight Board (United States), or PCAOB, is required by the laws of the United States to undergo regular inspections by the PCAOB to assess its compliance with the laws of the United States and professional standards. Because our auditors are located in the Peoples' Republic of China, a jurisdiction where the PCAOB is currently unable to conduct inspections without the approval of the Chinese authorities, our auditors are not currently inspected by the PCAOB.

Inspections of other firms that the PCAOB has conducted outside China have identified deficiencies in those firms' audit procedures and quality control procedures, which may be addressed as part of the inspection process to improve future audit quality. This lack of PCAOB inspections in China prevents the PCAOB from regularly evaluating our auditor's audits and its quality control procedures. As a result, investors may be deprived of the benefits of PCAOB inspections.

The inability of the PCAOB to conduct inspections of auditors in China makes it more difficult to evaluate the effectiveness of our auditor's audit procedures or quality control procedures as compared to auditors outside of China that are subject to PCAOB inspections. Investors may lose confidence in our reported financial information and procedures and the quality of our financial statements.

Risks Related to Our Shares and ADSs

The trading price of our ADSs has been volatile and may continue to be volatile regardless of our operating results.

The trading price of our ADSs has been and may continue to be subject to wide fluctuations. During the period from December 12, 2007, the first day on which our ADSs were traded on the NYSE, until April 23, 2012, the trading price of our ADSs has ranged from US\$4.20 to US\$41.06 per ADS and the closing sale price on April 23, 2012 was US\$11.71 per ADS. The market price for our ADSs may continue to be volatile and subject to wide fluctuations in response to factors including the following:

- actual or anticipated fluctuations in our quarterly operating results;
- changes in financial estimates by securities research analysts;
- changes in the economic performance or market valuations of other IT services companies;
- announcements by us or our competitors of new services, acquisitions, strategic partnerships, joint ventures or capital commitments;
- technological breakthroughs in the IT services industry;
- potential litigation, administrative investigations or challenges by short-sellers;
- addition or departure of key personnel;
- fluctuations of exchange rates between the RMB and U.S. dollar or other foreign currencies;
- release of lock-up or other transfer restrictions on our outstanding ADSs or ordinary shares or sales of additional ADSs; and
- general economic and market conditions or other developments affecting us, our industry, our markets or the global economy.

In addition, the securities markets have from time to time experienced significant price and volume fluctuations that are not related to the operating performance of particular companies. These market fluctuations may also materially and adversely affect the market price of our ADSs.

Substantial future sales of our ADSs or ordinary shares in the public market, or the perception that these sales could occur, could cause the price of our ADSs to decline.

Additional sales of our ADSs or ordinary shares, including ADSs or ordinary shares issuable upon the exercise of our outstanding stock options, in the public market, or the perception that these sales could occur, could cause the market price of our ADSs to decline. If our shareholders sell substantial amounts of our ADSs, including those issued upon the exercise of outstanding options, in the public market, the market price of our ADSs could fall. Such sales also might make it more difficult for us to sell equity or equity-related securities in the future at a time and price that we deem appropriate. If any existing shareholder or shareholders sell a substantial amount of ordinary shares, the prevailing market price for our ADSs could be adversely affected.

In addition, we may issue additional ordinary shares or ADSs for future acquisitions. If we pay for our future acquisitions in whole or in part with additionally issued ordinary shares or ADSs, your ownership interests in our company would be diluted and this, in turn, could have a material adverse effect on the price of our ADSs.

You may not have the same voting rights as the holders of our ordinary shares and may not receive voting materials in time to be able to exercise your right to vote.

Except as described in this report, holders of our ADSs will not be able to exercise voting rights attaching to the ordinary shares evidenced by our ADSs on an individual basis. Holders of our ADSs will appoint the depository

or its nominee as their representative to exercise the voting rights attaching to the ordinary shares represented by the ADSs. You may not receive voting materials in time to instruct the depositary to vote, and it is possible that you, or persons who hold their ADSs through brokers, dealers or other third parties, will not have the opportunity to exercise a right to vote.

You may not be able to participate in rights offerings and may experience dilution of your holdings as a result.

We may from time to time distribute rights to our shareholders, including rights to acquire our securities. Under the deposit agreement for the ADSs, the depositary will not offer those rights to ADS holders unless both the rights and the underlying securities to be distributed to ADS holders are either registered under the Securities Act of 1933, as amended, or exempt from registration under the Securities Act with respect to all holders of ADSs. We are under no obligation to file a registration statement with respect to any such rights or underlying securities or to endeavor to cause such a registration statement to be declared effective. In addition, we may not be able to take advantage of any exemptions from registration under the Securities Act. The depositary may, but is not required to, sell such undistributed rights to third parties in this situation. Accordingly, holders of our ADSs may be unable to participate in our rights offerings and may experience dilution in their holdings as a result.

You may be subject to limitations on transfer of your ADSs.

Your ADSs represented by the ADRs are transferable on the books of the depositary. However, the depositary may close its transfer books at any time or from time to time when it deems expedient in connection with the performance of its duties. In addition, the depositary may refuse to deliver, transfer or register transfers of ADSs generally when our books or the books of the depositary are closed, or at any time if we or the depositary deem it advisable to do so because of any requirement of law or of any government or governmental body, or under any provision of the deposit agreement, or for any other reason.

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

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

Our corporate affairs are governed by our memorandum and articles of association and by the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) and common law of the Cayman Islands. The rights of shareholders to take legal action against our directors and us, actions by minority shareholders and the fiduciary responsibilities of our directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from English common law, which has persuasive, but not binding, authority on a court in the Cayman Islands. The rights of our shareholders and the fiduciary responsibilities of our directors under Cayman Islands law are not as clearly established as they would be under statutes or judicial precedents in the United States. In particular, the Cayman Islands has a less developed body of securities laws as compared to the United States, and provides significantly less protection to investors. In addition, Cayman Islands companies may not have standing to initiate a shareholder derivative action before the federal courts of the United States.

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

We may be classified as a passive foreign investment company, which could result in adverse U.S. federal income tax consequences to U.S. Holders of our ADSs or ordinary shares.

Based on the market price of our ADSs, the value of our assets, and the composition of our income and assets, we do not believe we were a passive foreign investment company, or PFIC, for U.S. federal income tax purposes for our taxable year ended December 31, 2011. However, the application of the PFIC rules is subject to uncertainty in several respects. In addition, we must make a separate determination after the close of each taxable year as to whether we were a PFIC for that year. Accordingly, we cannot assure you that we will not be a PFIC for 2012 or any future taxable year. A non-U.S. corporation will be a PFIC for any taxable year if either (i) at least 75% of its gross income for such year is passive income or (ii) at least 50% of the value of its assets (based on an average of the quarterly values of the assets) during such year is attributable to assets that produce passive income or are held for the production of passive income. Because the value of our assets for purposes of the PFIC test will generally be determined by reference to the market price of our ADSs and ordinary shares, our PFIC status will depend in large part on the market price of the ADSs and ordinary shares, which may fluctuate significantly. In addition, changes in the composition of our income or assets may cause us to become a PFIC. If we are a PFIC for any taxable year during which a U.S. Holder (as defined in Item 10, “Additional Information—Taxation—United States Federal Income Taxation”) holds an ADS or an ordinary share, certain adverse U.S. federal income tax consequences could apply to such U.S. Holder. See Item 10, “Additional Information—Taxation—United States Federal Income Taxation—Passive Foreign Investment Company.”

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

We commenced operations in 1995 through the IT services business of Beijing Wensi Chuangyi Software Technology Co., Ltd., or Wensi Chuangyi, a limited liability company established in China. In 1999 and 2002, two subsidiaries of Wensi Chuangyi, Shanghai Wensi Chuangyi Technology Co., Ltd., or Shanghai Wensi Chuangyi, and Wuhan Wensi Chuangyi Technology Co., Ltd., or Wuhan Wensi Chuangyi, were incorporated in China as part of the expansion of our IT services businesses.

Our holding company, VanceInfo, was incorporated under the laws of the British Virgin Islands in April 2004. In July 2004, we formed VanceInfo Beijing, a wholly owned subsidiary of VanceInfo, in China. In August 2004, VanceInfo Beijing acquired the IT services business and related assets of Wensi Chuangyi, including those of Shanghai Wensi Chuangyi and Wuhan Wensi Chuangyi. In October 2005, VanceInfo was redomiciled to the Cayman Islands, and is currently an exempted company with limited liability operating under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised).

In December 2007, we completed our initial public offering of our ADSs and listed our ADSs on the NYSE. We completed follow-on public offerings of our ADSs in July 2009 and November 2010, respectively.

Since 2009, we have acquired a number of businesses. The following are our recent acquisitions:

- In January 2009, we acquired from Guangzhou Kernel Technology Limited, or Kernel, a small China-based supplier providing customized application development services to Huawei, its software outsourcing service business with Huawei, together with a team of engineers and other employees. Over 150 IT professionals from Kernel’s offices in Guangzhou, Shenzhen and Nanjing joined us in connection with the transaction. The acquisition was accounted for as a business combination.
- In July 2009, we acquired the operating subsidiaries, i.e. TP Companies, of TP Corporation Limited, a Hong Kong-headquartered provider of customer relationship management, or CRM, solutions and system integration.

- In October 2009, we acquired a team of engineers together with the smart phone software testing business and the related assets from a China-based mobile service provider which provides research and development services to a leading global handset manufacturer. Over 150 professionals joined us in connection with the transaction.
- In February 2010, we made a strategic investment in Beijing Viatt, an IT services and solution provider for Chinese domestic financial institutions. Under the terms of the agreements, we made a loan of approximately RMB3.0 million, which is convertible into a 20% equity interest in Beijing Viatt with an exclusive right to acquire the remaining 80% of the equity in the next 12 to 18 months at our sole discretion. In January 2011, we acquired 100% equity interest in Beijing Viatt. Over 80 professionals of Beijing Viatt joined us in connection with the transaction.
- In March 2010, we acquired a team of engineers together with the cell phone software development outsourcing business and the related assets from Beijing Mobitech Software Co., Ltd., or Mobi, a small China-based company providing mobile software development service. Over 50 professionals of Mobi joined us in connection with the transaction.
- In September 2010, we entered into certain investment agreements to acquire equity interest in VanceInfo Australia, an Australia-based IT services and solution provider for Australian telecommunication and technology companies. Pursuant to the investment agreements, we made a payment of US\$0.2 million in cash for an initial equity interest of 20% of VanceInfo Australia in convertible redeemable preference shares, with an exclusive option right to acquire the remaining 80% of the equity interest in the next 12 months after the execution date of the investment agreements at our sole discretion. In July 2011, we acquired the remaining 80% equity interest in VanceInfo Australia.
- In March 2011, we entered into an acquisition agreement with Think Consulting Limited to acquire certain businesses of its wholly owned subsidiary, Bright Consulting (Beijing) Limited, or Beijing Bright, a China-based IT services company providing Oracle consulting and implementation services to Chinese domestic clients. This acquisition was completed in April 2011.
- In April 2011, we acquired 100% equity interest in Lifewood Companies which provide business process outsourcing, or BPO, services.
- In August 2011, we acquired 100% equity interest in Beijing DPC, which provides IT consulting and services to Chinese domestic financial institutions. Over 120 professionals of Beijing DPC joined us in connection with the transaction.
- In October 2011, we acquired the assets and the professional team of a U.S.-based IT services company specialized in Microsoft capabilities.
- In February 2012, we acquired 100% equity interest in Beijing Sunwin, a China-based company providing IT consulting and solutions to companies in Chinese airline industry. Over 90 professionals from Beijing Sunwin joined us as a result of this transaction. In addition, Beijing Sunwin has a 50% equity interest in a PRC joint venture company, namely Beijing Yunxiang.

Wireless Info Tech, Ltd., or WIT, which was acquired in October 2008 was dissolved in 2010 after we integrated its business and employees into one of our subsidiaries. Beijing Chosen Technology Co., Ltd. was liquidated in February 2012 after we integrated its business and employees into our other entities.

Our principal executive offices are located at 3/F, Building 8, Zhongguancun Software Park, Haidian District, Beijing 100193, People's Republic of China. Our telephone number at this address is +86(10) 8282-5266. Our registered office in the Cayman Islands is located at the offices of Codan Trust Company (Cayman) Limited, Cricket Square, Hutchins Drive, P.O. Box 2681, George Town, Grand Cayman, KY1-1111, Cayman Islands. Our agent for service of process in the United States is CT Corporation System, located at 111 Eighth Avenue, New York, New York 10011.

B. Business Overview

We are an IT service provider and one of the leading offshore software development companies in China. We ranked number one among Chinese offshore software development service providers for the North American and European markets as measured by 2010 revenues, according to IDC. Our comprehensive range of IT services includes R&D services, enterprise solutions, ADM, quality assurance and testing, globalization and localization, as well as other solutions and services. We provide these services primarily to corporations headquartered in Greater China, the United States, Europe and Japan, targeting selected industries with high growth potential for IT services such as telecommunications, high technology, banking, financial services and insurance, travel services, manufacturing, retail and distribution.

We offer our services through our globally integrated network of onsite and offsite delivery locations, primarily in China, to enable our clients to focus on their core competencies and improve operating efficiencies. With approximately 14,111 professionals as of March 31, 2012, we operate a number of CDCs, each with dedicated project teams and facilities designed to provide tailored solutions to individual clients. We believe that these dedicated CDCs provide our clients with differentiated services and enhance their confidence in our capabilities. We also deliver our services at clients' facilities or via our offices in major cities across Greater China and in the United States, Europe, Japan, Malaysia, Singapore and Australia.

Our major clients include Expedia, Huawei, Microsoft, a European mobile handset manufacturer and a pre-eminent Fortune 100 financial services company. The number of our clients increased significantly from 272 for 2009 to 426 for 2011. We deploy our sales and marketing teams in several of our key target markets and in close proximity to our clients, which enables us to better understand our clients' needs, effectively cross-sell our services and develop new client relationships.

In recent years, we have experienced significant organic growth, complemented by selective strategic acquisitions. Since 2009, we have made a number of acquisitions to strengthen our service lines and industry expertise, diversify our client base, and expand our sales network and delivery platform. Our net revenues grew from US\$148.1 million in 2009 to US\$283.1 million in 2011, representing a compound annual growth rate, or CAGR, of 38.3%. Our net income grew from US\$21.5 million to US\$22.2 million over the same period.

Service Lines

We categorize our services into three broad sets: (i) R&D Outsourcing Services, which include two service lines, R&D services and globalization and localization, (ii) IT Services, which include three service lines, enterprise solutions, ADM and quality assurance and testing, and (iii) other solutions and services, which include BPO service, such as call center service, and other services.

Set forth below is our net revenues breakdown by service lines for the periods indicated:

	Year Ended December 31,					
	2009		2010		2011	
	(in US\$ thousands, except for percentages)					
R& D Outsourcing Services						
R&D services	90,581	61.2%	124,181	58.7%	141,251	49.9%
Globalization and localization	5,118	3.5	6,060	2.9	7,312	2.6
IT Services						
Enterprise solutions	14,429	9.7	19,725	9.3	25,236	8.9
ADM	26,373	17.8	43,825	20.7	75,543	26.7
Quality assurance and testing	7,807	5.3	13,003	6.2	22,548	8.0
Other Solutions and Services	3,758	2.5	4,756	2.2	11,247	3.9
Total net revenues	<u>148,066</u>	<u>100%</u>	<u>211,550</u>	<u>100%</u>	<u>283,137</u>	<u>100%</u>

We are capable of offering each of our service lines to clients in a variety of industries, including the technology, telecommunications, banking, financial services and insurance, travel and transportation and public services, manufacturing, retail and distribution industries.

Research and Development Services

We provide product development services for software systems that are implemented in computers and embedded systems. We typically market these services to the chief technology officers, engineering vice presidents or outsourcing project heads of technology product development companies, ranging from independent software vendors to telecommunications equipment developers.

We have accumulated a variety of skill sets from over 16 years of experience in the outsourced development of computer software and hardware products. We provide R&D services in all phases of development, from requirements analysis, concept generation, product realization, to quality assurance and testing and technology and information transfer to the client. We offer our services over a broad spectrum of technology areas and are able to provide our clients complete subsystems or entire products.

We develop various software products, including middlewares, Internet protocols and other software. We also focus on embedded software technologies that involve the design and development of software solutions embedded in the hardware of a particular device. In addition, we provide cost-effective testing services to help technology product development companies improve their hardware and software. Our research and development resources allow us to serve clients that seek highly skilled product development services, including services for their core technologies. Our timely delivery capabilities help our clients to gain a time-to-market advantage during their product development process. We also employ advanced processes and tools to ensure a high level of protection of clients' intellectual property.

The following case studies describe the R&D services we provide to three of our clients:

TIBCO (a Nasdaq-listed software company with over 4,000 customers)

Client's Project Requirements. TIBCO, which we have served since 2005, sought to improve the operating efficiency, price competitiveness and time-to-market of its core products to remain competitive. To achieve its goals, TIBCO sought to lower its software research and development costs through outsourcing. TIBCO chose us as a partner to assist with the full development cycle of several of its product lines. One such product line was TIBCO's B2B suite, which is a standards-based business-to-business integration platform for secure transmission of business documents and messages among disparate partner systems.

Our Solutions. Our team worked closely with the managers and engineers at TIBCO's global headquarters to understand the client's requirements, which included the development of several new B2B protocols. We performed extensive studies and analyses to meet the following technical requirements of TIBCO's B2B suite project:

- understanding of leading industry standard B2B protocols;
- Extensible Markup Language, or XML, processing and parsing;
- security and authentication based on product key infrastructure, or PKI platform;
- TIBCO infrastructure products; and
- Java language for platform independence.

During the course of the B2B suite project, our TIBCO CDC actively worked in every key aspect of the structuring and formation of the B2B platform, including framework design, concrete coding, quality assurance and testing, and particularly, the documentation of the development process, which enables TIBCO to access critical know-how for the buildup of the B2B platform in the future and thus enhances the operation efficiency of the platform. The new product was released in January 2007, and is now widely used by TIBCO's customers.

Current Relationship with Client. We are the only Chinese service provider to help TIBCO to develop software products. Since 2005, we have been involved in a wide range of research and development services for this client on over 50 products. Currently, we have more than 250 staff at our TIBCO CDC dedicated to product development for TIBCO. We recently have been appointed by TIBCO to develop more technically challenging products.

We have a team of approximately 15 professionals dedicated to the B2B suite project. Following the release of the new version of the B2B suite, our B2B team continues to play a significant role in building up additional B2B protocols. Additionally, due to our experience working with TIBCO products, we have also had the opportunity to work on additional professional services for local TIBCO customers under separately billed assignments.

A Fortune 100 multinational software company

Client's Project Requirements. This client is one of the largest software companies, which provides a variety of products, including operating systems that run on personal computers, server computers, and embedded devices. This client planned to launch a flagship software product involving multiple releases with more than 30 components in more than 60 languages simultaneously. Therefore the clients looked for a strategic partner that was equipped with required expertise and necessary capability to effectively handle the complex technical problems and focus sufficient resources and technologies on the project in a timely manner. During the term of our contract with the client for this project, it was expected that this engagement would evolve from a capacity-based model merely focusing on execution towards an outcome-based model requiring us to design, manage and control the whole project.

Our Solutions. We established a team of approximately 100 professionals within a short period. The team consisted of three groups: the first group in charge of test scoping and planning, milestone testing of new features, the second group in charge of a combination of project management and technological consulting, and the third group in charge of testing case execution, and bug logging. Our skillful team implemented a dedicated delivery model to devote resources on each of the features, applications and languages involved in this project, and achieved a high resource utilization rate. In the first major milestone, our performance met all key performance indexes defined in the SOW and well exceeded this client's expectations.

Current Relationship with Client. We are one of the first Chinese service providers to help this client resolve technically challenging and strategically significant issues. We usually have around 100 R&D and IT service projects ongoing in parallel for this client with around 1,200 professionals involved. We have become one of the largest Chinese service providers of this client in terms of revenues and the number of dedicated professionals. Currently, we are providing end-to-end IT service solutions on cloud computing to this client, which utilizes the latest technologies and reduces its IT service cost significantly.

A global leading telecommunication company

Client's Project Requirements. In order to satisfy the increasingly complicated fee charging requirements in the mobile telecommunication sector, this client sought to expand its capability to include post-paid charging on the basis of online charging system, or OCS, and develop a convergent billing solution, or CBS, integrating pre-paid function with post-paid function. We, as a long-term partner with this client with a track-record of OCS delivery, have been engaged by this client for this project.

Our Solutions. Our team worked closely with this client to undertake each process of the project, ranging from client requirements survey at the initial stage, solution design, function development testing, to on-site installation and quality assurance, client inspection and successful launch of the system. Due to our expertise and experience with respect to key functional modules, including account receivable module, debt collection module and billing module, we successfully completed the project in a timely manner and with a quality level beyond the client's expectation. The CBS solutions we delivered covered a variety of countries and regions including Bangladesh, Afghanistan, Tadjikistan, Saudi Arabia, and the number of users in Bangladesh reached approximately 20,000,000.

Current Relationship with Client. Our high quality delivery has been appreciated by this client. Our cooperation with this client for approximately five years has demonstrated our leading position in CBS business line. As of the date of this report, our delivery has accounted for approximately 50% of this client's outsourced CBS business.

Enterprise Solutions

We provide clients with a full spectrum of services in enterprise solutions, including Business intelligence, or BI, data warehouse, or DW, enterprise resource planning, or ERP, CRM, supply chain management, enterprise application integration, or EAI, and system support and maintenance. We provide implementation and maintenance services for major enterprise resource planning systems, including SAP, Siebel, Peoplesoft, JD Edwards, Microsoft Dynamics and Oracle E-Business Suite, IBM and Teredata. We provide comprehensive management and ongoing optimization of customer enterprise solutions. Our offerings, which are usually billed separately on a time-and-material basis, include:

- packaged evaluation and selection;
- packaged implementation;
- customization;
- regional rollout;
- enhancement, maintenance and product support; and
- version upgrades.

Our enterprise solutions are intended to help our clients focus on their core competencies and significantly reduce the clients' expenses by taking advantage of our IT expertise. We focus on providing customized enterprise implementation that is both innovative and seamless, offering clients cost-effective solutions for consistent results.

The following case study describes the enterprise solutions services we provide to one of our clients:

A large-scale Chinese commercial bank

Client's Project Requirements. Due to regulatory authority's increasingly stringent risk control requirements and demand for customer segment management resulting from market competition, this client needs to collect and analyze its operation, finance and customer data in order to make management and business decisions in a timely manner. The major challenges this client faced included low-quality customer statistical data, lack of internal data sharing and lack of process and mechanism for centralized management, which resulted in inconsistency of data collection criteria and negatively impacted accuracy and timeliness of this client's data analysis.

Our solutions. After surveying this client's demand and analyzing the current status and process of this client's BI system, we proposed a solution to build up the enterprise data warehouse, or EDW, and delegate the company-level data management and standardization powers to the client's financial department which would help to improve the quality of data collected. By virtue of our BI team's rich experience and unique methodology, we provided this client with service in the following aspects:

- designing its data governance system, including the organization, process and responsibilities or functions of each department;
- creating the data governance platform such as the metadata platform, the data quality platform and the data standard management platform to support implementation of data governance;
- designing the architecture and EDW; and
- categorizing the data criteria for some key customer and product databases.

Meanwhile, we have assisted this client in designing and executing the EDW, and provided relevant training and support. Our solution has helped the client analyze their operation and financial data more accurately, and improved its efficiency of decision-making process.

Current Relationship with Client. As the client was greatly impressed by our expertise and industry know-how demonstrated in this project, we have become its key cooperation partner with respect to BI business and secured engagements for subsequent phases of its BI projects in competition with other major vendors.

Application Development and Maintenance

We design, develop and implement software solutions to meet a variety of client requirements. We also provide maintenance services for large software systems, which may include modifications and enhancements to the system and product support. Unlike our R&D services that target research and development spending by technology product development companies, our ADM services target our clients' other IT spending, which is generally controlled by their chief information officers. We perform application design, programming, testing and maintenance either in our delivery offices or at our clients' sites. Our projects include new development and significant functional enhancements to existing software applications. We have developed expertise in mainframe, customer-server, Internet and mobile software technologies and on emerging platforms such as Windows series, Linux, Unix, IBM Mainframe and Symbian. Our major programming language tools include C/C++, Java/J2EE/J2ME, JSP and .NET.

We offer a wide spectrum of ADM services to our clients, designed to help them manage their IT outsourcing spending. The following case studies describe the ADM services we provide to two of our clients:

A flag carrier in Asia Pacific

Client's Project Requirements. This client is a flag carrier headquartered in Asia Pacific. This client was seeking a strategic partner as it went forward with its major instant messaging, or IM, transition plans and had an increasing number of projects. The high salary of developers where the client's headquarters locate makes it hard to meet this client's fast changing business needs. Meanwhile, this client has a substantial backlog of development work to be carried out due to its IM transition plan implementation thus requiring us to complete assignments in a tight timeframe.

Our Solutions. We established a CDC in Shenzhen to support this client's development requirements. This CDC is responsible for this client's staff augmentation and project-related SOW requirements. We also strategically placed business analysts based in the city where the client's headquarters locate to meet its requirements for various information management projects and development objectives. We have established effective cross-border relationship with this client through IM tools, onsite training, inviting the client's experts for offshore training, and updating client with weekly and monthly reports. We are establishing a team which will eventually possess the domain knowledge base required to take over the role as an aviation service management, or ASM, service provider for this client in the next two to three years. We have maintained a well-defined process to manage the projects and working process, perform cross-team training and support, and we also set up a self-testing team to increase test efficiency for this client. We are also assisting this client in setting up an outsourcing management process mechanism and providing this client with project management resources.

Current Relationship with Client. We entered into an MSA with this client in September 2010. Currently, we usually assign more than 50 professionals working for this client, both onsite and offshore. We held monthly meetings with this client in the city where this client is headquartered and Shenzhen, which enabled us to maintain an open, honest relationship with this client with low attrition rate for our professionals working for this client.

One of the largest gaming companies in Asia

Client's Project Requirements. The client is one of the largest gaming companies in Asia. To shorten the time-to-market of their services and fulfill their unique current and future business needs, the client planned to construct an online betting system with high efficiency and flexibility. This highly customized system needs to be re-designed and migrated from its previously existing platform.

Our Solutions. We assembled a dedicated team with over 50 experienced engineers in a short timeframe. We utilized our expertise in online e-commerce services to understand the client's business processes and requirements. Following an in-depth analysis, our team proposed a technical solution that would enhance the system's flexibility and ability to adapt to future business needs.

During the delivery process, our team designed a set of development processes and a rigorous quality control system to minimize defects and improve project execution efficiency. As a result, the project was completed ahead of schedule following strict quality controls. The successful project completion supported the client's quick launch of new online betting business lines and enabled its geographic expansion.

Current Relationship with Client. We are the major service provider in mainland China to help the client develop IT systems and applications. Due to the success of the online betting system, the client authorized us to set up two CDCs. By the end of 2011, we have more than 90 staff at our dedicated CDCs working for this client in a wide range of application development and maintenance services.

Quality Assurance and Testing

Businesses rely on quality assurance and testing to reduce defects and enhance IT applications. As testing is relatively independent from the development process, many clients outsource testing to third-party service providers, which also mitigates conflicts of interest faced by their internal testing department and enhances the neutrality and accuracy of testing. Our testing services help clients successfully and cost-effectively realize their goals. Our advanced testing skills, cost-effective testing approaches, and proven testing methodologies help clients improve their hardware and software.

We offer customized and automated testing practices according to clients' business needs, including functional testing, globalization and localization testing, automation testing, performance testing, remote testing and test process consulting. Our testing engineers are well trained in several test management tools such as Performance Studio, WinRunner/LoadRunner and TestDirector.

The following case studies describe the quality assurance and testing services we provide to three of our clients:

A pre-eminent Fortune 100 financial services company

Client's Project Requirements. From 2007, this client's several subsidiaries in Asia Pacific region decided to adopt a new system to achieve the system convergence, and manage its banking businesses ranging from retail banking, credit cards to capital markets services. From 2010, similar system convergence and regeneration started to be adopted in the U.S. Due to the complexity of the project and its importance to our client's business, rigorous tests must be conducted before the launch of this new system. The client required that the service provider has:

- extensive experience in testing;
- solid knowledge of financial services industry practice;
- clear understanding of relevant local regulations; and
- cost-effective, flexible and timely delivery capabilities.

Our Solutions. We set up a joint testing center with the client in 2003, where we established well-defined testing processes, methodologies and project management procedures for the client's projects. For this specific testing project, we formulated a comprehensive testing plan together with the client's software developers. We deployed, on short notice, a dedicated testing team of over 170 engineers. The team has been well managed and maintained with continual capability growth. We participated in the testing work during each phase of the project, from system integration testing during system development to customer acceptance testing during implementation. The project proceeded smoothly and we are well recognized by client with more and more projects assigned to us.

Current Relationship with Client. We have also been retained by the client's Asia-Pacific regional headquarters and other branches for various testing projects under separately billed assignments. Our services extended from testing to software development and BPO with more than 400 professionals. The engagement model developed from pure staff augmentation to team-based and project-based outsourcing. The offshore testing center for this client has supported more than 100 projects.

A global mobile and Internet technology company

Client's Project Requirements. Partly due to the impact of financial crisis, this client has transferred more and more projects, particularly testing related service projects, to China to save cost. This client required that the service provider:

- has extensive experience in testing, especially in the mobile area;
- is experienced in human resource hiring and management;
- is good at offshore project management;
- has the capability to build up competence and conduct quality management; and
- has cost-effective, flexible and timely delivery capabilities.

Our Solutions. We started this project from onsite support working mode. As customer requirements increased, we also set up an offshore team with separate management and independent execution capability. We are now providing testing service in both English and Japanese languages. As cooperation with this client deepens, we received some new assignments like automation testing, white box testing, localization and development. We set up a virtual team to manage internal competence, quality and resource, thus highly improved our efficiency.

Current relationship with client. We have assigned 70 onsite professionals and more than 160 offshore professionals to this client. Since 2009, among this client's testing service suppliers in China, we have been ranked number one based on the number of dedicated professionals. In addition to localization and automation services provided to this client in China, we also provide services to this client's subsidiaries in Sweden and Tokyo via our onsite professionals.

A large-scale Chinese commercial bank

Clients project requirement. In recent years, personal online banking services have undergone rapid growth in the PRC. This client provides the individual customers with access to its personal online banking services in a convenient, quick and safe way on a 24 hours a day, seven days a week basis. The online banking service solutions have been upgraded rapidly in terms of functions and services, and covered a majority of the banking services available to individual customers. As such, testing of timeliness, stability and reliability of online banking services is indispensable before launch of any of such services, and our client has very stringent standards in this regard, which require:

- the projects to cover a wide range of fields, from adding new functions to maintenance of transaction records;

- our professionals to be responsible for testing the online banking system in respect of not only its trading functions from a technical perspective (such as the reliability of the system), but also its business functions from individual customers' perspective (such as user-friendliness of the system interface), which requires high level of understanding of and familiarity with banking business;
- our professional to be familiar with the testing requirements, testing tools and how to use them in an efficient manner; and
- function testing and performance testing.

Our solutions. We successfully built up a highly-skillful professional team within a short timeframe. Our experience and communication with this client enabled us to develop an in-depth insight and understanding of this client's business structure and processes in order to provide professional consulting service. Our experts designed a sophisticated testing plan with standardized testing specifications and execution scheme, including testing methods, tools, processes, standards, cases and standard documents. In addition to completing the project with high efficiency and quality, we were also able to provide our client with professional testing system and files and knowledge management solutions.

Current relationship with client. Thanks to our delivery of the project in an effective way, we have become a key partner of this client with respect to testing of online banking services and other relevant system. Meanwhile, we provide daily maintenance services for this client's personal online banking system.

Globalization and Localization

We started our business in 1995 by offering globalization and localization services to help clients penetrate local markets. We also started our engagement for several of our key clients, such as IBM, by providing quality globalization and localization services. Our globalization and localization services consist of a multi-step process to create the specific language versions of our clients' software and hardware, including software applications, printed documents, communications materials, website contents, desktop publishing, E-learning and training content. Our globalization and localization services are generally billed on a time-and-material basis. Our customized solutions include:

- software and content localization;
- localization engineering;
- localization testing;
- internationalization engineering; and
- internationalization testing.

We provide these services to meet our clients' cultural, linguistic, legal, technical and marketing requirements in a specific country or region. Currently, we provide high-quality globalization and localization services at significant cost savings and offer translation services into over 100 languages, including Asian languages, EMEA (Europe, the Middle East and Africa) languages, Nordic languages and North and South American languages. Our superior project management capability enables us to maintain long-term relationships with our clients as they generally continue to work with us for upgraded versions or updates of existing products, under separately negotiated and billed contracts or SOWs entered into subsequently.

The following case study describes the globalization and localization services we provide to one of our clients:

A Fortune 100 international mobile and Internet technology company

Client's Project Requirements. In 2008 and 2009, the leading mobile and Internet technology company looked for a company which could perform linguistic quality assurance, covering more than 85 languages for the devices

applications and Internet services applications. This project required not only globalization and localization expertise, but also quick turnaround and ability to ram up a multinational team to fulfill the ongoing tasks on a daily basis.

Our Solutions. We had accumulated in-depth knowledge and experience with respect to the client's products and services through previous cooperation. We set up a team consisting of localization and testing experts to provide quality assurance services covering up to 95 languages. In particular, leveraging our localization services expertise and localization project management experience, we designated a senior project manager to control the working process, coordinate different service stages and plan an elaborate timetable in order to shorten the overall turnaround time. Within the planned budget, our localization services achieved quality delivery of the localized versions testing in a timely and cost-efficient manner.

Current Relationship with Client. As one of the global top suppliers of this leading mobile and Internet service company, we have established and maintained a long-term collaboration with the client and have been providing services for most of its major product lines. We have teams with over 1,000 dedicated professionals providing a full-spectrum of services to this client, including quality assurance and testing, field testing, automation testing, application development, etc., wherein more than 150 full-time professionals from 75 different countries or regions plus over 1,200 native speaker freelancers are working on its localization testing and localization projects.

Other Solutions and Services

Our other solutions and services include BPO service, such as call center service, and other services. BPO service allows our clients to focus on running and growing their core business by outsourcing day-to-day management of non-core processes to us. We provide a high degree of transparency into effectiveness and quality of our BPO service by utilizing mutually agreed governance arrangements, systematic reporting practices and key performance indicators.

The following case study describes the BPO service we provide to one of our client:

One of the largest global online genealogy service providers

Client's Project Requirements. This client is one of the world's largest online information resource providers for searching family history records. This client has provided services with respect to USA, Canada, Europe, Australia and Mexico. The data sources of such family information have included handwritten records from census, immigration and military departments, and other personal records such as birth and marriage certificates. The foundation of this client's service is an extensive and unique collection of billions of historical records that has been digitized, indexed and uploaded online. The efficiency and accuracy of digitization of handwritten records is crucial for this client to store and share the increasing volume of such records as a result of the anticipated business growth in the forthcoming years. This project posed a challenge to us as some of handwritten records can be dated back to the 1700s and 1800s, which caused certain letters and words to be illegible. In addition, the client's database includes records written in European languages such as German, Italian and Hungarian, or Asian languages such as Japanese, Korean and Chinese, which required a highly diversified language database and extensive development experience.

Our Solutions. We developed a special pattern recognition training system based on specialized skills of our professionals as well as our unique data dictionary to improve the productivity and quality of our services. Our experienced language team was also assigned to further enhance the productivity and quality of our deliveries.

To meet the business needs of the client, the key is to implement an effective mechanism with methods, tools, and trained workforce to digitize and index the handwritten records efficiently and accurately. In this regard, we have implemented the following steps to serve this client's business needs:

- a special pattern recognition system with unique data dictionary to increase accuracy;

- automated workflow to streamline and standardize work process to increase productivity;
- skillful professionals to perform indexing with a specialized language team assigned to perform on-site quality control; and
- online monitor of productivity and quality through dashboards with regular review meetings for ongoing process improvement.

Current Relationship with Client. We have been serving this client for more than eight years. During this period our client has grown from small /medium-scale enterprise to a listed company with market capital exceeding US\$1 billion. The increasing business demands of this client have also helped us to expand with our workforce serving it to grow from 100 professionals to more than 1,000 professionals nowadays. Recently we have taken up a new project from this client involving processing of 140 million written records and currently we processing 600,000 records for this client on daily basis. We are on the shortlist of this client’s suppliers of data feed to support its mainstream online information searching service.

Delivery of Our Services

In addition to providing services from our facilities, we offer our clients flexible delivery alternatives through our CDCs and through onsite teams operating on our clients’ premises.

CDCs

We currently operate a number of CDCs with dedicated project teams and facilities designed to tailoring solutions for individual clients. The professionals in our CDCs work with clients to develop and deliver business operational improvements with the goal of achieving higher performance at lower costs. We typically lease premises, purchase or lease relevant equipment and facilities, in some cases reimbursed by our clients, and hire engineering professionals as required by our clients. All of our CDCs have high-speed broadband connections to the clients’ facilities via dedicated lines. Our CDCs employ advanced technology and process-based methods to ensure a high level of security. The intellectual property rights in relation to the software products we develop for our clients are generally owned by our clients. These approaches successfully address our clients’ concerns in terms of security and intellectual property protection when selecting outsourcing service providers. The resources committed to our clients at our various CDCs also help to inspire our clients’ confidence in our competencies and capabilities, thus enhancing customer loyalty. CDCs comprise an important platform for China-based IT services companies, like us, to deliver their services.

To address clients’ concerns with respect to security and intellectual property rights, we occasionally grant clients an option to acquire our CDCs, which options we believe are rarely exercised due to cost and other considerations associated with changing the operators of CDCs. We believe that the transfer fees agreed between our clients and us for our clients to acquire our CDCs are generally no less than the carrying value of our assets in the relevant CDCs.

The following case studies describe our relationship with two of our CDC clients.

TIBCO

We first offered CDC services to TIBCO after it migrated certain research and development work from India to us in October 2005.

Our TIBCO CDC is located on leased premises and is equipped with more than 680 computers and ancillary equipment and furniture. The CDC is connected to TIBCO’s facilities through a dedicated virtual private network, or VPN. The intellectual property rights in relation to the software products we develop for TIBCO are owned by TIBCO. We have deployed advanced technology and process-based methods to ensure a consistently high level of security. We have granted an option to TIBCO to acquire this CDC, including the facilities, employment relationships with our professionals working in the CDC and certain operating relationships such as the lease for the premises, in consideration of an agreed transfer fee.

We believe our in-depth experience in developing TIBCO products via our CDC and our commitment to real-time response have played an important role in TIBCO's marketing efforts. Our dedicated professional team for TIBCO in China does not face the distance, time and cultural differences encountered by TIBCO's U.S. team with its Asian customers. We believe that our participation in TIBCO's sales and marketing activities presents new opportunities to further develop our relationship, and will contribute to our revenue growth while creating additional value for TIBCO.

As of March 31, 2012, we maintained a high-quality research and development team of professionals for TIBCO, all of whom hold undergraduate and graduate degrees.

One of the largest global online travel service providers

Client's Project Requirements. This client is one of the world's leading online travel companies, providing travel products and services to leisure and corporate travelers in the U.S. and around the world. This client's decades-old monolithic system is costly to maintain and hard to satisfy its fast changing business needs, and thus it does not have enough budget for some other initiatives, such as test automation and performance tuning. This client planned to reconstruct its e-commerce core platform so as to adjust more of its budget to other engineering areas.

Our Solutions. We established a CDC including a dedicated team of more than 100 senior professionals in 2009. This CDC currently has more than 400 professionals and has an engineering team helping to redesign this client's system. Our customized solutions include:

- providing effective onshore and offshore engagement model;
- providing agile development methodology;
- designing and implementing this client's e-commerce core platform with service-oriented architecture, or SOA, and system migration;
- providing project-based end-to-end deliverables in data warehouse, websites, back-end system, internal tools, customer care, etc.;
- establishing dedicated development team to provide universal automation platform for test and providing professional test automation for all lines of business for this client; and
- providing professional performance analysis and tuning.

We maintained effective communication with this client by applying flexible working hours and adopting video conferencing, conference calls, live meeting and onsite rotation. Our valuable solutions enabled this client to enhance its core platforms of SOA and services, improve its time-to-market, increase its competitive agility, and meet its resource demands while saving cost. The stability of the client's system performance also ensured its core business operations.

Current Relationship with Client. The CDC for this client has grown significantly since its establishment in 2009 in Shenzhen, and the number of our professionals in this CDC increased significantly from more than 100 in 2009 to more than 400 as of March 31, 2012 due to our satisfactory and successful deliveries provided to this client. This Shenzhen CDC is the second largest engineering center globally for this client in terms of the number of dedicated professionals. We also established the second CDC for this client in Beijing in 2010. We are currently a major service provider to this client.

Onsite Teams

Some clients require the presence of our project teams on their or their customers' premises. We maintain a certain portion of our professionals on our clients' or their customers' premises, in order to ensure optimal collaboration and close interaction between the clients' teams and our project team and to provide a comprehensive range of IT services that meet our clients' expectations.

Quality and Process Management

One of the crucial factors in our success has been our efforts to pursue the highest quality standards in all aspects of our business. We are able to define various project processes, monitor the project schedule and workforce allocation, and improve our requirement management, testing management, defect management, risk management and resource management. We believe our seamless quality and process management process has greatly improved our global delivery capability, process maturity and timely decision-making.

We typically follow the standard process requested by our clients and have devoted substantial efforts to obtaining certification under certain generally recognized quality control systems. One of our subsidiaries, VanceInfo Beijing, is IEC 27001:2005 and ISO 9001:2008 certified and achieved Level-Five certification under the Capability Maturity Model Integration, or CMMI, an industry recognized rating system for systems engineering developed by Carnegie Mellon University, at one of our key development centers. One of our subsidiaries, VanceInfo Shanghai is ISO 9001:2008 certified. One of our subsidiaries, VanceInfo Shenzhen, is ISO 9001:2008 and ISO/IEC 27001:2005 certified and have achieved CMMI Level-Three certification. One of our subsidiaries, Beijing DPC, is ISO 9001:2008 certified.

Sales and Marketing

Our sales and marketing strategy seeks to increase clients' awareness of our service lines, generate new and repeat business from target clients, promote client loyalty and enhance brand recognition. We promote our services directly through our business development, or BD, team. Members of our executive management team are also actively involved in managing key client relationships through targeted interaction with our clients' senior management. We also assign midlevel managers with service line expertise to assist our BD team in exploring business opportunities.

Sales and Marketing Organization. As of December 31, 2011, our BD team consisted of 114 full-time sales personnel, including 16 sales managers, each of whom is responsible for a designated sales region, a specific service line or an industry. We have sales offices in major cities in China and in Silicon Valley, Seattle, London, Tokyo and Hong Kong. We plan to enhance our sales efforts by recruiting more sales professionals and setting up additional sales offices overseas.

New Business Development. We use a cross-functional, integrated sales approach under which our executives, sales personnel and midlevel management analyze potential projects and collaboratively develop strategies to promote our expertise to potential clients. This approach allows for a smooth transition to execution once a sale is secured. For larger projects, we typically bid against other IT service providers in response to requests for proposals. Clients often cite the following as reasons for awarding us contracts: our flexible delivery model, comprehensive outsourcing services, ability to scale, superior quality and process execution, industry expertise, experienced management team, talented professionals, strong track record and competitive pricing. In addition, client referrals and cross-selling provide objective validation of our competitive strengths. We often gain new business opportunities through referrals from existing clients to new clients or the different departments of our existing clients.

Enhancing Brand Visibility. We also devote substantial efforts to public relations, attendance at global exhibitions and conferences, governmental relations and advertising. For example, we attended various forums and exhibitions organized in the United States, China, and Europe in 2011, including Gartner Symposium/ITXpo 2011, Gartner Outsourcing & Vendor Management Summit 2011, IAOP 2011 Outsourcing World Summit, China Travel Distribution Summit 2011, Financial Services Technology Summit Asia 2011, the 8th Annual China Regional Commercial Bank Informatization Development Summit, GSMA Mobile World Congress 2011. We believe our marketing team's efforts have enhanced our company's corporate image and brand name.

Our Clients

Our clients include large corporations headquartered in Greater China, the United States, Europe and Japan. We have a strong market share of Greater China-based companies and U.S. and European corporations operating in China. The number of our clients increased significantly from 272 for 2009 to 426 for 2011.

The following table sets forth our net revenues by geographic breakdown based on the location of our clients' headquarters for the periods indicated.

	For the Year Ended December 31,					
	2009		2010		2011	
	(in US\$ thousands, except for percentages)					
Greater China ⁽¹⁾	59,373	40.1%	95,481	45.1%	132,721	46.9%
United States ⁽¹⁾	56,634	38.3	70,955	33.6	95,324	33.7
Europe ⁽¹⁾	23,148	15.6	32,178	15.2	42,433	15.0
Japan ⁽¹⁾	8,466	5.7	9,889	4.7	9,500	3.4
Others	445	0.3	3,047	1.4	3,159	1.0
Total net revenues	<u>148,066</u>	<u>100.0%</u>	<u>211,550</u>	<u>100.0%</u>	<u>283,137</u>	<u>100.0%</u>

(1) Countries or regions where the headquarters of our clients are located.

In 2009, each of Huawei, Microsoft and a European mobile handset manufacturer accounted for 10% or more of our net revenues, and in the aggregate accounted for 47.0% of our net revenues. In 2010, each of Huawei and Microsoft accounted for 10% or more of our net revenues, and in the aggregate accounted for 37.8% of our net revenues. In 2011, each of Huawei and Microsoft accounted for 10% or more of our net revenues, and in the aggregate accounted for 36.9% of our net revenues. Our top five clients accounted for approximately 56.3%, 55.5% and 53.1% of our net revenues in 2009, 2010 and 2011, respectively. The volume of work we perform for specific clients is likely to vary from year to year, as we typically are not their exclusive external IT service provider. Accordingly, a major client in one year may not contribute the same amount or percentage of our net revenues in a subsequent year.

We typically enter into MSAs with our clients, which are either renewable for successive one-year periods, or have no fixed terms. These agreements typically stipulate our general responsibilities and obligations, the service quality standard, a confidentiality undertaking and the ownership of intellectual property rights. The MSAs are not commitments to purchase our services, and generally may be terminated without cause on short notice or when there are no outstanding SOWs under them.

For each specific project, clients place service orders with us from time to time through SOWs. We usually bill our clients a time-based fee or a fixed price according to clients' requirements and our negotiations with clients. Our SOWs with Microsoft mainly describe our work scope and specifications, the performance and acceptance criteria, the delivery schedule and price and payment terms. Similarly, our SOWs with IBM typically describe our work scope, the delivery schedule, the acceptance methods, quality schedules, and price and payment terms. Under the SOWs, IBM has the right to audit our charges and invoices and to inspect our performances. Our clients typically have a right to terminate their SOWs on short notice without any cancellation charge.

Competition

The offshore IT services market is highly competitive. Competition in the offshore IT services market depends in large part on industry experience, quality of the services offered, reputation, marketing and selling skills as well as price. No single participant or group of participants dominates the entire market or any of the segments, and we expect competition to intensify. We compete in the offshore IT services market primarily with:

- China-based IT services companies, such as Chinasoft International, Hisoft, Neusoft, SinoCom, iSoftStone, Camelot and Beyondsoft;

- Indian IT services companies, such as Cognizant, HCL, Infosys, TCS and Wipro;
- in-house IT departments of large corporations; and
- offshore IT service providers in emerging outsourcing destinations with low wage costs such as the Southeast Asia, Latin America and Eastern Europe.

Our international competitors are either setting up operations in China or are increasing their presence in China as offshore operations in China are increasingly becoming an important element of their delivery strategy. This has resulted in increased employee attrition among Chinese IT service providers and increased wage pressure to retain IT service professionals. We believe, however, that price alone is not a sustainable competitive advantage in an environment where IT solutions are becoming increasingly critical to clients' core corporate strategies. We have, therefore, built our competitive position primarily on our ability to leverage our industry specific knowledge and experience in a broad range of IT services, manage and maintain key customer relationships, continually monitor and improve our delivery excellence and attract and retain highly skilled professionals.

Intellectual Property

Our intellectual property rights are important to our business. We rely on a combination of trademarks, domain names, trade secrets, confidentiality procedures and contractual provisions to protect our intellectual property. We have proprietary know-how in software development and testing methodologies. We hold trademark registrations for one or both of "VANCEINFO" and "文恩" in China, the United States, Europe, Australia, Singapore and Hong Kong, and have additional trademark registration applications pending in the United States and in China for one of these marks. One of our subsidiaries, TP Shanghai, holds a trademark registration for "TP" in China. One of our subsidiaries, Lifewood Technology Limited, holds trademark registrations for "lifewood" in Hong Kong and Japan. We have registered our domain names, including www.vanceinfo.com, www.vanceinfo.net, www.vanceinfo.com.cn, www.vanceinfo.net.cn, www.vanceinfo.cn, www.vitocs.com, www.worksoft.com.cn, www.vitcorporate.com, www.vitcorps.com, www.vanceinfo.us, www.jp.vanceinfo.com, www.aitsoftware.com.cn, www.tp-corp.com, www.viatt.com.cn, www.viatt.cn, www.lifewood.com, www.vanceinfo.com.au, www.vanceinfo.net.au, www.dpc-bj.com, www.bjsunwin.com and www.lifewood.cn.

We require our employees and subcontractors to enter into non-disclosure agreements to limit access to and distribution of our clients' proprietary and confidential information as well as our own. These agreements generally provide that any confidential or proprietary information developed by us or on our behalf must be kept confidential. These agreements also provide that any confidential or proprietary information disclosed to third parties in the course of our business must be kept confidential by such third parties. However, our clients usually own the intellectual property rights in the software we develop for them. We are responsible to our clients for complying with certain security obligations, including maintaining network security, backing-up data and maintaining a virus free network. We cannot assure you that we will be able to comply with all such obligations without incurring any liabilities.

In addition, the terms of our contracts with clients often impose particular confidentiality and security standards. We have established a system of security measures to protect our computer systems from security breaches and computer viruses. We have employed advanced technology and process-based methods to ensure a high level of security, such as clustered and multi-level firewalls, intrusion detection mechanisms, vulnerability assessments, content filtering, antivirus software and access control mechanisms. We use encryption techniques as required.

We control and limit access to client-specific project areas, particularly at our CDCs.

Technology, Facilities and Infrastructure

A key component of our global delivery model is the telecommunications linkage between client sites and our sites and among our various sites in China and overseas. We have designed a high-quality, scalable and secure network architecture that provides client connectivity, CDC connectivity and broadband connectivity. This

network provides seamless access and uses high capability networks and advanced routing protocols for redundancy. Although we rely on third parties such as telecommunications providers and Internet service providers to provide such services, we ensure that we have multiple service providers using multiple routes and media to attain high levels of redundancy, availability and performance.

Our clients operate in multiple jurisdictions and have a variety of voice and data systems. Our in-house solution architecture team has the capability to understand and integrate our clients' voice and data networks with our networks, support procedures, security environment and reporting procedures to create a homogeneous environment for consistent service delivery.

We have a technology operations team which provides IT support to our employees to ensure that our employees face minimal loss in time and efficiency in their work processes. In addition, we have an enterprise wide "Centralized Service Desk" where our employees can log their requests or report any malfunctions.

Government Regulations

Information Service Industry Regulations

On June 24, 2000, the State Council promulgated the *Certain Policies in Encouraging the Development of Software and Integrated Circuit Industry* (the "Encouraging Policy") to promote the development of the software and integrated circuit industries in China. Pursuant to the Encouraging Policy, the software enterprises in China are entitled to preferential treatment, including financing support, tax preferential treatment, export incentives, discretion and flexibility in determining employees' welfare benefits and remuneration. For example, a recognized software enterprise is entitled to an exemption from EIT for its first two profitable years and a 50% reduction of its applicable EIT rate for the subsequent three years. A key software enterprise under the State plan is entitled to a 10% EIT rate. All of the above qualifications are subject to an annual assessment by the relevant government authority in China. Enterprises which fail to meet the annual examination standards are not entitled to the favorable EIT treatments.

On October 16, 2000, the Ministry of Information Industry, Ministry of Education, Ministry of Science and Technology and the State Administration of Taxation promulgated the *Certifying Standards and Administration Measures for Software Enterprises (Trial Implementation)* (the "Certifying Standards"). The Certifying Standards further elaborated the provisions of the Encouraging Policy by establishing the specific standards and procedures for the recognition and annual assessment of software enterprises.

On January 4, 2001, the Ministry of Foreign Trade and Economic Cooperation, Ministry of Information Industry, State Administration of Taxation, General Administration of Customs, State Administration of Foreign Exchange and the State Statistics Bureau promulgated the Circular *Concerning Relevant Issues about Software Export* (the "Circular"). Pursuant to the Circular, enterprises exporting software are entitled to preferential treatment including governmental financial support, preferential interest rate of export credit and tax preferential treatment. Software enterprises engaging in software export (including research and development services) must conduct online registration of software export contracts with the administration center jointly established by the Ministry of Commerce, the Ministry of Science and Technology, the Ministry of Industry and Information Technology, the State Statistics Bureau, SAFE, and the Export-Import Bank of China and apply for Software Export Contract Registration Certificates in order to be entitled to tax refunds.

On February 22, 2008, the Ministry of Finance and State Administration of Taxation promulgated the *Notice of the Ministry of Finance and State Administration of Taxation on Several Preferential Policies in Respect of Enterprise Income Tax*, which emphasizes that a recognized software enterprise is entitled to an exemption from EIT for its first two profitable years and a 50% reduction of its applicable EIT rate for the subsequent three years. A key software enterprise under the State plan is entitled to a 10% EIT rate.

On December 28, 2009, the Ministry of Commerce and the Ministry of Industry and Information Technology promulgated the *Certain Provisions on Protection of Information of Service Outsourcing Business Undertaken by*

Domestic Enterprises, which became effective as of February 1, 2010. According to these provisions, enterprises engaged in the information technology outsourcing and technology business process outsourcing businesses shall establish an information protection system and take various measures to keep clients' confidential information secret, including causing their employees to sign confidentiality agreements and non-competition agreements and third parties who have access to clients' confidential information to sign confidentiality agreements.

On January 28, 2011, the State Council issued the *Certain Policies in Further Encouraging the Development of Software and Integrated Circuit Industry* (the "Further Encouraging Policy") to further promote the development of the software and integrated circuit industries in China. Pursuant to the Further Encouraging Policy, relevant preferential treatment stipulated in the Encouraging Policy, such as the "two-year EIT exemption and three-year 50% EIT reduction" for the recognized software enterprise, continues to be implemented; while additional financial support and tax incentives are adopted, such as that, the recognized software enterprise which engages in software development and testing business, and related technology consultancy and maintenance services is entitled to an exemption from business tax.

Intellectual Property Rights

The State Council and the State Copyright Bureau have promulgated various regulations and rules relating to protection of software in China. Under these regulations and rules, software owners, licensees and transferees may register their rights in software with the State Copyright Bureau or its local branches and obtain software copyright registration certificates. We have registered approximately 140 software copyrights, such as our Wensi Load management system, Octiga distribution resource management system and Pu Te Lei En computer translation system, with the State Copyright Bureau. Although such registration is not mandatory under PRC law, software owners, licensees and transferees are encouraged to go through the registration process and registered software rights may receive better protections.

The PRC Trademark Law, adopted in 1982 and revised in 2001, with its implementation rules adopted in 2002, protects registered trademarks. The Trademark Office of the State Administration of Industry and Commerce, or the SAIC, handles trademark registrations and grants a protection term of 10 years to registered trademarks. We hold trademark registrations for our trademarks, "VANCEINFO" and "文思" in China. One of our subsidiaries, TP Shanghai, holds a trademark registration for "一卡" in China.

Tax

See Item 5, "Operating and Financial Review and Prospects—Taxes—PRC Enterprises Income Tax, or EIT, and PRC Business Tax."

Regulation of Foreign Currency Exchange and Dividend Distribution

Foreign Currency Exchange. The principal regulations governing foreign currency exchange in China are the Foreign Exchange Administration Regulations (1996), as amended in August 2008. Under the regulations, the RMB is freely convertible for current account items, including the distribution of dividends, interest payments, trade and service-related foreign exchange transactions, but not for capital account items, such as direct investment, loan, repatriation of investment and investment in securities outside China, unless the prior approval of the SAFE is obtained.

In addition, any loans to our operating subsidiaries in China, each a foreign invested enterprise, cannot, in the aggregate, exceed the difference between their respective approved total investment amount and their respective approved registered capital amount. Furthermore, any foreign loan must be registered with SAFE or its local counterparts for the loan to be effective. Any increase in the amount of the total investment and registered capital must be approved by the PRC Ministry of Commerce or its local counterpart. We may not be able to obtain these government approvals or registrations on a timely basis, if at all, which could result in a delay in the process of making these loans.

The dividends generated on or after January 1, 2008 and paid by the subsidiary to its foreign shareholders are deemed income of the foreign shareholders and are taxable in China if the foreign shareholders are considered as non-resident enterprises without any establishment or place within China or if the dividends payable have no connection with the establishment or place of the foreign shareholders within China. Pursuant to the Administration Rules of the Settlement, Sale and Payment of Foreign Exchange (1996), foreign-invested enterprises in China may purchase or remit foreign exchange, subject to a cap approved by the SAFE, for settlement of current account transactions without the approval of the SAFE. Foreign exchange transactions under the capital account are still subject to limitations and require approvals from, or registration with, the SAFE and other relevant PRC governmental authorities.

On August 29, 2008, SAFE promulgated the Circular on the Relevant Operating Issues Concerning the Improvement of the Administration of the Payment and Settlement of Foreign Currency Capital of Foreign Invested Enterprises, or SAFE Circular 142, a notice regulating the conversion by a foreign-invested company of foreign currency into Renminbi by restricting how the converted Renminbi may be used. SAFE Circular 142 requires that Renminbi converted from the foreign currency-denominated registered capital of a foreign-invested company may only be used for purposes within the company's business scope approved by the applicable governmental authority and may not be used for equity investments within the PRC unless specifically provided for otherwise in its business scope. In addition, the SAFE strengthened its oversight of the flow and use of Renminbi funds converted from the foreign currency-denominated registered capital of a foreign-invested company. The use of such Renminbi may not be changed without approval from the SAFE, and may not in any case be used to repay Renminbi loans if the proceeds of such loans have not yet been used.

Dividend Distribution. The principal regulations governing distribution of dividends of foreign holding companies include the Wholly Foreign Owned Enterprise Law (1986), as amended, and the Administrative Rules under the Wholly Foreign Owned Enterprise Law (1990), as amended.

Under these regulations, FIEs in China may pay dividends only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, FIEs in China are required to allocate at least 10% of their respective accumulated profits each year, if any, to fund certain reserve funds unless these reserves have reached 50% of the registered capital of the enterprises, and to set aside a certain amount of its after-tax profits each year, if any, to fund its staff welfare fund. These reserves are not distributable as cash dividends. Future dividend distributions by our wholly owned subsidiaries in PRC, such as VanceInfo Beijing, to our company are subject to these regulations.

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

Moreover, Notice 75 applies retroactively. As a result, PRC residents who have established or acquired control of offshore special purpose companies that have made onshore investments in the PRC in the past are also required to make relevant registration procedures with their local SAFE branch. To further clarify the implementation of Notice 75, the SAFE issued Circular 19 which came into effect on July 1, 2011, according to which the PRC subsidiaries of the offshore special purpose company are required to coordinate with and supervise the beneficial owners of the offshore entity who are PRC citizens or residents to complete the SAFE registration process. If the shareholders or beneficial owners fail to comply, the PRC subsidiaries are required to report the noncompliance to the local branches of SAFE.

Under the relevant rules, failure to comply with the registration procedures set forth in Notice 75 and Circular 19 may subject our PRC resident shareholders or beneficial owners to fines and legal sanctions, result in potential liability for our PRC subsidiaries, and in some instances, for their legal representatives and other liable individuals, limit our ability to contribute additional capital into or provide loans to (including using the proceeds from our public offerings) our wholly owned subsidiaries in PRC, such as VanceInfo Beijing, and may also limit their ability to pay dividends or otherwise distribute profits to us, or otherwise adversely affect us.

Employee Stock Option Plans. In December 2006, the People's Bank of China promulgated the Administrative Measures on Individual Foreign Exchange, or the Individual Foreign Exchange Regulations, setting forth the requirements for foreign exchange transactions by individuals (both PRC and non-PRC citizens) under the current account and the capital account. In January 2007, SAFE issued the implementation rules for the Individual Foreign Exchange Regulations which, among other things, specified the approval and registration requirement for certain capital account transactions such as a PRC citizen's participation in employee share ownership and share option plans of overseas-listed companies.

Consequently, in February 2012, SAFE promulgated the Share Option Rules, under which PRC citizens or foreign individuals habitually residing in the PRC continuously for over one year, who are granted shares or share options by an overseas-listed company according to its employee share option or share incentive plan are required, through the PRC subsidiary of such overseas-listed company or qualified PRC agents, to register with SAFE and complete certain other procedures related to the employee shareholding plan, share option plan or other similar share incentive plans. Concurrent with the registration with SAFE, the PRC subsidiary or qualified PRC agent shall obtain the approval for an annual allowance with respect to the foreign exchange in connection with the share holding or share option exercises as well as the approval of opening a special foreign exchange account at a PRC domestic bank to hold the funds required in connection with the share purchase or share option exercise, returned principal or profits upon sale of shares, dividends issued on the stock and any other income or expenditures approved by SAFE. Currently, the participating PRC residents' foreign exchange income received from the sale of share and dividends distributed by the overseas-listed company must be fully remitted into the domestic foreign currency account before distribution to such participants. In addition, the PRC agents are required to amend or deregister the registrations with SAFE in case of any material change in, or termination of, the share incentive plans, within the time periods provided by the Share Option Rules.

M&A Regulations and Overseas Listings

On August 8, 2006, six PRC regulatory agencies, including the Ministry of Commerce, the State Assets Supervision and Administration Commission, the State Administration for Taxation, the State Administration for Industry and Commerce, the CSRC and the SAFE, jointly issued the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, or the M&A Rule, which became effective on September 8, 2006 and were amended on June 22, 2009. This M&A Rule, among other things, includes provisions that purport to require that an offshore special purpose vehicle formed for purposes of overseas listing of equity interests in PRC companies and controlled directly or indirectly by PRC companies or individuals obtain the approval of the CSRC prior to the listing and trading of such special purpose vehicle's securities on an overseas stock exchange.

On September 21, 2006, the CSRC published on its official website procedures regarding its approval of overseas listings by special purpose vehicles. The CSRC approval procedures require the filing of a number of documents with the CSRC and it would take several months to complete the approval process. The application of this new PRC regulation remains unclear with no consensus currently existing among leading PRC law firms regarding the scope of the applicability of the CSRC approval requirement.

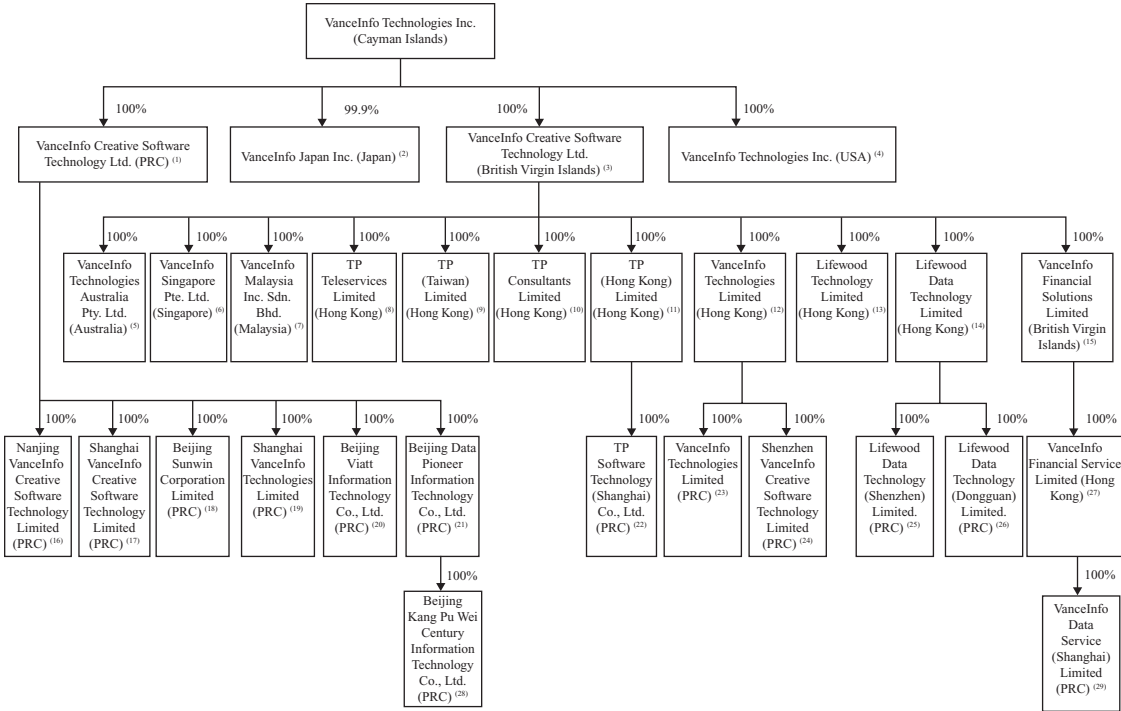
Our PRC counsel, Fangda Partners, has advised us that, based on their understanding of the current PRC laws and regulations as well as the procedures announced on September 21, 2006:

- The CSRC currently has not issued any definitive rule or interpretation concerning whether offerings like our initial public offering are subject to this new procedure;

- In spite of the above, given that we had completed our restructuring before September 8, 2006, the effective date of the new regulation, this regulation does not require an application to be submitted to the CSRC for its approval of the listing and trading of our ADSs on the New York Stock Exchange; and
- The issuance and sale of our ADSs and ordinary shares and the listing and trading of the ADSs on the New York Stock Exchange do not conflict with or violate this new PRC regulation.

C. Organizational Structure

The following diagram illustrates our corporate structure as of April 23, 2012:



- (1) VanceInfo Creative Software Technology Ltd., or VanceInfo Beijing, a Chinese limited liability company, 100% owned by VanceInfo.
- (2) VanceInfo Japan Inc., or VanceInfo Japan, formerly named Worksoft Japan Inc., has 1,400,000 outstanding shares, with 1,399,900 shares owned by VanceInfo, 100 shares owned by Mr. Xiaolai Wang, a Chinese citizen.
- (3) VanceInfo Creative Software Technology Ltd., or VanceInfo BVI, formerly named Worksoft Creative Software Technology Ltd., a holding company incorporated under the laws of the British Virgin Islands, 100% owned by VanceInfo.
- (4) VanceInfo Technologies Inc., or VanceInfo US, formerly named Worksoft Creative Software Technology Inc., a corporation incorporated under the laws of the State of Delaware in the United States, 100% owned by VanceInfo.
- (5) VanceInfo Technologies Australia Pty. Ltd., or VanceInfo Australia, formerly named Salsatec Corporation Pty. Ltd., a corporation incorporated under the laws of Australia, 100% owned by VanceInfo BVI.
- (6) VanceInfo Singapore Pte. Ltd., or VanceInfo Singapore, a corporation incorporated under the laws of Singapore, 100% owned by VanceInfo BVI.
- (7) VanceInfo Malaysia Inc. Sdn. Bhd., or VanceInfo Malaysia, a corporation incorporated under the laws of Malaysia, 100% owned by VanceInfo BVI.
- (8) TP Teleservices Limited, a company incorporated under the laws of Hong Kong, 100% owned by VanceInfo BVI.

- (9) TP (Taiwan) Limited, a company incorporated under the laws of Hong Kong, 100% owned by VanceInfo BVI.
- (10) TP Consultants Limited, a company incorporated under the laws of Hong Kong, 100% owned by VanceInfo BVI.
- (11) TP (Hong Kong) Limited, or TP Hong Kong, a company incorporated under the laws of Hong Kong, 100% owned by VanceInfo BVI.
- (12) VanceInfo Technologies Limited, or VanceInfo Hong Kong, formerly named Worksoft Information Technology Service Limited, a company incorporated under the laws of Hong Kong, 100% owned by VanceInfo BVI.
- (13) Lifewood Technology Limited, or Lifewood Technology, a company incorporated under the laws of Hong Kong, 100% owned by VanceInfo BVI.
- (14) Lifewood Data Technology Limited, or Lifewood Data, a company incorporated under the laws of Hong Kong, 100% owned by VanceInfo BVI.
- (15) VanceInfo Financial Solutions Limited, or VanceInfo Financial Solutions, a company incorporated under the laws of the British Virgin Islands, 100% owned by VanceInfo BVI.
- (16) Nanjing VanceInfo Creative Software Technology Limited, or VanceInfo Nanjing, a Chinese limited liability company, 100% owned by VanceInfo Beijing.
- (17) Shanghai VanceInfo Creative Software Technology Limited, or VanceInfo Shanghai Creative, a Chinese limited liability company, 100% owned by VanceInfo Beijing.
- (18) Beijing Sunwin Technology Co., Ltd., or Beijing Sunwin, a Chinese limited liability company, 100% owned by VanceInfo Beijing.
- (19) Shanghai VanceInfo Technologies Limited, or VanceInfo Shanghai, formerly named Shanghai Solutions Software Co., Ltd., a Chinese limited liability company, 100% owned by VanceInfo Beijing.
- (20) Beijing Viatt Information Technology Co., Ltd., or Beijing Viatt, a Chinese limited liability company, 100% owned by VanceInfo Beijing.
- (21) Beijing Data Pioneer Information Technology Co., Ltd., or Beijing DPC, a Chinese limited liability company, 100% owned by VanceInfo Beijing.
- (22) TP Software Technology (Shanghai) Co., Ltd., or TP Shanghai, a Chinese limited liability company, 100% owned by TP Hong Kong.
- (23) VanceInfo Technologies Limited, or VanceInfo Tianjin, a Chinese limited liability company, 100% owned by VanceInfo Hong Kong.
- (24) Shenzhen VanceInfo Creative Software Technology Limited, or VanceInfo Shenzhen, a Chinese limited liability company, 100% owned by VanceInfo Hong Kong.
- (25) Lifewood Data Technology (Shenzhen) Limited, or Lifewood Shenzhen, a Chinese limited liability company, 100% owned by Lifewood Data.
- (26) Lifewood Data Technology (Dongguan) Limited, or Lifewood Dongguan, a Chinese limited liability company, 100% owned by Lifewood Data.
- (27) VanceInfo Financial Service Limited, or VanceInfo Financial Service, formerly named Link Result Limited, a company incorporated under the laws of Hong Kong, 100% owned by VanceInfo Financial Solutions.
- (28) Beijing Kang Pu Wei Century Information Technology Co., Ltd., or Beijing KPW, a Chinese limited liability company, 100% owned by Beijing DPC.
- (29) VanceInfo Data Service (Shanghai) Co., Ltd., or VanceInfo Data, formerly named A-IT (Shanghai) Software Services Co., Ltd., a Chinese limited liability company, 100% owned by VanceInfo Financial Service.

D. Property, Plants and Equipment

Our principal executive offices are located on premises comprising approximately 10,100 square meters in an office building in Zhongguancun Software Park, Beijing, China. We have leased all of our facilities from unrelated parties, and most of our leases are renewable at our option.

We have maintained a number of offices in Greater China, the United States, Europe, Japan, Malaysia, Singapore and Australia. The following table describes each of the leases for our headquarters and other major delivery centers as of March 31, 2012.

<u>Location</u>	<u>Space (in square meters)</u>	<u>Usage of Property</u>
Beijing	28,226*	Headquarters, General Administration, Globalization and Localization, ADM, R&D Services
Shanghai	14,899*	ADM, Quality Assurance and Testing, R&D Services
Nanjing	14,181*	General Administration, R&D Services, Training
Hangzhou	5,000	General Administration, R&D Services
Shenzhen	15,969*	General Administration, ADM, R&D Services
Chengdu	2,995*	R&D Services
Dalian	261	General Administration, ADM, BPO
Wuhan	971*	R&D Services, ADM
Xi'an	2,196*	R&D Services
Guangzhou	993	R&D Services, ADM, Testing
Changsha	2,323*	R&D Services, ADM
Dongguan	9,000	General Administration, BPO
Wuxi	1,400	BPO
Hong Kong	1,930*	General Administration, R&D Services, ADM
Taiwan	61	General Administration, Sales Office
U.S.	1,027*	R&D Service, Sales Office
Japan	172	General Administration, Sales Office, ADM
Malaysia	137	General Administration, Sales Office, ADM
Singapore	368	General Administration, Sales Office, ADM
Australia	384*	General Administration, Sales Office, ADM

* The sum of space under multiple leases.

As of March 31, 2012, we had capacity for nearly 13,299 professionals and general and administrative personnel at these facilities and we used approximately 73.4% of our existing office space for our operations.

In November 2009, we entered into agreements regarding our proposed acquisition of the use right to two parcels of land with an area of appropriately 21,700 square meters in Zhongguancun Software Park, Haidian District, Beijing. In July 2011, we entered into a land use right grant agreement with the Beijing Municipal Bureau of Land and Resources pursuant to which we will acquire land use right with a 50-year term. We have fully paid approximately US\$24.1 million, taking into account the exchange rate effect, relating to the land use right as of December 31, 2011. We have obtained the land use right certificate and certain other government permits for construction and have commenced construction on these two parcels of land. The new office complex built on this premises will be used as our new headquarters and research and development center to meet the demand arising from our current and anticipated business expansion and headcount increase.

ITEM 4A UNRESOLVED STAFF COMMENTS

Not Applicable.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion of our financial condition and results of operations is based upon and should be read in conjunction with our consolidated financial statements and their related notes included in this annual report on Form 20-F. This report contains forward-looking statements. See “Introduction—Forward-Looking Information.”

In evaluating our business, you should carefully consider the information provided under the caption “Risk Factors” in this annual report on Form 20-F. We caution you that our businesses and financial performance are subject to substantial risks and uncertainties.

A. Operating Results

Overview

We are an IT service provider and one of the leading offshore software development companies in China. We deliver a comprehensive range of IT services through our globally integrated network of onsite and offsite delivery locations, primarily in China, to enable our clients to focus on their core competencies and improve operating efficiencies. Our IT services include R&D services, enterprise solutions, ADM, quality assurance and testing, globalization and localization, as well as other solutions and services. We provide these services primarily to corporations headquartered in Greater China, the United States, Europe and Japan, targeting selected industries with high growth potential for IT services such as telecommunications, high technology, banking, financial services and insurance, travel services, manufacturing, retail and distribution. We have a team of over 13,424 professionals as of December 31, 2011 and operate a number of CDCs, and also deliver our services at clients’ facilities or via our offices in major cities across China and in the United States, and in Japan. Our net revenues grew from US\$148.1 million in 2009 to US\$283.1 million in 2011, representing a CAGR of 38.3%. Our net income grew from US\$21.5 million in 2009 to US\$22.2 million in 2011.

Factors Affecting Our Results of Operations

We believe the most significant factors that affect our business and results of operations are:

- the overall economic conditions in our principal geographic markets, which may affect market demand for offshore IT services;
- the quality and portfolio of our service lines and industry expertise compared with those of our competitors;
- the billing rates and utilization rates of our professionals, our compensation and benefit expenses and other operating costs and expenses;
- the availability of a large talent pool in China and wage level of qualified professionals; and
- the PRC government’s investment in infrastructure construction and adoption of various incentives in the IT services industry.

Our management evaluates our results of operations by examining financial and operating data in a variety of categories, including service lines, clients, and geographic markets. We manage and market our business according to our service lines and industry practices. Our IT services include R&D services, enterprise solutions, ADM, quality assurance and testing, globalization and localization, as well as other solutions and services. We provide these services primarily to corporations headquartered in Greater China, the United States, Europe and Japan.

Net Revenues

Our net revenues are net of business tax and other sales tax. In recent years, we have experienced rapid growth and significantly expanded our business. Our net revenues grew from US\$148.1 million in 2009 to US\$211.6 million in 2010 and US\$283.1 million in 2011.

We discuss below the breakdown of our net revenues by service lines, clients, and geographic markets.

Net Revenues by Service Lines

We derive net revenues from the provision of our IT services, including R&D services, globalization and localization, enterprise solutions, ADM, quality assurance and testing, as well as other solutions and services.

Set forth below is our net revenue breakdown by service lines for the periods indicated:

	Year Ended December 31,					
	2009		2010		2011	
	(in US\$ thousands, except for percentages)					
R& D Outsourcing Services						
R&D services	90,581	61.2%	124,181	58.7%	141,251	49.9%
Globalization and localization	5,118	3.5	6,060	2.9	7,312	2.6
IT Services						
Enterprise solutions	14,429	9.7	19,725	9.3	25,236	8.9
ADM	26,373	17.8	43,825	20.7	75,543	26.7
Quality assurance and testing	7,807	5.3	13,003	6.2	22,548	8.0
Other Solutions and Services	3,758	2.5	4,756	2.2	11,247	3.9
Total net revenues	<u>148,066</u>	<u>100%</u>	<u>211,550</u>	<u>100%</u>	<u>283,137</u>	<u>100%</u>

R&D services have accounted for a majority of our net revenues in 2009 and 2010 but decreased to slightly below 50% in 2011. On the other hand, our net revenues from ADM and quality assurance and testing increased most significantly from 2009 to 2011 as we increased our efforts in these service lines. Our net revenues from globalization and localization, and enterprise solutions also increased in absolute numbers, but decreased as a percentage of our total net revenues in 2011 compared to 2010. Our net revenues from other solutions and services increased in both its absolute number and as a percentage of our total net revenues in 2011 compared to 2010.

Net Revenues by Clients

We have achieved strong revenue growth by focusing on select, long-term client relationships that we refer to as strategic accounts. Currently, our strategic accounts include Expedia, Huawei, Microsoft, a European mobile handset manufacturer and a pre-eminent Fortune 100 financial services company, and we commenced our relationships with them in 2009, 2004, 1997, 2007 and 2003, respectively, and we have steadily expanded our business and service offerings to these clients since then. Net revenues from these clients grew from US\$77.0 million, or 52.0% of our total net revenues, in 2009, to US\$150.3 million, or 53.1% of our total net revenues, in 2011. As illustrated in the table below, a significant proportion of our net revenues has been derived from a limited number of clients. In 2009, each of Huawei, Microsoft and a European mobile handset manufacturer accounted for 10% or more of our net revenues, and in the aggregate accounted for 47.0% of our net revenues. In 2010, each of Huawei and Microsoft accounted for 10% or more of our net revenues, and in the aggregate accounted for 37.8% of our net revenues. In 2011, each of Huawei and Microsoft accounted for 10% or more of our net revenues, and in the aggregate accounted for 36.9% of our net revenues.

We initially developed relationships with certain divisions of Microsoft and Huawei, based on which we have cross-sold our wide range of services to their other departments and regional offices. The increases in net revenues from Microsoft and Huawei were primarily attributable to cross-selling and enhanced relationships.

In recent years, we have been diversifying our client base by implementing various initiatives, including adding new strategic accounts, expanding our industry practices and increasing our service lines. The number of our clients with at least US\$1.0 million in annual revenue increased significantly from 22 for 2009 to 36 for 2011.

The percentage of our net revenues derived from our top five clients decreased from 56.3% in 2009 to 55.5% in 2010 and 53.1% in 2011. The percentage of our net revenues derived from our top ten clients decreased from 67.5% in 2009 to 66.5% in 2010 and 63.4% in 2011.

	For the Year Ended December 31,					
	2009		2010		2011	
	(in US\$ thousands, except for percentages)					
Clients accounting for 10% or more of our net revenues	69,633	47.0%	79,921	37.8%	104,358	36.9%
Top five clients	83,300	56.3	117,478	55.5	150,256	53.1
Top 10 clients	99,936	67.5	140,606	66.5	179,368	63.4

The volume of work we perform for specific clients is likely to vary from year to year, as we typically are not their exclusive external IT service provider. Accordingly, a major client in one year may not contribute the same amount or percentage of our net revenues in a subsequent year.

Net Revenues by Geographic Markets

We record our net revenues based on the geographic regions in which the headquarters of our clients are located irrespective of the location of the specific client entity which we serve or the locations at which our services are delivered or the invoice is rendered. We classify our net revenues primarily into four geographic markets: Greater China, the United States, Europe and Japan. We typically provide IT services to our clients to enhance and facilitate their operations in Greater China. As the table below illustrates, a significant portion of our net revenues is derived from clients headquartered in Greater China and the United States.

	For the Year Ended December 31,					
	2009		2010		2011	
	(in US\$ thousands, except for percentages)					
Greater China ⁽¹⁾	59,373	40.1%	95,481	45.1%	132,721	46.9%
United States ⁽¹⁾	56,634	38.3	70,955	33.6	95,234	33.7
Europe ⁽¹⁾	23,148	15.6	32,178	15.2	42,433	15.0
Japan ⁽¹⁾	8,466	5.7	9,889	4.7	9,500	3.4
Others	445	0.3	3,047	1.4	3,159	1.0
Total net revenues	148,066	100.0%	211,550	100.0%	283,137	100.0%

(1) Countries or regions where the headquarters of our clients are located.

Cost of Revenues

Cost of revenues represented 61.3%, 61.5% and 65.2% of our net revenues for the years ended December 31, 2009, 2010 and 2011, respectively. Our cost of revenues largely consists of compensation and benefit expenses of our professionals, including share-based compensation expenses, subcontracting costs, travel expenses, rental expenses, depreciation expenses relating to computers and equipment used by our professionals, telecommunications expenses and office expenses. We also include the government subsidies received from the local government authorities to encourage our recruitment and training of new college graduates, or graduate recruitment and training-related government subsidies, as a deduction to cost of revenues.

The principal component of our cost of revenues is the compensation and benefit expenses of our professionals. A majority of our professionals are located in China, where labor costs in the IT services industry are relatively low. In 2011, our compensation and benefit expenses in respect of our professionals, excluding share-based compensation expenses, were US\$157.4 million, compared to US\$107.1 million in 2010 and US\$71.7 million in 2009. As wages in China continue to increase, we may experience increases in our compensation and benefit expenses. To control our compensation cost, we will continue to recruit entry level professionals from outside the

major cities in China and increase in college hires where compensation tends to be lower. We seek to maintain compensation levels in accordance with prevailing trends in our industry in China.

The utilization rates of our professionals also affect our gross profits. We define professionals' utilization rate as the proportion of total billed man-months or man-hours to total available man-months or man-hours, including professionals in training, during holidays and on vacation. We manage utilization by monitoring project requirements and timetables. The number of professionals assigned to a project varies according to the size, complexity, duration and demands of the project. An unanticipated termination of a significant project could also cause us to experience lower professional utilization resulting from a higher than expected number of unassigned professionals. In addition, we do not fully utilize our professionals when they are enrolled in training programs.

Our subcontractor cost includes expenses we incur for hiring subcontractors and freelancers from time to time. We use subcontractors and freelancers primarily to perform short-term assignments in certain specialty areas in connection with large projects. In 2011, we incurred a subcontracting cost of US\$19.2 million, compared to US\$15.9 million in 2010 and US\$11.6 million in 2009.

We incur travel expenses primarily due to our professionals' traveling to perform onsite work for projects. In 2011, our travel expenses were US\$5.4 million, compared to US\$4.9 million in 2010 and US\$4.3 million in 2009. We expect our travel expenses to increase as our overseas onshore services and enterprise solutions services provided to domestic clients grow. We plan to explore opportunities to establish additional overseas delivery offices, expand onshore delivery teams and expand into second-tier cities in China according to market demand and client preferences, which will also increase our professionals' travel expenses overseas and in China.

Our graduate recruitment and training-related government subsidies as a deduction to cost of revenues were US\$1.3 million, US\$2.9 million and US\$5.5 million in 2009, 2010 and 2011, respectively. However, our continued eligibility for such government subsidies is subject to the discretion of the PRC local government. Moreover, the PRC central government or local government could determine at any time to immediately eliminate or reduce these government subsidies.

Operating Expenses

Selling, General and Administrative Expenses

Selling, general and administrative expenses represented 23.4%, 24.5% and 28.9%, of our net revenues for the years ended December 31, 2009, 2010 and 2011, respectively. Selling, general and administrative expenses consist primarily of compensation and benefit expenses, including share-based compensation expenses, relating to our personnel, rental expenses, depreciation and amortization expenses and overhead expenses, travel and advertising expenses, selling and marketing-related office expenses. Selling, general and administrative expenses also include legal and other professional fees and miscellaneous administrative costs. We expect our selling, general and administrative expenses to increase as we hire additional personnel, increase our sales efforts and target new markets, establish new sales offices both in China and overseas, invest in research and development of solutions for our internal usage, upgrade our ERP system, enhance management training, initiate additional marketing programs to further build our brand, and incur additional expenses to support our operations as a public company, including compliance-related costs.

Share-based Compensation Expenses

We adopted our 2005 Stock Plan in November 2005 and amended the plan in April and May 2006 to increase the total number of ordinary shares underlying the options issuable under the plan. We adopted our 2007 Share Incentive Plan in July 2007 and amended the plan in August 2007. Under the 2005 Stock Plan, we have reserved 4,267,500 ordinary shares for issuance upon exercise of awards granted thereunder. Under the 2007 Share Incentive Plan, we have authorized the issuance of up to 1,100,000 ordinary shares plus an annual increase of 3% of then total outstanding shares on the first business day of each calendar year beginning in 2008, upon exercise

of awards granted thereunder. We granted options to purchase and restricted share units for up to 235,874, 1,075,214 and 1,647,721 ordinary shares to our directors, officers and other employees in 2009, 2010 and 2011. As of December 31, 2011, there were 1,248,991 ordinary shares issuable upon exercise of outstanding options under our 2005 Stock Plan, as amended, and 3,451,991 ordinary shares issuable upon exercise of outstanding options and restricted share units under our 2007 Share Incentive Plan, as amended.

In October 2011, one of our wholly owned subsidiaries, VanceInfo Financial Solutions, adopted the VFS 2011 Share Incentive Plan, under which VanceInfo Financial Solutions has authorized the issuance of up to 1,000,000 ordinary shares of VanceInfo Financial Solutions upon exercise of awards granted thereunder. VanceInfo Financial Solutions granted 790,000 of its restricted share units in 2011. As of December 31, 2011, there were 790,000 ordinary shares of VanceInfo Financial Solutions issuable upon exercise of outstanding restricted share units under the VFS 2011 Share Incentive Plan.

We recorded share-based compensation expenses for the fair value of options at the grant dates and recognized such share-based compensation expenses using a graded-vesting attribution method over the vesting period of the options.

	For the Year Ended December 31,		
	2009	2010	2011
	(in US\$ thousands)		
Share-based compensation expenses:			
Cost of revenues	313	492	762
Selling, general and administrative expenses	<u>1,252</u>	<u>2,755</u>	<u>7,682</u>
Total	<u>1,565</u>	<u>3,247</u>	<u>8,444</u>

As of December 31, 2011, the unamortized compensation expenses in connection with our outstanding options and restricted share units were US\$16.7 million.

Other Operating Income

Other operating income primarily relates to subsidies received from the PRC local government for meeting the conditions required by various incentive policies, such as our passing certain technological certification. Our continued eligibility for such subsidies is subject to the discretion of the PRC local government. Moreover, the PRC central government or local government could determine at any time to immediately eliminate or reduce these government subsidies. Upon expiration of these government subsidies, we will consider available options, in accordance with applicable laws, that would enable us to qualify for further government subsidies to the extent they are then available to us.

Taxes

Under the current laws of the Cayman Islands, the Company is not subject to tax on its income or capital gains. In addition, payment of dividends by us to our shareholders is not subject to withholding tax in the Cayman Islands.

United States

VanceInfo US was subject to a progressive federal income tax rate from 15% to 35% depending on the income level and a state income tax rate at 8.84% for the years of 2009, 2010 and 2011. WIT was subject to a progressive federal income tax rate from 15% to 35% depending on the income level and a state income tax rate at 8.84% for the years of 2009 and 2010.

British Virgin Islands

Under the current laws of the British Virgin Islands, VanceInfo BVI and VanceInfo Financial Solutions are not subject to British Virgin Islands tax on income or capital gains. In addition, payment of dividends is not subject to withholding tax in the British Virgin Islands.

Japan

Pursuant to the relevant tax rules and regulations applicable to VanceInfo Japan, VanceInfo Japan was subject to income tax of US\$1.0 thousand, US\$5.1 thousand and US\$19.6 thousand for the years of 2009, 2010 and 2011, respectively.

Hong Kong

TP Hong Kong, TP (Taiwan) Limited, TP Teleservices Limited, Vanceinfo Hong Kong and TP Consultants Limited were subject to profit tax rate of 16.5% for the years of 2009, 2010 and 2011. VanceInfo Financial Service was subject to profit tax rate of 16.5% for the years of 2010 and 2011. Lifewood Technology and Lifewood Data were subject to profit tax rate of 16.5% for the year of 2011.

Australia

VanceInfo Australia, which was acquired in 2011, was subject to an income tax rate of 30% for the year of 2011.

Malaysia

VanceInfo Malaysia was subject to income tax of 28% for the years of 2009, 2010 and 2011, respectively.

Singapore

VanceInfo Singapore was subject to income tax of 17% for the year of 2011.

PRC Enterprise Income Tax, or EIT

Prior to January 1, 2008, PRC EIT was generally assessed at the rate of 33% of taxable income. Under the applicable PRC rules and policies, an enterprise qualified as a “high and new technology enterprise” located in the Beijing New Industry Development Pilot Zone was entitled to a preferential EIT rate of 15% and was further entitled to a three-year EIT exemption from either its first year of operation or, if it was incorporated in the second half of a calendar year, its second year of operation if so selected, and a 50% reduction of its applicable EIT rate for the succeeding three years. VanceInfo Beijing was qualified as “high and new technology enterprises” located in the Beijing New Industry Development Pilot Zone and enjoyed preferential tax treatment as a result of this status. VanceInfo Beijing was entitled to enjoy a 7.5% EIT rate from 2008 to 2010.

On March 16, 2007, the National People’s Congress of China enacted a new EIT Law, which took effect beginning January 1, 2008. On December 6, 2007, the State Council also adopted the Implementing Rules, which also took effect beginning January 1, 2008. Moreover, on December 26, 2007, the State Council circulated the Notice on Implementation of the Transitional Preferential Policies in respect of Enterprise Income Tax, which took effect beginning December 26, 2007. On February 22, 2008, the Ministry of Finance and the State Administration of Taxation issued the Notice of the Ministry of Finance and State Administration of Taxation on Several Preferential Policies in respect of Enterprise Income Tax, which took effect beginning February 22, 2008. Under the new EIT Law, foreign invested enterprises, or FIEs, such as VanceInfo Beijing, and Chinese domestic companies are subject to EIT at a uniform rate of 25%. Preferential tax treatments will continue to be granted to entities that are classified as “high and new technology enterprises strongly supported by the State” or that conduct business in encouraged sectors, whether FIEs or domestic companies. On April 14, 2008, Ministry of Science and Technology, Ministry of Finance and State Administration of Taxation enacted the Administrative Measures for Certifying High and New Technology Enterprises, which retroactively became effective on January 1, 2008. Under the new EIT Law, enterprises that had been established and already enjoyed then applicable preferential tax treatment prior to March 16, 2007 will continue to enjoy it subject to the following qualifications: (i) in the case of preferential tax rates, for a period of five years from January 1, 2008, or (ii) in the

case of a preferential tax exemption or reduction for a specified term, until the expiration of such term. In addition, certain qualified high-technology companies may still benefit from a preferential tax rate of 15% if they own their core intellectual properties and are classified into certain industries strongly supported by the State set forth by certain departments of the State Council.

VanceInfo Beijing was qualified as a “high and new technology enterprise” with a valid term of three years in December 2008 and is entitled to the preferential EIT rate of 7.5% from 2008 to 2010. VanceInfo Beijing was again qualified as a “high and new technology enterprise” with a valid term of three years in October 2011 and is entitled to the preferential EIT rate of 15% from 2011 to 2013. VanceInfo Shanghai was qualified as a “high and new technology enterprise” in December 2008, which entitled it to a 15% preferential EIT rate in 2008, and was further recognized as a “key software enterprise under the State plan” in December 2009, which entitled it to enjoy a 10% preferential EIT rate in 2009. VanceInfo Shanghai was again qualified as a “high and new technology enterprise” in December 2009, which entitled it to enjoy a 15% preferential EIT rate in 2010 and 2011. TP Shanghai, which we acquired in July 2009, was qualified as a “high and new technology enterprise” in December 2008 with a valid term of three years and is entitled to the preferential tax rate of 15% in 2009 and 2010. VanceInfo Nanjing was recognized as a “software enterprise” in 2009 and was entitled to be exempted from EIT in 2009 and 2010 and a 50% reduction of its applicable EIT rate with the reduced applicable EIT rate of 12.5% from 2011 to 2013. VanceInfo Data became one of our wholly owned subsidiaries in 2010. VanceInfo Data was incorporated in 2002 and was recognized as a “software enterprise” in 2007, and therefore, it was entitled to be exempted from EIT in 2007 and 2008, and was entitled to a 50% tax reduction of its applicable EIT rate with the reduced applicable EIT rate of 10%, 11%, and 12% in 2009, 2010, and 2011, respectively. VanceInfo Shenzhen was recognized as a “software enterprise” in 2009 and was entitled to an exemption of EIT in 2010 and 2011 and a 50% tax reduction of its applicable EIT rate with the reduced applicable EIT rate of 12.5% from 2012 to 2014. However, continued qualification as a “high and new technology enterprise” is subject to a review every three years by the relevant government authorities in China, and in practice certain local tax authorities also require annual evaluation of the qualification; continued qualification as a “key software enterprise under the State plan” or “software enterprise” is subject to an annual assessment by the relevant government authorities in China. Consequently, there is no assurance that our subsidiaries will continue to meet the qualifications or that the relevant government authorities will not revoke our subsidiaries’ “high and new technology enterprise”, “key software enterprise under the State plan”, or “software enterprise” statuses in the future. Any increase in our PRC subsidiaries’ EIT rate pursuant to the new EIT law may have a material adverse effect on our results of operations. Our other subsidiaries located in the PRC were subject to a 25% EIT rate for the year ended December 31, 2009, 2010 and 2011.

Moreover, under the new EIT Law and the Implementing Rules, an enterprise established outside of the PRC with “de facto management bodies” within the PRC is considered as a resident enterprise and will be subject to a PRC income tax on its global income. According to the Implementing Rules, “de facto management bodies” refer to “establishments that carry out substantial and overall management and control over the manufacturing and business operations, personnel, accounting, properties, etc. of an enterprise.” Accordingly, our holding company may be considered a resident enterprise and may therefore be subject to a PRC income tax on our global income. The State Administration of Taxation issued Circular 82 on April 22, 2009. Circular 82 provides certain specific criteria for determining whether the “de facto management body” of a Chinese-controlled offshore incorporated enterprise is located in China. Although Circular 82 only applies to offshore enterprises controlled by PRC enterprises, not those invested in by PRC individuals, like our company, the determining criteria set forth in Circular 82 may reflect the State Administration of Taxation’s general position on how the “de facto management body” test should be applied in determining the tax resident status of offshore enterprises, regardless of whether they are controlled by PRC enterprises or controlled by or invested in by PRC individuals. Further to Circular 82, on July 27, 2011, the State Administration of Taxation issued Bulletin No. 45 to provide more guidance on the implementation of Circular 82, which became effective on September 1, 2011. Bulletin No. 45 made clarification in the areas of resident status determination, post-determination administration, as well as competent tax authorities. We do not believe our holding company and our subsidiaries located outside of the PRC are PRC resident enterprises. However, if we are considered a resident enterprise and earn income other

than dividends from our PRC subsidiaries, such PRC income tax on our global income could significantly increase our tax burden and materially and adversely affect our cash flow and profitability.

Under the applicable PRC tax laws in effect before January 1, 2008, dividend payments to foreign investors made by foreign-invested enterprises such as our PRC subsidiary, VanceInfo Beijing, were exempt from PRC withholding tax. Pursuant to the new EIT Law and the Implementing Rules which are effective as of January 1, 2008, however, dividends generated after January 1, 2008 and payable by a foreign-invested enterprise to its foreign investors will be subject to a 10% withholding tax if the foreign investors are considered as non-resident enterprises without any establishment or place within China or if the dividends payable have no connection with the establishment or place of the foreign investors within China, unless any such foreign investor's jurisdiction of incorporation has a tax treaty with China that provides for a different withholding arrangement. The Cayman Islands, where our holding company is incorporated, does not have such a tax treaty with China. VanceInfo Hong Kong, our wholly owned subsidiary and the direct holder of a 100% equity interest in VanceInfo Tianjin and VanceInfo Shenzhen is incorporated in Hong Kong. TP Hong Kong, our wholly owned subsidiary and the direct holder of a 100% equity interest in TP Shanghai, is incorporated in Hong Kong. VanceInfo Financial Service, our wholly owned subsidiary and the direct holder of a 100% equity interest in VanceInfo Data, is also incorporated in Hong Kong. Lifewood Data, our wholly owned subsidiary and the direct holder of a 100% equity interest in Lifewood Shenzhen and Lifewood Dongguan, respectively, is incorporated in Hong Kong. According to the Mainland and the Hong Kong Taxation Arrangement, dividends paid by a foreign-invested enterprise in China to its direct holding company in Hong Kong will be subject to withholding tax at a rate of no more than 5% (if the foreign investor owns directly at least 25% of the shares of the foreign-invested enterprise). Under the new EIT Law and the Implementing Rules, if each of VanceInfo Hong Kong, TP Hong Kong, VanceInfo Financial Service or Lifewood Data is regarded as a resident enterprise, the dividends payable to VanceInfo Hong Kong from VanceInfo Tianjin and VanceInfo Shenzhen, dividends payable to TP Hong Kong from TP Shanghai, dividends payable to VanceInfo Financial Service from VanceInfo Data, and dividends payable to Lifewood Data from Lifewood Shenzhen and Lifewood Dongguan will be exempt from PRC income tax. If each of VanceInfo Hong Kong, TP Hong Kong, VanceInfo Financial Service or Lifewood Data is regarded as a non-resident enterprise, subject to the confirmation of the local tax authorities, a 5% withholding tax will be imposed for any dividends payable to VanceInfo Hong Kong from VanceInfo Tianjin and VanceInfo Shenzhen, any dividends payable to TP Hong Kong from TP Shanghai, any dividends payable to VanceInfo Financial Service from VanceInfo Data, and any dividends payable to Lifewood Data from Lifewood Shenzhen and Lifewood Dongguan.

We do not have any present plan to pay any cash dividends on our ordinary shares in the foreseeable future and intend to retain most of our available funds and any future earnings for use in the operation and expansion of our business. As such, the aggregate undistributed earnings of our subsidiaries located in the PRC that are available for distribution to us of approximately US\$114.4 million at December 31, 2011 are considered to be indefinitely reinvested, and accordingly, no provision has been made for the Chinese dividend withholding taxes as of December 31, 2011.

Furthermore, the State Administration of Taxation promulgated the Circular 601 on October 27, 2009, which provides guidance for determining whether a resident of a contracting state is the "beneficial owner" of an item of income under China's tax treaties and tax arrangements. According to Circular 601, a beneficial owner generally must be engaged in substantive business activities. An agent or conduit company will not be regarded as a beneficial owner and, therefore, will not qualify for treaty benefits. The conduit company normally refers to a company that is set up for the purpose of avoiding or reducing taxes or transferring or accumulating profits. We cannot assure you that our subsidiaries in Hong Kong will not be deemed as conduit companies, or any dividends to be distributed by us to our non-PRC shareholders and ADS holders whose jurisdiction of incorporation has a tax treaty with China providing for a different withholding arrangement will be entitled to the benefits under the relevant withholding arrangement.

In addition, because there remains uncertainty regarding the interpretation and implementation of the new EIT Law and its Implementation Rules, if we are regarded as a PRC resident enterprise, then any dividends to be

distributed by us to our non-PRC shareholders or any gains realized by non-PRC shareholders or ADS holders from transfer of our shares or ADSs may be subject to PRC withholding tax. If we are required under the new EIT Law to withhold PRC income tax on the above dividends or gains, the investment in our shares or ADSs may be materially and adversely affected.

PRC Business Tax and Value Added Tax

Taxpayers providing taxable services in China are required to pay a business tax at a statutory tax rate of 5% of their revenues. According to applicable tax rules, each of our PRC subsidiaries may enjoy exemption from business tax with respect to the technology development services that they engage in that fall under the definition of technology development business, although such business tax exemption policy has not been implemented. Our PRC subsidiaries except for Lifewood Dongguan may enjoy exemption from business tax with respect to the offshore outsourcing service.

On October 16, 2011, the Ministry of Commerce and the State Administration of Taxation jointly issued the Circular 110 and Circular 111. According to Circular 110 and Circular 111, as of January 1, 2012, companies which are classified by Shanghai local tax authorities in transportation and certain modern service sectors are required to pay VAT instead of business tax. Specifically, a 17% VAT rate applies to movable property leasing services, an 11% VAT rate applies to transportation services and a 6% VAT rate applies to certain other modern services, such as research and development, technological services, culture, logistics and consultation. In addition, pursuant to Circular 111, our subsidiaries located in Shanghai can enjoy exemption from VAT with respect to the offshore outsourcing service. Although Circular 110 and Circular 111 are applicable to our subsidiaries located in Shanghai, namely VanceInfo Shanghai, VanceInfo Shanghai Creative, VanceInfo Data, and TP Shanghai, since January 1, 2012, such laws and regulations are new and evolving, and their interpretation and enforcement involve significant uncertainty. See Item 3, “Risk Factors—Risks Related to Our Company and Industry—Our subsidiaries in Shanghai or other regions in China may be subject to PRC value added tax, or VAT, instead of business tax, which may increase our tax rate and adversely affect our business, financial condition and results of operations.”

Critical Accounting Policies

Our consolidated financial information has been prepared in accordance with U.S. GAAP, which requires us to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities, and revenue and expenses in the financial statements and accompanying notes. We continually evaluate these judgments and estimates based on our own historical experience, knowledge and assessment of current business and other conditions, our expectations regarding the future based on available information and reasonable assumptions, which together form our basis for making judgments about matters that are not readily apparent from other sources. Since the use of estimates is an integral component of the financial reporting process, our actual results could differ from those estimates.

Some of our accounting policies require a higher degree of judgment than others in their application.

When reviewing our financial statements, you should consider (1) our selection of critical accounting policies, (2) the judgment and other uncertainties affecting the application of those policies, and (3) the sensitivity of reported results to changes in conditions and assumptions. We believe that the following accounting policies involve the most significant judgment and estimates used in the preparation of our financial statements.

Revenue recognition

Our revenue recognition policy is significant because our revenue is a key component of our results of operations. We follow very specific and detailed guidelines in measuring revenue; however, certain judgments affect the application of our revenue recognition policy.

Research and development outsourcing services and IT services

We primarily derive revenues from provision of research and development outsourcing services and IT services. The majority of our contracts are for the provision of services performed on a time-and-material basis. Revenues from this type of contracts are recognized as billable services are rendered. The client is billed for related services based on pre-agreed billing rates. There are no significant assumptions related to time-and-material arrangements.

The remaining revenues are earned from fixed-price services contracts. Fixed-price contracts require us to perform services throughout the contractual period, which is generally less than one year. Revenues from fixed-price contracts are generally recognized using a proportional performance method. The use of this method requires management to exercise judgment and careful consideration. Our contracts refer to milestones related to the completion of specific tasks such as planning documentation and testing reports. We estimate the man-hours required to achieve each of these milestones and, when the milestone is achieved, we recognize a proportion of the total revenue under the contract based on the hours incurred in achieving that milestone against our latest estimate of the total man-hours to be incurred to complete the contract.

Some of our contracts with customers include provision for inspection, test, acceptance or rejection in accordance with the acceptance or completion criteria as specified in the relevant SOW and/or work authorization. We do not believe that there is uncertainty about customer acceptance once the services have been rendered. We are able to reliably demonstrate that the criteria specified in the acceptance provisions and all other revenue recognition criteria are met prior to formal customer sign-off. We believe that we would be successful in enforcing a claim for payment even in the absence of formal sign-off.

Reimbursable out-of-pocket expenses and material costs are recognized as revenues when billed. The discount terms in our arrangements with clients generally entitle the client to discounts if the client completes a specified cumulative level of revenue transactions. The discounts are passed on to the client either as cash payments or as a reduction of payments due from the client. We have recorded the revenue rebate as reduction in revenues.

Other solutions

We derive revenues from providing system integration solutions, which normally include the procurement of hardware on behalf of clients and customized software licenses, implementation of the software and hardware, and post contract customer support, or PCS, including telephone support and on-site support.

We have established the vender-specific objective evidence, or VSOE, of fair value of the PCS based on standalone sales on regular basis and therefore treat the arrangements as two units of accounting, which are (1) hardware and software implementation and (2) PCS. Revenues of the hardware and software implementation are primarily recognized using percentage-of-completion method measured based on the relationship of costs already incurred to the total estimated costs to be incurred. We consider labor costs and other direct contract costs in calculating the percentage of completion. Revenues of the PCS are recognized ratably over the PCS period.

In an arrangement with a software deliverable, we have considered whether the software is more than incidental to the arrangement as a whole. As the software deliverable is essential to the functionality of other deliverables as well as the system as a whole, we believe software deliverables in our multiple-element arrangements are more than incidental, and therefore authoritative accounting literatures in relation to software revenue recognition apply. We treat the non-software deliverables (i.e., third-party hardware) as software related elements because the software deliverable is essential to the functionality of the non-software deliverables and the acceptance of the non-software deliverables by customers are subject to the acceptance of software deliverables.

In addition, we performed a few contracts which involved initial IT services, software resale, and maintenance service which is considered PCS for the three years period ended December 31, 2011. Since we did not establish

the VSOE of the fair value of each element of these contracts, the contract amounts were recognized as revenues ratably over the period of PCS, which was the last undelivered element in the arrangements.

Income taxes

Deferred income taxes are recognized for temporary differences between the tax bases of assets and liabilities and their reported amounts in the financial statements, net operating loss carry forwards and credits by applying 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 some portion or all of the deferred tax assets will not be realized. Current income taxes are provided for in accordance with the laws of the relevant tax authorities. 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 must be recognized at the largest amount that is more-likely-than-not to be sustained upon audit by the relevant taxing authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. We classify interest and penalties, if any, as a component of our income tax provision.

Share-based compensation

In 2009, 2010 and 2011, we entered into award agreements pursuant to our 2005 Stock Plan and 2007 Share Incentive Plan. Under the award agreements, we had outstanding options to purchase 4,253,031 ordinary shares and had 447,951 restricted share units as of December 31, 2011. See Item 6, “Directors, Senior Management and Employees—Compensation—Share Incentive Plans.”

We recognize share-based compensation as compensation expense in our statement of operations based on the fair value of equity awards on the grant date. With compensation expense recognized over the period in which the recipient is required to provide service in exchange for the award (usually the vesting period). For options and restricted share units granted to employees, we measure share-based compensation expenses on the fair value of the options and restricted share units at the grant date. We recognize such share-based compensation expenses over the vesting period of the options and restricted share units. The estimate of forfeitures will be adjusted over the requisite service period to the extent that actual forfeitures differ, or are expected to differ, from such estimates. Changes in estimated forfeitures will be recognized through a cumulative catch-up adjustment in the period of change.

Prior to the IPO in December 2007, when estimating the fair value of the ordinary shares on the grant date, we considered a number of factors, including our financial condition, financial and operating prospects with reference to our equity transactions at that time. After our IPO, we used the prior day closing market price of our ordinary shares as the fair value of our ordinary shares at the date of grant.

The fair value of the option award was estimated on the date of grant using the Black-Scholes option pricing model that uses assumptions including the fair value of the ordinary shares underlying the options, expected term, expected volatility, expected risk free interest rate and expected dividend yield. As we did not have sufficient historical share option exercise experience, we estimated the expected term as the average between the vesting term of the options and the original contractual term. The volatility assumption was estimated based on the historical stock price volatility of listed comparable companies over a period comparable to the expected term of the options. From October 2011, the volatility was estimated based on the historical volatility of our share price as we have accumulated sufficient history of stock price for a period comparable to the expected term of our options. The risk-free interest rate was estimated based on the yield to maturity of China international government bonds with a maturity period close to the expected term of the options. The dividend yield was estimated by us based on our expected dividend policy over the expected term of the options. We are required to estimate forfeitures at the time of grant and record share-based compensation expenses only for those awards that are expected to vest. If actual forfeitures differ from these estimates, we may need to revise those estimates used in subsequent periods.

In November 2011, one of our wholly owned subsidiaries, VanceInfo Financial Solutions, entered into award agreements pursuant to the VFS 2011 Share Incentive Plan, and granted 790,000 of its restricted share units to its employees. See Item 6, “Directors, Senior Management and Employees—Compensation—Share Incentive Plans.” The fair value of VanceInfo Financial Solutions’ restricted share units as of grant date was US\$1.14 per share.

Accounts receivable

As of December 31, 2009, 2010 and 2011, our total billed and unbilled accounts receivable totaled US\$60.5 million, US\$85.4 million and US\$126.4 million, respectively, net of allowances for doubtful accounts. Since we generally do not require collateral or other security from our clients, we establish an allowance for doubtful accounts based upon estimates, historical experience and other factors surrounding the credit risk of specific clients. As of December 31, 2009, 2010 and 2011, the provision made for doubtful accounts was US\$1.0 million, US\$2.0 million and US\$2.2 million, respectively. Our management periodically monitors outstanding receivables and collection status and assesses the adequacy of allowances for accounts where collection may be in doubt as frequency and amount of client defaults change due to our clients’ financial condition or general economic conditions. We are focusing on improving our cash collection procedures.

Our billed accounts receivable represents the amounts billed based on agreed-upon project milestones or billing terms that remain uncollected, and correspond to the period between billing and collection. As of December 31, 2009, 2010 and 2011, our billed accounts receivable, net of allowance for doubtful accounts, totaled US\$25.6 million, US\$26.7 million and US\$48.3 million, respectively.

The following table sets forth the aging schedule of our billed accounts receivable, net of allowance for doubtful accounts, as of the dates indicated:

	As of December 31,					
	2009		2010		2011	
	Billed	% of Total Billed	Billed	% of Total Billed	Billed	% of Total Billed
(in US\$ thousands, except for percentages)						
Within 90 days	23,786	92.7%	24,508	91.7%	44,170	91.4%
91-360 days	1,568	6.1	1,612	6.0	3,457	7.2
> 360 days	295	1.2	615	2.3	694	1.4
Total	25,649	100.0%	26,735	100.0%	48,321	100.0%

As of December 31, 2009, 2010 and 2011, our unbilled accounts receivable, net of allowance for doubtful accounts, totaled US\$34.9 million, US\$58.7 million and US\$78.1 million, respectively. The unbilled accounts receivable represents the excess of recognized revenues over billings and correspond to the period between revenue recognition and invoicing. Such period primarily arises from our fixed-price contracts as we normally send monthly billings for time-and-material contracts while fixed-price contracts are billed out according to the specific contract terms. Such contracts refer to milestones related to the completion of specific tasks such as planning documentation and testing reports. Generally the payment amount upon achieving each milestone is specified in the contracts and based on which we bill the clients. Meanwhile revenue is recognized under proportional performance method based on the hours incurred in achieving that milestone against our latest estimate of total hours to complete the contract.

In addition, a majority of our non-PRC clients (based on the location of client’s contract signing entities) generally signed the time-and-material contracts and a majority of our PRC clients (based on the location of client’s contract signing entities) signed the fixed-price contracts with us. Generally, we do not offer different contractual payment terms between PRC and non-PRC clients. However, in practice, our PRC clients may request longer billing terms of 90 to 180 days comparing to the normal billing terms of 30 to 60 days offered to

non-PRC clients or request us to issue the billings after the stated billing period, which causes the actual payment schedule for fixed-price projects with PRC clients being longer than that of time-and-material projects with non-PRC clients.

As of December 31, 2010, our unbilled accounts receivable (net of allowance for doubtful accounts) accounted for 68.7% of our total accounts receivable (net of allowance for doubtful accounts). Our unbilled accounts receivable (net of allowance for doubtful accounts) as of December 31, 2010 increased at a higher rate than our billed accounts receivable (net of allowance for doubtful accounts) as of December 31, 2010, compared with their respective counterparts as of December 31, 2009, mainly due to (i) the increases in both the absolute amount and percentage of the revenues from fixed-price projects and (ii) higher revenue from PRC clients. The unbilled accounts receivable is not subject to adjustment or revision as the related fees for the contract are fixed or determinable when the related revenue was recognized.

As of December 31, 2011, our unbilled accounts receivable (net of allowance for doubtful accounts) accounted for 61.8% of our total accounts receivable (net of allowance for doubtful accounts). Our unbilled accounts receivable (net of allowance for doubtful accounts) as of December 31, 2011 increased at a lower rate than our billed accounts receivable (net of allowance for doubtful accounts) as of December 31, 2011, compared with their respective counterparts as of December 31, 2010. This is in line with higher percentage of revenues from time-and-material contracts in 2011 compared with 2010, as a result of new business acquisitions and development. In 2011, our revenues from the fixed-price contracts increased by 21.2% compared with that in 2010. Moreover, 88.1% of fixed-price revenues were derived from PRC clients in 2011. As such, the absolute amount of unbilled accounts receivable (net of allowance for doubtful accounts) as of December 31, 2011 increased compared with that as of December 31, 2010, and it still represented a significant portion of the total accounts receivable (net of allowance for doubtful accounts) as of December 31, 2011.

Business combinations

We account for acquired businesses using the purchase method of accounting. On January 1, 2009, we adopted a new accounting pronouncement with prospective application which made certain changes to the previous authoritative literature on business combinations. From January 1, 2009, the assets acquired, the liabilities assumed, and any noncontrolling 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 noncontrolling interest of the acquiree, if any, at the acquisition date over the fair values of the identifiable net assets acquired. Previously, any noncontrolling interest was reflected at historical cost. 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 at the date of acquisition. For shares issued in a business combination, we have estimated 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 conditions post-acquisition, from January 1, 2009, the contingent consideration is recognized and measured at its fair value at the acquisition date and if recorded as a liability, it is subsequently carried at fair value with changes in fair value reflected in earnings. For periods prior to January 1, 2009, contingent consideration was not recorded until the contingency was resolved.

Impairment of goodwill and indefinite-lived intangible assets

Goodwill represents the excess of the purchase price over the fair value of the identifiable net assets acquired in a business combination. We assess goodwill for impairment in accordance with ASC subtopic 350-20 (“ASC 350-20”), Intangibles—Goodwill and Other: Goodwill, which requires that goodwill be tested for impairment at the reporting unit level at least annually and more frequently upon the occurrence of certain events, as defined by ASC 350-20.

We annually on the last day of each fiscal year, or more frequently if we believe indicators of impairment exist, review the carrying value of intangible assets not subject to amortization, including goodwill, to determine whether impairment may exist.

Specifically, goodwill impairment is determined using 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 the affected reporting unit's goodwill to the carrying value of that 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.

Application of the goodwill impairment test requires judgment, including the identification of reporting units, assignment of assets and liabilities to reporting units, assignment of goodwill to reporting units, and determination of the fair value of each reporting unit. The fair value of each reporting unit is estimated using a discounted cash flow methodology. This analysis requires significant judgments, including estimation of future cash flows, which is dependent on internal forecasts, estimation of the long-term rate of growth for our business, estimation of the useful life over which cash flows will occur, and determination of our weighted average cost of capital. The estimates used to calculate the fair value of a reporting unit change from year to year based on operating results and market conditions. Changes in these estimates and assumptions could materially affect the determination of fair value and goodwill impairment for the reporting unit.

The impairment test for intangible assets not subject to amortization consists of a comparison of the fair value of the intangible assets with its carrying value. If the carrying value of the intangible assets exceeds its fair value, an impairment loss is recognized in an amount equal to that excess. The estimates of fair value 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. Discount rate assumptions are based on an assessment of the risk inherent in the respective intangible assets.

We did not incur any impairment loss on goodwill or other intangible assets not subject to amortization for the years ended December 31, 2009, 2010 or 2011.

Recently issued accounting standards

In May 2011, the FASB issued an authoritative pronouncement on fair value measurement. The guidance is the result of joint efforts by the FASB and International Accounting Standards Board to develop a single, converged fair value framework. The guidance is largely consistent with existing fair value measurement principles in US GAAP. The guidance expands the existing disclosure requirements for fair value measurements and makes other amendments, mainly including:

- Highest-and-best-use and valuation-premise concepts for nonfinancial assets—the guidance indicates that the highest-and-best-use and valuation-premise concepts only apply to measuring the fair value of nonfinancial assets.
- Application to financial assets and financial liabilities with offsetting positions in market risks or counterparty credit risk—the guidance permits an exception to fair value measurement principles for financial assets and financial liabilities (and derivatives) with offsetting positions in market risks or counterparty credit risk when several criteria are met. When the criteria are met, an entity can measure the fair value of the net risk position.
- Premiums or discounts in fair value measure—the guidance provides that premiums or discounts that reflect size as a characteristic of the reporting entity's holding (specifically, a blockage factor that adjusts the quoted

price of an asset or a liability because the market's normal daily trading volume is not sufficient to absorb the quantity held by the entity) rather than as a characteristic of the asset or liability (for example, a control premium when measuring the fair value of a controlling interest) are not permitted in a fair value measurement.

- Fair value of an instrument classified in a reporting entity's stockholders' equity—the guidance prescribes a model for measuring the fair value of an instrument classified in stockholders' equity; this model is consistent with the guidance on measuring the fair value of liabilities.
- Disclosures about fair value measurements—the guidance expands disclosure requirements, particularly for Level 3 inputs. Required disclosures include:

(i) For fair value measurements categorized in Level 3 of the fair value hierarchy: (1) a quantitative disclosure of the unobservable inputs and assumptions used in the measurement, (2) a description of the valuation process in place (e.g., how the entity decides its valuation policies and procedures, as well as changes in its analyses of fair value measurements, from period to period), and (3) a narrative description of the sensitivity of the fair value to changes in unobservable inputs and interrelationships between those inputs.

(ii) The level in the fair value hierarchy of items that are not measured at fair value in the statement of financial position but whose fair value must be disclosed.

The guidance is to be applied prospectively and is effective for interim and annual periods beginning after December 15, 2011, for public entities. Early application by public entities is not permitted. We do not expect the adoption of this guidance to have a significant effect on our consolidated financial statements.

In June 2011, the FASB issued an authoritative pronouncement to require an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. The guidance eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. The guidance does not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. The guidance should be applied retrospectively. For public entities, the guidance is effective for fiscal years and interim periods within those years, beginning after December 15, 2011. Early adoption is permitted. In December 2011, the FASB issued an authoritative pronouncement related to deferral of the effective date for amendments to the presentation of reclassifications of items out of accumulated other comprehensive income. This guidance allows the FASB to redeliberate whether to present on the face of the financial statements the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income for all periods presented. While the FASB is considering the operational concerns about the presentation requirements for reclassification adjustments and the needs of financial statement users for additional information about reclassification adjustments, entities should continue to report reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect before update the pronouncement issued in June 2011. We early adopted this guidance on January 1, 2009 and reported the total of comprehensive income, the components of net income and other comprehensive income in the consolidated statements of operations and comprehensive income. The guidance did not have a significant effect on our consolidated financial statements.

In September 2011, the FASB issued an authoritative pronouncement related to testing goodwill for impairment. The guidance is intended to simplify how entities, both public and nonpublic, test goodwill for impairment. The guidance permits an entity to first assess qualitative factors to determine whether it is "more likely than not" that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. The guidance is effective for annual and interim goodwill

impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted, including for annual and interim goodwill impairment tests performed as of a date before September 15, 2011, if a public entity's financial statements for the most recent annual or interim period have not yet been issued. We do not expect the adoption of this pronouncement to have a significant effect on our consolidated financial statements.

In December 2011, the FASB has issued an authoritative pronouncement related to Disclosures about Offsetting Assets and Liabilities. The guidance requires an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. An entity is required to apply the amendments for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. An entity should provide the disclosures required by those amendments retrospectively for all comparative periods presented. We are in the process of evaluating the effect of adoption of this guidance on our consolidated financial statements.

Results of Operations

The following table sets forth a summary of our consolidated statements of operations for the periods indicated.

	For the Year Ended December 31,		
	2009	2010	2011
	(in US\$ thousands)		
Consolidated Statement of Operations Data			
Net revenues	148,066	211,550	283,137
Cost of revenues	<u>(90,830)</u>	<u>(130,035)</u>	<u>(184,518)</u>
Gross profit	<u>57,236</u>	<u>81,515</u>	<u>98,619</u>
Selling, general and administrative expenses	<u>(34,710)</u>	<u>(51,901)</u>	<u>(81,848)</u>
Total operating expenses	<u>(34,710)</u>	<u>(51,901)</u>	<u>(81,848)</u>
Change in fair value of contingent consideration			
payable for business acquisitions	(62)	221	920
Other operating income	<u>413</u>	<u>2,036</u>	<u>3,172</u>
Income from operations	22,877	31,871	20,863
Interest income	856	782	2,295
Interest expense	(86)	(85)	(121)
Exchange differences	(119)	(950)	(949)
Gain on re-measurement of fair value of noncontrolling equity investment in connection with business acquisition	<u>—</u>	<u>612</u>	<u>1,215</u>
Income before income taxes and earnings in equity method investment	23,528	32,230	23,303
Income tax expense	<u>(2,089)</u>	<u>(2,518)</u>	<u>(1,075)</u>
Income before earnings in equity method investment	21,439	29,712	22,228
Earnings in equity method investment	<u>69</u>	<u>151</u>	<u>(35)</u>
Net income	21,508	29,863	22,193
Net loss attributable to noncontrolling interest	—	—	—
Income attributable to VanceInfo Technologies Inc. shareholders	<u>21,508</u>	<u>29,863</u>	<u>22,193</u>

The following table sets forth certain financial information as a percentage of our net revenues:

	For the Year Ended December 31,		
	2009	2010	2011
Consolidated Statement of Operations Data			
Net revenues	100.0%	100.0%	100.0%
Cost of revenues	<u>(61.3)</u>	<u>(61.5)</u>	<u>(65.2)</u>
Gross profit	<u>38.7</u>	<u>38.5</u>	<u>34.8</u>
Selling, general and administrative expenses	<u>(23.4)</u>	<u>(24.5)</u>	<u>(28.9)</u>
Total operating expenses	<u>(23.4)</u>	<u>(24.5)</u>	<u>(28.9)</u>
Change in fair value of contingent consideration payable for business acquisitions	(*)	0.1	0.3
Other operating income	<u>0.3</u>	<u>1.0</u>	<u>1.1</u>
Income from operations	15.5	15.1	7.4
Interest income	0.6	0.4	0.8
Interest expense	(0.1)	(*)	(*)
Exchange differences	(0.1)	(0.4)	(0.3)
Gain on re-measurement of fair value of noncontrolling equity investment in connection with business acquisition	<u>—</u>	<u>0.3</u>	<u>0.4</u>
Income before income taxes and earnings in equity method investment	15.9	15.3	8.2
Income tax expense	<u>(1.4)</u>	<u>(1.2)</u>	<u>(0.4)</u>
Income before earnings in equity method investment	14.5	14.0	7.9
Earnings in equity method investment	<u>*</u>	<u>*</u>	<u>(*)</u>
Net income	14.5	14.1	7.8
Net loss attributable to noncontrolling interest	—	—	—
Income attributable to VanceInfo Technologies Inc. shareholders	<u>14.5%</u>	<u>14.1%</u>	<u>7.8%</u>

* less than 0.1%

Year Ended December 31, 2011 Compared to Year Ended December 31, 2010

Net Revenues

Our net revenues were US\$283.1 million in 2011, representing an increase of 33.8% from our net revenues of US\$211.6 million in 2010. The growth in our net revenues was primarily due to an increase in sales volumes, which was due primarily to a US\$260.6 million increase in our sales to our clients existing as of December 31, 2010, as a result of our enhanced relationships with these clients, and US\$22.6 million of sales to new clients. The number of our clients increased to 426 for 2011 from 327 for 2010. In addition, the total number of clients that individually accounted for over US\$1.0 million of our net revenues on an annualized basis increased to 36 for 2011 from 30 for 2010.

Our revenues from the fixed-price contracts increased by 21.2% in 2011 compared with 2010. In addition, a majority of our non-PRC clients generally signed the time-and-material contracts and a majority of our PRC clients signed the fixed-price contracts with us. The revenues from PRC clients in 2011 increased by 43.0% compared with 2010. 21.7% of our time-and-material revenues in 2011 was generated from our PRC clients and 88.1% of fixed-price revenues in 2011 was generated from our PRC clients.

The breakdown of revenues by types of contracts is as follows:

	For the Year Ended December 31,	
	2010	2011
	(in US\$ thousands)	
Time-and-material contracts	\$130,937	\$187,953
Fixed-price contracts	76,221	92,395
Others	4,392	2,789
Total	<u>\$211,550</u>	<u>\$283,137</u>

Cost of Revenues

In 2011, our cost of revenues was US\$184.5 million, representing an increase of 41.9% from US\$130.0 million in 2010. Cost of revenues represented 61.5% and 65.2% of our net revenues in 2010 and 2011, respectively. The increase was primarily due to an increase in compensation and benefit expenses of our professionals and, to a lesser extent, an increase in subcontracting costs, partly offset by an increase in our graduate recruitment and training-related government subsidies as further explained below.

In 2011, our compensation and benefit expenses in respect of our professionals, excluding share-based compensation expenses, increased by 47.0% to US\$157.4 million from US\$107.1 million in 2010, primarily due to increases in our number of professionals and the average salary of our professionals. Our cost of revenues in 2011 and 2010 also included US\$0.8 million and US\$0.5 million, respectively, of share-based compensation expenses arising from share options and restricted share units granted to our professionals.

Our subcontracting costs increased to US\$19.2 million in 2011 from US\$15.9 million in 2010, primarily due to increases in business volumes and project scale.

Our travel expenses in cost of revenues increased slightly to US\$5.4 million in 2011 from US\$4.9 million in 2010. Our depreciation and amortization expenses included in cost of revenues increased slightly to US\$1.9 million in 2011 from US\$1.7 million in 2010.

Our graduate recruitment and training-related government subsidies as a deduction to cost of revenues in 2011 were US\$5.5 million compared with US\$2.9 million in 2010.

Gross Profit

Our gross profit in 2011 was US\$98.6 million, representing an increase of 21.0% from US\$81.5 million in 2010. Gross profit as a percentage of our net revenues decreased to 34.8% in 2011 from 38.5% in 2010.

Selling, General and Administrative Expenses

Our selling, general and administrative expenses were US\$81.8 million in 2011, representing an increase of 57.7% from US\$51.9 million in 2010.

Compensation and benefit expenses in respect of selling, general and administrative employees, excluding share-based compensation expenses, increased by 72.5% to US\$36.6 million in 2011 from US\$21.2 million in 2010, primarily as we hired more selling, general and administrative employees and their average salary increased. Our selling, general and administrative expenses in 2011 also included US\$7.7 million of share-based compensation expenses arising from share options and restricted share units granted to our selling, general and administrative employees compared to US\$2.8 million of share-based compensation expenses in 2010. Rental and utilities expenses increased to US\$13.3 million in 2011 from US\$9.6 million in 2010, primarily due to our entering into

new leases in major cities across China, Singapore and Australia. Our amortization and depreciation expenses increased to US\$8.7 million in 2011 from US\$6.4 million in 2010 as a result of increase in our capital expenditures in 2011 and our acquisitions in 2010 and 2011. Our travel and advertising expenses also increased in 2011 compared to 2010 primarily due to enhanced sales and marketing efforts.

Other Operating Income

Other operating income was generated primarily from government subsidies other than graduate recruitment and training-related government subsidies. In 2011, our government subsidies other than graduate recruitment and training-related government subsidies were US\$2.1 million, an increase from US\$1.6 million in 2010. In 2010 and 2011, we were granted these government subsidies primarily due to incentives from local government authorities to, among other things, encourage the development of our industry in general and attract us to open offices in local areas.

Income from Operations

Our income from operations was US\$20.9 million in 2011, representing a decrease of 34.5% from US\$31.9 million in 2010. The decrease was due to our higher selling, general and administrative expenses in 2011 compared to 2010. Income from operations as a percentage of net revenues decreased to 7.4% in 2011 from 15.1% in 2010.

Interest Income

Our interest income increased to US\$2.3 million in 2011 from US\$0.8 million in 2010 due to increases in both the interest rate and the average cash balance in 2011.

Foreign Exchange Loss

For 2011, we incurred foreign exchange loss of US\$0.9 million, as compared to foreign exchange loss of US\$1.0 million for 2010. Our foreign exchange loss in 2011 was largely due to the fluctuation of the US dollars against RMB and the loss in our forward exchange contract of Japanese Yen.

Income Tax Expense

Our income tax expense decreased to US\$1.1 million for 2011 from US\$2.5 million for 2010, primarily due to a decrease in effective tax rate of our PRC subsidiaries from 7.8% in 2010 to 4.6% in 2011 mainly resulted from VanceInfo Shenzhen's tax refund received in 2011.

Earnings (loss) in equity investment

We invested in VanceInfo Financial Service in 2008 and account for our investment in VanceInfo Financial Service under the equity method before our acquisition of the remaining 67% equity interest in July 2010. We invested in VanceInfo Australia in 2010 and account for our investment in VanceInfo Australia under the equity method before our acquisition of the remaining 80% equity interest in July 2011. For 2011, we shared loss in VanceInfo Financial Service and VanceInfo Australia in the amount of US\$35,000.

Net Income

As a result of the foregoing, our net income was US\$22.2 million in 2011, representing a decrease of 25.7% from US\$29.9 million in 2010. Net income as a percentage of our net revenues decreased to 7.8% in 2011 from 14.1% in 2010.

Year Ended December 31, 2010 Compared to Year Ended December 31, 2009

Net Revenues

Our net revenues were US\$211.6 million in 2010, representing an increase of 42.9% from our net revenues of US\$148.1 million in 2009. The growth in our net revenues was primarily due to an increase in sales volumes, which was due primarily to a US\$54.0 million increase in our sales to our clients existing as of December 31, 2009, as a result of our enhanced relationships with these clients, and US\$9.5 million of sales to new clients. The number of our clients increased to 327 for 2010 from 272 for 2009. In addition, the total number of clients that individually accounted for over US\$1 million of our net revenues on an annualized basis increased to 30 for 2010 from 22 for 2009.

Our revenues from the fixed-price contracts increased by 93.0% in 2010 compared with 2009. In addition, a majority of our non-PRC clients generally signed the time-and-material contracts and a majority of our PRC clients signed the fixed-price contracts with us. The revenues from PRC clients in 2010 increased by 64.8% compared with 2009. 22.1% of our time-and-material revenues in 2010 was generated from our PRC clients and 70.0% of fixed-price revenues in 2010 was generated from our PRC clients.

The breakdown of revenues by types of contracts is as follows:

	For the Year Ended December 31,	
	2009	2010
	(in US\$ thousands)	
Time-and-material contracts	\$105,385	\$130,937
Fixed-price contracts	39,496	76,221
Others	3,185	4,392
Total	<u>\$148,066</u>	<u>\$211,550</u>

Cost of Revenues

In 2010, our cost of revenues was US\$130.0 million, representing an increase of 43.2% from US\$90.8 million in 2009. Cost of revenues represented 61.3% and 61.5% of our net revenues in 2009 and 2010, respectively. The increase was primarily due to an increase in compensation and benefit expenses of our professionals and, to a lesser extent, an increase in subcontracting costs, partly offset by an increase in our graduate recruitment and training-related government subsidies as a deduction to cost of revenues as further explained below.

In 2010, our compensation and benefit expenses in respect of our professionals, excluding share-based compensation expenses, increased by 49.3% to US\$107.1 million from US\$71.7 million in 2009, primarily due to an increase in our number of professionals. Our cost of revenues in 2010 and 2009 also included US\$0.5 million and US\$0.3 million, respectively, of share-based compensation expenses arising from share options and restricted share units granted to our professionals.

Our subcontracting costs increased to US\$15.9 million in 2010 from US\$11.6 million in 2009, primarily due to increases in business volumes and project scale.

Our travel expenses in cost of revenues increased slightly to US\$4.9 million in 2010 from US\$4.3 million in 2009. Our depreciation and amortization expenses included in cost of revenues increased slightly to US\$1.7 million in 2010 from US\$1.5 million in 2009.

Our graduate recruitment and training-related government subsidies as a deduction to cost of revenues in 2010 were US\$2.9 million compared with US\$1.3 million in 2009.

Gross Profit

Our gross profit in 2010 was US\$81.5 million, representing an increase of 42.4% from US\$57.2 million in 2009. Gross profit as a percentage of our net revenues decreased slightly to 38.5% in 2010 from 38.7% in 2009.

Selling, General and Administrative Expenses

Our selling, general and administrative expenses were US\$51.9 million in 2010, representing an increase of 49.5% from US\$34.7 million in 2009.

Compensation and benefit expenses in respect of selling, general and administrative employees, excluding share-based compensation expenses, increased by 48.8% to US\$21.2 million in 2010 from US\$14.3 million in 2009, primarily as we hired more selling, general and administrative employees and their average salary increased. Our selling, general and administrative expenses in 2010 also included US\$2.8 million of share-based compensation expenses arising from share options granted to our selling, general and administrative employees compared to US\$1.3 million of share-based compensation expenses in 2009. Rental and utilities expenses increased to US\$9.6 million in 2010 from US\$6.5 million in 2009, primarily due to our entering into new leases in major cities across China. Our amortization and depreciation expenses increased to US\$6.4 million in 2010 from US\$4.5 million in 2009 as a result of increase in our capital expenditures in 2010 and our acquisitions in 2009 and 2010. Our travel and advertising expenses also increased in 2010 compared to 2009 primarily due to enhanced marketing efforts.

Other Operating Income

Other operating income was generated primarily from government subsidies other than graduate recruitment and training-related government subsidies. In 2010, our government subsidies other than graduate recruitment and training-related government subsidies were US\$1.6 million, an increase from US\$0.2 million in 2009. In 2009 and 2010, we were granted these government subsidies primarily due to incentives from local government authorities to, among other things, encourage the development of our industry in general and attract us to open offices in local areas.

Income from Operations

Our income from operations was US\$31.9 million in 2010, representing an increase of 39.3% from US\$22.9 million in 2009. The increase was due to our higher net revenues in 2010 compared to 2009, partly offset by the increases in our cost of revenues and operating expenses during the same period. Income from operations as a percentage of net revenues decreased slightly to 15.1% in 2010 from 15.5% in 2009.

Interest Income

Our interest income decreased slightly to US\$0.8 million in 2010 from US\$0.9 million in 2009.

Foreign Exchange Loss

For 2010, we incurred foreign exchange loss of US\$1.0 million, as compared to foreign exchange loss of US\$0.1 million for 2009. Our foreign exchange loss in 2010 was largely due to the fluctuation of the Japanese Yen.

Income Tax Expense

Our income tax expense increased to US\$2.5 million for 2010 from US\$2.1 million for 2009, primarily due to an increase in taxable income and partly offset by a decrease in effective tax rate of our PRC subsidiaries from 8.9% in 2009 to 7.8% in 2010.

Earnings in equity investment

We invested in VanceInfo Financial Service in 2008 and account for our investment in VanceInfo Financial Service under the equity method before our acquisition of the remaining 67% equity interest in July 2010. We invested in VanceInfo Australia in 2010 and account for our investment in VanceInfo Australia under the equity method before our acquisition of the remaining 80% equity interest in July 2011. For 2010, we shared earnings in VanceInfo Financial Service and VanceInfo Australia in the amount of US\$0.2 million.

Net Income

As a result of the foregoing, our net income was US\$29.9 million in 2010, representing an increase of 38.8% from US\$21.5 million in 2009. Net income as a percentage of our net revenues decreased slightly to 14.1% in 2010 from 14.5% in 2009.

B. Liquidity and Capital Resources

Cash Flows and Working Capital

Our operations and growth have been financed by cash generated from operations and from our public offering proceeds. As of December 31, 2011, we had US\$96.2 million in cash and cash equivalents, compared to US\$161.3 million as of December 31, 2010 and US\$64.1 million as of December 31, 2009. The decrease in our cash and cash equivalents from December 31, 2010 to December 31, 2011 was primarily due to repurchase of our ordinary shares from the open market and payment for construction of our new headquarters located in Beijing and our various acquisitions. The increase in our cash and cash equivalents from December 31, 2009 to December 31, 2010 was primarily due to cash flows from our expanded operation in 2010 and our follow-on public offering in November 2010.

Our working capital as of December 31, 2009, 2010 and 2011 was US\$121.5 million, US\$224.5 million and US\$187.9 million, respectively. We had nil, US\$3.0 million and US\$1.6 million in outstanding bank borrowings as of such dates.

The following table shows our cash flows with respect to operating activities, investing activities and financing activities in 2009, 2010 and 2011:

	For the Year Ended December 31,		
	2009	2010	2011
	(in US\$ thousands)		
Net cash provided by operating activities	11,925	11,554	2,877
Net cash used in investing activities	(30,483)	(11,339)	(32,281)
Net cash provided by (used in) financing activities	2,673	96,225	(37,650)
Effect of exchange rate changes	(21)	768	1,959
Net (decrease) increase in cash and cash equivalents	(15,885)	96,440	(67,054)
Cash and cash equivalents at the beginning of the year . . .	79,963	64,057	161,625
Cash and cash equivalents at the end of the year	64,057	161,265	96,170

Operating Activities

Net cash provided by operating activities for 2011 amounted to US\$2.9 million. Net cash provided by operating activities for 2011 was primarily attributable to net income of US\$22.2 million; partly offset by an increase of the net working capital requirement as a result of an increase in the scale of our business. Our growing business generated substantial net cash inflow as our net revenues increased from US\$211.6 million for 2010 to US\$283.1 million for 2011, while cost of revenues and operating expenses, after deducting non-cash items and items that did not affect our operating cash flow, increased to US\$247.2 million for 2011 from US\$169.9 million for 2010.

As of December 31, 2011, our days of sales outstanding were 127 days, as compared to 113 days at the end of the year 2010. Net cash used in operating activities for 2011 also included US\$5.1 million for the purchase of land use right.

Net cash provided by operating activities for 2010 amounted to US\$11.6 million. Net cash provided by operating activities for 2010 was primarily attributable to net income of US\$29.9 million; partly offset by an increase of the net working capital requirement as a result of an increase in the scale of our business. Our growing business generated substantial net cash inflow as our net revenues increased from US\$148.1 million for 2009 to US\$211.6 million for 2010, while cost of revenues and operating expenses, after deducting non-cash items and items that did not affect our operating cash flow, increased to US\$169.9 million for 2010 from US\$117.5 million for 2009. As of December 31, 2010, our days of sales outstanding were 113 days, as compared to 109 days at the end of the year 2009. Net cash used in operating activities for 2010 also included US\$16.7 million for the purchase of land use right.

Net cash provided by operating activities for 2009 amounted to US\$11.9 million. Net cash provided by operating activities for 2009 was primarily attributable to net income of US\$21.5 million; partly offset by an increase of the net working capital requirement as a result of an increase in the scale of our business. Our growing business generated substantial net cash inflow as our net revenues increased from US\$102.7 million for 2008 to US\$148.1 million for 2009, while cost of revenues and operating expenses, after deducting non-cash items and items that did not affect our operating cash flow, increased to US\$117.5 million for 2009 from US\$83.5 million for 2008. As of December 31, 2009, our days of sales outstanding were 109 days, as compared to 106 days at the end of the year 2008.

Investing Activities

Net cash used in investing activities was US\$32.3 million for 2011, primarily attributable to US\$20.8 million paid for construction in progress of our new headquarters located in Beijing, US\$9.2 million of consideration paid for business acquisitions, US\$6.7 million for purchase of property and equipment, US\$11.3 million for purchase of investment-held-to-maturity securities and US\$5.0 million for purchase of term deposit, partly offset by US\$16.8 million in proceeds from maturity of investment and US\$5.0 million in cash received upon maturity of term deposit. Net cash used in purchase of property and equipment was primarily due to purchase of fixed assets and improvement of leased premises to satisfy the need from an increasing number of our professionals in 2011. Net cash paid for business acquisitions was primarily for our acquisitions of Beijing Viatt, certain businesses of Beijing Bright, Lifewood Companies, Beijing DPC, a professional team of a U.S.-based IT services company specialized in Microsoft capabilities.

Net cash used in investing activities was US\$11.3 million for 2010, primarily attributable to US\$16.8 million for purchase of investment-held-to-maturity securities, US\$11.7 million for purchase of property and equipment, partly offset by US\$13.6 million in proceeds from maturity of investment and US\$5.0 million in cash received upon maturity of term deposit. Net cash used in purchase of property and equipment was primarily due to purchase of fixed assets and improvement of leased premises to satisfy the need from an increasing number of our professionals in 2010.

Net cash used in investing activities was US\$30.5 million for 2009, primarily attributable to US\$12.1 million for purchase of short-term investment, US\$10.0 million for purchase of term deposit, US\$6.4 million for purchase of property and equipment and US\$3.5 million of consideration paid for business acquisitions, partly offset by US\$1.5 million in cash received upon maturity of term deposit. Net cash used in purchase of property and equipment was primarily due to purchase of fixed assets and improvement of leased premises as we set up new offices in major cities across China in 2009. Net cash paid for business acquisitions was primarily for our acquisitions of Kernel and a professional team of engineers and certain business and assets from a China-based mobile service provider and additional consideration paid in relation to our acquisitions of equity or business of WIT, Shenzhen Tianchuang Software Development Co., Ltd., or Tianchuang, and Chosen.

Financing Activities

Net cash used in financing activities was US\$37.7 million for 2011, compared to net cash provided by financing activities of US\$96.2 million for 2010. Net cash used in financing activities for 2011 was primarily due to US\$34.8 million used for repurchase of ordinary shares in 2011, US\$3.9 million of consideration paid for business acquisitions, repayment of short-term borrowings of US\$3.1 million, partly offset by US\$1.4 million of proceeds from exercise of options and US\$1.6 million of proceeds from short-term borrowings.

Net cash provided by financing activities was US\$96.2 million for 2010, compared to net cash provided by financing activities of US\$2.7 million for 2009. Net cash provided by financing activities for 2010 was primarily due to US\$89.8 million of proceeds from our follow-on public offering in November 2011, US\$5.0 million of proceeds from exercise of options and US\$2.9 million of proceeds from short-term borrowings.

Net cash provided by financing activities was US\$2.7 million for 2009, compared to net cash used in financing activities of US\$2.8 million for 2008. Net cash provided by financing activities for 2009 was primarily due to US\$3.6 million of proceeds from exercise of options and US\$3.6 million of proceeds from our follow-on public offering in July 2009, partly offset by repayment of short-term borrowings of US\$3.9 million.

Capital Expenditures

Our capital expenditures in 2009, 2010 and 2011 were US\$6.4 million, US\$11.7 million and US\$27.5 million, respectively. Our capital expenditures in 2011 include US\$20.8 million payment in construction of our new headquarters located in Beijing, purchase of computers and improvement of leased premises. We expect our capital expenditures excluding the new headquarters construction, to increase in the future as we expand our business to implement our growth strategy.

We believe that our current cash and cash equivalents and anticipated cash flow from operations will be sufficient to meet our anticipated cash needs, including our cash needs for working capital and capital expenditures, for at least the next 12 months. We may, however, require additional cash due to changing business conditions or other future developments, including any investments or acquisitions we may decide to pursue. If our existing cash is insufficient to meet our requirements, we may seek to sell additional equity securities, debt securities or borrow from lending institutions. We cannot assure you that financing will be available in the amounts we need or on terms acceptable to us, if at all. The sale of additional equity securities, including convertible debt securities, would dilute our shareholders. The incurrence of debt would divert cash for working capital and capital expenditures to service debt obligations and could result in operating and financial covenants that restrict our operations and our ability to pay dividends to our shareholders. If we are unable to obtain additional equity or debt financing as required, our business operations and prospects may suffer.

We are a holding company, and we may rely substantially on dividends from our subsidiaries in China for our cash requirements, including any debt we may incur. Current PRC regulations permit our subsidiaries to pay dividends to us only out of their accumulated profits, if any, determined in accordance with Chinese accounting standards and regulations. In addition, each of our subsidiaries in China is required to set aside a certain amount of its after-tax profits each year, if any, to fund certain statutory reserves. These reserves are not distributable as cash dividends. Furthermore, if our subsidiaries in China incur debt on their own behalf in the future, the instruments governing the debt may restrict their ability to pay dividends or make other payments to us. These regulations have not had a material adverse impact on our ability to meet our cash obligations and we do not expect them to have a material adverse impact in the future.

The PRC government imposes controls on the convertibility of RMB into foreign currencies and, in certain cases, the remittance of currency out of China. We receive a substantial portion of our revenues in RMB. Under our current structure, our income will be substantially derived from dividend payments from our PRC subsidiaries. Shortages in the availability of foreign currency may restrict the ability of our PRC subsidiaries to remit sufficient foreign currency to pay dividends or other payments to us, or otherwise satisfy their foreign currency

dominated obligations. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from trade-related transactions, can be made in foreign currencies without prior approval from SAFE by complying with certain procedural requirements. However, for most capital account items, approval from appropriate government authorities is required where RMB is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of bank loans denominated in foreign currencies. The PRC government may also at its discretion restrict access in the future to foreign currencies for current account transactions. These controls have not had a material adverse impact on our ability to meet our cash obligations and we do not expect them to have a material adverse impact in the future.

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

We focus on developing and refining our methodologies, tools and techniques, implementing metrics, improving estimation processes, ensuring the quality of our product and managing the project delivery process. Our professionals conduct short-term and long-term research in the areas of knowledge management, performance testing, and education and training methodologies. Our professionals compile training materials for our on-campus programs from time to time.

D. Trend Information

Other than as disclosed elsewhere in this annual report, we are not aware of any trends, uncertainties, demands, commitments or events for the period from January 1, 2009 to December 31, 2011 that are reasonably likely to have a material adverse effect on our net revenues, income, profitability, liquidity or capital resources, or that caused the disclosed financial information to be not necessarily indicative of future operating results or financial conditions.

E. Off-Balance Sheet Arrangements

We have not entered into any financial guarantees or other commitments to guarantee the payment obligations of any third parties. In addition, we have not entered into any derivative contracts that are indexed to our own shares and classified as shareholder's equity, or that are not reflected in our consolidated financial statements. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. Moreover, we do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing, hedging or research and development services with us.

F. Tabular Disclosure of Contractual Obligations

Contingent Acquisition Payments

As of December 31, 2011, in connection with our recent acquisitions, we agreed to make contingent payments of up to US\$26.2 million in a mix of cash and our ordinary shares, of which up to US\$16.8 million may be paid with cash, and up to US\$8.4 million may be paid with our ordinary shares, in each case subject to the achievement of certain financial performance targets in the next three years.

Contractual Obligations

The following table sets forth our contractual obligations and commercial commitments as of December 31, 2011:

	Payment Due by Period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
	(in US\$ thousands)				
Operating leases	\$24,601	\$11,701	\$12,291	\$609	—
Purchase obligations	13,478	13,475	3	—	—
Total contractual obligations	<u>\$38,079</u>	<u>\$25,176</u>	<u>\$12,294</u>	<u>\$609</u>	<u>—</u>

Other than non-current deferred tax liabilities, non-current deferred income and non-current deferred revenue, the obligations set forth above, and the contingent payments described under “—Contingent Acquisition Payments,” we did not have any other long-term liabilities as of December 31, 2011.

G. Safe Harbor

This annual report on Form 20-F contains statements of a forward-looking nature. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from those expressed or implied by the forward-looking statements. These statements are made under the “safe harbor” provisions of the U.S. Private Securities Litigation Reform Act of 1995. You can identify these forward-looking statements by terminology such as “may,” “will,” “expects,” “anticipates,” “future,” “intend,” “plan,” “believe,” “estimate,” “is/are likely to,” “could,” “potential,” “should,” “would” or other and similar expressions. The accuracy of these statements may be impacted by a number of risks and uncertainties that could cause actual results to differ materially from those projected or anticipated. Such risks and uncertainties include, but are not limited to, the following:

- our expansion plans;
- our anticipated growth strategy;
- our plans to recruit more employees;
- our plans to invest in research and development to enhance our service lines;
- our future business development, results of operations and financial condition;
- expected changes in our net revenues and certain cost or expense items;
- our ability to attract and retain clients; and
- trends and competition in the offshore IT services industry.

These risks are not exhaustive. We operate in an emerging and evolving environment. New risk factors emerge from time to time and it is impossible for our management to predict all risk factors, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statement.

This annual report on Form 20-F also contains estimates, projections and statistical data related to the IT services market in China. This market data, including data from IDC, an independent market research firm, speaks as of the date it was published and includes projections that are based on a number of assumptions and are not representations of fact. You should not place undue reliance on these forward-looking statements. We would like to caution you not to place undue reliance on forward-looking statements and you should read these statements in conjunction with the risk factors disclosed in Item 3 of this annual report, “Key Information—Risk Factors.” We do not undertake any obligation to update or revise the forward-looking statements except as required under applicable law.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. Directors and Senior Management

The following table sets forth information regarding our executive officers and directors as of the date of this report.

<u>Directors and Executive Officers</u>	<u>Age</u>	<u>Position/Title</u>
Chris Shuning Chen	48	Chairman and Chief Executive Officer
David Lifeng Chen	43	Executive Vice Chairman and Co-President
Hao Chen	45	Director
Ruby Rong Lu	41	Director
Kui Zhou	44	Director
Daniel Mingdong Wu	45	Director
Samuelson S.M. Young	60	Director
Sidney Xuande Huang	46	Co-President and Chief Financial Officer
Frances Zhang	40	Chief Operating Officer
Stanley Ying Zhou	49	Executive Vice President and Chief Administrative Officer

Biographical Information

Directors

Mr. Chris Shuning Chen is our founder, chairman and chief executive officer. He co-founded our company in 1995, served as a managing director from 1995 to 1999 and became the chief executive officer in 1999. Prior to founding our company, Mr. Chen worked as a senior software developer at Great Wall Computer Software & System Co., Ltd., a Chinese company specializing in computer software and system integration, from 1989 to 1995, and spent two years on an assignment in the United States. He also participated in the development of the IBM OS/2 operating system from 1994 to 1995. Mr. Chen received his master's degree in engineering from Huazhong University of Science & Technology and his bachelor's degree in mechanical engineering from Tsinghua University.

Mr. David Lifeng Chen has served as our executive vice chairman since February 2011 and a director of our company since 2008. Mr. Chen is also our co-president and has been working with us since 2001. He co-founded Beijing Heteng Software Technology Company, Ltd., or Beijing Heteng, an affiliate of our company before its liquidation in 2007, in 2001. Mr. Chen served as a development manager at Asera, a leading B2B software company based in California in the United States, from 1999 to 2001. He worked for IBM Crossworlds as a product manager, a management consultant at KPMG Consulting, from 1997 to 1999. He served as a software engineer of the ERP development group at Oracle, a leading provider of enterprise resources planning software based in the United States, from 1995 to 1997. Mr. Chen received his master's of science degree in computer engineering from the University of California, Irvine and his bachelor's of science degree in electrical engineering from Tongji University.

Mr. Hao Chen has been a director of our company since 2005. Mr. Chen is a co-founder of Legend Capital, a China based private investment fund, and has served as its managing director and chief investment officer since 2001. He also serves as a director of numerous portfolio companies, including Spreadtrum Communications, Inc., a company listed on Nasdaq Global Market, EYANG Technology Development Co., Ltd., a company listed on the Hong Kong Stock Exchange, Beijing Kaitone Information Technologies Co., Ltd., Beijing Zhongsou Online Software Limited, Beijing Dianji Technology Co., Ltd., KML Company Ltd., Boke Company Ltd. and Crystal Digital Technology Co., Ltd. From 2000 to 2001, Mr. Chen served as a deputy director of Corporate Planning Department and Human Resource General Manager of Legend Group, which was renamed as Lenovo Group Limited in 2004, a Chinese leading IT product manufacturer. From 1992 to 2000, Mr. Chen was general manager

of Legend Advanced System Ltd., a subsidiary of Legend Group specializing in system integration. Mr. Chen received his bachelor's degree in computer and application from Huazhong University of Science & Technology.

Ms. Ruby Rong Lu has been a director of our company since May 2007. Ms. Lu is a general partner at DCM, a venture capital investment company headquartered in Silicon Valley. Ms. Lu also serves on the board of directors of other DCM portfolio companies, including E-Commerce China Dangdang Inc., a China-based business-to-consumer e-commerce company listed on the New York Stock Exchange, Bitauto Holdings Limited, an Internet company listed on the New York Stock Exchange. Prior to joining DCM in 2003, Ms. Lu was a vice president in the technology, media and telecommunications investment banking group of Goldman Sachs & Co. During her tenure at Goldman Sachs & Co. from 1996 to 2003, Ms. Lu advised clients on projects ranging from privatization restructuring, corporate finance, mergers and acquisitions. Ms. Lu received her Bachelor's degree in Economics with honors from the University of Maryland and Master's degree in International Economics as well as Energy, Environment, Science and Technology from Johns Hopkins University, School of Advanced International Studies.

Mr. Kui Zhou has been a director of our company since 2006. Mr. Zhou has been a principal of Sequoia Capital China since 2005 and a partner of Sequoia Capital China since May 2007. Mr. Zhou also serves on the board of directors of some Sequoia portfolio companies, including a director of Sky-mobi Limited, a China-based mobile application store operator listed on the Nasdaq Global Market; Xiamen Changelight Co., Ltd., a China-based LED and solar cell research and manufacturing company listed on the Shenzhen Stock Exchange; Beijing Shouhang Aiqiwei Resources Saving Technology Co., Ltd., a China-based company specializing in developing resources saving technology listed on the Shenzhen Stock Exchange; Beijing Speedpay Technology Co., Ltd., a high-tech company committed to wireless payment and mobile e-commerce business; Beijing Sinnet Technology Co., Ltd., a China-based Internet company; Beijing Huayi Network Technology Co., Ltd., a company specializing in providing China's medical industry with distance education training and technical services; and Chengdu Laoken Technology Co., Ltd, a China-based company engaging in medical business. Prior to joining Sequoia Capital China, Mr. Zhou served as a senior vice president at Legend Capital from 2001 to 2005. From 1999 to 2001, he served as a manager of corporate business development department of Legend Holdings Ltd. Mr. Zhou received his bachelor's degree in electrical automation from Wuhan Technology University and his master's of business administration degree from Tsinghua University.

Mr. Daniel Mingdong Wu has been our director since October 2007. Mr. Wu has served as the chief financial officer of Wowo Limited, a China-based life service e-commerce company, since January 2011. Prior to that, Mr. Wu served as a venture partner at SAIF Partners, a private equity fund focusing on growth investment opportunities in China and other Asian countries, from 2009. Prior to that, Mr. Wu served as chief financial officer of Focus Media Holdings Limited, a China-based advertising company listed on the Nasdaq Global Market, from 2005. Mr. Wu was chief financial officer and a director of Harbour Networks Ltd. from 2004 until 2005. Prior to that, Mr. Wu was a partner of Bridgecross Ltd. from 2001 until 2003 and acted as chief financial officer of Wi-Comm United Communications Inc. from 2003 until 2004. From 2000 to 2001, Mr. Wu was a vice president for technology investment banking at Merrill Lynch (Asia Pacific) Ltd. From 1996 to 2000, Mr. Wu worked in the global communications group of Lehman Brothers Inc. Mr. Wu holds a bachelor's degree from the State University of New York at Buffalo and a master's of business administration degree from Columbia Business School.

Mr. Samuelson S. M. Young has been our director since December 2007. Mr. Young has years of experience in information technology, financial services and business management. Mr. Young has served as the vice chairman of Studio A Inc., an apple premium reseller with around 50 chain stores in Asia, since 2010. Mr. Young has been the Chairman of Ebridge Investments Limited, a China-based investment firm, since 2006. He is also the founding partner of Xanadu Ventures and has been with Xanadu Partners since 2007. He served as a senior advisor for the Greater China region of Silver Lake Partners, a U.S.-based private equity firm, from 2006 to 2008. From 1978 to 2005, Mr. Young worked in various business divisions of IBM in Taiwan, Tokyo, and Hong Kong, and also in a joint venture of IBM in Tianjin, and was promoted to vice president of the Financial Services

Sector of IBM Asia Pacific in 2001. From 1995 to 1997, Mr. Young was a member of the General Committee of the Hong Kong Arts Festival Association and a consultant to The Hong Kong University of Science & Technology's master of business administration program. Mr. Young received his bachelor's degree in Applied Mathematics from the National Chung Hsing University, Taiwan.

Executive Officers

Mr. Sidney Xuande Huang has been our co-president since January 2011 and our chief financial officer since 2006. He was also our chief operating officer from 2008 to 2011. Prior to joining us, he was the chief financial officer with two other China-based companies in technology and Internet sectors from 2004 to 2006. Mr. Huang was an investment banker with Citigroup Global Markets Inc. in New York from 2002 to 2004. He served as an audit manager of KPMG LLP from 1996 to 2000 and was a Certified Public Accountant in the State of New York. Mr. Huang has served as a director of Bitauto Holdings Limited, an Internet company listed on the New York Stock Exchange, and Beijing Enlight Media Co., Ltd., a media company listed on the Shenzhen Stock Exchange, since 2010. Mr. Huang obtained his master's of business administration with distinction from the Kellogg School of Management at Northwestern University as an Austin Scholar. He received his bachelor's degree in accounting from Bernard M. Baruch College, where he graduated as class valedictorian.

Ms. Frances Hong Zhang is our chief operating officer and has been working with us since 2006. Prior to joining us, Ms. Zhang was the chief executive officer of Beijing Prosoft Software Technology Co., Ltd. from 2004 to 2006. Ms. Zhang founded China Logistic Investment Limited, a China-based logistics information system development company, in 2002. Ms. Zhang was the managing director of Timeless Software (Beijing) Limited, a China-based software development company, and an executive director of Timeless Software limited, a Hong Kong-based software development company listed on the Hong Kong Stock Exchange, from 2000 to 2002. Ms. Zhang received her master's degree in computer science from the Chinese Academy of Sciences in 1997 and her bachelor's degree in electronics engineering from Tsinghua University in 1994.

Mr. Stanley Ying Zhou is our executive vice president and chief administrative officer and has been working with us since 1999. Mr. Zhou founded the localization business division of Shanghai Science and Technology University Development Co., Ltd., a Chinese technology company, in 1995. Prior to that, Mr. Zhou was an associate professor in the computer science department at the Shanghai University of Science and Technology, from 1984 to 1999. Mr. Zhou received his bachelor's degree in Computer Science from Shanghai University of Science and Technology.

There is no family relationship between any of our directors or executive officers.

B. Compensation

For the fiscal year ended December 31, 2011, we paid an aggregate of approximately US\$1.3 million in cash to our senior executive officers, and we did not pay any cash compensation to our non-executive directors. Our PRC subsidiaries are required by law to make contributions equal to certain percentages of each employee's salary for his or her pension insurance, medical insurance, housing fund, unemployment and other statutory benefits. Other than the above-mentioned statutory contributions mandated by applicable PRC law, we have not set aside or accrued any amount to provide pension, retirement or other similar benefits to our executive officers and directors. For options and restricted share units granted to our officers and directors, see Item 6, "—Share Incentive Plan."

Employment Agreements

We have entered into employment agreements with each of our senior executive officers. We may terminate a senior executive officer's employment for cause, at any time, without prior notice or remuneration, for certain acts of the officer, including, but not limited to, material violation of our regulations, failure to perform agreed duties or embezzlement that cause material damage to us and conviction of a crime. A senior executive officer

may terminate his or her employment at any time by 60-day prior written notice. Each senior executive officer is entitled to certain benefits upon termination, including a severance payment equal to a certain specified number of months of his or her then salary, if he or she resigns for certain good reasons specified by the agreement or the relevant rules or if we terminate his or her employment without any of the above causes.

Pursuant to the employment agreement between us and our chief financial officer, Mr. Sidney Xuande Huang, in the case of termination of employment or removal from the current position due to a change-in-control event, all options granted to Mr. Huang shall become vested immediately and remain exercisable for a period of 12 months. In addition, Mr. Huang will be entitled to a severance payment in an amount equal to his then three-month base salary. For the purpose of this clause, a change-in-control event refers to acquisition by a third party of 51% or more beneficial ownership or voting securities of our company, a change in a majority of the incumbent directors resulted from a tender offer, proxy contest, merger or similar transaction, or liquidation, sale or otherwise disposition of all or substantially all of our total assets.

Share Incentive Plans

Grants Under 2005 Stock Plan

In November 2005, we adopted our 2005 Stock Plan and supplemented and amended the plan in April and May 2006, respectively. As of March 31, 2012, there were 1,171,397 ordinary shares issuable upon exercise of outstanding options under our 2005 Stock Plan.

2007 Share Incentive Plan

We have adopted a 2007 Share Incentive Plan to motivate, attract and retain employees and directors and promote the success of our business. Our board of directors has authorized the issuance of up to 1,100,000 ordinary shares plus an annual increase of 3% of then total outstanding shares on the first business day of each calendar year beginning in 2008, upon exercise of awards granted under our 2007 Share Incentive Plan. As of March 31, 2012, there were 3,463,641 ordinary shares issuable upon exercise of our outstanding options and restricted share units under our 2007 Share Incentive Plan.

Plan Administration. Our board of directors, or our compensation committee will administer the 2007 Share Incentive Plan. The compensation committee or the full board of directors, as appropriate, will determine the provisions and terms and conditions of our awards.

Types of Awards. The following briefly describe the principal features of the various awards that may be granted under our 2007 Share Incentive Plan.

- *Options.* Options provide for the right to purchase our ordinary shares at a specified price, and usually will become exercisable at the discretion of our plan administrator in one or more installments after the date of grant. The option exercise price may be paid in cash, by check, our ordinary shares which have been held by the optionholder for such time as may be required to avoid adverse accounting treatment, other property with a value equal to the exercise price, through a broker assisted cash-less exercise or such other methods as our plan administrator may approve from time to time.
- *Restricted Shares.* A restricted share award is the grant of our ordinary shares at a price determined by our plan administrator. A restricted share is nontransferable, unless otherwise determined by our plan administrator at the time of award and may be repurchased by us upon termination of employment or service during a restricted period. Our plan administrator shall also determine in the award agreement whether the participant will be entitled to vote the restricted shares or receive dividends on such shares.
- *Restricted Share Units.* Restricted share units represent the right to receive our ordinary shares at a specified date in the future, subject to forfeiture of such right. If the restricted share unit has not been forfeited, then on the date specified in the award agreement we shall deliver to the holder unrestricted ordinary shares which will be freely transferable.

Termination of the Share Incentive Plan. Unless terminated earlier, the 2007 Share Incentive Plan will expire in 2017. Our board of directors has the authority to amend or terminate the 2007 Share Incentive Plan subject to shareholder approval with respect to certain amendments. However, no such action may impair the rights of any recipient of the awards unless agreed by the recipient.

The following table summarizes, from January 1, 2011 to April 22, 2012, the outstanding options that we granted to our directors and executive officers under our 2007 Share Incentive Plan.

<u>Name</u>	<u>Ordinary Shares Underlying Outstanding Options</u>	<u>Exercise Price (US\$/Share)</u>	<u>Grant Date</u>	<u>Expiration Date</u>
Chris Shuning Chen	80,000	28.70	March 14, 2011	March 14, 2016
	50,000	7.62	September 29, 2011	September 29, 2017
David Lifeng Chen	*	7.62	September 29, 2011	September 29, 2017
Sidney Xuande Huang	*	7.62	September 29, 2011	September 29, 2017
Frances Hong Zhang	*	7.62	September 29, 2011	September 29, 2017
Stanley Ying Zhou	*	7.62	September 29, 2011	September 29, 2017
Directors and Executive officers as a group	335,000			

* Upon exercising of all options that are exercisable with 60 days after April 22, 2012 and vesting of all restricted shares unites that are to be vested within 60 days after April 22, 2012, would beneficially owns less than 1% of our outstanding ordinary shares.

The following table summarizes, from January 1, 2011 to April 22, 2012, the outstanding restricted share units that we granted to our directors and executive officers under our 2007 Share Incentive Plan.

<u>Name</u>	<u>Restricted Shares Units Granted</u>	<u>Grant Date</u>	<u>End of Vesting Period</u>
Chris Shuning Chen	4,785	March 12, 2012	March 1, 2016
David Lifeng Chen	*	March 12, 2012	March 1, 2016
Sidney Xuande Huang	*	March 12, 2012	March 1, 2016
Frances Hong Zhang	*	March 12, 2012	March 1, 2016
Stanley Ying Zhou	*	March 12, 2012	March 1, 2016
Directors and Executive officers as a group	18,902		

* Upon exercising of all options that are exercisable with 60 days after April 22, 2012 and vesting of all restricted shares unites that are to be vested within 60 days after April 22, 2012, would beneficially owns less than 1% of our outstanding ordinary shares.

VFS 2011 Share Incentive Plan

In October 2011, one of our wholly owned subsidiaries, VanceInfo Financial Solutions, adopted the VFS 2011 Share Incentive Plan to motivate, attract and retain employees and directors and promote the success of our business. VanceInfo Financial Solutions' board of directors has authorized the issuance of up to 1,000,000 ordinary shares of VanceInfo Financial Solutions upon exercise of awards granted under the VFS 2011 Share Incentive Plan. As of March 31, 2012, there were 790,000 ordinary shares of VanceInfo Financial Solutions issuable upon exercise of outstanding restricted share units under the VFS 2011 Share Incentive Plan.

Plan Administration. VanceInfo Financial Solutions' board of directors will administer the VFS 2011 Share Incentive Plan and determine the provisions and terms and conditions of our awards.

Types of Awards. The following briefly describe the principal features of the various awards that may be granted under the VFS 2011 Share Incentive Plan.

- *Options.* Options provide for the right to purchase our ordinary shares at a specified price, and usually will become exercisable at the discretion of our plan administrator in one or more installments after the date of grant. The option exercise price may be paid in cash, by check, our ordinary shares which have been held by the optionholder for such time as may be required to avoid adverse accounting treatment, other property with a value equal to the exercise price, through a broker assisted cash-less exercise or such other methods as our plan administrator may approve from time to time.
- *Restricted Shares.* A restricted share award is the grant of our ordinary shares at a price determined by our plan administrator. A restricted share is nontransferable, unless otherwise determined by our plan administrator at the time of award and may be repurchased by us upon termination of employment or service during a restricted period. Our plan administrator shall also determine in the award agreement whether the participant will be entitled to vote the restricted shares or receive dividends on such shares.
- *Restricted Share Units.* Restricted share units represent the right to receive our ordinary shares at a specified date in the future, subject to forfeiture of such right. If the restricted share unit has not been forfeited, then on the date specified in the award agreement we shall deliver to the holder unrestricted ordinary shares which will be freely transferable.

Termination of the Share Incentive Plan. Unless terminated earlier, the VFS 2011 Share Incentive Plan will expire in 2021. VanceInfo Financial Solutions' board of directors has the authority to amend or terminate the VFS 2011 Share Incentive Plan subject to shareholder approval with respect to certain amendments. However, no such action may impair the rights of any recipient of the awards unless agreed by the recipient.

In November 2011, VanceInfo Financial Solutions granted 790,000 of its restricted share units to its employees, none of them are our executive officer or director.

C. Board Practices

In 2011, most of our directors attended all the meetings of our board and its committees on which they served after becoming members of our board. No director is entitled to any severance benefits upon termination of his directorship with us.

Board of Directors

Our board of directors currently consists of seven directors. A director is not required to hold any shares in the company by way of qualification. A director may vote with respect to any contract, proposed contract or arrangement in which he is materially interested, provided he has declared his interest in accordance with our Articles of Association (subject to any separate requirements for audit committee approval under applicable law or the listing rules of the New York Stock Exchange, and unless disqualified by the chairman of the relevant board meeting). Our board of directors may exercise all the powers of the company to borrow money, mortgage its undertaking, property and uncalled capital and issue debentures or other securities whenever money is borrowed or as security for any obligation of the company or of any third party. There is no contract between us or any of our directors providing for benefits upon termination of employment.

Committees of the Board of Directors

We have established three committees under the board of directors: the audit committee, the compensation committee and the corporate governance and nominating committee. We also adopted a charter for each of the three committees. Each committee's members and functions are described below.

Audit Committee

Our audit committee consists of Mr. Daniel Mingdong Wu, Mr. Samuelson S. M. Young and Ms. Ruby Rong Lu. Mr. Wu is the chairman of our audit committee. Mr. Wu is a director with accounting and financial management

expertise as required by the Corporate Governance Rules of the New York Stock Exchange, or the NYSE Rules. Messrs. Wu and Young and Ms. Lu satisfy the “independence” requirements of Section 303A of the NYSE Rules and Rule 10A-3 under the Securities Exchange Act of 1934, as amended, or the Exchange Act. The audit committee will oversee our accounting and financial reporting processes and the audits of the financial statements of our company. The audit committee will be responsible for, among other things:

- selecting the independent auditors and pre-approving all auditing and non-auditing services permitted to be performed by the independent auditors;
- reviewing with the independent auditors any audit problems or difficulties and management’s response;
- reviewing and approving all proposed related party transactions, as defined in Item 404 of Regulation S-K under the Securities Act;
- discussing the annual audited financial statements with management and the independent auditors;
- reviewing major issues as to the adequacy of our internal controls and any special audit steps adopted in light of material control deficiencies;
- annually reviewing and reassessing the adequacy of our audit committee charter;
- meeting separately and periodically with management and the independent auditors; and
- reporting regularly to the board of directors.

Compensation Committee

Our compensation committee consists of Mr. Kui Zhou, Ms. Ruby Rong Lu, Mr. Hao Chen and Mr. Daniel Mingdong Wu. Mr. Zhou is the chairman of our compensation committee. Messrs. Zhou, Chen and Wu and Ms. Lu satisfy the “independence” requirements of Section 303A of the NYSE Rules. The compensation committee will assist the board in reviewing and approving the compensation structure, including all forms of compensation, relating to our directors and executive officers. Our chief executive officer may not be present at any committee meeting during which his compensation is deliberated. The compensation committee will be responsible for, among other things:

- reviewing and recommending to the board with respect to the total compensation package for our five most senior executives;
- approving and overseeing the total compensation package for our executives other than the five most senior executives;
- reviewing and recommending to the board with respect to the compensation of our directors; and
- reviewing periodically and approving any long-term incentive compensation or equity plans, programs or similar arrangements, annual bonuses, employee pension and welfare benefit plans.

Corporate Governance and Nominating Committee

Our corporate governance and nominating committee consists of Mr. Hao Chen, Mr. Daniel Mingdong Wu and Mr. Samuelson S. M. Young. Mr. Chen is the chairman of our corporate governance and nominating committee. Messrs. Chen, Wu and Young satisfy the “independence” requirements of Section 303A of the NYSE Rules. The corporate governance and nominating committee will assist the board of directors in selecting individuals qualified to become our directors and in determining the composition of the board and its committees. The corporate governance and nominating committee will be responsible for, among other things:

- selecting and recommending to the board nominees for election or re-election to the board, or for appointment to fill any vacancy;
- reviewing annually with the board the current composition of the board with regards to characteristics such as independence, age, skills, experience and availability of service to us;

- selecting and recommending to the board the names of directors to serve as members of the audit committee and the compensation committee, as well as the corporate governance and nominating committee itself;
- advising the board periodically with regards to significant developments in the law and practice of corporate governance as well as our compliance with applicable laws and regulations, and making recommendations to the board on all matters of corporate governance and on any remedial action to be taken; and
- monitoring compliance with our code of business conduct and ethics, including reviewing the adequacy and effectiveness of our procedures to ensure proper compliance.

Duties of Directors

Under Cayman Islands law, our directors have a duty of loyalty to act honestly in good faith with a view to the best interests of our company. Our directors also have a duty to exercise the skill they actually possess and such care and diligence that a reasonably prudent person would exercise in comparable circumstances. Our directors must ensure compliance with our memorandum and articles of association.

Terms of Directors and Officers

Our shareholders have designated our directors into three classes, namely Class A directors, Class B directors and Class C directors, who shall retire from office and be eligible for re-election at the first, second and third annual general meeting after our initial public offering, respectively. Mr. Chris Shuning Chen and Mr. David Lifeng Chen have been designated as Class A directors. Mr. Hao Chen, Mr. Kui Zhou and Ms. Ruby Rong Lu have been designated as Class B directors. Mr. Daniel Mingdong Wu and Mr. Samuelson S.M. Young have been designated as Class C directors. At each subsequent annual general meeting after the third annual general meeting after our initial offering, the directors of the class who have been longest in office shall retire and shall be eligible for re-election. A director may only be removed by the shareholders. Officers are elected by and serve at the discretion of the board of directors.

D. Employees

We view our employees as critical to our business operations and future prospects. We are committed to remaining among the industry's preferred employers in China. As of December 31, 2009, 2010 and 2011, we employed 8,347, 11,044 and 14,958 employees, including 7,542, 9,827 and 13,424 professionals, respectively. As of March 31, 2012, we employed 15,693 employees, including 14,111 professionals.

E. Share Ownership

The following table sets forth information with respect to the beneficial ownership of our ordinary shares as of the date of April 22, 2012, by:

- each of our directors and executive officers; and
- each person known to us to own beneficially more than 5.0% of our ordinary shares.

Except as otherwise noted, the address of each person listed in the table is c/o VanceInfo Technologies Inc., 3/F, Building 8, Zhongguancun Software Park, Haidian District, Beijing 100193, People's Republic of China.

	Share Beneficially Owned	
	Number ⁽¹⁾	% ⁽²⁾
Directors and Executive Officers:		
Chris Shuning Chen ⁽³⁾	3,862,398	8.6
David Lifeng Chen ⁽⁴⁾	*	*
Hao Chen ⁽⁵⁾	*	*
Ruby Rong Lu ⁽⁶⁾	*	*
Kui Zhou ⁽⁷⁾	1,160,684	2.6
Daniel Mingdong Wu ⁽⁸⁾	*	*
Samuelson S.M. Young ⁽⁹⁾	*	*
Sidney Xuande Huang ⁽¹⁰⁾	*	*
Frances Hong Zhang ⁽¹¹⁾	*	*
Stanley Ying Zhou ⁽¹²⁾	*	*
All Directors and Executive Officers as a Group ⁽¹³⁾	6,126,885	13.5
Principal Shareholders:		
Lone Spruce, L.P. and affiliates ⁽¹⁴⁾	7,862,536	17.6
Morgan Stanley ⁽¹⁵⁾	4,104,288	9.2
Button Software Ltd. ⁽¹⁶⁾	3,837,920	8.6
Government of Singapore Investment Corporation Pte Ltd ⁽¹⁷⁾	2,150,847	5.1

* Less than 1%

- (1) Beneficial ownership is determined in accordance with the rules of the SEC and includes voting or investment owner with respect to the securities.
- (2) For each person and group included in this table, percentage ownership was calculated by dividing the number of shares beneficially owned by such person or group by the sum of 44,714,963, being the number of ordinary shares outstanding as of April 22, 2012, the number of ordinary shares underlying share options held by such person or group that are exercisable within 60 days after April 22, 2012, and the number of ordinary shares underlying restricted share units held by such person or group that are to be vested within 60 days after April 22, 2012.
- (3) Represents 2,517,920 ordinary shares held by Button Software Ltd., a British Virgin Islands company, and 94,478 ordinary shares issuable upon exercise of options within 60 days after April 22, 2012 and ordinary shares issuable pursuant to restricted share units that are to be vested within 60 days after April 22, 2012 beneficially owned by Mr. Chris Shuning Chen. In addition, Button Software Ltd. entered into certain agreements with Credit Suisse Capital LLC (the "Button VPF"). Pursuant to the Button VPF, Button Software Ltd. pledged and monetized 712,500 ADSs beneficially owned by it. TAIRON INVESTMENT LIMITED entered into certain agreements with Credit Suisse Capital LLC (the "Tairon VPF"). Pursuant to the Tairon VPF, TAIRON INVESTMENT LIMITED pledged and monetized 537,500 ADSs beneficially owned by it. Button Software Ltd. and TAIRON INVESTMENT LIMITED are ultimately owned by Mr. Chris Shuning Chen's family trust. Mr. Chen is the sole director of Button Software Ltd. and TAIRON INVESTMENT LIMITED.
- (4) Represents ADSs, ordinary shares issuable upon exercise of options within 60 days after April 22, 2012 and ordinary shares issuable pursuant to restricted share units that are to be vested within 60 days after April 22, 2012 beneficially owned by Mr. David Lifeng Chen.
- (5) Represents ordinary shares issuable upon exercise of options within 60 days after April 22, 2012 and ordinary shares issuable pursuant to restricted share units that are to be vested within 60 days after April 22, 2012 held by Mr. Hao Chen. The business address for Mr. Chen is 10/F, Tower A, Raycom Info Tech Park, No. 2 Kexueyuan Nanlu Zhongguancun, Haidian District, Beijing 100080, People's Republic of China.

- (6) Represents ADSs, ordinary shares issuable upon exercise of options within 60 days after April 22, 2012, and ordinary shares issuable pursuant to restricted share units that are to be vested within 60 days after April 22, 2012 held by Ms. Ruby Rong Lu. The business address for Ms. Lu is 2420 Sand Hill Road, Suite 200 Menlo Park, CA 94025, United States of America.
- (7) Represents 87,651 ADSs held by Kui Zhou, 600,515 ordinary shares held by Sequoia Capital China I, L.P., Sequoia Capital China Partners Fund I, L.P., and Sequoia Capital China Principals Fund I, L.P., 467,080 ordinary shares held by Sequoia Capital Growth Fund III, L.P., Sequoia Capital Growth III Principals Fund and Sequoia Capital Growth Partners III, L.P., and 5,438 ordinary shares issuable upon exercise of options within 60 days after April 22, 2012 and ordinary shares issuable pursuant to restricted share units that are to be vested within 60 days after April 22, 2012 held by Mr. Kui Zhou. Mr. Kui Zhou disclaims beneficial ownership with respect to the shares held by Sequoia Capital China I, L.P., Sequoia Capital China Partners Fund I, L.P., Sequoia Capital China Principals Fund I, L.P., Sequoia Capital Growth Fund III, L.P., Sequoia Capital Growth III Principals Fund and Sequoia Capital Growth Partners III, L.P. except to the extent of his pecuniary interest therein. The business address for Mr. Zhou is Room 3606, Tower 3, China Central Place, No 77 Jianguo Road, Chaoyang District, Beijing 100025, People's Republic of China.
- (8) Represents ordinary shares issuable upon exercise of options within 60 days after April 22, 2012 held by Mr. Daniel Mingdong Wu.
- (9) Represents ordinary shares issuable upon exercise of options within 60 days after April 22, 2012 held by Mr. Samuelson S.M. Young.
- (10) Represents ordinary shares issuable upon exercise of options within 60 days after April 22, 2012 and ordinary shares issuable pursuant to restricted share units that are to be vested within 60 days after April 22, 2012 held by Mr. Sidney Xuande Huang.
- (11) Represents ordinary shares, ordinary shares issuable upon exercise of options within 60 days after April 22, 2012, and ordinary shares issuable pursuant to restricted share units that are to be vested within 60 days after April 22, 2012 beneficially owned by Ms. Frances Hong Zhang.
- (12) Represents ADSs, ordinary shares, ordinary shares issuable upon exercise of options within 60 days after April 22, 2012 and ordinary shares issuable pursuant to restricted share units that are to be vested within 60 days after April 22, 2012 beneficially owned by Mr. Stanley Ying Zhou.
- (13) Represents ADSs, ordinary shares, ordinary shares issuable upon exercise of options within 60 days after April 22, 2012, and ordinary shares issuable pursuant to restricted share units that are to be vested within 60 days after April 22, 2012 beneficially owned by all of our directors and executive officers as a group.
- (14) Information regarding beneficial ownership is reported as of December 31, 2011, based on Schedule 13G/A jointly filed by Lone Spruce, L.P., Lone Balsam, L.P., Lone Sequoia, L.P., Lone Dragon Pine, L.P., Lone Pine Associates LLC, Lone Pine Members LLC, Lone Pine Capital LLC, Lone Pine Managing Member LLC, and Stephen F. Mandel, Jr. on February 14, 2012. The address of their principal business offices is Two Greenwich Plaza, Greenwich, Connecticut 06830.
- (15) Information regarding beneficial ownership is reported as of December 31, 2011, based on Schedule 13G/A jointly filed by Morgan Stanley and Morgan Stanley Capital Services LLC on February 9, 2012. Morgan Stanley Capital Services LLC beneficially owned 4,101,703 of our ordinary shares as of December 31, 2011. The securities being reported on by Morgan Stanley as a parent holding company are owned, or may be deemed to be beneficially owned, by Morgan Stanley Capital Services LLC, a wholly-owned subsidiary of Morgan Stanley. The address of their principal business offices is 1585 Broadway, New York, NY 10036.
- (16) Represents 2,517,920 ordinary shares held by Button Software Ltd., a British Virgin Islands company, and 70,000 ordinary shares ordinary shares issuable upon exercise of options within 60 days after April 22, 2012 held by TAIRON INVESTMENT LIMITED. In addition, pursuant to the Button VPF, Button Software Ltd. pledged and monetized 712,500 ADSs beneficially owned by it. Pursuant to the Tairon VPF, TAIRON INVESTMENT LIMITED pledged and monetized 537,500 ADSs beneficially owned by it. Button Software Ltd. and TAIRON INVESTMENT LIMITED are ultimately owned by Mr. Chris Shuning Chen's family trust. The registered address for Button Software Ltd. is OMC Chambers, P.O. Box 3152, Road Town, Tortola, British Virgin Islands.

(17) Information regarding beneficial ownership is reported as of March 30, 2012, based on Schedule 13G filed by Government of Singapore Investment Corporation Pte Ltd on April 9, 2012. The address of its principal business office is 168 Robinson Road, #37-01 Capital Tower, Singapore 068912.

None of our existing shareholders has different voting rights from other shareholders. We are not aware of any arrangement that may, at a subsequent date, result in a change of control of our company.

Button Software Ltd. beneficially held 9.5% of our ordinary shares as of December 31, 2009, based on its Schedule 13G/A filed on February 11, 2010, and it beneficially held 8.6% of our ordinary shares as of April 22, 2012. Lone Spruce, L.P. and affiliates beneficially held 6.6% of our ordinary shares as of August 24, 2010, based on their Schedule 13G filed on September 3, 2010, and they beneficially held 17.6% of our ordinary shares as of December 31, 2011, based on their Schedule 13G/A filed on February 14, 2012. Morgan Stanley beneficially held 5.1% of our ordinary shares as of September 28, 2011, based on its Schedule 13G filed on October 6, 2011. As of December 31, 2011, Morgan Stanley beneficially held 9.2% of our ordinary shares based on Schedule 13G/A jointly filed by Morgan Stanley and Morgan Stanley Capital Services LLC on February 9, 2012, and Morgan Stanley Capital Services LLC beneficially owned 4,101,703 of our ordinary shares as of December 31, 2011. The securities being reported on by Morgan Stanley as a parent holding company are owned, or may be deemed to be beneficially owned, by Morgan Stanley Capital Services LLC, a wholly-owned subsidiary of Morgan Stanley.

As of April 22, 2012, 44,714,963 of our ordinary shares were issued and outstanding. To our knowledge, approximately 92.1% of our total outstanding ordinary shares were held by seven record shareholders in the United States, including approximately 89.7% held by JPMorgan Chase Bank, N.A., the depository of our ADS program. The number of beneficial owners of our ADSs in the United States is likely to be much larger than the number of record holders of our ordinary shares in the United States.

For the options and restricted share units granted to our directors, officers and employees, please refer to “—B. Compensation.”

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. Major Shareholders

See Item 6, “Directors, Senior Management and Employees—Share Ownership.”

B. Related Party Transactions

Other Share Issuances

In 2011, we issued 26,652, 17,990, 55,944, 5,725, 996, 29,430, and 21,316 ordinary shares to Honour Sky Limited, Alliance Glory Investments Limited, Hui Wing Han Christina Wendy & Wong Kit Cheung Paul, Think Consulting Limited, Red Pine Technology Service Limited, Extra Bright Trading Ltd., and Green Beauty Action Limited, as a part of the consideration for our various acquisitions.

Employment Agreements

See Item 6, “Directors, Senior Management and Employees—Compensation—Employment Agreements.”

Stock Option Grants

See Item 6, “Directors, Senior Management and Employees—Compensation—Share Incentive Plan.”

C. Interests of Experts and Counsel

Not applicable.

ITEM 8. FINANCIAL INFORMATION

A. Consolidated Statements and Other Financial Information

We have appended consolidated financial statements filed as part of this annual report.

Legal Proceedings

From time to time, we may be subject to legal proceedings, investigations and claims incidental to the conduct of our business. Except as otherwise disclosed herein, we are not currently a party to any legal proceeding or investigation that, in the opinion of our management, is likely to have a material adverse effect on our business or financial condition.

In August 2004, VanceInfo Beijing, our wholly owned subsidiary, acquired the IT services business and related assets from our predecessor, Wensi Chuangyi and its subsidiaries, or August 2004 Transaction. In November 2010, Jiang filed an action naming us, our subsidiary VanceInfo US, and our executives Chris Shuning Chen and David Lifeng Chen as defendants in the Superior Court of California, County of San Mateo captioned Jonathan Jiang v. VanceInfo Technologies, et al., CIV 500979. An amended complaint was filed on January 21, 2011 alleging that the transfer of assets of Wensi Chuangyi from Beijing Heteng to us occurred without proper compensation to Octiga, Inc. On March 10, 2011, we filed a motion to quash service on us and a demurrer to the amended complaint on behalf of VanceInfo US. On June 28, 2011, the Superior Court of California, County of San Mateo ruled that there was lack of personal jurisdiction for us. In order to avoid further distraction of management attention, our Chairman and Chief Executive Officer, Chris Shuning Chen, personally made a payment of US\$75,000 to settle this litigation, and we have not made any contribution to such payment. The lawsuit was dismissed with prejudice on March 1, 2012. We made no admissions of liability as part of the settlement and continues to maintain that the August 2004 Transaction was lawful and in compliance with all applicable PRC laws and regulations.

Dividend Policy

We have no present plan to declare and pay any dividends on our shares or ADSs in the near future. We currently intend to retain most, if not all, of our available funds and any future earnings to operate and expand our business.

We are a holding company incorporated in the Cayman Islands. We rely on dividends from our wholly owned subsidiaries in PRC, such as VanceInfo Beijing. Current PRC regulations permit our subsidiaries to pay dividends to us only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, our subsidiaries in China are required to set aside a certain amount of its accumulated after-tax profits each year, if any, to fund certain statutory reserves. These reserves may not be distributed as cash dividends. Further, if our subsidiaries in China incur debt on their own behalf, the instruments governing the debt may restrict their ability to pay dividends or make other payments to us. As a result of these PRC laws and regulations and the requirement that distributions by PRC entities can only be paid out of distributable profits computed in accordance with PRC GAAP, our PRC subsidiaries may be restricted from transferring a portion of their net assets to us. Amounts restricted include paid-in capital and the statutory reserves of our PRC subsidiaries. The aggregate amounts of capital and statutory reserves which represented the amount of net assets of the relevant subsidiaries of us not available for distribution was US\$23.7 million, US\$81.7 million and US\$84.7 million as of December 31, 2009, 2010 and 2011, respectively.

Our board of directors has complete discretion as to whether to pay dividends. Our company may also authorize the payment of dividends but the amount cannot exceed the amount recommended by our board of directors. Even if our board of directors decides to pay dividends, the form, frequency and amount will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that the board of directors may deem relevant. If we pay any dividends, we will pay

our ADS holders to the same extent as holders of our ordinary shares, subject to the terms of the deposit agreement, including the fees and expenses payable thereunder. Cash dividends on our ADSs and ordinary shares, if any, will be paid in U.S. dollars.

B. Significant Changes

Except as disclosed elsewhere in this annual report, we have not experienced any significant changes since the date of our audited consolidated financial statements included in this annual report.

ITEM 9. THE OFFER AND LISTING

A. Offer and Listing Details

Our ADSs, each representing one ordinary share, have been listed on the NYSE since December 2007. Our ADSs trade under the symbol “VIT.”

For the period from December 12, 2007 to April 23, 2012, the trading price of our ADSs on the NYSE has ranged from US\$4.20 to US\$41.06 per ADS. For the year ended December 31, 2011, the trading price ranged from US\$6.19 to US\$37.99 per ADS.

The following table sets forth, for the periods indicated, the high and low trading prices on the NYSE for our ADSs.

	Trading Price (US\$)	
	High	Low
2007 (from December 12, 2007 to December 31, 2007)	10.95	8.51
2008	13.98	4.28
First quarter	9.25	4.90
Second quarter	13.98	6.45
Third quarter	10.19	5.80
Fourth quarter	8.28	4.28
2009	21.07	4.20
First quarter	6.00	4.20
Second quarter	15.50	4.95
Third quarter	19.60	10.54
Fourth quarter	21.07	14.50
2010	41.06	14.79
First quarter	23.85	14.79
Second quarter	26.48	18.21
Third quarter	33.30	22.11
Fourth quarter	41.06	30.55
2011	37.99	6.19
First quarter	37.99	27.55
Second quarter	34.90	19.55
Third quarter	23.76	6.41
Fourth quarter	13.88	6.19
October	13.88	6.19
November	12.71	7.65
December	11.29	8.28
2012		
First Quarter	14.28	9.39
January	14.28	9.39
February	13.99	10.88
March	13.57	10.71
April (through April 23, 2012)	13.16	10.83

B. Plan of Distribution

Not applicable.

C. Markets

Our ADSs, each representing one ordinary share, have been listed on the NYSE since December 2007 and have been trading under the symbol “VIT.”

D. Selling Shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expenses of the Issues

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

A. Share Capital

Not applicable.

B. Memorandum and Articles of Association

We incorporate by reference into this annual report the description of our amended and restated memorandum of association contained in our F-1 registration statement (File No. 333-147601) originally filed with the SEC on November 23, 2007.

C. Material Contracts

We have not entered into any material contracts other than in the ordinary course of business and other than those described in Item 4, “Information on the Company” or elsewhere in this annual report on Form 20-F.

D. Exchange Controls

China’s government imposes control over the convertibility of RMB into foreign currencies. The conversion of RMB into foreign currencies, including U.S. dollars, has been based on rates announced by the People’s Bank of China. On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the Renminbi to the U.S. dollar. Under the new policy, the Renminbi was permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy caused the Renminbi to appreciate approximately 21.5% against the U.S. dollar over the following three years. For almost two years after reaching a high against the U.S. dollar in July 2008, however, the Renminbi has traded within a narrow band against the U.S. dollar. In June 2010, the PRC government announced its plan to increase the flexibility of Renminbi exchange rate. Since that time, the Renminbi has gradually appreciated against the U.S. dollar. There remains significant international pressure on the PRC government to adopt a more flexible currency policy, which could result in greater fluctuation of the Renminbi against the U.S. dollar.

Pursuant to the Foreign Exchange Control Regulations issued by the State Council on January 29, 1996, and effective as of April 1, 1996 (and amended on January 14, 1997 and August 5, 2008 respectively) and the

Administration of Settlement, Sale and Payment of Foreign Exchange Regulations which came into effect on July 1, 1996 regarding foreign exchange control, or the Regulations, conversion of RMB into foreign exchange by foreign investment enterprises for current account items, including the distribution of dividends and profits to foreign investors of joint ventures, is permissible. Foreign investment enterprises are permitted to remit foreign exchange from their foreign exchange bank account in China on the basis of, inter alia, the terms of the relevant joint venture contracts, articles of association and the board resolutions declaring the distribution of the dividend and payment of profits. On January 14, 1997, the State Council amended the Foreign Exchange Control Regulations and added, among other things, an important provision, as Article 5 provides that the State shall not impose restrictions on recurring international current account payments and transfers. Conversion of RMB into foreign currencies and remittance of foreign currencies for capital account items, including direct investment, loans, security investment, is still subject to the approval of the SAFE, in each such transaction. On August 29, 2008, the SAFE promulgated the Circular on the Relevant Operating Issues Concerning the Improvement of the Administration of the Payment and Settlement of Foreign Currency Capital of Foreign Invested Enterprises, or SAFE Circular 142, a notice regulating the conversion by a foreign-invested company of foreign currency into Renminbi by restricting how the converted Renminbi may be used. SAFE Circular 142 requires that Renminbi converted from the foreign currency-denominated registered capital of a foreign-invested company may only be used for purposes within the company's business scope approved by the applicable governmental authority and may not be used for equity investments within the PRC unless specifically provided for otherwise in its business scope. In addition, the SAFE strengthened its oversight of the flow and use of Renminbi funds converted from the foreign currency-denominated registered capital of a foreign-invested company. The use of such Renminbi may not be changed without approval from the SAFE, and may not in any case be used to repay Renminbi loans if the proceeds of such loans have not yet been used.

Under the Regulations, foreign investment enterprises are required to open and maintain separate foreign exchange accounts for capital account items (but not for other items). In addition, foreign investment enterprises may only buy, sell and/or remit foreign currencies at those banks authorized to conduct foreign exchange business upon the production of valid commercial documents and, in the case of capital account item transactions, document approval from the SAFE.

Currently, foreign investment enterprises are required to apply to the SAFE for "foreign exchange registration certificates for foreign investment enterprises" (which are granted to foreign investment enterprises, upon fulfilling specified conditions and which are subject to review and renewal by the SAFE on an annual basis). With such foreign exchange registration certificates and required underlying transaction documents, or with approval documents from the SAFE if the transactions are under capital account (which are obtained on a transaction-by-transaction basis), foreign-invested enterprises may enter into foreign exchange transactions at banks authorized to conduct foreign exchange business to obtain foreign exchange for their needs.

E. Taxation

The following summary of the material Cayman Islands, PRC and United States federal income tax consequences of an investment in our ADSs or ordinary shares is based upon laws and relevant interpretations thereof in effect as of the date of this report, all of which are subject to change possibly with retroactive effect. This summary does not deal with all possible tax consequences relating to an investment in our ADSs or ordinary shares, such as tax consequences under state, local and other tax laws in jurisdictions other than the Cayman Islands, PRC or the United States. To the extent that the discussion relates to matters of Cayman Islands tax law, it represents the opinion of Conyers Dill & Pearman (Cayman) Limited, our Cayman Islands counsel.

Cayman Islands Taxation

The Cayman Islands currently levies no taxes on individuals or corporations based upon profits, income, gains or appreciation and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to us levied by the government of the Cayman Islands except for stamp duties which may be

applicable on instruments executed in, or brought within the jurisdiction of the Cayman Islands. The Cayman Islands is not party to any double tax treaties. There are no exchange control regulations or currency restrictions in the Cayman Islands.

PRC Enterprise Income Tax

See “Item 5. Operating and Financial Review and Prospects” for a description on PRC Enterprise Income Tax.

United States Federal Income Taxation

The following discussion describes the material U.S. federal income tax consequences to U.S. Holders (as defined below) under present law of an investment in the ADSs or ordinary shares. This discussion applies only to U.S. Holders that hold the ADSs or ordinary shares as capital assets and that have the U.S. dollar as their functional currency. This discussion is based on the tax laws of the United States in effect as of the date of this annual report and on U.S. Treasury regulations in effect or, in some cases, proposed, as of the date of this annual report, as well as judicial and administrative interpretations thereof available on or before such date. All of the foregoing authorities are subject to change, which change could apply retroactively and could affect the tax consequences described below.

The following discussion neither deals with the tax consequences to any particular investor nor describes all of the tax consequences applicable to persons in special tax situations such as:

- banks;
- financial institutions;
- insurance companies;
- regulated investment companies;
- real estate investment trusts;
- broker-dealers;
- traders that elect to mark to market;
- U.S. expatriates;
- tax-exempt entities;
- persons liable for alternative minimum tax;
- persons holding an ADS or ordinary share as part of a straddle, hedging, conversion or integrated transaction;
- persons that actually or constructively own 10% or more of the total combined voting power of all classes of our voting stock;
- persons who acquired ADSs or ordinary shares pursuant to the exercise of any employee share option or otherwise as compensation; or
- partnerships or pass through entities, or persons holding ADSs or ordinary shares through such entities.

INVESTORS ARE URGED TO CONSULT THEIR TAX ADVISORS ABOUT THE APPLICATION OF THE U.S. FEDERAL TAX LAW TO THEIR PARTICULAR CIRCUMSTANCES AS WELL AS THE STATE, LOCAL, NON-U.S. AND OTHER TAX CONSEQUENCES TO THEM OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF ADSs OR ORDINARY SHARES.

The discussion below of the U.S. federal income tax consequences to “U.S. Holders” will apply to you if you are the beneficial owner of ADSs or ordinary shares and you are, for U.S. federal income tax purposes,

- an individual who is a citizen or resident of the United States;

- a corporation (or other entity taxable as a corporation for U.S. federal income tax purposes) created or organized in the United States or under the laws of the United States, any State thereof or the District of Columbia;
- an estate, the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust that (1) is subject to the primary supervision of a court within the United States and the control of one or more U.S. persons for all substantial decisions or (2) has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

If you own ADSs, you should be treated as the owner of the underlying ordinary shares represented by those ADSs for U.S. federal income tax purposes. No gain or loss should be recognized upon the exchange of ordinary shares for ADSs or an exchange of ADSs for ordinary shares.

Taxation of Dividends and Other Distributions on the ADSs or Ordinary Shares

Subject to the PFIC rules discussed below, the gross amount of any distributions we make to you (including the amount of any PRC taxes withheld therefrom) with respect to the ADSs or ordinary shares generally will be includible in your gross income as dividend income on the date of receipt by the depository, in the case of ADSs, or by you, in the case of ordinary shares, but only to the extent that the distribution is paid out of our current or accumulated earnings and profits (as determined under U.S. federal income tax principles). The dividends will not be eligible for the dividends-received deduction allowed to corporations in respect of dividends received from other U.S. corporations. To the extent that the amount of the distribution exceeds our current and accumulated earnings and profits (as determined under U.S. federal income tax principles), such excess amount will be treated first as a tax-free return of capital, thereby reducing your tax basis in your ADSs or ordinary shares (but not below zero), and then, to the extent such excess amount exceeds your tax basis in your ADSs or ordinary shares, as capital gain. We currently do not, and we do not intend to, calculate our earnings and profits under U.S. federal income tax principles. Therefore, a U.S. Holder should expect that a distribution will generally be reported as a dividend even if that distribution would otherwise be treated as a non-taxable return of capital or as capital gain under the rules described above.

With respect to certain non-corporate U.S. Holders, including individual U.S. Holders, for taxable years beginning before January 1, 2013, dividends may be taxed at the lower capital gains rate applicable to “qualified dividend income,” provided that (1) either (a) the ADSs or ordinary shares, as applicable, are readily tradable on an established securities market in the United States or (b) we are eligible for the benefits of a qualifying income tax treaty with the United States that includes an exchange of information program, (2) we are neither a PFIC nor treated as such with respect to you (as discussed below) for the taxable year in which the dividend was paid and the preceding taxable year, and (3) certain holding period requirements are met. Under U.S. Internal Revenue Service authority, ADSs will be considered for purposes of clause (1) above to be readily tradable on an established securities market in the United States if they are listed on the New York Stock Exchange, as are our ADSs. However, based on existing guidance, it is not entirely clear whether dividends that you receive with respect to the ordinary shares will be taxed as qualified dividend income, because the ordinary shares are not themselves listed on a U.S. exchange. If we are treated as a “resident enterprise” for PRC tax purposes under the new EIT Law, we may be eligible for the benefits of the income tax treaty between the United States and the PRC. You should consult your tax advisors regarding the availability of the lower capital gains rate applicable to qualified dividend income for dividends paid with respect to our ADSs or ordinary shares.

If PRC withholding taxes apply to dividends paid to you with respect to our ADSs or ordinary shares, the amount of the dividend would include withheld PRC taxes and, subject to certain conditions and limitations, such PRC withholding taxes generally will be treated as foreign taxes eligible for credit against your U.S. federal income tax liability. Dividends will constitute foreign source income for foreign tax credit limitation purposes. If the dividends are taxed as qualified dividend income (as discussed above), the amount of the dividend taken into account for purposes of calculating the foreign tax credit limitation will in general be limited to the gross amount of the dividend, multiplied by the reduced tax rate applicable to qualified dividend income and divided by the

highest tax rate normally applicable to dividends. The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. For this purpose, dividends distributed by us with respect to the ADSs or ordinary shares will generally constitute “passive category income” but could, in the case of certain U.S. Holders, constitute “general category income.”

The rules relating to the determination of the foreign tax credit are complex and you should consult your tax advisors regarding the availability of a foreign tax credit in your particular circumstances, including the effects of any applicable income tax treaties.

Taxation of Disposition of ADSs or Ordinary Shares

Subject to the PFIC rules discussed below, you will recognize taxable gain or loss on any sale, exchange or other taxable disposition of an ADS or ordinary share equal to the difference between the amount realized for the ADS (in U.S. dollars) or ordinary share and your tax basis (in U.S. dollars) in the ADS or ordinary share. The gain or loss generally will be capital gain or loss. If you are a non-corporate U.S. Holder, including an individual U.S. Holder, that has held the ADS or ordinary share for more than one year, you may be eligible for reduced tax rates. The deductibility of capital losses is subject to limitations.

Any gain or loss that you recognize on a disposition of ADSs or ordinary shares will generally be treated as U.S. source income or loss for foreign tax credit limitation purposes. However, if we are treated as a “resident enterprise” for PRC tax purposes, you may be eligible for the benefits of the income tax treaty between the United States and the PRC. In such event, if PRC tax were to be imposed on any gain from the disposition of the ADSs or ordinary shares, a U.S. Holder that is eligible for the benefits of the income tax treaty between the United States and the PRC may elect to treat the gain as PRC source income for foreign tax credit purposes. You should consult your tax advisors regarding the proper treatment of gain or loss in your particular circumstances, including the effects of any applicable income tax treaties.

Passive Foreign Investment Company

Based on the market price of our ADSs, the value of our assets, and the composition of our income and assets, we do not believe we were a PFIC for U.S. federal income tax purposes for our taxable year ended December 31, 2011. However, the application of the PFIC rules is subject to uncertainty in several respects, and we cannot assure you that the U.S. Internal Revenue Service will not take a contrary position. A non-U.S. corporation will be a PFIC for U.S. federal income tax purposes for any taxable year if either:

- at least 75% of its gross income for such year is passive income; or
- at least 50% of the value of its assets (based on an average of the quarterly values of the assets) during such year is attributable to assets that produce passive income or are held for the production of passive income.

For this purpose, we will be treated as owning our proportionate share of the assets and earning our proportionate share of the income of any other corporation in which we own, directly or indirectly, more than 25% (by value) of the stock.

We must make a separate determination after the close of each taxable year as to whether we were a PFIC for that year. Because the value of our assets for purposes of the PFIC test will generally be determined by reference to the market price of our ADSs and ordinary shares, our PFIC status will depend in large part on the market price of the ADSs and ordinary shares, which may fluctuate significantly.

If we are a PFIC for any taxable year during which you hold ADSs or ordinary shares, we generally will continue to be treated as a PFIC with respect to you for all succeeding years during which you hold ADSs or ordinary shares, unless we cease to be a PFIC and you make a “deemed sale” election with respect to the ADSs or ordinary shares. If such election is made, you will be deemed to have sold ADSs or ordinary shares you hold at their fair market value and any gain from such deemed sale would be subject to the consequences described below. After the deemed sale election, your ADSs or ordinary shares with respect to which the deemed sale election was made will not be treated as shares in a PFIC unless we subsequently become a PFIC.

For each taxable year that we are treated as a PFIC with respect to you, you will be subject to special tax rules with respect to any “excess distribution” that you receive and any gain you realize from a sale or other disposition (including a pledge) of the ADSs or ordinary shares, unless you make a “mark-to-market” election as discussed below. Distributions you receive in a taxable year that are greater than 125% of the average annual distributions you received during the shorter of the three preceding taxable years or your holding period for the ADSs or ordinary shares will be treated as an excess distribution. Under these special tax rules:

- the excess distribution or gain will be allocated ratably over your holding period for the ADSs or ordinary shares;
- the amount allocated to the current taxable year, and any taxable years in your holding period prior to the first taxable year in which we were a PFIC, will be treated as ordinary income; and
- the amount allocated to each other taxable year will be subject to the highest tax rate in effect for individuals or corporations, as applicable, for each such year and the interest charge generally applicable to underpayments of tax will be imposed on the resulting tax attributable to each such year.

The tax liability for amounts allocated to taxable years prior to the year of disposition or excess distribution cannot be offset by any net operating losses for such years, and gains (but not losses) realized on the sale or other disposition of the ADSs or ordinary shares cannot be treated as capital gain, even if you hold the ADSs or ordinary shares as capital assets.

If we are treated as a PFIC with respect to you for any taxable year, to the extent any of our subsidiaries are also PFICs, you may be deemed to own shares in such lower-tier PFICs that are directly or indirectly owned by us in that proportion which the value of the ADSs or ordinary shares you own bears to the value of all of our ADSs and ordinary shares, and you may be subject to the adverse tax consequences described above with respect to the shares of such lower-tier PFICs that you would be deemed to own. You should consult your tax advisors regarding the application of the PFIC rules to any of our subsidiaries.

A U.S. Holder of “marketable stock” (as defined below) in a PFIC may make a mark-to-market election for such stock to elect out of the tax treatment discussed above. If you make a mark-to-market election for the ADSs, you will include in income for each year that we are treated as a PFIC with respect to you an amount equal to the excess, if any, of the fair market value of the ADSs as of the close of your taxable year over your adjusted basis in such ADSs. You will be allowed a deduction for the excess, if any, of the adjusted basis of the ADSs over their fair market value as of the close of the taxable year. However, deductions will be allowable only to the extent of any net mark-to-market gains on the ADSs included in your income for prior taxable years. Amounts included in your income under a mark-to-market election, as well as gain on the actual sale or other disposition of the ADSs, will be treated as ordinary income. Ordinary loss treatment will also apply to the deductible portion of any mark-to-market loss on the ADSs, as well as to any loss realized on the actual sale or disposition of the ADSs, to the extent that the amount of such loss does not exceed the net mark-to-market gains previously included for such ADSs. Your basis in the ADSs will be adjusted to reflect any such income or loss amounts. The tax rules that apply to distributions by corporations which are not PFICs would apply to distributions by us, except that the lower capital gains rate applicable to qualified dividend income (discussed above under “—Taxation of Dividends and Other Distributions on the ADSs or Ordinary Shares”) would not apply.

The mark-to-market election is available only for “marketable stock,” which is stock that is regularly traded on a qualified exchange or other market, as defined in applicable U.S. Treasury regulations. Our ADSs are listed on the New York Stock Exchange, which is a qualified exchange or other market for these purposes. Consequently, if the ADSs continue to be listed on the New York Stock Exchange and are regularly traded, and you are a holder of ADSs, we expect that the mark-to-market election would be available to you if we were to become a PFIC. Because a mark-to-market election cannot be made for equity interests in any lower-tier PFICs that we own, a U.S. Holder may continue to be subject to the PFIC rules with respect to its indirect interest in any investments held by us that are treated as an equity interest in a PFIC for U.S. federal income tax purposes. You should consult your tax advisors as to the availability and desirability of a mark-to-market election, as well as the impact of such election on interests in any lower-tier PFICs.

Alternatively, if a non-U.S. corporation is a PFIC, a U.S. Holder of shares in that corporation may avoid taxation under the rules described above by making a “qualified electing fund” election to include in income its share of the corporation’s income on a current basis. However, you may make a qualified electing fund election with respect to your ADSs or ordinary shares only if we agree to furnish you annually with certain tax information, and we currently do not intend to prepare or provide such information.

If we are classified as a PFIC, you must file United States Internal Revenue Service Form 8621 for each tax year in which you make a disposition of your ADSs or ordinary shares, receive direct or indirect distributions on your ADSs or ordinary shares or make a mark-to-market or deemed sale election mentioned above with respect to your ADSs or ordinary shares. Legislation enacted on March 18, 2010 creates an additional annual filing requirement for tax years beginning on or after the date of enactment for U.S. persons who are shareholders of a PFIC. The legislation does not describe what information will be required to be included in the additional annual filing, but rather grants the Secretary of the U.S. Treasury authority to decide what information must be included in such annual filing. If we are a PFIC for a given taxable year, then you should consult your tax advisor concerning the tax consequences to you of such PFIC status, the availability and consequences of making a mark-to-market election mentioned above and your annual filing requirements.

Medicare Tax

For taxable years beginning after December 31, 2012, a United States person that is an individual, estate or trust that does not fall into a special class of trusts that is exempt from such tax, is subject to a 3.8% tax on net investment income in excess of certain amounts. In the case of an individual, the tax will be imposed on the lesser of (1) the individual’s “net investment income” for the relevant taxable year and (2) the excess of the individual’s modified adjusted gross income for the taxable year over US\$250,000 (in the case of individual filing a joint return or a surviving spouse), US\$125,000 (in the case of a married taxpayer filing a separate return) or US\$200,000 (in any other case). In the case of an estate or trust, the tax will be imposed on the lesser of (1) the entity’s “undistributed net investment income” for the taxable year or (2) the excess (if any) of the entity’s “adjusted gross income” for the taxable year over the dollar amount at which the highest tax bracket begins for such entity. A United States person’s net investment income will include its gross dividend income and its net gains from the disposition of stock, unless such dividends or net gains are derived in the ordinary course of the conduct of a trade or business (other than a trade or business that consists of certain passive or trading activities). If you are a United States person that is an individual, estate or trust, you are urged to consult your tax advisors regarding the applicability of the Medicare tax to your income and gains in respect of your investment in our ADSs or ordinary shares.

Information with Respect to Foreign Financial Assets

Individuals who own “specified foreign financial assets” with an aggregate value in excess of US\$50,000 in taxable years beginning after March 18, 2010 will be required to file an information report with respect to such assets with their tax returns. “Specified foreign financial assets” include any financial accounts maintained by foreign financial institutions, as well as any of the following, but only if they are not held in accounts maintained by financial institutions: (i) stocks and securities issued by non-U.S. persons, (ii) financial instruments and contracts held for investment that have non-U.S. issuers or counterparties and (iii) interests in foreign entities. U.S. holders that are individuals are urged to consult their tax advisors regarding the application of this legislation to their ownership of our ADSs or ordinary shares.

Information Reporting and Backup Withholding

Dividend payments with respect to our ADSs or ordinary shares and proceeds from the sale, exchange or redemption of our ADSs or ordinary shares may be subject to information reporting to the Internal Revenue Service and possible U.S. backup withholding at a current rate of 28%. Backup withholding will not apply, however, to a U.S. Holder who furnishes a correct taxpayer identification number and makes any other required

certification or who is otherwise exempt from backup withholding. U.S. Holders who are required to establish their exempt status must provide such certification on Internal Revenue Service Form W-9. U.S. Holders should consult their tax advisors regarding the application of the U.S. information reporting and backup withholding rules. Backup withholding is not an additional tax. Amounts withheld as backup withholding may be credited against your U.S. federal income tax liability, and you may obtain a refund of any excess amounts withheld under the backup withholding rules by filing the appropriate claim for refund with the Internal Revenue Service and furnishing any required information in a timely manner.

F. Dividends and Paying Agents

Not Applicable.

G. Statement by Experts

Not Applicable.

H. Documents on Display

We previously filed with the SEC our registration statement on Form F-1 (Registration No. 333-147601, as amended) and our registration statement on Form F-3 (Registration No. 333-160287 and Registration No. 333-170632, as amended), with respect to our ordinary shares. We have also filed with the SEC a related registration statement on F-6 (Registration No. 333-147602) to register the ADSs.

We are currently subject to periodic reporting and other informational requirements of the Exchange Act. Under the Exchange Act, we are required to file reports and other information with the SEC. Specifically, we are required to file annually a Form 20-F: (1) within six months after the end of each fiscal year, which is December 31 for us, for fiscal years ending before December 15, 2011; and (2) within four months after the end of each fiscal year for fiscal years ending on or after December 15, 2011. Copies of reports and other information, when so filed, may be inspected without charge and may be obtained at prescribed rates at the public reference facilities maintained by the Securities and Exchange Commission at 100 F Street, N.E., Washington, D.C. 20549. You may also obtain copies of this information by mail from the Public Reference Section of the SEC at prescribed rates. Further information on the operation of the SEC's Public Reference Room in Washington, D.C. can be obtained by calling the SEC at 1-800-SEC-0330. The SEC also maintains a website that contains reports, proxy and information statements and other information about registrants, such as us, who file electronically with the SEC. The address of that site is <http://www.sec.gov>.

Our Internet website is www.vanceinfo.com. We make available free of charge on our website our annual reports on Form 20-F and any amendments to such reports as soon as reasonably practicable following the electronic filing of such report with the SEC. In addition, we provide electronic or paper copies of our filings free of charge upon request. The information contained on our website is not part of this or any other report filed with or furnished to the SEC.

As a foreign private issuer, we are exempt from the rules under the Exchange Act prescribing the furnishing and content of quarterly reports and proxy statements, and officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act.

Our financial statements have been prepared in accordance with U.S. GAAP.

We will furnish our shareholders with annual reports, which will include a review of operations and annual audited consolidated financial statements prepared in conformity with U.S. GAAP.

I. Subsidiary Information

For a listing of our subsidiaries, see Item 4, "Information on the Company—Organizational Structure."

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

Our exposure to interest rate risk primarily relates to interest income generated by excess cash invested in money market securities or demand deposits with original maturities of three months or less. Interest earning instruments carry a degree of interest rate risk. A 1% decrease in each applicable interest rate would deduct US\$0.8 million from our interest income in 2011. We have not used derivative financial instruments to manage our interest rate risk exposure. Most of our borrowings bear fixed interest rates.

We have not been exposed to material risks due to changes in market interest rates. However, our future interest expense may increase and interest income may fall due to changes in market interest rates.

Foreign Exchange Risk

A majority of our revenues and expenses are denominated in Renminbi, while a significant portion of our revenues and expenses are denominated in U.S. dollars. The value of the Renminbi against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in China's political and economic conditions. The conversion of Renminbi into foreign currencies, including U.S. dollars, has been based on rates set by the People's Bank of China. On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the Renminbi to the U.S. dollar. Under the new policy, the Renminbi was permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy caused the Renminbi to appreciate approximately 21.5% against the U.S. dollar over the following three years. For almost two years after reaching a high against the U.S. dollar in July 2008, however, the Renminbi has traded within a narrow band against the U.S. dollar. In June 2010, the PRC government announced its plan to increase the flexibility of Renminbi exchange rate. Since that time, the Renminbi has gradually appreciated against the U.S. dollar. There remains significant international pressure on the PRC government to adopt a more flexible currency policy, which could result in greater fluctuation of the Renminbi against the U.S. dollar.

The results of our operations could be adversely affected by appreciation of the Renminbi against the U.S. dollar. Our exchange rate risk primarily arises from our foreign currency revenues, receivables, costs and expenses, payables and other foreign currency assets and liabilities. To the extent that we need to convert U.S. dollars into Renminbi for our operations, appreciation of the Renminbi against the U.S. dollar would have an adverse effect on the Renminbi amount we receive from the conversion. As of December 31, 2011, we had a Renminbi denominated cash balance of RMB331.0 million and a U.S. dollar denominated cash balance of US\$42.8 million. Assuming we had converted the U.S. dollar denominated cash balance of US\$42.8 million as of December 31, 2011 into Renminbi at the exchange rate of US\$1.00 for RMB6.2939 as of December 30, 2011, this cash balance would have been RMB600.4 million. Assuming a further 1% appreciation of the Renminbi against the U.S. dollar, this cash balance would have decreased to RMB597.7 million as of December 31, 2011. Conversely, if we decide to convert our Renminbi into U.S. dollars for the purpose of making payments for dividends on our ordinary shares or ADSs or for other business purposes, appreciation of the U.S. dollar against the Renminbi would have a negative effect on the U.S. dollar amount available to us. We also receive a portion of our revenues in Hong Kong Dollar, Japanese Yen and Euro. Any significant depreciation of Hong Kong Dollar, Japanese Yen or Euro against the Renminbi or U.S. dollar would adversely affect our revenues in Renminbi or U.S. dollar terms, respectively. Furthermore, the value of our shares may be affected by the foreign exchange rate between U.S. dollars and RMB because the value of our business is effectively denominated in RMB, while our shares are traded in U.S. dollars. Depreciation of the value of the U.S. dollar will also reduce the value of the cash we hold in U.S. dollars, which we may use for purposes of future acquisitions or other business expansion. We have not used any forward contracts or currency borrowings to hedge our exposure to foreign currency exchange risk, except for a forward exchange contract to purchase US\$5.0 million for JPY448.75 million due in October 2010, a forward exchange contract to purchase US\$5.0 million for JPY432.5 million due in July 2011 and a forward exchange contract to purchase US\$5.0 million for JPY403.35 million to be due in July 2012. While the use of such foreign currency forward contract provides us with protection from certain fluctuations in foreign currency

exchange, we potentially forgo the benefits that might result from favorable fluctuations in foreign currency exchange. In addition, any default by the counterparties to these transactions could adversely affect our financial condition and results of operations.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

A. Debt Securities

Not Applicable.

B. Warrants and Rights

Not Applicable.

C. Other Securities

Not Applicable.

D. American Depositary Shares

Fees and Charges Payable by ADS Holders

According to the deposit agreement between us and the depository, JPMorgan Chase Bank N.A., our ADR holders may have to pay the following fees and charges to JPMorgan Chase Bank N.A. in connection with ownership of the ADR:

<u>Category</u>	<u>Depository actions</u>	<u>Associated fee</u>
(a) Depositing or substituting the underlying shares	Each person to whom ADSs are issued against deposits of shares, including deposits and issuances in respect of: <ul style="list-style-type: none"> • Share distributions, stock dividend, stock split, merger • Exchange of securities or any other transaction or event affecting the ADSs or the deposited securities 	US\$5.00 for each 100 ADSs (or portion thereof) evidenced by the ADRs issued
(b) Receiving or distributing dividends	Distribution of cash dividends	US\$0.02 or less per ADS
(c) Selling or exercising rights	Distribution or sale of securities, the fee being in an amount equal to the fee for the execution and delivery of ADSs which would have been charged as a result of the deposit of such securities	Up to US\$5.00 for each 100 ADSs (or portion thereof)
(d) Withdrawing an underlying security	Acceptance of ADRs surrendered for withdrawal of deposited securities	US\$5.00 for each 100 ADSs (or portion thereof) evidenced by the ADRs surrendered
(e) Transferring, splitting or grouping receipts	Transfers of depository receipts	US\$1.50 per ADS

<u>Category</u>	<u>Depository actions</u>	<u>Associated fee</u>
(f) General depository services, particularly those charged on an annual basis	Services performed by the depository in administering the ADRs	US\$0.02 per ADS (or portion thereof) not more than once each calendar year and payable at the sole discretion of the depository by billing ADR Holders or by deducting such charge from one or more cash dividends or other cash distributions
(g) Expenses of the Depository	<p>Expenses incurred on behalf of ADR Holders in connection with:</p> <ul style="list-style-type: none"> • Compliance with foreign exchange control regulations or any law or regulation relating to foreign investment • The depository's or its custodian's compliance with applicable law, rule or regulation • Stock transfer or other taxes and other governmental charges • Cable, telex and facsimile transmission and delivery charges • fees for the transfer or registration of deposited securities in connection with the deposit or withdrawal of deposited securities • Expenses of the depository in connection with the conversion of foreign currency into U.S. dollars (which are paid out of such foreign currency) • Any other charge payable by depository or its agents in connection with the servicing of the shares or the deposited securities 	Expenses payable at the sole discretion of the depository by billing ADR Holders or by deducting such charges from one or more cash dividends or other cash distributions

We will pay all other charges and expenses of the depository and any agent of the depository (except the custodian) pursuant to agreements from time to time between us and the depository. The fees described above may be amended from time to time.

Fees and Payments from the Depository to Us

For year 2010, we were entitled to receive approximately US\$1.3 million from the depository as reimbursement for certain fees and expenses including legal fees, audit service fees, NYSE listing fees, investor relations

expenses, Financial Industry Regulatory Authority filing fees and SEC registration fees. We received US\$0.1 million thereof in 2010, and received the remaining US\$1.2 million in 2011.

For year 2011, we were entitled to receive approximately US\$0.3 million, net of government withholding tax, from the depositary as reimbursement for certain fees and expenses including legal fees, audit service fees, and investor relations expenses. We received US\$0.3 million in 2011.

The depositary has agreed to reimburse us for our expenses incurred in connection with our ADR programs in the future. There are limits on the amount of expenses for which the depositary will reimburse us. We recognize the reimbursable amounts in other income on our consolidated statements of operations on a straight-line basis over the contract term with the depositary.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

See “Item 10. Additional Information” for a description of the rights of securities holders, which remain unchanged.

The effective date of the registration statement on Form F-1 (File number: 333-147601) for which use of proceeds information is being disclosed was December 11, 2007. We offered our ordinary shares, in the form of ADSs, in our initial public offering in December 2007. We registered and sold 6,300,000 ADSs, representing 6,300,000 ordinary shares, at US\$8.50 per ADS and issued additional 1,147,500 ADSs, representing 1,147,500 ordinary shares, upon exercise of over-allotments by the underwriters. We received net proceeds of approximately US\$54.8 million from our initial public offering.

We used the net proceeds received from our initial public offering as follows:

- approximately US\$43.7 million to establish new offices, to make the payment for the land use right we acquired in Beijing and to fund other capital expenditures; and
- approximately US\$11.1 million to fund strategic acquisitions.

As of December 31, 2011, all of the approximately US\$54.8 million of the offering proceeds from our initial public offering had been applied. Citigroup Global Markets Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated were the managing underwriters for our initial public offering.

The effective date of the registration statement on Form F-3 (File number: 333-160287) for which use of proceeds information is being disclosed was July 8, 2009. We offered our ordinary shares, in the form of ADSs, in our follow-on public offering in July 2009. We registered and sold 300,000 ADSs, representing 300,000 ordinary shares, at US\$11.00 per ADS and issued additional 45,000 ADSs, representing 45,000 ordinary shares, upon exercise of over-allotments by the underwriters. We received net proceeds of approximately US\$2.7 million from this follow-on public offering, all of which has been applied to fund capital expenditures as of December 31, 2011. Citigroup Global Markets Inc. and J.P. Morgan Securities Inc. were the managing underwriters for our follow-on public offering in July 2009.

The effective date of the registration statement on Form F-3 (File number: 333-170632) for which use of proceeds information is being disclosed was November 16, 2010. We offered our ordinary shares, in the form of ADSs, in our follow-on public offering in November 2010. We registered and sold 2,200,000 ADSs, representing 2,200,000 ordinary shares, at US\$35.50 per ADS and issued additional 330,000 ADSs, representing 330,000 ordinary shares, upon exercise of over-allotments by the underwriters. We received net proceeds of approximately US\$89.3 million from this follow-on public offering.

We used the net proceeds received from this offering as follows:

- approximately US\$28.1 million to establish new offices, to make the payment for the land use right we acquired in Beijing and to fund other capital expenditures; and
- approximately US\$13.1 million to fund strategic acquisitions.

As of December 31, 2011, approximately US\$41.2 million of the offering proceeds from this follow-on public offering had been applied. Proceeds from our follow-on public offering that have yet to be applied have been invested in money market funds or bank deposits. Citigroup Global Markets Inc. was the managing underwriter for our follow-on public offering in November 2010.

ITEM 15. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

As of the end of the period covered by this annual report, our management, with the participation of our chief executive officer and chief financial officer, has performed an evaluation of the effectiveness of our disclosure controls and procedures within the meaning of Rules 13a-15(e) and 15d-15(e) of the Exchange Act. They have concluded that, as of the end of the fiscal year covered by this annual report, our disclosure controls and procedures were designed, and were effective, to give reasonable assurance that the information required to be disclosed by us in reports that we file under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC, and were also effective to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our chief executive officer and chief financial officer, to allow timely decisions regarding required disclosure.

Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control system was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation and fair presentation of its published consolidated financial statements. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective may not prevent or detect misstatements and can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management conducted an assessment of the effectiveness of our internal control over financial reporting as of December 31, 2011. In making this assessment, it used the criteria established within the Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, our internal control over financial reporting was effective.

In view of the limited timeframe between date of acquisition and December 2011, management has excluded from our assessment for internal control over financial reporting that of Lifewood Companies, VanceInfo Australia, and Beijing DPC, which were acquired, respectively, in April, July and August of 2011, as the time available was inadequate to complete an effective assessment of the internal control of these companies as well as insufficient to effectively implement and roll out any meaningful changes. Management was also of the view that any potential risk from the Lifewood Companies, VanceInfo Australia, and Beijing DPC, is manageable and should not be a key concern for the year.

The aggregated total assets (including goodwill and intangible assets acquired), net assets (including goodwill and intangible assets acquired), net revenues and net income of Lifewood Companies, VanceInfo Australia, and Beijing DPC represented approximately 6.2% of our total assets, 6.6% of our net assets, 3.6% of our net revenues and 0.1% of our net income, respectively, on a consolidated basis, as of and for the year ended December 31, 2011.

Our independent registered public accounting firm, Deloitte Touche Tohmatsu CPA Ltd., who also audited our consolidated financial statements, independently assessed the effectiveness of our internal control over financial reporting as of December 31, 2011, as stated in their report which is included in this annual report.

Report of Independent Registered Public Accounting Firm

TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF VANCEINFO TECHNOLOGIES INC.

We have audited the internal control over financial reporting of VanceInfo Technologies Inc. and its subsidiaries (collectively the “Group”) as of December 31, 2011, based on the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. As

described in Management's Annual Report on Internal Control Over Financial Reporting, management excluded from its assessment the internal control over financial reporting at Lifewood Companies, VanceInfo Australia and Beijing DPC, which were fully acquired in April, July and August 2011 and whose financial statements constitute, in aggregate, 6.2% of total assets, 6.6% of net assets, 3.6% of net revenues, 0.1% of net income of the Group's consolidated financial statement amounts as of and for the year ended December 31, 2011. Accordingly, our audit did not include the internal control over financial reporting at Lifewood Companies, VanceInfo Australia and Beijing DPC. The Group's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Group's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Group maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and related financial statement schedule included in Schedule I as of and for the year ended December 31, 2011 of the Group and our report dated April 26, 2012 expressed an unqualified opinion on those financial statements and related financial statement schedule included in Schedule I.

/s/ Deloitte Touche Tohmatsu CPA Ltd.

Beijing, the People's Republic of China

April 26, 2012

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Our board of directors has determined that Mr. Daniel Mingdong Wu, a member of our audit committee, is our audit committee financial expert.

ITEM 16B. CODE OF ETHICS

Our board of directors has adopted a code of ethics that applies to our directors, officers, employees and agents, including certain provisions that specifically apply to our chief executive officer, chief financial officer, and any other persons who perform similar functions for us. We hereby undertake to provide to any person without charge, a copy of our code of business conduct and ethics within ten working days after we receive such person’s written request.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table sets forth the aggregate fees by categories specified below in connection with certain professional services rendered by Deloitte Touche Tohmatsu CPA Ltd., our principal external auditors, for the periods indicated.

	<u>2010</u>	<u>2011</u>
	(in US\$ thousands)	
Audit fees ⁽¹⁾	1,178	1,055
Audit-related fees ⁽²⁾	—	—
Tax fees ⁽³⁾	25	17
All other fees ⁽⁴⁾	—	—

- (1) “Audit fees” means the aggregate fees billed in each of the fiscal years listed for professional services rendered by our principal auditors for the audit of our annual financial statements, the review of our interim financial statements, and also other assurance services rendered in connection with our follow-on offering in 2010 and filing of various registration statements.
- (2) “Audit-related fees” means the aggregate fees billed in each of the fiscal years listed for assurance and related services by our principal auditors that are reasonably related to the performance of the audit or review of our financial statements and are not reported under “Audit fees.”
- (3) “Tax fees” means fees billed for tax compliance, tax advice, and tax planning services.
- (4) “All other fees” means aggregate fees billed for professional services rendered by our principal auditors, other than the audit fees and audit-related fees.

The policy of our audit committee is to pre-approve all audit and non-audit services provided by Deloitte Touche Tohmatsu CPA Ltd., including audit services, audit-related services, tax services and other services as described above, other than those for de minimis services which are approved by our audit committee prior to the completion of the audit.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

None.

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS.

<u>Period</u>	<u>Total Number of ADS Purchased⁽¹⁾</u>	<u>Average Price Paid Per ADS⁽²⁾</u>	<u>Total Number of ADSs Purchased as Part of Publicly Announced Program⁽³⁾</u>	<u>Approximate Dollar Value of ADSs that May Yet Be Purchased Under the Program⁽¹⁾</u>
March 21, 2011 – March 31, 2011	0	N/A	0	\$40,000,000
April 1, 2011 – April 30, 2011	68,277	\$29.2723	68,277	\$38,001,376
May 1, 2011 – May 31, 2011	795,078	23.8479	863,355	\$19,040,412
June 1, 2011 – June 30, 2011	2,600	20.7295	865,955	\$18,986,516
July 1, 2011 – July 31, 2011	0	N/A	0	\$18,986,516
August 1, 2011 – August 31, 2011	500,000	12.0107	1,365,955	\$12,981,156
September 1, 2011 – September 30, 2011	597,900	7.6163	1,963,855	\$ 8,427,393
October 1, 2011 – October 31, 2011	430,718	7.3606	2,394,573	\$ 5,257,041
November 1, 2011 – March 20, 2012	0	N/A	0	\$ 5,257,041
Total	2,394,573	\$14.5090	2,394,573	\$ 5,257,041

- (1) Each of our ADS represents one ordinary share.
- (2) Average price paid per ADS repurchased is the execution price, excluding commissions paid to brokers.
- (3) We publicly announced a share repurchase program on March 21, 2011, pursuant to which we are authorized to repurchase up to US\$40 million worth of our outstanding ADSs within the next 12 months following March 21, 2011 (the program’s approval date). This share repurchase program expired on March 20, 2012.

ITEM 16F. CHANGE IN REGISTRANT’S CERTIFYING ACCOUNTANT

Not applicable.

ITEM 16G. CORPORATE GOVERNANCE

The New York Stock Exchange requires companies with listed shares to comply with its corporate governance standards. As a foreign private issuer, we are not required to comply with all of the rules that apply to listed U.S. companies. However, we have generally chosen to comply with the New York Stock Exchange’s corporate governance rules as though we were a U.S. company. Accordingly, we do not believe there are any significant differences between our corporate governance practices and those that would typically apply to a U.S. domestic issuer under the New York Stock Exchange corporate governance rules.

ITEM 16H. MINE SAFETY DISCLOSURE

Not applicable.

PART III

ITEM 17. FINANCIAL STATEMENTS

We have elected to provide financial statements pursuant to Item 18.

ITEM 18. FINANCIAL STATEMENTS

The consolidated financial statements of VanceInfo and its subsidiaries are included at the end of this annual report.

ITEM 19. EXHIBITS

<u>Exhibit Number</u>	<u>Description of Document</u>
1.1	Amended and Restated Memorandum and Articles of Association of the Registrant (incorporated by reference to Exhibit 3.2 from our Registration Statement on Form F-1 (file no. 333-147601) filed with the Securities and Exchange Commission on November 23, 2007).
2.1	Registrant's Specimen American Depositary Receipt (incorporated by reference to Exhibit 4.3 from our Registration Statement on Form F-1 (file no. 333-147601) filed with the Securities and Exchange Commission on November 23, 2007).
2.2	Registrant's Specimen Certificate for Ordinary shares (incorporated by reference to Exhibit 4.2 from our Registration Statement on Form F-1 (file no. 333-147601) filed with the Securities and Exchange Commission on November 23, 2007).
2.3	Form of Deposit Agreement among the Registrant, the depositary and holder of the American Depositary Receipts (incorporated by reference to Exhibit 4.3 from our Registration Statement on Form F-1 (file no. 333-147601) filed with the Securities and Exchange Commission on November 23, 2007).
4.1	Shareholders Agreement among the Registrant and other parties thereto dated as of April 28, 2006, as amended as of July 30, 2007 (incorporated by reference to Exhibit 4.7 from our Registration Statement on Form F-1 (file no. 333-147601) filed with the Securities and Exchange Commission on November 23, 2007).
4.2	Series A Preferred Share Purchase Agreement among the Registrant and other parties thereto dated as of February 3, 2005 (incorporated by reference to Exhibit 4.4 from our Registration Statement on Form F-1 (file no. 333-147601) filed with the Securities and Exchange Commission on November 23, 2007).
4.3	Series B Preferred Share Purchase Agreement among the Registrant and other parties thereto dated as of April 28, 2006, as amended as of July 30, 2007 (incorporated by reference to Exhibit 4.6 from our Registration Statement on Form F-1 (file no. 333-147601) filed with the Securities and Exchange Commission on November 23, 2007).
4.4	Stock Plan dated as of November 3, 2005, as amended in April and May 2006, including form of Award Agreement (incorporated by reference to Exhibit 10.1 from our Registration Statement on Form F-1 (file no. 333-147601) filed with the Securities and Exchange Commission on November 23, 2007).
4.5	Share Incentive Plan dated as of July 30, 2007, as supplemented and amended on August 1, 2007, including form of Award Agreement (incorporated by reference to Exhibit 10.2 from our Registration Statement on Form F-1 (file no. 333-147601) filed with the Securities and Exchange Commission on November 23, 2007).

<u>Exhibit Number</u>	<u>Description of Document</u>
4.6	Form of Indemnification Agreement with the Registrant's directors (incorporated by reference to Exhibit 10.3 from our Registration Statement on Form F-1 (file no. 333-147601) filed with the Securities and Exchange Commission on November 23, 2007).
4.7	Form of Employment Contract between the Registrant and a Senior Executive Officer of the Registrant (incorporated by reference to Exhibit 4.7 from our Annual Report on Form 20-F filed with the Securities and Exchange Commission on May 11, 2011).
4.8	English Translation of Form of Employment Contract between VanceInfo Creative Software Technology Ltd., formerly named Worksoft Creative Software Technology Ltd., and a Senior Executive Officer of it (incorporated by reference to Exhibit 4.8 from our Annual Report on Form 20-F filed with the Securities and Exchange Commission on May 11, 2011).
4.9	English Translation of Asset Transfer Agreement between Worksoft Creative Software Technology Ltd. and SureKAM Co., Ltd. as of September 6, 2005 (incorporated by reference to Exhibit 10.6 from our Registration Statement on Form F-1 (file no. 333-147601) filed with the Securities and Exchange Commission on November 23, 2007).
4.10	English Translation of Equity Transfer Contract among Worksoft Creative Software Technology Ltd. and other parties thereto dated as of September 15, 2006 (incorporated by reference to Exhibit 10.7 from our Registration Statement on Form F-1 (file no. 333-147601) filed with the Securities and Exchange Commission on November 23, 2007).
4.11	English Translation of Asset Transfer Agreement between Worksoft Creative Software Technology Ltd. and Beijing SunBridges Technologies Development Co., Ltd. dated as of December 1, 2006 (incorporated by reference to Exhibit 10.8 from our Registration Statement on Form F-1 (file no. 333-147601) filed with the Securities and Exchange Commission on November 23, 2007).
4.12	English Translation of Equity Transfer Contract among Worksoft Creative Software Technology Ltd., Hao Yu and Wei Wei dated as of March 15, 2007 (incorporated by reference to Exhibit 10.9 from our Registration Statement on Form F-1 (file no. 333-147601) filed with the Securities and Exchange Commission on November 23, 2007).
4.13	English Translation of Power of Attorney between Ming Zhao and Chris Shuning Chen dated March 31, 2007 (incorporated by reference to Exhibit 10.10 from our Registration Statement on Form F-1 (file no. 333-147601) filed with the Securities and Exchange Commission on November 23, 2007).
4.14	English Translation of Exclusive Technology Development and Consultancy Agreement among Worksoft Creative Software Technology Ltd., Shanghai Megainfo Tech Co., Ltd. and Ming Zhao dated as of March 31, 2007 (incorporated by reference to Exhibit 10.11 from our Registration Statement on Form F-1 (file no. 333-147601) filed with the Securities and Exchange Commission on November 23, 2007).
4.15	English Translation of Loan Agreement among the Registrant, Airland International Limited and Bizexpress Limited dated March 31, 2007 (incorporated by reference to Exhibit 10.12 from our Registration Statement on Form F-1 (file no. 333-147601) filed with the Securities and Exchange Commission on November 23, 2007).
4.16	English Translation of Equity Transfer Contract among Worksoft Creative Software Technology Ltd., Jilun Zhang and Rongbin Shi dated as of April 1, 2007 (incorporated by reference to Exhibit 10.13 from our Registration Statement on Form F-1 (file no. 333-147601) filed with the Securities and Exchange Commission on November 23, 2007).
4.17	English Translation of Equity Transfer Contract between the Registrant and Jinsong Tang dated as of May 31, 2007 (incorporated by reference to Exhibit 10.14 from our Registration Statement on Form F-1 (file no. 333-147601) filed with the Securities and Exchange Commission on November 23, 2007).

<u>Exhibit Number</u>	<u>Description of Document</u>
4.18	English Translation of Equity Transfer Contract between Worksoft Creative Software Technology Ltd. and parties thereto dated as of July 29, 2007 (incorporated by reference to Exhibit 10.15 from our Registration Statement on Form F-1 (file no. 333-147601) filed with the Securities and Exchange Commission on November 23, 2007).
4.19	English Translation of Loan Agreement among the Registrant, Hao Yu, Wei Wei and other parties thereto dated as of March 15, 2007 (incorporated by reference to Exhibit 10.16 from our Registration Statement on Form F-1 (file no. 333-147601) filed with the Securities and Exchange Commission on November 23, 2007).
4.20	Master Services Agreement and Intellectual Property Assignment between Worksoft Creative Software Technology Ltd. and Microsoft (China) Co., Ltd. dated as of November 1, 2005 (incorporated by reference to Exhibit 10.17 from our Registration Statement on Form F-1 (file no. 333-147601) filed with the Securities and Exchange Commission on November 23, 2007).
4.21	Technical Service Agreement between Worksoft Creative Software Technology Ltd. and International Business Machine China Company Limited dated as of September 13, 2004 (incorporated by reference to Exhibit 10.18 from our Registration Statement on Form F-1 (file no. 333-147601) filed with the Securities and Exchange Commission on November 23, 2007).
4.22	English Translation of Premises Lease Contract between VanceInfo Creative Software Technology Ltd. and Beijing Zhongguancun Huaxia Sci-Tech Co., Ltd. dated as of February 25, 2008 (incorporated by reference to Exhibit 4.22 from our Annual Report on Form 20-F filed with the Securities and Exchange Commission on May 15, 2009).
4.23*	VanceInfo Financial Solutions Limited 2011 Share Incentive Plan dated as of October 10, 2011.
8.1*	Subsidiaries of the Registrant.
11.1	Code of Business Conduct and Ethics of the Registrant (incorporated by reference to Exhibit 99.1 from our Registration Statement on Form F-1 (file no. 333-147601) filed with the Securities and Exchange Commission on November 23, 2007).
12.1*	CEO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
12.2*	CFO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
13.1*	CEO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
13.2*	CFO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
15.1*	Consent of Conyers Dill & Pearman (Cayman) Limited.
15.2*	Consent of Fangda Partners.
15.3*	Consent of Deloitte Touche Tohmatsu CPA Ltd.

* Filed with this Annual Report on Form 20-F.

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

VANCEINFO TECHNOLOGIES INC.

By: /s/ Chris Shuning Chen

Name: Chris Shuning Chen

Title: Chairman and Chief Executive Officer

Date: April 26, 2012

VANCEINFO TECHNOLOGIES INC.
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FOR THE YEARS ENDED DECEMBER 31, 2009, 2010 AND 2011

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

TO THE BOARD OF DIRECTORS AND SHAREHOLDERS
OF VANCEINFO TECHNOLOGIES INC.

We have audited the accompanying consolidated balance sheets of VanceInfo Technologies Inc. and its subsidiaries (collectively, the “Group”) as of December 31, 2010 and 2011 and the related consolidated statements of operations and comprehensive income, changes in equity, and cash flows for each of the three years in the period ended December 31, 2011 and related financial statement schedule included in Schedule I. These financial statements and related financial statement schedule are the responsibility of the Group’s management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2010 and 2011, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2011 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Group’s internal control over financial reporting as of December 31, 2011, based on the criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated April 26, 2012 expressed an unqualified opinion on the Group’s internal control over financial reporting.

/s/ Deloitte Touche Tohmatsu CPA Ltd.

Beijing, the People’s Republic of China
April 26, 2012

VANCEINFO TECHNOLOGIES INC.
CONSOLIDATED BALANCE SHEETS
(In U.S. dollars in thousands, except share and share related data)

	As of December 31,	
	2010	2011
Assets		
Current assets:		
Cash and cash equivalents	161,265	96,170
Term deposit	5,000	5,000
Restricted cash	679	1,587
Held-to-maturity securities-current	13,208	9,401
Available-for-sale investment	1,302	—
Accounts receivable, net of allowance for doubtful accounts of \$1,956 and \$2,200 as of December 31, 2010 and 2011, respectively	85,437	126,389
Prepaid expenses and other current assets	4,860	12,865
Deferred income tax assets-current	2,441	3,177
Total current assets	274,192	254,589
Rental deposits and prepaids	2,393	3,025
Property and equipment, net	20,344	36,580
Land use right	18,009	23,884
Intangible assets, net	6,836	15,746
Goodwill	28,072	52,061
Long-term investment	193	—
Held-to-maturity securities, non-current	1,558	—
Deferred income tax assets, non-current	42	11
Total assets	351,639	385,896
Liabilities		
Current liabilities:		
Short-term bank loan	3,020	1,587
Accounts payable	823	1,079
Accrued expenses and other payables	36,377	54,980
Income tax payable	7,720	7,918
Deferred income-current	462	478
Deferred revenue	1,276	396
Total current liabilities	49,678	66,438
Deferred income tax liabilities, non-current	1,220	3,413
Deferred income, non-current	1,305	2,384
Long-term payable for business acquisitions, non-current	3,269	10,217
Total liabilities	55,472	82,452
Contingencies and commitments (Notes 25 and 26)		
Equity:		
Ordinary shares (\$0.001 par value, 70,000,000 shares authorized; 44,556,910 and 44,714,963 shares issued as of December 31, 2010 and 2011, respectively; 44,556,910 and 42,320,390 shares outstanding as of December 31, 2010 and 2011, respectively)	45	45
Additional paid-in capital	208,431	223,707
Shares issuable in connection with business acquisitions	3,594	—
Treasury stock, in the form of ADS, at cost (nil and 2,394,573 shares as of December 31, 2010 and 2011, respectively)	—	(34,791)
Accumulated other comprehensive income	8,836	17,029
Statutory reserves	3,478	6,373
Retained earnings	71,783	91,081
Total equity	296,167	303,444
Total liabilities and equity	351,639	385,896

The accompanying notes are an integral part of these consolidated financial statements.

VANCEINFO TECHNOLOGIES INC.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(In U.S. dollars in thousands, except share and share related data)

	For the years ended December 31,		
	2009	2010	2011
Revenues	152,065	216,492	290,583
Business tax	(3,999)	(4,942)	(7,446)
Net revenues	148,066	211,550	283,137
Cost of revenues (including share-based compensation of \$313, \$492 and \$762 in 2009, 2010 and 2011, respectively)	(90,830)	(130,035)	(184,518)
Gross profit	57,236	81,515	98,619
Selling, general and administrative expenses (including share-based compensation of \$1,252, \$2,755 and \$7,682 in 2009, 2010 and 2011, respectively)	(34,710)	(51,901)	(81,848)
Total operating expenses	(34,710)	(51,901)	(81,848)
Change in fair value of contingent consideration payable for business acquisition	(62)	221	920
Other operating income	413	2,036	3,172
Income from operations	22,877	31,871	20,863
Interest income	856	782	2,295
Interest expense	(86)	(85)	(121)
Exchange differences	(119)	(950)	(949)
Gain on re-measurement of fair value of noncontrolling equity investment in connection with business acquisitions	—	612	1,215
Income before income taxes and earnings (loss) in equity method investment	23,528	32,230	23,303
Income tax expense	(2,089)	(2,518)	(1,075)
Income before earnings (loss) in equity method investment	21,439	29,712	22,228
Earnings (loss) in equity method investment	69	151	(35)
Net income	21,508	29,863	22,193
Income attributable to VanceInfo Technologies Inc. shareholders	21,508	29,863	22,193
Net income per share			
Basic-ordinary share	0.56	0.74	0.51
Diluted-ordinary share	0.52	0.69	0.49
Net income	21,508	29,863	22,193
Other comprehensive income, net of tax:			
Foreign currency translation adjustments	(48)	3,722	8,615
Unrealized gains (loss) on foreign currency exchange forward contract	145	(506)	(247)
(Gains) loss on foreign currency exchange forward contract transfer to statements of operations	(36)	202	319
Transfer to the statements of operations of realized gain on available- for-sale investment , net tax effect of \$87	—	—	(494)
Net unrealized gain on available-for-sale investment, net tax effect of (\$87)	—	494	—
Total other comprehensive income, net of tax	61	3,912	8,193
Comprehensive income	21,569	33,775	30,386
Comprehensive income attributable to VanceInfo Technologies Inc.			
Shareholders	21,569	33,775	30,386
Weighted average shares used in calculating net income per share			
Basic-ordinary share	38,389,495	40,298,060	43,103,190
Diluted-ordinary share	41,576,217	43,406,080	45,248,469

The accompanying notes are an integral part of these consolidated financial statements.

VANCEINFO TECHNOLOGIES INC.

CONSOLIDATED STATEMENTS OF CHANGE IN EQUITY
(In U.S. dollars in thousands, except share data)

	Ordinary shares		Additional paid-in capital	Treasury stock	Shares issuable in connection with business acquisitions	Accumulated other comprehensive income	Statutory reserves	Retained earnings	Total shareholders' equity
	Shares	Amount							
Balance as of January 1, 2009	39,120,879	39	101,184	—	1,527	4,863	1,316	22,574	131,503
Issuance of ordinary shares in connection with business acquisitions	422,213	1	2,088	—	(1,527)	—	—	—	562
Shares issuable in connection with TP acquisition (Note 4)	—	—	—	—	520	—	—	—	520
Repurchase of ordinary shares	(2,800)	—	(13)	—	—	—	—	—	(13)
Issuance of ordinary shares upon share offering	345,000	—	2,648	—	—	—	—	—	2,648
Ordinary shares issued for share-based compensation ..	2,800	—	4,208	—	—	—	—	—	4,208
Share-based compensation	—	—	1,565	—	—	—	—	—	1,565
Provision for statutory reserve	—	—	—	—	—	—	991	(991)	—
Unrealized gain on foreign currency exchange forward contract	—	—	—	—	—	145	—	—	145
Gain on foreign currency exchange forward contract transfer to statements of operations	—	—	—	—	—	(36)	—	—	(36)
Foreign currency translation adjustment	—	—	—	—	—	(48)	—	—	(48)
Net income	—	—	—	—	—	—	—	21,508	21,508
Balance as of December 31, 2009	39,888,092	40	111,680	—	520	4,924	2,307	43,091	162,562
Issuance of ordinary shares in connection with business acquisitions	26,442	—	520	—	(520)	—	—	—	—
Shares issuable in connection with TP acquisition (Note 4)	—	—	—	—	1,978	—	—	—	1,978
Shares issuable in connection with VanceInfo Financial Service acquisition (Note 4)	—	—	—	—	1,616	—	—	—	1,616
Ordinary shares returned from an employee (Note 20)	(27,772)	—	(537)	—	—	—	—	—	(537)
Issuance of ordinary shares upon share offering	2,530,000	3	89,223	—	—	—	—	—	89,226
Ordinary shares issued for share-based compensation ..	2,140,148	2	4,508	—	—	—	—	—	4,510
Share-based compensation	—	—	3,037	—	—	—	—	—	3,037
Provision for statutory reserve	—	—	—	—	—	—	1,171	(1,171)	—
Unrealized loss on foreign currency exchange forward contract	—	—	—	—	—	(506)	—	—	(506)
Loss on foreign currency exchange forward contract transfer to statements of operations	—	—	—	—	—	202	—	—	202
Net unrealized gain on available-for-sale investment, net tax effect of (\$87)	—	—	—	—	—	494	—	—	494
Foreign currency translation adjustment	—	—	—	—	—	3,722	—	—	3,722
Net income	—	—	—	—	—	—	—	29,863	29,863

VANCEINFO TECHNOLOGIES INC.
CONSOLIDATED STATEMENTS OF CHANGE IN EQUITY- continued
(In U.S. dollars in thousands, except share data)

	Ordinary shares		Additional paid-in capital	Treasury stock	Shares issuable in connection with business acquisitions	Accumulated other comprehensive income	Statutory reserves	Retained earnings	Total shareholders' equity
	Shares	Amount							
Balance as of December 31, 2010	44,556,910	45	208,431	—	3,594	8,836	3,478	71,783	296,167
Issuance of ordinary shares in connection with business acquisitions	158,053	—	5,443	—	(3,594)	—	—	—	1,849
Repurchase of ordinary shares	(2,394,573)	—	—	(34,791)	—	—	—	—	(34,791)
Ordinary shares issued for share-based compensation ..	—	—	1,678	—	—	—	—	—	1,678
Share-based compensation	—	—	8,155	—	—	—	—	—	8,155
Provision for statutory reserve	—	—	—	—	—	—	2,895	(2,895)	—
Unrealized loss on foreign currency exchange forward contract	—	—	—	—	—	(247)	—	—	(247)
Loss on foreign currency exchange forward contract transfer to statements of operations	—	—	—	—	—	319	—	—	319
Transfer to the statement of operations of realized gain on available-for-sale investment, net tax effect of \$87	—	—	—	—	—	(494)	—	—	(494)
Foreign currency translation adjustment	—	—	—	—	—	8,615	—	—	8,615
Net income	—	—	—	—	—	—	—	22,193	22,193
Balance as of December 31, 2011	<u>42,320,390</u>	<u>45</u>	<u>223,707</u>	<u>(34,791)</u>	<u>—</u>	<u>17,029</u>	<u>6,373</u>	<u>91,081</u>	<u>303,444</u>

The accompanying notes are an integral part of these consolidated financial statements.

VANCEINFO TECHNOLOGIES INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In U.S. dollars in thousands)

	For the years ended December 31,		
	2009	2010	2011
Cash flows from operating activities:			
Net income	21,508	29,863	22,193
Adjustments to reconcile net income to net cash provided by operating activities:			
Share-based compensation	1,565	3,247	8,444
Depreciation and amortization of property and equipment	4,078	6,397	7,057
Amortization of intangible assets	1,668	2,023	3,549
Amortization of land use right	—	—	220
(Gain) loss on foreign currency exchange forward contracts transfer to statements of operations	(52)	578	333
Loss (gain) on disposal of property and equipment	282	(298)	(3)
Allowance for doubtful accounts	445	685	75
Change in fair value of contingent consideration payable for acquisition	62	(221)	(920)
(Earnings) loss in equity method investment	(69)	(151)	35
Gain on remeasurement of fair value of noncontrolling equity investment in connection with business acquisition	—	(612)	(1,215)
Accrued interest income of available-for-sale investment	—	(41)	—
Changes in operating assets and liabilities:			
Rental deposits and prepaids	430	(475)	(694)
Accounts receivable	(22,446)	(22,156)	(35,186)
Prepaid expenses and other current assets	(1,063)	945	(468)
Deferred income tax assets-current	(1,156)	(901)	(595)
Deferred income tax assets-non-current	—	(41)	44
Accounts payable	(2,485)	74	247
Deferred revenue	30	(1,495)	(905)
Accrued expenses and other payables	7,016	8,810	5,541
Income tax payable	2,479	2,643	(140)
Deferred income	757	(270)	1,094
Payment for land use rights	(879)	(16,727)	(5,132)
Deferred income tax liabilities-non-current	(245)	(323)	(697)
Net cash provided by operating activities	<u>11,925</u>	<u>11,554</u>	<u>2,877</u>
Cash flows from investing activities:			
Purchase of property and equipment	(6,416)	(11,680)	(6,678)
Payment for construction in progress	—	—	(20,810)
Purchase of non-current investment held-to-maturity securities	—	(1,560)	(6,079)
Purchase of current investment held-to-maturity securities	(12,104)	(15,213)	(5,253)
Proceeds from maturity of investments	—	13,648	16,826
Purchase of long-term investment	—	(200)	—
Purchase of available-for-sale investment	—	(661)	—
Consideration paid for business acquisitions (net of cash acquired of \$1,730, \$824 and \$1,821 in 2009, 2010 and 2011, respectively)	(3,462)	(127)	(9,165)
Proceeds from disposal of property and equipment	34	501	90
Purchase of term deposit	(10,000)	—	(5,000)
Cash received upon maturity of term deposit	1,465	5,000	5,000
Restricted cash	—	(659)	(1,568)
Cash received upon maturity of restricted cash	—	—	695
Payment for settlement of foreign currency forward exchange contracts	—	(388)	(339)
Net cash used in investing activities	<u>(30,483)</u>	<u>(11,339)</u>	<u>(32,281)</u>

VANCEINFO TECHNOLOGIES INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS - continued
(In U.S. dollars in thousands)

	For the years ended December 31,		
	<u>2009</u>	<u>2010</u>	<u>2011</u>
Cash flows from financing activities:			
Proceeds from exercise of options	3,625	5,011	1,434
Proceeds from discounted nonvested shares granted, net of forfeiture	—	—	1,210
Repayments of loans assumed in business acquisitions	(2,386)	—	—
Repurchase of ordinary shares	(13)	—	(34,791)
Proceeds from issuance of ordinary shares upon share offering in 2009	3,624	—	—
Payment for issuance costs in connection with share offering in 2009	(712)	(220)	—
Proceeds from issuance in connection with share offering in 2010	—	89,816	—
Payment for issuance costs of ordinary shares upon share offering in 2010 ..	—	(507)	(52)
Consideration paid for business acquisitions	—	(814)	(3,933)
Proceeds from short-term bank loan	—	2,939	1,568
Repayments of short-term bank loan	(1,465)	—	(3,086)
Net cash provided by (used in) financing activities	<u>2,673</u>	<u>96,225</u>	<u>(37,650)</u>
Effect of exchange rate changes	(21)	768	1,959
Net (decrease) increase in cash and cash equivalents	(15,885)	96,440	(67,054)
Cash and cash equivalents at beginning of year	<u>79,963</u>	<u>64,057</u>	<u>161,265</u>
Cash and cash equivalents at end of year	<u>64,057</u>	<u>161,265</u>	<u>96,170</u>
Supplemental disclosures of cash flow information			
Income tax paid	<u>1,055</u>	<u>1,331</u>	<u>3,085</u>
Interest paid	<u>80</u>	<u>79</u>	<u>119</u>
Non-cash investing activities:			
Acquisition of businesses:			
Ordinary shares issued and to be issued	549	1,616	1,849
Outstanding consideration payable for business acquisitions during the year	8,187	1,633	18,236
Change in payable for purchase of property and equipment	<u>1,233</u>	<u>(510)</u>	<u>572</u>
Non-cash financing activities:			
Accrued issuance costs related to share offerings	<u>264</u>	<u>127</u>	<u>—</u>

The accompanying notes are an integral part of these consolidated financial statements.

VANCEINFO TECHNOLOGIES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2009, 2010 AND 2011
(In U.S. dollars in thousands, except share and share related data)

1. ORGANIZATION AND PRINCIPAL ACTIVITIES

VanceInfo Technologies Inc. (“VanceInfo” or the “Company”), formerly known as Thinkplus Investments Limited, was incorporated under the laws of the British Virgin Islands (“BVI”) on April 19, 2004 and was re-domiciled to the Cayman Islands on October 10, 2005. VanceInfo, together with its subsidiaries, are hereinafter referred to as the “Group”.

The Group is principally engaged in the provision of IT services that mainly include quality assurance testing, application development and maintenances, research and development, globalization and localization, and enterprise solutions in the PRC.

As of December 31, 2011, the Group’s subsidiaries were as follows:

Subsidiaries	Date of acquisition/ incorporation	Place of establishment/ incorporation	Percentage of beneficial ownership
VanceInfo Creative Software Technology Ltd. (“VanceInfo Beijing”)	July 2, 2004	PRC	100%
VanceInfo Creative Software Technology Ltd. (“VanceInfo BVI”)	August 6, 2004	BVI	100%
VanceInfo Japan Inc. (“VanceInfo Japan”)	November 25, 2004	Japan	99.9%
VanceInfo Technologies Inc. (“VanceInfo US”)	November 29, 2005	United States of America (“US”)	100%
VanceInfo Technologies Limited (“VanceInfo Hong Kong”)	March 27, 2007	Hong Kong	100%
Shanghai VanceInfo Technologies Limited (“VanceInfo Shanghai”, formerly name “Shanghai Solutions Software Co., Ltd.”)	May 29, 2007	PRC	100%
Beijing Chosen Technology Co., Ltd. (“Chosen”)	July 31, 2007	PRC	100%
VanceInfo Technologies Limited (“VanceInfo Tianjin”)	November 15, 2007	PRC	100%
Shanghai VanceInfo Creative Software Technology Limited (“VanceInfo Shanghai Creative”)	September 9, 2008	PRC	100%
VanceInfo Malaysia Inc. Sdn. Bhd	October 9, 2008	Malaysia	100%
Shenzhen VanceInfo Creative Software Technology Limited (“VanceInfo Shenzhen”)	October 28, 2008	PRC	100%
Nanjing VanceInfo Creative Software Technology Limited (“VanceInfo Nanjing”)	December 19, 2008	PRC	100%
TP Teleservices Limited (“TP Teleservices”)	July 2, 2009	Hong Kong	100%
TP (Hong Kong) Limited (“TP Hong Kong”)	July 2, 2009	Hong Kong	100%
TP Consultants Limited (“TP Consultants”)	July 2, 2009	Hong Kong	100%

VANCEINFO TECHNOLOGIES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEARS ENDED DECEMBER 31, 2009, 2010 AND 2011
(In U.S. dollars in thousands, except share and share related data)

1. ORGANIZATION AND PRINCIPAL ACTIVITIES - (continued)

Subsidiaries	Date of acquisition/ incorporation	Place of establishment/ incorporation	Percentage of beneficial ownership
TP (Taiwan) Limited (“TP Taiwan”)	July 2, 2009	Hong Kong	100%
TP Software Technology (Shanghai) Co., Ltd. (“TP Shanghai”)	July 2, 2009	PRC	100%
VanceInfo Financial Service Limited (“VanceInfo Financial Service”, formerly named “Link Result Limited”)	July 2, 2010	Hong Kong	100%
VanceInfo Data Service (Shanghai) Co., Ltd. (“VanceInfo Data”, formerly named “A-IT (Shanghai) Software Services Co., Ltd.”)	July 2, 2010	PRC	100%
Beijing Viatt Information Technology Co., Ltd. (“Beijing Viatt”)	January 4, 2011	PRC	100%
Lifewood Technology Limited (“Lifewood Technology”)	April 1, 2011	Hong Kong	100%
Lifewood Data Technology Limited (“Lifewood Data”)	April 1, 2011	Hong Kong	100%
Lifewood Data Technology (Shenzhen) Limited (“Lifewood Shenzhen”)	April 1, 2011	PRC	100%
Lifewood Data Technology (Dongguan) Limited (“Lifewood Dongguan”)	April 1, 2011	PRC	100%
VanceInfo Technologies Australia Pty. Ltd. (“VanceInfo Australia”, formerly named “Salsatec Corporation Pty. Ltd.”)	July 1, 2011	Australia	100%
Beijing Data Pioneer Information Technology Co., Ltd. (“Beijing DPC”)	August 1, 2011	PRC	100%
Beijing Kang Pu Wei Century Information Technology Co., Ltd. (“Beijing KPW”)	August 1, 2011	PRC	100%
VanceInfo Singapore Pte. Ltd. (“VanceInfo Singapore”)	August 12, 2011	Singapore	100%
VanceInfo Financial Solutions Limited. (“VanceInfo Financial Solutions”)	September 9, 2011	BVI	100%
Nanjing VanceInfo Technologies Training Center (“Nanjing Training Center”)	November 11, 2011	PRC	100%

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The consolidated financial statements of the Group are prepared in accordance with accounting principles generally accepted in the United States of America (“US GAAP”).

VANCEINFO TECHNOLOGIES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEARS ENDED DECEMBER 31, 2009, 2010 AND 2011
(In U.S. dollars in thousands, except share and share related data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

Basis of consolidation

The consolidated financial statements include the financial statements of VanceInfo, its subsidiaries. All inter-company transactions and balances have been eliminated upon consolidation.

Use of estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and revenue and expenses in the financial statements and accompanying notes. Significant accounting estimates reflected in the Group's financial statements include allowance for doubtful accounts, useful lives and impairment of property and equipment, impairment of goodwill and indefinite-lived intangible assets, economic lives of intangible assets, purchase price allocation in business combinations, contingent consideration for business acquired, fair value of hedging, valuation allowance for deferred tax assets, revenue recognition for fixed price contracts and stock-based compensation expense. Actual results could differ from those estimates.

Significant risks and uncertainties

The Group participates in a dynamic industry and believes that changes in any of the following areas could have a material adverse effect on the Group's future financial position, results of operations, or cash flows: advances and trends in new technologies and industry standards; competition from other competitors; regulatory or other PRC related factors; risks associated with the Group's ability to attract and retain employees necessary to support its growth; risks associated with the Group's growth strategies; and general risks associated with the IT services industry.

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 which have maturities of three months or less when purchased.

Restricted cash

Restricted cash represents a term deposit pledged for a short-term loan. Cash held in such accounts is restricted for a period of twelve months.

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 Group 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. A financial

VANCEINFO TECHNOLOGIES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEARS ENDED DECEMBER 31, 2009, 2010 AND 2011
(In U.S. dollars in thousands, except share and share related data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

Fair value - (continued)

instrument's 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 asset or liability such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which significant inputs are observable or can be derived principally from, or corroborated by, observable market data.

Level 3

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

The Group's financial instruments include cash and cash equivalents, restricted cash, held-to-maturity securities, accounts receivable, short-term bank loan and accounts payable, the carrying values of which approximate their fair value due to their short-term maturities.

The Group's financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2010 and 2011 include the foreign currency exchange forward contracts based on Level 2 inputs, available-for-sale investment and contingent consideration payable in connection with a business acquisition based on Level 3 inputs.

The Group's financial assets and liabilities measured at fair value on a non-recurring basis include acquired assets and liabilities based on Level 3 inputs in connection with business acquisitions.

It is not practicable to estimate the fair value of the Group's long-term investment because of lack of quoted market prices and the inability to estimate fair value without incurring excessive costs.

Held-to-maturity securities

The Group's held-to-maturity securities are classified as held-to-maturity securities-current and held-to-maturity securities-non current on the consolidated balance sheets based on their contractual maturity dates and are stated at their amortized costs.

Available-for-sale investment

Available-for-sale investment are carried at their fair values and the unrealized gains or losses from the changes in fair values are included in accumulated other comprehensive income. Available-for-sale investment is classified as current assets on the consolidated balance sheets because they are available for immediate sale.

VANCEINFO TECHNOLOGIES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEARS ENDED DECEMBER 31, 2009, 2010 AND 2011
(In U.S. dollars in thousands, except share and share related data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

Derivatives and hedge accounting

The Group's risk management strategy includes the use of derivative and non-derivative financial instruments as hedges of foreign currency exchange risk, whenever management determines their use to be reasonable and practical. This strategy does not permit the use of derivative financial instruments for trading purposes, nor does it allow for speculation.

The Group uses foreign currency forward exchange contracts to hedge the exposure to foreign currency risk, primarily Japanese Yen ("JPY"). The purpose of the Group's foreign currency derivative activities is to protect the Group from the risk that the functional currencies net cash flows of the Group's operating entities resulting from forecasted JPY denominated revenue transactions will be negatively affected by the fluctuation in exchange rates. The Group uses foreign currency forward exchange contracts to offset changes in the amount of future cash flows associated with certain third-party sales expected to occur within the next twelve months. These contracts, which are designated and documented as cash flow hedges, qualify for hedge accounting treatment. The effectiveness of the cash flow hedge contracts is assessed quarterly using regression analysis as well as other timing and probability criteria. All hedging relationships are formally documented at the inception of the hedge and the hedges are expected to be highly effective in offsetting changes to future cash flows generated from hedged transactions.

The Group carries these contracts as either assets or liabilities at fair value. The Group excludes from its assessment of hedge effectiveness the portion of changes in fair value of the forward contracts attributable to the changes in difference between the spot exchange rate and the forward exchange rate ("spot-forward difference"), which is recognized in the exchange differences account in the statements of operations when incurred. The Group recognizes the effective portion of the gains and losses on these contracts, which represents the changes in fair values of these contracts excluding the changes in relation to spot-forward difference, in other comprehensive income and reclassifies such gains and losses subsequently in the exchange differences account in the statements of operations when the forecasted revenue is recognized.

Accounts receivable

Accounts receivable represents those receivables derived in the ordinary course of business. The Group conducts credit evaluations of customers and generally do not require collateral or other security from their customers. The Group establishes an allowance for doubtful accounts based on estimates, historical experience and other factors surrounding the credit risk of specific customers.

Property and equipment, net

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

Furniture and office equipment . . .	5 years
Motor vehicles	5 years
Computers and software	3-5 years
Leasehold improvements	Shorter of the term of the lease or the estimated useful lives of the assets

All direct and indirect costs that are related to the construction of fixed assets and incurred before the assets are ready for their intended use are capitalized as construction in progress. Construction in progress is transferred to specific fixed assets items and depreciation of these assets commences when they are ready for their intended use.

VANCEINFO TECHNOLOGIES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEARS ENDED DECEMBER 31, 2009, 2010 AND 2011
(In U.S. dollars in thousands, except share and share related data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

Property and equipment, net - (continued)

Business combinations

Business combinations are recorded using the purchase method of accounting. On January 1, 2009, the Group adopted a new accounting pronouncement with prospective application which made certain changes to the previous authoritative literature on business combinations. From January 1, 2009, the assets acquired, the liabilities assumed, and any noncontrolling 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 noncontrolling interest of the acquiree, if any, at the acquisition date over the fair values of the identifiable net assets acquired. Previously, any non-controlling interest was reflected at historical cost. 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. For shares issued in a business combination, the Group has estimated 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, from January 1, 2009 the contingent consideration is recognized and measured at its fair value at the acquisition date and if recorded as a liability, it is subsequently carried at fair value with changes in fair value reflected in earnings. For periods prior to January 1, 2009 contingent consideration was not recorded until the contingency was resolved.

Goodwill and intangible assets

Goodwill

Goodwill represents the excess of the purchase price over the fair value of the identifiable net assets acquired in a business combination. The Group assesses goodwill for impairment in accordance with ASC subtopic 350-20 ("ASC 350-20"), Intangibles — Goodwill and Other: Goodwill, which requires that goodwill be tested for impairment at the reporting unit level at least annually and more frequently upon the occurrence of certain events, as defined by ASC 350-20. The Group's chief operating decision maker only reviews the Group's discrete financials at its consolidated level and there are no segment managers who are held accountable by the Company's chief operating officer or anyone else, for operations, operating results, and planning for levels or components below the consolidated level, and the Group determines the entities which have similar economic characteristics as a reporting unit. Accordingly, consistent with the management's operational perspective, the Group determines that it has only one reporting unit.

The Group annually on the last day of each fiscal year, or more frequently if the Group believes indicators of impairment exist, reviews the carrying value of intangible assets not subject to amortization, including goodwill, to determine whether impairment may exist.

Specifically, goodwill impairment is determined using 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 the affected reporting unit's goodwill to the carrying value of that goodwill. The implied fair value of goodwill is determined in a manner similar to accounting for a business combination

VANCEINFO TECHNOLOGIES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

Goodwill and intangible assets - (continued)

Goodwill - (continued)

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.

Application of the goodwill impairment test requires judgment, including the identification of reporting units, assignment of assets and liabilities to reporting units, assignment of goodwill to reporting units, and determination of the fair value of each reporting unit. The fair value of each reporting unit is estimated using a discounted cash flow, or DCF,) methodology. This analysis requires significant judgments, including estimation of future cash flows, which is dependent on internal forecasts, estimation of the long-term rate of growth for our business, estimation of the useful life over which cash flows will occur, and determination of our weighted average cost of capital. The estimates used to calculate the fair value of a reporting unit change from year to year based on operating results and market conditions. Changes in these estimates and assumptions could materially affect the determination of fair value and goodwill impairment for the reporting unit. The Group did not incur any impairment loss on goodwill for the years ended December 31, 2009, 2010 or 2011.

Intangible assets, net

Intangible assets with finite lives are carried at cost less accumulated amortization. Amortization of customer base and relationship is computed using the estimated attrition pattern of the acquired customers or straight-line method based on specific estimated benefit pattern. Amortization of other finite-lived intangible assets is computed using the straight-line method. The estimated economic lives of acquired intangible assets with finite lives are as follows:

Contract backlog	0.17-1 year
Customer base and relationship	3-10 years
Non-compete agreement	2-5 years
Software technology	2 years
Tradename	Indefinite

Intangible assets with an indefinite useful life are not amortized. Intangible assets with indefinite lives including Tradename of \$5,193 are carried at cost without amortization recognized.

The impairment test for intangible assets not subject to amortization consists of a comparison of the fair value of the intangible assets with their carrying value. If the carrying value of the intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to that excess. The estimates of fair value 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. Discount rate assumptions are based on an assessment of the risk inherent in the respective intangible assets. The Group did not incur any impairment loss on intangible assets not subject to amortization for the years ended December 31, 2009, 2010 or 2011.

VANCEINFO TECHNOLOGIES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
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(In U.S. dollars in thousands, except share and share related data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

Land use right

All 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 use the land for a specified period of time. Payment for acquiring 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.

Long-term investment

Investee companies over which the Group has the ability to exercise significant influence, but does not have a controlling interest are accounted for using the equity method. Significant influence is generally considered to exist when the Group has an ownership interest in the voting stock of the investee between 20% and 50%, and other factors, such as representation in the investee's Board of Directors, voting rights and the impact of commercial arrangements, are considered in determining whether the equity method of accounting is appropriate.

An impairment charge is recorded when the carrying amount of the investment exceeds its fair value and this condition is determined to be other-than-temporary.

Impairment of long-lived assets

The Group reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may no longer be recoverable. When these events occur, the Group measures impairment by comparing the carrying value of the long-lived assets to the estimated undiscounted future cash flows expected to result from the use of the assets and their eventual disposition. If the sum of the expected undiscounted cash flow is less than the carrying amount of the assets, the Group would recognize an impairment loss based on the excess of the carrying amount over the fair value of the long-lived assets.

Revenue recognition

Research and development outsourcing services and IT services

The majority of the contracts are for the provision of services performed on a time-and-material basis. For time-and-material contracts, the Group may render initial development and maintenance services, typically for a period of less than one year and are subject to the terms of the master agreement which fixes the billing rates for man-hours based on level of experience of the engineers regardless of the type of engaged services. The Group bills customers for related service performance based on pre-agreed charge rates. Customers may terminate contracts before completion and revenue is considered to be realizable and earned when all of the following criteria are met: persuasive evidence of a sales arrangement exists; delivery has occurred or services have been rendered; the price is fixed or determinable; and collectability is reasonably assured. Thus, the revenues from this type of contracts are recognized as the billable services are rendered. Software developed by the Group on behalf of its customers is transferred in its entirety to the customers.

The remaining revenues are earned from fixed-price service contracts. Revenue from fixed-price contracts require the Group to perform services throughout the contractual period, which is generally less than one year. Revenues from fixed-price contracts are generally recognized as per the proportional performance method using an output measure determined by achievement of milestones which include planning documentation and testing reports. The Group estimates the man-hours involved in achieving each of these

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

Revenue recognition - (continued)

Research and development outsourcing services and IT services - (continued)

milestones and when the milestone is achieved the Group recognizes a proportion of the total revenue under the contract based on the hours incurred in achieving that milestone against its latest estimate of the total man-hours to be incurred in performing the contract.

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

The discount terms in the Group's arrangements with customers generally entitle the customer to discounts if the customer completes a specified cumulative level of revenue transactions. The discounts are passed to the customer either as cash payments or as a reduction of payments due from the customer. The Group has recorded its revenue rebate as reduction in revenues appropriately at the time of sales.

Other solutions

The Group derives revenues from providing system integration solutions, which normally include the procurement of hardware on behalf of customers and customized software licenses, implementation of the software and hardware, and post contract customer supports ("PCS") including telephone supports and on-site supports.

The Group has established the vender-specific objective evidence ("VSOE") of fair value of the PCS based on standalone sales on regular basis and therefore treats the arrangements as two units of accounting, which are (1) hardware and software implementation and (2) PCS. Revenues of the hardware and software implementation are primarily recognized using percentage-of-completion method measured based on the relationship of costs already incurred to the total estimated costs to be incurred. The Group considers labor costs and other direct contract costs in calculating the percentage of completion. Revenues of the PCS are recognized ratably over the PCS period.

In addition, the Group, through certain subsidiary, performed a few other projects which involved IT services, software resale, and maintenance service which is considered PCS. Since the Group has not established the VSOE of the fair value of any element of these projects, the contract amounts were recognized as revenues ratably over the period of PCS, which was the last undelivered element in the arrangements.

Revenue recognized in excess of billings is recorded as unbilled receivables and is included in accounts receivable. Amounts billed but not yet collected are recorded as billed receivables and are included in accounts receivable. All billed and unbilled amounts are expected to be collected within one year.

The breakdown of net revenues by types of contracts is as follows.

	For the years ended December 31,		
	2009	2010	2011
Time-and-material contracts	105,385	130,937	187,953
Fixed-price contracts	39,496	76,221	92,395
Others	3,185	4,392	2,789
Total	<u>148,066</u>	<u>211,550</u>	<u>283,137</u>

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

Business tax

The Group's PRC subsidiaries are subject to business tax at rate of 5% of total revenues for certain types of contracts. Certain services contracts are exempted from business tax in accordance with the PRC tax laws. Business tax is recorded as a reduction in revenues when incurred.

Government subsidies

Government subsidies include amounts granted by local government authorities to encourage the employment of new college graduates and other purposes. Government subsidies are recorded as receivables when the approval is obtained from the local government authorities and the Group has the right to receive the subsidies, when historically the expenses that the subsidies intended to compensate normally have incurred by the Company. Historically the Group reported all government subsidies as other operating income, and beginning 2011, the government subsidies to encourage employment of new college graduates are reported as deductions to the cost of revenues in the statements of operations. The Group has retrospectively adjusted the financial information of comparative periods for consistent presentation. Subsidies for other purposes are recognized as other operating income because the subsidies are not intended to compensate for specific expenditure. For the years ended December 31, 2009, 2010 and 2011, the Group recognized government subsidies as a reduction to costs of revenues of \$1,341, \$2,948 and \$5,508, respectively, and as other operating income of \$192, \$1,631, and \$2,052 respectively.

Operating leases

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

Income taxes

Deferred income taxes are recognized for temporary differences between the tax bases of assets and liabilities and their reported amounts in the financial statements, net operating loss carry forwards and credits by applying 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 some portion or all of the deferred tax assets will not be realized. Current income taxes are provided for in accordance with the laws of the relevant tax authorities. 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 must be recognized at the largest amount that is more-likely-than-not to be sustained upon audit by the relevant taxing authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. The Group classifies interest and penalties, if any, as a component of its income tax provision.

Foreign currency translation

The functional and reporting currency of VanceInfo, VanceInfo BVI and VanceInfo Financial Solutions is the United States dollar ("U.S. dollar"). The financial records of the Group's other subsidiaries are maintained in their local currencies, which are the functional currencies of these entities.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

Foreign currency translation - (continued)

Monetary assets and liabilities denominated in currencies other than the functional currency are translated into the functional currency at the rates of exchange ruling at 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. Transaction gains and losses are recognized in the statements of operations.

The Group's entities with functional currency other than U.S. dollar translate their operating results and financial position into the U.S. dollar, the Group's reporting currency. Assets and liabilities are translated using the exchange rates in effect on the balance sheet date. Equity amounts 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 other comprehensive income.

Comprehensive income

Comprehensive income includes net income, unrealized gains on foreign currency forward exchange contracts for effective portion and foreign currency translation adjustments. Comprehensive income is reported in the consolidated statements of operations and comprehensive income.

Concentration of credit risk

Financial instruments that potentially expose the Group to concentration of credit risk consist primarily of cash and cash equivalents and accounts receivable. The Group places their cash and cash equivalents 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 equivalents is limited because the counterparties are banks with high credit ratings.

Details of customers accounting for 10% or more of total revenues are as follows:

	For the years ended December 31,		
	2009	2010	2011
	%	%	%
Customer			
A	23	26	25
B	13	12	12
C	11	9	8

Details of customers accounting for 10% or more of accounts receivable are as follows:

	As of December 31,	
	2010	2011
	%	%
Customer		
A	46	44

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

Share-based payments

Share-based payment transactions with employees and non-employee directors are measured based on the grant date fair value of the equity instrument issued and recognized as compensation expense net of a forfeiture rate over the requisite service period based on a graded vesting attribution method, with a corresponding impact reflected in additional paid-in capital. 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.

Net income per share

Basic net income per share is computed by dividing net income attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year.

The Group had stock options, nonvested shares, and ordinary shares to be issued contingent upon the satisfaction of certain conditions in connection with business acquisitions, which could potentially dilute basic earnings per share in the future. To calculate the number of shares for diluted income per share, the effect of stock options and nonvested shares is computed using the treasury stock method. Ordinary shares to be issued contingent upon the attainment of specified earnings levels in future periods by the acquired businesses are recorded when the contingency is resolved and additional share consideration is issuable.

Treasury stock

The Group purchased treasury stock in the form of ADS in the open market, and accounted for the repurchase of ordinary shares under the cost method.

Recently issued accounting standards

In May 2011, the Financial Accounting Standards Board (FASB) issued an authoritative pronouncement on fair value measurement. The guidance is the result of joint efforts by the FASB and International Accounting Standards Board to develop a single, converged fair value framework. The guidance is largely consistent with existing fair value measurement principles in US GAAP. The guidance expands the existing disclosure requirements for fair value measurements and makes other amendments, mainly including:

- Highest-and-best-use and valuation-premise concepts for nonfinancial assets—the guidance indicates that the highest-and-best-use and valuation-premise concepts only apply to measuring the fair value of nonfinancial assets.
- Application to financial assets and financial liabilities with offsetting positions in market risks or counterparty credit risk—the guidance permits an exception to fair value measurement principles for financial assets and financial liabilities (and derivatives) with offsetting positions in market risks or counterparty credit risk when several criteria are met. When the criteria are met, an entity can measure the fair value of the net risk position.
- Premiums or discounts in fair value measure—the guidance provides that premiums or discounts that reflect size as a characteristic of the reporting entity's holding (specifically, a blockage factor that adjusts the quoted price of an asset or a liability because the market's normal daily trading volume is not sufficient to absorb the quantity held by the entity) rather than as a characteristic of the asset or liability (for example, a control premium when measuring the fair value of a controlling interest) are not permitted in a fair value measurement.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

Recently issued accounting standards - (continued)

- Fair value of an instrument classified in a reporting entity's stockholders' equity—the guidance prescribes a model for measuring the fair value of an instrument classified in stockholders' equity; this model is consistent with the guidance on measuring the fair value of liabilities.
- Disclosures about fair value measurements—the guidance expands disclosure requirements, particularly for Level 3 inputs. Required disclosures include:

(i) For fair value measurements categorized in Level 3 of the fair value hierarchy: (1) a quantitative disclosure of the unobservable inputs and assumptions used in the measurement, (2) a description of the valuation process in place (e.g., how the entity decides its valuation policies and procedures, as well as changes in its analyses of fair value measurements, from period to period), and (3) a narrative description of the sensitivity of the fair value to changes in unobservable inputs and interrelationships between those inputs.

(ii) The level in the fair value hierarchy of items that are not measured at fair value in the statement of financial position but whose fair value must be disclosed.

The guidance is to be applied prospectively and is effective for interim and annual periods beginning after December 15, 2011, for public entities. Early application by public entities is not permitted. The Group does not expect the adoption of this guidance to have a significant effect on its consolidated financial statements.

In June 2011, the FASB issued an authoritative pronouncement to require an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. The guidance eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. The guidance does not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. The guidance should be applied retrospectively. For public entities, the guidance is effective for fiscal years and interim periods within those years, beginning after December 15, 2011. Early adoption is permitted. In December 2011, the FASB issued an authoritative pronouncement related to deferral of the effective date for amendments to the presentation of reclassifications of items out of accumulated other comprehensive income. This guidance allows the FASB to redeliberate whether to present on the face of the financial statements the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income for all periods presented. While the FASB is considering the operational concerns about the presentation requirements for reclassification adjustments and the needs of financial statement users for additional information about reclassification adjustments, entities should continue to report reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect before update the pronouncement issued in June 2011. The Group early adopted this guidance on January 1, 2009 and reported the total of comprehensive income, the components of net income and other comprehensive income in the consolidated statements of operations and comprehensive income. It did not have a significant effect on its consolidated financial statements.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

Recently issued accounting standards - (continued)

In September 2011, the FASB issued an authoritative pronouncement related to testing goodwill for impairment. The guidance is intended to simplify how entities, both public and nonpublic, test goodwill for impairment. The guidance permits an entity to first assess qualitative factors to determine whether it is “more likely than not” that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. The guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted, including for annual and interim goodwill impairment tests performed as of a date before September 15, 2011, if a public entity’s financial statements for the most recent annual or interim period have not yet been issued. The Group does not expect the adoption of this pronouncement to have a significant effect on its consolidated financial statements.

In December 2011, the FASB has issued an authoritative pronouncement related to Disclosures about Offsetting Assets and Liabilities. The guidance requires an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. An entity is required to apply the amendments for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. An entity should provide the disclosures required by those amendments retrospectively for all comparative periods presented. The Group is in the process of evaluating the effect of adoption of this guidance on its consolidated financial statements.

3. SEGMENT INFORMATION

The Group’s chief operating decision maker has been identified as the Chief Executive Officer, who reviews consolidated results when making decisions about allocating resources and assessing performance of the Group. The Group has only one operating segment.

Geographic information

The Group’s major operating entities’ country of domicile is Greater China which refers to the PRC, including, for purposes of the accompanying financial statements only, Taiwan, Hong Kong and Macau.

The following tables summarize the Group’s long-lived assets and net revenues in different geographic locations:

Long-lived assets

	As of December 31,	
	2010	2011
Greater China	73,046	117,372
US	2,228	8,636
Others	573	5,288
Total	75,847	131,296

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3. SEGMENT INFORMATION - (continued)

Geographic information - (continued)

Net revenues ⁽¹⁾

	For the years ended December 31,		
	2009	2010	2011
Greater China	59,373	95,481	132,721
US	56,634	70,955	95,324
Europe	23,148	32,178	42,433
Japan	8,466	9,889	9,500
Others	445	3,047	3,159
Total	<u>148,066</u>	<u>211,550</u>	<u>283,137</u>

- (1) Based on the countries in which the customers' headquarters are located. In determining the geographic information, customers under common control, such as subsidiary and its parent entity, are treated as a single customer.

The following table summarizes the Group's net revenues by service lines:

	For the years ended December 31,		
	2009	2010	2011
Research and Development Outsourcing Services:			
Research & development services	90,581	124,181	141,251
Globalization & localization	5,118	6,060	7,312
IT Services:			
Enterprise solutions	14,429	19,725	25,236
Application development & maintenance	26,373	43,825	75,543
Quality assurance & testing	7,807	13,003	22,548
Other Solutions and Services	3,758	4,756	11,247
Total	<u>148,066</u>	<u>211,550</u>	<u>283,137</u>

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4. ACQUISITIONS

Acquisition of TP's equity interest

On July 2, 2009, the Group acquired 100% equity interests in the operating subsidiaries of TP Corporation Limited ("TP"), a provider of customer relationship management solutions and system integration. The acquisition has strengthened the Group's position in software services. Accordingly, the purchase method of accounting has been applied. The fair value of additional contingent considerations, based on specified earnings objectives predefined for the six-month period ended December 31, 2009, and twelve-month period ended December 31, 2010 and twelve-month period ended December 31, 2011. The acquired net assets were recorded at their fair market value at the date of acquisition. The estimated purchase price of \$8,644 consisted of the following:

Fair value of consideration:	
Cash consideration	4,856
Fair value of equity consideration	<u>3,788</u>
Total	<u>8,644</u>

The purchase price was allocated as follows:

		<u>Amortization period</u>
Cash	1,730	
Other current assets	2,926	
Property and equipment	248	
Rental deposits	82	
Intangible assets:		
Customer base and relationship	2,163	5 years
Tradename	1,645	indefinite
Non-compete agreement	332	5 years
Contract backlog	743	1.5 years
Software technology	323	2 years
Goodwill	6,277	
Deferred tax assets - non-current	43	
Current liabilities	(4,607)	
Deferred tax liabilities	(875)	
Short term loan	<u>(2,386)</u>	
Total	<u>8,644</u>	

The first contingent consideration based on the earnings of TP for the six-month period ended December 31, 2009 was determined to be \$1,337 when the contingency was resolved on December 31, 2009, of which \$817 was settled in cash and \$520 was settled in 26,442 ordinary shares of the Company at a fair value of \$19.66 per share in 2010.

The second contingent consideration based on earnings of TP for the twelve-month period ended December 31, 2010, was determined to be \$3,993 when the contingency was resolved on December 31, 2010, of which \$2,015 was settled in cash and \$1,978 was settled in 55,944 ordinary shares of the Company at a fair value of \$35.36 per share in 2011.

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4. ACQUISITIONS - (continued)

Acquisition of TP's equity interest - (continued)

The fair value of the final contingent consideration based on the collection of related accounts receivable was determined to be up to \$3,275 as of December 31, 2011, of which up to \$2,004 may be settled in cash and up to \$1,271 may be settled in ordinary shares.

The change in fair value of the contingent consideration during the years ended December 31, 2009, 2010 and 2011 was a loss of \$62, a gain of \$80 and nil, respectively, which were recognized in the consolidated statements of operations.

The following unaudited pro forma information summarizes the results of operations for the years ended December 31, 2009 of the Group as if the acquisition had occurred on January 1, 2009. The following pro forma financial information is not necessarily indicative of the results that would have occurred had the acquisition been completed at the beginning of the period indicated, nor is it indicative of future operating results:

	For the year ended December 31, <u>2009</u>
	(unaudited)
Pro forma net revenues	151,068
Pro forma net income	21,869
Pro forma net income per ordinary share-basic	0.57
Pro forma net income per ordinary share-diluted	<u>0.53</u>

The amounts of revenue and earnings of the acquiree since the acquisition date are not separately presented because the acquiree's operation has been integrated into the Group's business after the transaction was completed.

Acquisition of VanceInfo Financial Service's equity interest

On October 1, 2008, the Group completed the purchase of a 33% equity interest in VanceInfo Financial Service, a China-based company providing IT outsourcing services to multinational financial institutions, with investment cost of \$841, including \$330 of cash consideration paid to selling shareholders, \$495 of capital injection to the investee in the form of an indefinite-lived interest-free loan and \$16 of acquisition costs. The Group accounted for the investment using equity method of accounting because the Group had the ability to exercise significant influence over the investee.

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4. ACQUISITIONS - (continued)

Acquisition of VanceInfo Financial Service's equity interest - (continued)

In July 2010, the Group acquired the remaining 67% equity interest in VanceInfo Financial Service from other shareholders with initial consideration of \$670 in cash. Contingent consideration is determined based on earnings of the acquired business in the six-month period ended December 31, 2010. The acquired net assets were recorded at their fair value at the date of acquisition. The estimated purchase price of \$5,759 consisted of the following:

Initial cash payment	670
Fair value of contingent consideration:	
Cash consideration	1,555
Fair value of equity consideration	1,834
Fair value of the 33% equity interest:	
Carrying amount	1,088
Gain on re-measurement of fair value of non-controlling equity investment	<u>612</u>
Total	<u>5,759</u>

The purchase price was allocated as follows:

		<u>Amortization period</u>
Cash	824	
Other current assets	1,997	
Property and equipment	80	
Rental deposits	7	
Intangible assets:		
Customer base and relationship	926	5.5 years
Non-compete agreement	40	2 years
Goodwill	2,490	
Current liabilities	(401)	
Deferred tax liabilities	<u>(204)</u>	
Total	<u>5,759</u>	

The additional cash consideration, based on the earnings of VanceInfo Financial Service for the six-month period ended December 31, 2010, was determined to be \$3,144 when the contingency was resolved on December 31, 2010, of which \$1,565 was settled in cash and \$1,579 was settled in 44,642 ordinary shares of the Company at a fair value of \$35.36 per share in 2011.

The change in fair value of the contingent consideration during the years ended December 31, 2010, 2011 was a gain of \$141 and \$89, respectively, was recognized in the consolidated statements of operations.

The following unaudited pro forma information summarizes the results of operations for the years ended December 31, 2009 and 2010 of the Group as if the acquisition had occurred on January 1, 2009. The

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4. ACQUISITIONS - (continued)

Acquisition of VanceInfo Financial Service’s equity interest - (continued)

following pro forma financial information is not necessarily indicative of the results that would have occurred had the acquisition been completed at the beginning of the periods indicated, nor is it indicative of future operating results:

	For the years ended December 31,	
	2009	2010
	(unaudited)	(unaudited)
Pro forma net revenues	151,308	214,717
Pro forma net income	21,720	30,383
Pro forma net income per ordinary share-basic	0.57	0.75
Pro forma net income per ordinary share-diluted	0.52	0.70

The amounts of revenue and earnings of the acquiree since the acquisition date are not separately presented because the acquiree’s operation has been integrated into the Group’s business after the transaction was completed.

Acquisition of Beijing Viatt’s equity interest

In February 2010, the Group extended a loan with principal of \$440 to Beijing Viatt Information Technology Co. Ltd. (“Beijing Viatt”), a private company providing IT services and solutions for Chinese domestic financial institutions. The loan carries 8% annual interest rate with two-year term and is convertible into a 20% equity interest of Beijing Viatt. The investment was accounted for by the Group as available-for-sale investment which measured at fair value on a recurring basis. The Group remeasured the fair value of this available-for-sale investment at the end of December 31, 2010 using a binomial model based on certain key assumptions such as the probability of conversion to ordinary shares of Beijing Viatt and the fair value of the equity of Beijing Viatt, and \$494 excess of fair value over the carrying amount as the unrecognized gains on the available-for-sale investment was recorded in other comprehensive income for the year ended December 31, 2010.

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4. ACQUISITIONS - (continued)

Acquisition of Beijing Viatt's equity interest - (continued)

In January 2011, the Group converted the loans into a 20% equity interest, and acquired remaining equity interest in Beijing Viatt. Under the terms of the acquisition agreement, the Group paid an initial consideration of approximately \$1,542 in cash. Contingent consideration will be paid based on the financial performance of the acquired business for the 24-month period ending December 31, 2012. The acquisition is expected to strengthen the Group's position in PRC's domestic financial services sector. The estimated fair value of Beijing Viatt as of the acquisition date consisted of the following:

Initial cash payment	1,542
Fair value of contingent consideration:	
Cash consideration	1,484
Fair value of equity consideration	1,661
Fair value of the 20% equity interest:	
Carrying amount	483
Gain on re-measurement of fair value of non-controlling equity investment	<u>514</u>
Total	<u>5,684</u>

The purchase price was allocated as follows:

		<u>Amortization period</u>
Cash	267	
Other current assets	484	
Property and equipment	74	
Intangible assets:		
Customer base and relationship	386	5 years
Contract backlog	16	1 years
Trade name	177	indefinite
Non-compete agreement	583	4 years
Goodwill	4,454	
Current liabilities	(466)	
Deferred tax liabilities	<u>(291)</u>	
Total	<u>5,684</u>	

The change in fair value of the contingent consideration during the year ended December 31, 2011 was a gain of \$897, which was recognized in the consolidated statements of operations.

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4. ACQUISITIONS - (continued)

Acquisition of Beijing Viatt’s equity interest - (continued)

The following unaudited pro forma information summarizes the results of operations for the years ended December 31, 2010 and 2011 of the Group as if the acquisition had occurred on January 1, 2010. The following pro forma financial information is not necessarily indicative of the results that would have occurred had the acquisition been completed at the beginning of the periods indicated, nor is it indicative of future operating results:

	For the year ended December 31, <u>2010</u> (unaudited)
Pro forma net revenues	212,682
Pro forma net income	29,511
Pro forma net income per ordinary share-basic	0.73
Pro forma net income per ordinary share-diluted	<u>0.68</u>

The unaudited pro forma information of the acquisition as if the acquisition had occurred on January 4, 2011 is not presented because the Group believes it is impracticable to do so.

The amounts of revenue and earnings of the acquiree since the acquisition date are not separately presented because the acquiree’s operation has been integrated into the Group’s business after the transaction was completed.

Acquisition of Lifewood’s equity interest

On April 1, 2011, the Group acquired 100% equity interests in the operating subsidiaries of Lifewood Data Technology Limited and Lifewood Technology Limited (together, “Lifewood”), a provider of business process outsourcing (“BPO”) services with an initial consideration of \$3,961 in cash and \$1,669 settled in 50,746 ordinary shares. Contingent consideration will be paid based on financial performance for each twelve-month period ending March 31, 2012, 2013 and 2014, respectively. The acquired net assets were recorded at their fair value at the date of acquisition. The estimated purchase price of \$10,798 consisted of the following:

Initial payment:	
Cash consideration	3,961
Fair value of equity consideration	1,669
Fair value of contingent consideration:	
Cash consideration	2,561
Fair value of equity consideration	<u>2,607</u>
Total	<u>10,798</u>

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4. ACQUISITIONS - (continued)

Acquisition of Lifewood's equity interest - (continued)

The purchase price was allocated as follows:

		<u>Amortization period</u>
Cash	219	
Other current assets	435	
Property and equipment	203	
Rental Deposit	14	
Intangible assets:		
Customer base and relationship	2,571	6.75 years
Tradename	2,571	indefinite
Non-compete agreement	257	4.75 years
Software technology	257	3 years
Goodwill	6,386	
Deferred tax assets – non -current	13	
Current liabilities	(1,195)	
Deferred tax liabilities	(933)	
Total	<u>10,798</u>	

The change in fair value of the contingent consideration during the year ended December 31, 2011 was a gain of \$224, which was recognized in the consolidated statements of operations.

The following unaudited pro forma information summarizes the results of operations for the years ended December 31, 2010 and 2011 of the Group as if the acquisition had occurred on January 1, 2010 and 2011. The following pro forma financial information is not necessarily indicative of the results that would have occurred had the acquisition been completed at the beginning of the periods indicated, nor is it indicative of future operating results:

	<u>For the years ended December 31,</u>	
	<u>2010</u>	<u>2011</u>
	(unaudited)	(unaudited)
Pro forma net revenues	216,296	283,857
Pro forma net income	29,046	21,979
Pro forma net income per ordinary share-basic	0.72	0.51
Pro forma net income per ordinary share-diluted	<u>0.67</u>	<u>0.49</u>

The amounts of revenue and earnings of the acquiree since the acquisition date are not separately presented because the acquiree's operation has been integrated into the Group's business after the transaction was completed.

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4. ACQUISITIONS - (continued)

Acquisition of Oracle consulting and implementation service business

On April 30, 2011, the Group entered into a purchase agreement with a consulting company to acquire its business of Oracle consulting and implementation services with an initial consideration of \$254 in cash and \$217 settled in 6,721 ordinary shares. Contingent consideration will be paid based on financial performance for each twelve-month period ending April 30, 2012 and 2013, respectively. The acquired net assets were recorded at their fair value at the date of acquisition. The estimated purchase price of \$2,036 consisted of the following:

Initial payment:		
Cash consideration	254	
Fair value of equity consideration	217	
Fair value of contingent consideration:		
Cash consideration	953	
Fair value of equity consideration	612	
Total		<u>2,036</u>

The purchase price was allocated as follows:

		<u>Amortization period</u>
Current assets	381	
Property and equipment	4	
Intangible assets:		
Customer base and relationship	525	5 years
Non-compete agreement	175	5 years
Goodwill	1,056	
Deferred tax liabilities	(105)	
Total	<u>2,036</u>	

The change in fair value of the contingent consideration during the year ended December 31, 2011 was a loss of \$70, which was recognized in the consolidated statements of operations.

The unaudited pro forma information of the acquisition as if the acquisition had occurred on January 1, 2010 is not presented because the Group believes it is impracticable to do so.

The amounts of revenue and earnings of the acquiree since the acquisition date are not separately presented because the acquiree's operation has been integrated into the Group's business after the transaction was completed.

Acquisition of VanceInfo Australia's equity interest

In September 2010, VanceInfo BVI, through one of its subsidiaries, made a strategic investment in VanceInfo Technologies Australia Pty. Ltd, or VanceInfo Australia (formerly named Salsatec Corporation Pty. Ltd.), an Australia-based IT services and solution provider for Australian telecom and technology companies. Under the terms of the agreement, the Company invested \$200 in cash for an initial equity

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4. ACQUISITIONS - (continued)

Acquisition of VanceInfo Australia's equity interest - (continued)

interest of 20% of VanceInfo Australia in convertible redeemable preferred stock, with an exclusive right to acquire the remaining 80% of the equity within the next 12 months. As the Group has significant influence over VanceInfo Australia, the investment has been recorded using the equity method of accounting in the first half of 2011.

In July 2011, the Group purchased the remaining 80% equity interest in VanceInfo Australia for an initial consideration of \$478 in cash. Contingent consideration will be paid based on financial performance for each twelve-month period ending September 30, 2012, 2013 and 2014, respectively. The acquired net assets were recorded at their fair value at the date of acquisition. The estimated fair value of VanceInfo Australia as of the acquisition date consisted of the following:

Initial cash consideration:	478
Fair value of contingent consideration:	
Cash consideration	1,573
Fair value of equity consideration	1,997
Fair value of the 20% equity interest:	
Carrying amount	159
Gain on re-measurement of fair value of non-controlling equity investment	<u>701</u>
Total	<u>4,908</u>

The purchase price was allocated as follows:

		Amortization period
Cash	276	
Other current assets	287	
Property and equipment	93	
Intangible assets:		
Customer base and relationship	700	5 years
Non-compete agreement	715	5 years
Goodwill	3,661	
Current liabilities	(400)	
Deferred tax liabilities	<u>(424)</u>	
Total	<u>4,908</u>	

The change in fair value of the contingent consideration from the date of acquisition to December 31, 2011 was a loss of \$105 and was recognized in the consolidated statements of operations.

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4. ACQUISITIONS - (continued)

Acquisition of VanceInfo Australia's equity interest - (continued)

The following unaudited pro forma information summarizes the results of operations for the years ended December 31, 2010 and 2011 of the Group as if the acquisition had occurred on January 1, 2010. The following pro forma financial information is not necessarily indicative of the results that would have occurred had the acquisition been completed at the beginning of the periods indicated, nor is it indicative of future operating results:

	For the years ended December 31,	
	2010 (unaudited)	2011 (unaudited)
Pro forma net revenues	211,815	283,622
Pro forma net income	29,844	21,825
Pro forma net income per ordinary share-basic	0.74	0.51
Pro forma net income per ordinary share-diluted	<u>0.69</u>	<u>0.48</u>

The amounts of revenue and earnings of the acquiree since the acquisition date are not separately presented because the acquiree's operation has been integrated into the Group's business after the transaction was completed.

Acquisition of Beijing DPC's equity interest

On August 1, 2011, the Group acquired 100% equity interest in Beijing Data Pioneer Information Technology Co., Ltd., or Beijing DPC, a China-based company providing IT consulting and services to Chinese domestic financial institutions, for an initial consideration of \$1,863 in cash which was settled in 2011. Contingent consideration will be paid based on financial performance of the acquired business for each twelve-month period ending July 31, 2012 and 2013. The acquired net assets were recorded at their fair value at the date of acquisition. The estimated purchase price of \$4,387 consisted of the following:

Initial cash payment	1,863
Fair value of contingent consideration:	
Cash consideration	1,400
Fair value of equity consideration	<u>1,124</u>
Total	<u>4,387</u>

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4. ACQUISITIONS - (continued)

Acquisition of Beijing DPC's equity interest - (continued)

The purchase price was allocated as follows:

		Amortization period
Cash	1,060	
Other current assets	705	
Property and equipment and other long-term assets	50	
Intangible assets:		
Customer base and relationship	1,003	5 years
Contract backlog	248	1 years
Non-compete agreement	201	5 years
Goodwill	2,362	
Current liabilities	(879)	
Deferred tax liabilities	(363)	
Total	<u>4,387</u>	

The change in fair value of the contingent consideration during the year ended December 31, 2011 was a loss of \$69, which was recognized in the consolidated statements of operations.

The following unaudited pro forma information summarizes the results of operations for the year ended December 31, 2010 and 2011 of the Group as if the acquisition had occurred on January 1, 2010. The following pro forma financial information is not necessarily indicative of the results that would have occurred had the acquisition been completed at the beginning of the periods indicated, nor is it indicative of future operating results:

	For the years ended December 31,	
	2010	2011
	(unaudited)	(unaudited)
Pro forma net revenues	214,310	284,399
Pro forma net income	29,880	21,875
Pro forma net income per ordinary share-basic	0.74	0.51
Pro forma net income per ordinary share-diluted	<u>0.69</u>	<u>0.48</u>

The amounts of revenue and earnings of the acquiree since the acquisition date are not separately presented because the acquiree's operation has been integrated into the Group's business after the transaction was completed.

Acquisition of a professional team of Seattle-based service firm

In October 2011, the Group acquired the assets and the professional team of a U.S.-based IT services company specialized in Microsoft capabilities. Under the terms of the acquisition agreement, the Group paid an initial consideration of \$3,000 in cash. Contingent cash consideration will be paid based on the team's

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4. ACQUISITIONS - (continued)

Acquisition of a professional team of Seattle-based service firm - (continued)

financial performance during the three-month period ending March 31, 2012. The transaction was considered an acquisition of a business and accordingly the purchase method of accounting has been applied. The acquired net assets were recorded at their fair value at the date of acquisition.

The estimated purchase price of \$5,913 consisted of the following:

Initial cash payment	3,000
Fair value of contingent consideration:	
Cash consideration	2,913
Total	<u>5,913</u>

The purchase price was allocated as follows:

		<u>Amortization period</u>
Other current assets	358	
Property and equipment	71	
Intangible assets:		
Customer base and relationship	1,488	5 years
Non-compete agreement	308	3 years
Goodwill	4,815	
Current liabilities	(358)	
Deferred tax liabilities	<u>(769)</u>	
Total	<u>5,913</u>	

The change in fair value of the contingent consideration from the date of acquisition to December 31, 2011 was a loss of \$43 and was recognized in the consolidated statements of operations.

The unaudited pro forma information of the acquisition as if the acquisition had occurred on January 1, 2010 and 2011 is not presented because the Group believes it is impracticable to do so.

The amounts of revenue and earnings of the acquiree since the acquisition date are not separately presented because the acquiree's operation has been integrated into the Group's business after the transaction was completed.

Fair value measurements in business acquisitions

The Group measured the fair value of the purchased intangible assets using the "cost", "income approach-excess earnings" and "with & without" valuation method. The Group measured the fair value of the contingent consideration considering, among other factors, forecasted financial performance of the acquired business, market performance, and the market potential of the acquired business in China. The purchased intangible assets and contingent consideration are considered Level 3 assets and liabilities because the Group used unobservable inputs, reflecting the Group's assessment of the assumptions market participants would use in valuing these assets and liabilities.

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5. HELD-TO-MATURITY SECURITIES

The Group's marketable securities are corporate notes as of December 31, 2010 and 2011. These securities are classified as held-to-maturity investments by the Group and carried at amortized costs.

The Company held the following held-to-maturity securities:

	<u>As of December 31 2010</u>	<u>As of December 31 2011</u>
Current:		
Corporate notes	13,208	9,401
Sub -total	<u>13,208</u>	<u>9,401</u>
Non-current:		
Corporate notes	1,558	—
Total	<u>14,766</u>	<u>9,401</u>

As of December 31, 2011, the maturity dates of the notes ranged from April 9, 2012 to August 27, 2012.

The Group recognized interest income of \$193, \$269 and \$261 for the years ended December 31, 2009, 2010 and 2011, respectively.

6. AVAILABLE-FOR-SALE INVESTMENT

In February 2010, the Company extended a loan with principal of \$440 to Beijing Viatt, a private company providing IT services and solutions for Chinese domestic financial institutions. The loan carries 8% annual interest rate with two-year term and is convertible into a 20% equity interest of Beijing Viatt. The investment was accounted for by the Company as available-for-sale investment which measured at fair value on a recurring basis. The Company recognized \$32 interest income in the consolidated statements of operations for the year ended December 31, 2010. The Company remeasured the fair value of this available-for-sale investment as of December 31, 2010 using a binomial model based on certain key assumptions such as the probability of conversion to ordinary shares of Beijing Viatt and the fair value of the equity of Beijing Viatt, and \$494 excess of fair value over the carrying amount as the unrecognized gains on the available-for-sale investment was recorded in other comprehensive income for the year ended December 31, 2010. In January 2011, VanceInfo converted this loan into a 20% equity interest, and acquired remaining equity interest in Beijing Viatt as set out in Note 4.

In September 2010, the Company extended another loan with principal of \$221 to Beijing Viatt. The loan carried a 12% annual interest rate. The Company determined that the fair value of the investment approximated the outstanding balance of the loan, including the principal and the interest receivable. The Company recognized an interest income of \$9 in the consolidated statements of operations for the year ended December 31, 2010 and this loan was settled in January 2011.

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7. ACCOUNTS RECEIVABLE

Accounts receivable consists of:

	As of December 31,	
	2010	2011
Billed accounts receivable	27,052	48,615
Unbilled accounts receivable	60,341	79,974
Less: allowance for doubtful accounts	(1,956)	(2,200)
Total accounts receivable, net	<u>85,437</u>	<u>126,389</u>

Movement of allowance for doubtful accounts is as follows:

	As of December 31,	
	2010	2011
Balance at beginning of the year	1,018	1,956
Charge to expenses	685	27
Write off	(335)	(312)
Provision in connection with the losses caused by an employee (Note 20)	537	—
Provision in connection with the acquisitions	—	441
Exchange difference	51	88
Balance at end of the year	<u>1,956</u>	<u>2,200</u>

8. PREPAID EXPENSES AND OTHER CURRENT ASSETS

	As of December 31,	
	2010	2011
Prepaid for building construction project	—	6,197
Prepaid rentals	1,195	1,705
Advances to employees	790	397
Performance security deposit	757	105
Option exercise receivable	642	43
Interests receivable	347	801
Advance to suppliers	136	323
Prepaid insurance premium	85	708
Prepaid for income tax	—	616
Other prepaid expenses	908	1,970
Total	<u>4,860</u>	<u>12,865</u>

Prepaid for building construction project represented a prepayment for construction service provided by a supplier, which is expected to be transferred to construction in progress in 2012.

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8. PREPAID EXPENSES AND OTHER CURRENT ASSETS - (continued)

Performance security deposit represented an IT service contract performance deposit paid at the request of one of the Group's customers, which is expected to be returned when the related contract is completed in 2012.

Other prepaid expenses primarily consisted of prepaid miscellaneous selling, general and administrative expenses.

9. FOREIGN CURRENCY FORWARD EXCHANGE CONTRACT

On July 10, 2010, the Group entered into a forward contract to purchase \$5,000 for JPY432.50 million due on July 11, 2011 with nil consideration paid or received. The Group qualified for foreign currency cash flow hedge accounting with respect to this foreign currency forward exchange contracts, to hedge, for accounting purposes, changes in the cash flow of forecasted JPY-denominated revenue transactions attributable to fluctuation in foreign currency exchange rate during the one year term of the forward contract. The notional amounts of the forward contract designated as cash flow hedge was JPY43.25 million as of September 30, 2010, JPY129.75 million as of December 31, 2010, JPY129.75 million as of March 31, 2011, and JPY129.75 million as of June 30, 2010. The estimated fair value of the forward contract was negative \$332 as of December 31, 2010, which was recorded in other payable. The fair value of the foreign exchange forward was estimated with the consideration of, among other factors, discount rate, timing and amount of cash flow and counterparty credit risk and is reported under Level 2 of the fair value hierarchy.

On July 6, 2011, the Group entered into a forward contract to purchase \$5,000 for JPY403.35 million due on July 9, 2012 with nil consideration paid or received. The Group qualified for foreign currency cash flow hedge accounting with respect to this foreign currency forward exchange contracts, to hedge, for accounting purposes, changes in the cash flow of forecasted JPY-denominated revenue transactions attributable to fluctuation in foreign currency exchange rate during the one year term of the forward contract. The notional amounts of the forward contract designated as cash flow hedge was JPY100.84 million as of September 30, 2011, JPY100.84 million as of December 31, 2011, JPY100.84 million as of March 31, 2012, and JPY100.84 million as of June 30, 2012. The estimated fair value of the forward contract was negative \$253 as of December 31, 2011, which was recorded in other payable. The fair value of the foreign exchange forward was estimated with the consideration of, among other factors, discount rate, timing and amount of cash flow and counterparty credit risk and is reported under Level 2 of the fair value hierarchy.

During the year 2011, the Group recorded following losses in other comprehensive income related to the contract:

	For the year ended December 31, 2011
Unrealized losses recognized for effective portion	(247)
Losses transfer to statements of operations	<u>319</u>
Total	<u><u>72</u></u>

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9. FOREIGN CURRENCY FORWARD EXCHANGE CONTRACT - (continued)

During the year 2011, the Group recorded following loss in the exchange difference account in the consolidated statement of operations related to the contract:

	For the year ended December 31, 2011
Loss transfer from other comprehensive income	(319)
Loss recognized due to changes in spot-forward difference	<u>(14)</u>
Total	<u><u>(333)</u></u>

The unrealized loss of \$123 for effective portion associated with the forward contract was recorded in other comprehensive income as of December 31, 2011. The full amount is expected to be reclassified into earnings within the next 12 months when the underlying forecasted revenue is recognized. All hedging relationships under cash flow hedges were evaluated to be highly effective as of December 31, 2011. The Group qualified for cash flow hedge accounting for a portion of the forward contracts entered into in 2010 with \$195 unrealized loss associated with those forward contracts recorded in other comprehensive income as of December 31, 2010 was settled in 2011, for which a total loss of \$339 was recognized in exchange differences by the Group during 2010 and 2011.

10. PROPERTY AND EQUIPMENT, NET

	As of December 31,	
	2010	2011
Furniture and office equipment	5,230	5,430
Motor vehicles	1,403	1,799
Computers and software	16,019	21,693
Leasehold improvements	11,314	12,454
Construction in progress	—	15,412
	<u>33,966</u>	<u>56,788</u>
Less: Accumulated depreciation and amortization	<u>(13,622)</u>	<u>(20,208)</u>
Property and equipment, net	<u><u>20,344</u></u>	<u><u>36,580</u></u>

Depreciation and amortization expenses of property and equipment recognized for the years ended December 31, 2009, 2010 and 2011 were \$4,078, \$6,397 and \$7,057, respectively.

The Company started the construction of its new headquarters building in 2011 and \$15,412 direct costs related to this construction were capitalized as construction in progress as of December 31, 2011.

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11. INTANGIBLE ASSETS, NET

The costs and accumulated amortization of these acquired intangible assets are as follows:

	As of December 31,	
	<u>2010</u>	<u>2011</u>
Intangible assets not subject to amortization:		
Tradename	2,393	5,193
Intangible assets subject to amortization:		
Contract backlog	902	1,182
Customer base and relationship	7,821	14,888
Non-compete agreement	1,036	3,322
Software technology	<u>321</u>	<u>579</u>
	<u>12,473</u>	<u>25,164</u>
Less: Accumulated amortization		
Contract backlog	(902)	(1,052)
Customer base and relationship	(3,806)	(6,777)
Non-compete agreement	(688)	(1,227)
Software technology	<u>(241)</u>	<u>(362)</u>
	<u>(5,637)</u>	<u>(9,418)</u>
Acquired intangible assets, net	<u>6,836</u>	<u>15,746</u>

The Group recorded amortization expenses of \$1,668, \$2,023 and \$3,549 for the years ended December 31, 2009, 2010 and 2011, respectively. The Group expects to record amortization expenses of \$3,687, \$2,917, \$2,195, \$1,135 and \$619 for 2012, 2013, 2014, 2015 and thereafter, respectively.

12. GOODWILL

The movement of the goodwill for the years ended December 31, 2010 and 2011 is as follows:

	As of December 31,	
	<u>2010</u>	<u>2011</u>
Balance at beginning of the year	24,783	28,072
Goodwill acquired in acquisition of businesses	2,695	22,849
Exchange differences	594	1,140
Balance at end of the year	<u>28,072</u>	<u>52,061</u>

The Company performed its annual goodwill impairment test on the last day of each fiscal year, and did not incur any impairment loss on goodwill for the years ended December 31, 2009, 2010 and 2011.

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13. LONG-TERM INVESTMENT

Equity method investment

On October 1, 2008, the Company completed the purchase of 33% equity interest in VanceInfo Financial Service, a China-based company providing IT outsourcing services to multinational financial institutions, with an investment cost of \$841. The Company accounted for the investment using equity method of accounting because the Company has the ability to exercise significant influence over the investee. On July 2, 2010, the Company acquired the remaining equity interest of VanceInfo Financial Service.

In September 2010, VanceInfo BVI, through one of its subsidiaries, made a strategic investment in VanceInfo Australia, an Australia-based IT services and solution provider for Australian telecom and technology companies. Under the terms of the agreement, the Company made a payment of \$200 in cash for an initial equity interest of 20% of VanceInfo Australia in convertible redeemable preferred stock, with an exclusive option right to acquire the remaining 80% of the equity within the next 12 months.

As the Group has significant influence over VanceInfo Australia, the investment has been recorded using the equity method of accounting.

The investment earnings/(loss) generated from two equity method investments for the years ended December 31, 2009, 2010 and 2011 was \$69, \$151 and \$(35), respectively.

In July 2011, the Company acquired the remaining equity interest of VanceInfo Australia as set out in Note 4.

14. LAND USE RIGHTS

The Group commenced the process to obtain land use rights for two pieces of land in Beijing in 2009, on which the Company plans to construct its new corporate headquarters and research and development center. In November 2009, the Company entered into an agreement with Zhongguancun Software Park Development Co., Ltd. ("ZSPD"), pursuant to which ZSPD agreed to develop the land in preparation for construction by the Company. As of December 31, 2010, the Company paid approximately \$18,009 pursuant to the agreement with ZSPD and recorded as a prepaid land use rights on its consolidated balance sheets as of December 31, 2010.

In July 2011, the Group entered into a land use right transfer agreement with the Beijing Municipal Bureau of Land and Resources pursuant to which the Company acquired land use right with a 50-year term, for an additional consideration of approximately \$5,025, plus related local levy of \$151, paid in August and September 2011, respectively.

In respect of these agreements, the Group has recorded the aggregate amount of the consideration paid, amounting to \$24,105 after an exchange rate effect of \$920, for land use right. The Group reports the land use right at cost less accumulated amortization and amortizes the cost of the land use right on a straight-line basis over the 50-year term starting July 2011, based on the land use right certificate issued by the municipal government of Beijing Haidian District.

The Group recorded amortization expenses of nil and \$220 for the years ended December 31, 2010 and 2011.

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15. SHORT-TERM BANK LOAN

Short-term bank loan, amounting to \$1,587 as of December 31, 2011, was borrowed from a PRC bank with the guarantee provided by Shanghai Xuhui Financing & Guaranty Co., Ltd. and the pledge deposit of a term \$1,587 which was recorded as restricted cash in the consolidated balance sheet. The loan had a monthly interest rate of 5.4667% and will be due in September 2012. The interest may be eligible for reimbursement by the local government as part of government subsidies to support the Group's business.

Short-term bank loan, amounting to \$3,020 as of December 31, 2010, was borrowed from a PRC bank with the guarantee provided by Shanghai Xuhui Guaranty Co., Ltd. and the pledge deposit of a term \$679 which was recorded as restricted cash in the consolidated balance sheet. The loan had an annual interest rate of 5.31% and was fully repaid as of December 31, 2011. The interest was reimbursed by the local government in 2011 as part of government subsidies to support the Group's business.

16. ACCRUED EXPENSES AND OTHER PAYABLES

	As of December 31,	
	2010	2011
Payable for business acquisition-current	3,919	11,205
Accrued payroll and employee welfare	6,069	10,384
Accrued bonus	8,693	10,470
Accrued subcontract costs and reimbursable operating costs	8,203	8,249
Business tax payable	2,782	3,706
Other taxes payable	1,252	1,546
Proceeds from discounted nonvested shares granted, net of forfeiture	—	910
Professional fee	1,184	884
Advance from customer	1,173	3,410
Payable for purchase of property and equipment	925	1,497
Foreign currency forward exchange contract	332	253
Other accrued liabilities	1,845	2,466
Total	36,377	54,980

17. INCOME TAXES

VanceInfo was incorporated in the Cayman Islands and is not subject to tax on its income or capital gains. In addition, payment of dividends by VanceInfo to our shareholders is not subject to withholding tax in the Cayman Islands.

Under the current laws of the British Virgin Islands, VanceInfo BVI and VanceInfo Financial Solutions are not subject to British Virgin Islands tax on income or capital gains. In addition, payment of dividends is not subject to withholding tax in the British Virgin Islands.

Pursuant to the relevant tax rules and regulations applicable to VanceInfo Japan, VanceInfo Japan was required to provide income tax of \$1, \$5 and \$20 for the years of 2009, 2010 and 2011, respectively.

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17. INCOME TAXES - (continued)

VanceInfo US was subject to a progressive federal income tax rate from 15% to 35% depending on the income level and a state income tax rate at 8.84% for the years of 2009, 2010 and 2011. WIT was subject to a progressive federal income tax rate from 15% to 35% depending on the income level and a state income tax rate at 8.84% for the years of 2009 and 2010.

VanceInfo Australia, which was acquired in 2011, was subject to an income tax rate of 30% for the year of 2011. VanceInfo Malaysia was subject to income tax of 28% for the years of 2009, 2010 and 2011, respectively. And VanceInfo Singapore, which was established in 2011, was subject to income tax of 17% for the year of 2011.

VanceInfo Hong Kong, TP Hong Kong, TP Taiwan, TP Consultants and TP Teleservices were subject to profit tax rate of 16.5% for the years of 2009, 2010 and 2011. VanceInfo Financial Service was subject to profit tax rate of 16.5% for the years of 2010 and 2011. Lifewood Technology and Lifewood Data were subject to profit tax rate of 16.5% for the year of 2011.

On March 16, 2007, the National People's Congress of China enacted a new EIT law, which has taken into effect from January 1, 2008. Under the new EIT law, foreign invested enterprises, or FIEs, such as VanceInfo Beijing, and Chinese domestic companies are subject to EIT at a uniform rate of 25%. In addition, certain enterprises may still benefit from a preferential tax rate of 15% under the new EIT law if they qualify as "high and new technology enterprises strongly supported by the State". According to the new EIT law and relevant implementation rules, the "high and new technology enterprises strongly supported by the State" shall refer to an enterprise that owns the core proprietary intellectual property rights and fulfills all of the conditions stipulated therein.

VanceInfo Beijing obtained the certificate on high and new technology enterprises in 2008 and is entitled to the preferential tax rate of 7.5% from 2008 to 2010 and the certificate was renewed in 2011 and was entitled to the preferential tax rate 15% in 2011. VanceInfo Shanghai was qualified as a "high and new technology enterprise" in December 2008, which entitled it to a 15% preferential income tax rate in 2008, and the certificate was renewed in 2009, and was further recognized as a "key software enterprise under the State plan" in December 2009, which entitled it to a 10% preferential income tax rate in 2009. VanceInfo Shanghai obtained the certificate of high and new technology enterprise and was subject to 15% in 2010 and 2011. TP Shanghai obtained the certificate of high and new technology enterprise and was subject to 15% in 2009 and 2010. VanceInfo Nanjing obtained the certificate of new setup software enterprise in 2009 and was entitled to an exemption of EIT from 2009 to 2010 and 50% reduction for the subsequent three years at the preferential tax rate of 12.5% from 2011 to 2013. VanceInfo Data was acquired in 2010 which was incorporated in 2002. VanceInfo Data was recognized as a qualified "Software enterprises" in 2007, and was entitled to enjoy tax exemption in 2007 and 2008, and 50% tax reduction from 2009 to 2011 at the effective rate of 10%, 11%, 12%, respectively. VanceInfo Shenzhen was recognized as a qualified "software enterprise" in 2009 and was entitled to an exemption of EIT in 2010 and 2011 and 50% reduction for the subsequent three years at the preferential tax rate of 12.5% from 2012 to 2014.

The applicable EIT rate for other PRC subsidiaries was 25% in 2009, 2010 and 2011.

Due to the changes in the new EIT law in March 2007, the Group's deferred tax balances were calculated based on the enacted tax rate effective on January 1, 2008.

The high and new technology enterprise status is valid for three years and the qualified enterprises can then apply to renew for an additional three years provided the company's business operations continue to qualify

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17. INCOME TAXES - (continued)

for high and new technology enterprise status. The Group believes it is highly likely that its qualifying entities will continue to obtain the renewal in the future. Accordingly, in calculating deferred tax assets and liabilities, the Group has assumed its qualifying entities will continue to renew the high and new technology enterprise status at the conclusion of the initial three-year periods. If the Group's qualifying entities failed to obtain such renewals, then the net deferred tax assets balance would increase by \$1,327 and the net deferred liability balance would increase by \$93, as of December 31, 2011, which would result in the decrease of the income tax expenses.

Uncertainties exist with respect to how the current income tax law in the PRC applies to the Group's overall operations, and more specifically, with regard to tax residency status. New EIT law includes a provision specifying that legal entities organized outside of the PRC will be considered residents for Chinese income tax purposes if the place of effective management or control is within the PRC. The implementation rules to the new EIT law provide that non-resident legal entities will be considered China tax residents if substantial and overall management and control over the manufacturing and business operations, personnel, accounting, properties, etc, occurs within the PRC. Despite the present uncertainties resulting from the limited PRC tax guidance on the issue, the Group does not believe that the legal entities organized outside of the PRC within the Group should be treated as Chinese tax residents for the new EIT law purposes. If the PRC tax authorities subsequently determine that the Company and its subsidiaries registered outside the PRC should be deemed as tax resident enterprises, the Company and its subsidiaries registered outside the PRC will be subject to the PRC income tax at a rate of 25%.

If the Company and its subsidiaries registered outside the PRC were to be non-resident for PRC tax purpose, dividends paid to them out of profits earned by the Company's subsidiaries located in the PRC, which are tax resident in the PRC, after January 1, 2008, would be subject to a withholding tax of 10%.

Aggregate undistributed earnings of the Company's subsidiaries located in the PRC available for distribution to the Company are \$114,373 as of December 31, 2011. The Group does not have any present plan to pay any cash dividends on its ordinary shares in the foreseeable future. It intends to retain most of its available funds and any future earnings for use in the operation and expansion of its business. As such, the undistributed earnings of the Company's PRC subsidiaries are considered to be indefinitely reinvested and accordingly, no provision has been made for the Chinese dividend withholding taxes as of December 31, 2011.

Income (loss) before income taxes and earning (loss) in equity method investment:

	<u>For the years ended December 31,</u>		
	<u>2009</u>	<u>2010</u>	<u>2011</u>
PRC	24,857	33,266	29,876
Other countries	(1,329)	(1,036)	(6,573)
Total	<u>23,258</u>	<u>32,230</u>	<u>23,303</u>

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17. INCOME TAXES - (continued)

Income tax expenses are as follows:

	For the years ended December 31,		
	<u>2009</u>	<u>2010</u>	<u>2011</u>
Income taxes expenses:			
Current:			
PRC	3,267	3,263	2,256
Other countries	266	509	73
Deferred:			
PRC	(1,292)	(1,057)	(923)
Other countries	(152)	(197)	(331)
Total	<u>2,089</u>	<u>2,518</u>	<u>1,075</u>

The net revenue generated from the services rendered in the U.S. and countries other than the PRC, with resulting income taxable in those jurisdictions, only represent 3% and 11% of the Group's total net revenue for the year ended December 31, 2010 and 5% and 7% for the year ended December 31, 2011, respectively. For the year ended December 31, 2010, services rendered in the U.S. generated loss before income tax and service rendered in other non-PRC countries generated 3% of the Group's total income before tax. For the year ended December 31, 2011, the Group generated losses from U.S., and other non-PRC countries taken as a whole. As a result, the income tax expenses associated with U.S. and other non-PRC countries are significantly less than the income tax expenses in the PRC.

For the purpose of balance sheet presentation, certain deferred tax assets and liabilities attributable to the same tax-paying components of the Group and within the same tax jurisdictions have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	As of December 31,	
	<u>2010</u>	<u>2011</u>
Current deferred tax assets:		
Allowance for doubtful accounts	227	304
Accrued compensation expenses	2,214	2,873
Net operating loss carry forwards	—	—
Total current deferred tax assets	<u>2,441</u>	<u>3,177</u>
Non-current deferred tax assets:		
Net operating loss carry forwards	100	351
Property and equipment	42	7
Valuation allowance	(100)	(347)
Net non-current deferred tax assets	<u>42</u>	<u>11</u>
Non-current deferred tax liabilities:		
Intangible assets acquired in business acquisitions	(1,217)	(3,313)
Property and equipment	(3)	(100)
Non-current deferred tax liabilities, net	<u>(1,220)</u>	<u>(3,413)</u>

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17. INCOME TAXES - (continued)

A valuation allowance has been recognized for net operating losses carry forward of certain subsidiaries of the Group, because the Group does not believe these entities can generate future taxable income to recognize the income tax benefit. Net operating losses totaled \$399 and \$1,417 as of December 31, 2010 and 2011, respectively, which included \$399 as of December 31, 2010 expiring on various dates throughout 2015, and \$1,417 as of December 31, 2011 expiring on various dates throughout 2016.

A reconciliation between the statutory PRC enterprise income tax rate and the effective tax rate is as follows:

	For the years ended December 31,		
	<u>2009</u>	<u>2010</u>	<u>2011</u>
	<u>%</u>	<u>%</u>	<u>%</u>
Statutory tax rate in PRC	25.00	25.00	25.00
Changes in valuation allowances	(0.20)	(0.22)	1.06
Effect of income tax rate differences of subsidiaries operating with different tax jurisdictions	(8.57)	(8.34)	(10.68)
Effect of tax holidays enjoyed by PRC subsidiaries	<u>(7.38)</u>	<u>(8.63)</u>	<u>(10.77)</u>
Effective tax rate	<u>8.85</u>	<u>7.81</u>	<u>4.61</u>

During the years ended December 31, 2009, 2010 and 2011, if the Company's subsidiaries in the PRC were neither in the tax holiday period nor had they been specifically allowed special tax concessions, income tax expense and net income per share amounts would be as follows:

	For the years ended December 31,		
	<u>2009</u>	<u>2010</u>	<u>2011</u>
Increase in income tax expense	1,735	2,780	2,510
Decrease in net income per ordinary share-basic	(0.04)	(0.07)	(0.06)
Decrease in net income per ordinary share-diluted	<u>(0.04)</u>	<u>(0.07)</u>	<u>(0.06)</u>

The Group did not identify any significant unrecognized tax benefits or incur any interest or penalties related to potential underpaid income tax expenses for each of the three years ended December 31, 2009, 2010 and 2011. The Group does not expect to have a significant increase or decrease in unrecognized tax benefits within 12 months from December 31, 2011.

The Group has various tax years from 2005 to 2011 which remain open in various tax jurisdictions.

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18. NET INCOME PER SHARE

The calculation of the net income per share is as follows:

	For the years ended December 31,		
	2009	2010	2011
Net income attributable to holders of ordinary shares (numerator)	21,508	29,863	22,193
Shares (denominator):			
Weighted average ordinary shares outstanding used in computing net income per ordinary share-basic	38,389,495(i)	40,298,060(i)	43,103,190(i)
Weighted average ordinary shares outstanding used in computing net income per ordinary share-diluted	41,576,217(ii)	43,406,080(ii)	45,248,469(ii)
Net income per ordinary share-basic	<u>0.56</u>	<u>0.74</u>	<u>0.51</u>
Net income per ordinary share-diluted	<u>0.52</u>	<u>0.69</u>	<u>0.49</u>

(i) In 2010, the Company issued 2,140,148 ordinary shares for future delivery to employees and non-employees upon exercise of vested stock options or grant of nonvested shares. 1,211,897, 1,824,660 and 441,386 shares were transferred to the relevant employees in 2009, 2010 and 2011, respectively. Accordingly, the remaining shares outstanding during the years were excluded in computation of basic net income per share in 2009, 2010 and 2011.

The ordinary shares issuable in connection with business acquisitions were include in computation of basic net income per share.

(ii) The Group had securities outstanding which could potentially dilute basic net income per share in the future, but which were excluded from the computation of diluted net income per share in the years ended December 31, 2009, 2010 and 2011 as their effects would have been anti-dilutive. For the years of 2009, 2010 and 2011, such outstanding securities consisted of stock options of a weighted average number of 661,234, 91,684 and 1,237,975, respectively.

A weighted average number of 36,493, 146,344 and 269,275 contingently issuable ordinary shares and nonvested shares in connection with business acquisitions were included in the computation of diluted net income per share in the years of 2009, 2010 and 2011, respectively.

The calculation of the weighted average number of ordinary shares in 2009, 2010 and 2011 for the purpose of diluted net income per share has included the effect of stock options and nonvested shares of a weighted average number of 4,406,820, 3,677,197 and 2,677,598 which gives rise to an incremental weighted average number of 3,150,229, 2,961,677 and 1,876,004 ordinary shares from the assumed conversion of these stock options and nonvested shares using the treasury stock method, respectively.

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19. SHARE-BASED COMPENSATION

On November 3, 2005, the Group adopted the 2005 Stock Option Plan, which allowed the Group to grant options to its employees and directors to purchase 1,867,500 ordinary shares subject to vesting requirement. In April and May 2006, additional options to purchase 2,400,000 ordinary shares were authorized with the approval from shareholders. No options shall be exercisable after ten years from the date of grant. The options will vest first 1/4 on a date specified in the option award agreement, which is usually a date approximately 9 months or one year from the date of grant, and thereafter, 1/48 on each of the monthly anniversaries or 1/16 on each of the quarterly anniversaries from the first vesting date.

On July 30, 2007, the Board of Directors and shareholders adopted the 2007 Share Incentive Plan as amended on August 1, 2007, which authorized to grant to employees and non-employees options to purchase ordinary shares or nonvested shares up to a total of 1,100,000 ordinary shares of the Company with an annual increase up to 3% of the number of ordinary shares outstanding as of the first day of each year beginning 2008. The plan will expire on the tenth anniversary of the effective date of the plan. The term of any option granted under the 2007 Share Incentive Plan shall not exceed ten years. The options and nonvested shares will vest first 1/4 on the first anniversary of the date of grant and thereafter, 1/16 on each of the quarterly anniversaries from of the first vesting date.

I. Stock Options

Termination of option

If the grantee ceases to be employed by or ceases to provide services to the Group, (a) the grantee will have until the date that is 30 days after his or her severance date to exercise the options (or portion thereof) to the extent that they were vested on the severance date; (b) the options to the extent not vested on the severance date, shall terminate on the severance date; (c) the options, to the extent exercisable for the 30-day period following the severance date and not exercised during such period, shall terminate at the close of the business on the last day of the 30-day period.

Option exercise

The option shall be exercisable by the delivery of a written notice to the Company, in the form approved by the Company, stating the number of ordinary shares to be purchased pursuant to the option and payment in full for the exercise price of the shares to be purchased in cash, by check or by electronic funds transfer to the Company.

Options to employees and non-employee directors

During the years ended December 31, 2009, 2010 and 2011, the Company granted a total of 146,000, 776,340 and 1,360,805 share options to employees and non-employee directors at an exercise price ranging from \$4.58 to \$14.69 per share, \$16.90 to \$35.50 and \$6.73 to \$29.74 per share, respectively.

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19. SHARE-BASED COMPENSATION - (continued)

I. Stock Options - (continued)

Options to employees and non-employee directors - (continued)

The following table summarizes information regarding the stock options granted:

Quarter ended	Options granted	Weighted average exercise price per option	Weighted average fair value per option at the grant dates	Weighted average intrinsic value per option at the grant dates
March 31, 2009	48,000	4.58	1.60	—
June 30, 2009	15,000	5.00	1.74	—
September 30, 2009	39,500	11.00	3.83	—
December 31, 2009	43,500	14.69	5.30	—
March 31, 2010	123,000	16.90	6.09	—
June 30, 2010	97,500	21.70	7.83	—
December 31, 2010	555,840	34.50	12.09	—
March 31, 2011	221,400	29.29	9.90	—
September 30, 2011	1,078,405	9.50	3.30	—
December 31, 2011	61,000	8.71	4.63	—
Total	2,283,145			

	Number of options	Weighted average exercise price per option	Weighted average fair value per option at the grant dates
Outstanding as of January 1, 2011	3,322,628	10.13	3.32
Granted	1,360,805	12.69	4.44
Forfeited	(112,460)	18.59	6.22
Exercised	(317,942)	4.34	1.28
Outstanding as of December 31, 2011	4,253,031	11.16	3.75

The following table summarizes information with respect to stock options outstanding as of December 31, 2011:

	Options outstanding			Options exercisable			
	Number outstanding	Weighted average remaining contractual life	Weighted average exercise price per option	Aggregate intrinsic value as of December 31, 2011	Number exercisable	Weighted average exercise price per option	Aggregate intrinsic value as of December 31, 2011
Ordinary shares	4,253,031	3.83	11.16	12,925	2,177,784	6.17	10,654

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19. SHARE-BASED COMPENSATION - (continued)

I. Stock Options - (continued)

Options to employees and non-employee directors - (continued)

The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the closing stock price of \$9.07 of the Company's common stock as of December 31, 2011.

The total intrinsic value of options exercised during the years ended December 31, 2009, 2010 and 2011 was \$12,760, \$47,703 and \$6,593, respectively.

The range of fair value of the options as of their respective grant dates is as follows:

	For the years ended December 31,		
	2009	2010	2011
Options	1.60-5.30	6.09-12.13	2.42-10.05

The fair value of each option granted was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions used for grants during the applicable periods.

	For the years ended December 31,		
	2009	2010	2011
Volatility	40.8%-44.7%	41.5%-44.7%	41.41%-69.0%
Risk-free interest rate of return	2.62%-3.62%	1.89%-2.62%	1.54%-1.89%
Expected term	3.61 years	3.61-4.11 years	3.61-4.11 years
Dividend yield	—	—	—

(1) Volatility

The fair value of each option award was estimated on the date of grant using the Black-Scholes Method valuation model. The volatility assumption was estimated based on the historical stock price volatility of listed comparable companies over a period comparable to the expected term of the options. From October 2011, the volatility was estimated based on the historical volatility of the Company's share price as the Company has accumulated sufficient history of stock price for a period comparable to the expected term of the options. Assumptions about the expected term were based on the vesting and contractual terms.

(2) Risk-free interest rate of return

Risk-free interest rate was estimated based on the yield to maturity of China international government bonds with a maturity period close to the expected term of the options.

(3) Expected term

As the Company did not have sufficient historical share option exercise experience, it estimated the expected term as the average between the vesting term of the options and the original contractual term.

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19. SHARE-BASED COMPENSATION - (continued)

I. Stock Options - (continued)

Options to employees and non-employee directors - (continued)

(4) *Dividend yield*

The dividend yield was estimated by the Company based on its expected dividend policy over the expected term of the options.

(5) *Exercise price*

The exercise price of the options was determined by the Company's Board of Directors.

(6) *Fair value of underlying ordinary shares*

When estimating the fair value of the ordinary shares on the grant dates before the Initial Public Offering (the "IPO") of the Company, management considered a number of factors, including the result of equity transactions of the Company, while taking into account standard valuation methods and the achievement of certain events. After the IPO, the closing market price of the ordinary shares of the Company as of the grant date was used as the fair value of the ordinary shares on that date.

The Group recorded share-based compensation of \$1,311, \$1,482 and \$4,411 for options granted to employees and non-employee directors for the years ended December 31, 2009, 2010 and 2011, respectively, using the graded vesting attribution method.

There was total unrecognized compensation expense of \$11,421 related to unvested share options granted as of December 31, 2011. The expense is expected to be recognized over a weighted-average period of 1.72 years according to the graded vesting schedule.

II. Nonvested Shares

In 2009, 2010 and 2011, the Company granted 89,874, 298,874 and 286,916 nonvested ordinary shares, respectively, to employees under 2007 Share Incentive Plan. The nonvested shares will vest first 1/4 on the first anniversary of the vesting commencement date and thereafter the remaining 3/4 will vest on a pro-rata basis after the expiration of each of the 12 quarters after the first vesting date.

A summary of the nonvested shares activity is as follows:

	Weighted number of nonvested shares	Weighted average fair value per ordinary share at the grant dates
Outstanding as of January 1, 2011	357,907	21.06
Granted	286,916	22.96
Vested	(123,444)	18.27
Forfeited	(73,428)	24.57
Outstanding as of December 31, 2011	<u>447,951</u>	22.47

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19. SHARE-BASED COMPENSATION - (continued)

II. Nonvested Shares - (continued)

In December 2010, the Company granted 85,000 nonvested shares to certain executives and employees at a discount purchase price of \$22.00 per share, which is lower than the market closing price of \$34.13 on December 15, 2010, the day before the grant date, by \$12.13. 25% of the 85,000 nonvested shares will vest on the first anniversary of the grant date and 6.25% will vest each of the following 12 quarter. The total purchase price of \$1,210, net of forfeiture, was recorded as a liability when the amount was paid by the relevant executives and employees. This liability will be eliminated with a corresponding increase in equity upon the vesting of nonvested shares over the vesting period.

The total fair value of nonvested shares vested during the years ended December 31, 2009, 2010 and 2011 was \$128, \$959 and \$2,777, respectively.

The Company recorded compensation expenses based on the fair value of nonvested shares on the grant dates over the requisite service period of award using the graded vesting attribution method. The fair value of the nonvested shares on the grant date was the closing market price of the ordinary shares as of the date. For nonvested share granted in 2009, 2010 and 2011, the fair value at the date of grant ranged from \$4.75 to \$35.50. The related compensation expense of \$254, \$1,765 and \$3,958 was recorded in 2009, 2010 and 2011, respectively.

There was total unrecognized compensation expense of \$5,538 related to nonvested shares granted as of December 31, 2011. The expense is expected to be recognized over a weighted-average period of 2.95 years according to the graded vesting schedule.

III. Nonvested shares of a subsidiary granted to employees

In September 2011, the Company incorporated a wholly owned subsidiary named VanceInfo Financial Solutions Limited ("VanceInfo Financial Solutions") to strengthen its business intelligence service. The Company is committed to granting up to 33.3% equity interest or 1,000,000 ordinary shares of VanceInfo Financial Solutions in the form of nonvested shares to key employees for their continuing employment. The Company is entitled to the right of repurchasing all equity interests held by the key employees after December 31, 2012. In November 2011, 790,000 of VanceInfo Financial Solutions' nonvested shares were granted to newly recruited key employees of VanceInfo Financial Solutions. 50% of 790,000 nonvested shares will vest on November 1, 2012 and remaining 50% will vest on a pro-rata basis after the expiration of each of the four quarters after the first anniversary. At the completion of the vesting period the noncontrolling interest of VanceInfo Financial Solutions will be recorded. The fair value of VanceInfo Financial Solutions' nonvested shares as of grant date was \$1.14 per share and related compensation expense of \$75 was recorded in 2011. As of December 31, 2011 the total unrecognized compensation expense was \$826, which is expected to be recognized in 1.84 years using straight line method.

20. ORDINARY SHARES ISSUANCE

In July 2009, the Company completed a public offering of 345,000 ordinary shares for total proceeds of \$3,624, before offering costs of \$976.

In October 2009, the Company issued 106,820, 106,820, 106,820 ordinary shares to Cypress Hill Holdings Limited, Fortune Sea International Limited and Million International Limited, respectively, as part of the consideration for the acquisition of Chosen.

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20. ORDINARY SHARES ISSUANCE - (continued)

In October 2009, the Company issued 95,590 ordinary shares to Wireless Info Tech Limited as part of the consideration for the acquisition of WIT.

In October 2009, the Company issued 6,163 ordinary shares to Xiang Liu as part of the consideration for the acquisition of Guangzhou Kernel Technology Limited (“Kernel”).

In January 2010, one of our employees was suspected to be in violation of the non-compete agreement (signed with the Company in connection with an acquisition in 2007) and his employment with the Company was terminated. This caused certain potential losses to the Group relating to certain accounts receivable balance. As a result, the employee entered into a settlement agreement with the Company in March 2010 and agreed to return his ordinary shares of 27,772 to the Group as compensation. The fair value of the ordinary shares was \$537 as of the settlement date, and was recorded in the consolidated statements of operations to net off a related \$537 provision for doubtful accounts. The shares were canceled immediately after they were returned to the Company.

In June 2010, the Company issued 51,084 ordinary shares for future delivery to the employees and non-employees directors upon exercise of vested stock options or grant of nonvested shares as set out in Note 19.

In July 2010, the Company issued 1,089,064 ordinary shares for future delivery to the employees and non-employees upon exercise of vested stock options or grant of nonvested shares as set out in Note 19.

In November 2010, the Company issued 1,000,000 ordinary shares for future delivery to the employees and non-employees upon exercise of vested stock options or grant of nonvested shares as set out in Note 19.

In November 2010, the Company issued 26,442 ordinary shares to Hui Wing Han Christina Wendy & Wong Kit Cheung Paul as a part of the consideration for the acquisition of TP as set out in Note 4.

In November 2010, the Company completed a public offering of 2,530,000 ordinary shares for total proceeds of \$89,226, net of offering costs of \$590.

In November 2011, the Company issued 55,944 ordinary shares to Hui Wing Han Christina Wendy & Wong Kit Cheung Paul as part of the consideration for the acquisition of TP as set out in Note 4.

In November 2011, the Company issued 44,642 ordinary shares to Honour Sky Limited & Alliance Glory Investments Limited, respectively, as a part of the consideration for the acquisition of VanceInfo Financial Service as set out in Note 4.

In November 2011, the Company issued 50,746 ordinary shares to Extra Bright Trading Limited & Green Beauty Action Limited, respectively, as part of the consideration for the acquisition of Lifewood as set out in Note 4.

In November 2011, the Company issued 6,721 ordinary shares to Think Consultig Limited & Red Pine Technology Service Limited as part of the consideration for the acquisition of Oracle consulting and implementation service business as set out in Note 4.

21. STOCK REPURCHASE PROGRAM

On February 21, 2009, the Company’s Board of Directors approved a share repurchase program authorizing the Company to acquire up to \$10,000 worth of the Company’s outstanding American Depository Shares (“ADS”) within the next 12 months.

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21. STOCK REPURCHASE PROGRAM - (continued)

In March 2009, 2,800 shares were repurchased for a total consideration of \$13 from the open market under this program. The repurchased shares, represented in the form of ADSs, and were to be used for future delivery to the employees and non-employees upon exercise of vested stock options or grant of nonvested shares.

On March 21, 2011, the Company announced the authorization of a stock repurchase program, under which the Company may, from time to time for a period of twelve months, depending on market conditions, share price and other factors, make one or more purchases, on the open market or in privately negotiated transactions, of up to \$40,000 in aggregate value of the Company's outstanding ADS. As of December 31, 2011, the Company repurchased 2,394,573 ordinary shares at a total cost (including purchase consideration paid to shareholders and commission paid to brokers) of \$34,791 pursuant to this repurchase program. This share repurchase program expired on March 20, 2012.

All ordinary shares repurchased by the Company in 2011 have become its treasury stock.

22. FAIR VALUE MEASUREMENTS

Measured on recurring basis

The Group's financial assets/(liabilities) measured at fair value on a recurring basis as of December 31, 2010 and 2011 include a foreign currency exchange forward contract (Note 9) based on Level 2 inputs, the contingent consideration payable in connection with business acquisitions consummated in 2010 and 2011 and an available-for-sale investment in convertible loan based on Level 3 inputs.

The following table summarizes the Group's financial assets/(liabilities) measured at fair value on recurring basis.

<u>Description</u>	<u>December,</u> <u>2010</u>	<u>Fair Value Measurement at Reporting Date Using</u>		
		<u>Quoted Prices in</u> <u>Active Market for</u> <u>Identical Liabilities</u>	<u>Other</u> <u>Observable</u> <u>Inputs</u>	<u>Significant</u> <u>Unobservable</u> <u>Inputs</u>
		<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
Available-for-sale investment	1,302	—	—	1,302
Contingent consideration	(3,269)	—	—	(3,269)
Forward contract	(332)	—	(332)	—
Total	<u>(2,299)</u>	<u>—</u>	<u>(332)</u>	<u>(1,967)</u>

<u>Description</u>	<u>December,</u> <u>2011</u>	<u>Fair Value Measurement at Reporting Date Using</u>		
		<u>Quoted Prices in</u> <u>Active Market for</u> <u>Identical Liabilities</u>	<u>Other</u> <u>Observable</u> <u>Inputs</u>	<u>Significant</u> <u>Unobservable</u> <u>Inputs</u>
		<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
Available-for-sale investment	—	—	—	—
Contingent consideration	(18,236)	—	—	(18,236)
Forward contract	(253)	—	(253)	—
Total	<u>(18,489)</u>	<u>—</u>	<u>(253)</u>	<u>(18,236)</u>

VANCEINFO TECHNOLOGIES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
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22. FAIR VALUE MEASUREMENTS - (continued)

Measured on recurring basis - (continued)

The following table summarizes the movement of the balances of the Group's financial assets/(liabilities) measured at fair value on a recurring basis based on Level 3 inputs:

	<u>Amounts</u>
Balance as of January 1, 2011	(1,967)
Initial recognition of contingent consideration in connection with business acquisitions	(19,446)
Change in fair value of contingent considerations	920
Transfer of contingent consideration to payable	3,269
Settlement of contingent consideration	709
Transfer of available-for-sale in connection with acquiring Beijing Viatt (Note 6)	(1,302)
Exchange difference	<u>(419)</u>
Balance as of December 31, 2011	<u>(18,236)</u>

The Group's financial assets and liabilities measured at fair value on a non-recurring basis include acquired assets and liabilities based on Level 3 inputs in connection with business acquisitions.

23. EMPLOYEE BENEFIT PLAN

Full time employees of the Group in the PRC participate in a government-mandated defined contribution plan pursuant to which certain pension benefits, medical care, unemployment insurance, employee housing fund and other welfare benefits are provided to employees. The Group accrues for these benefits based on certain percentages of the employees' salaries. The total provisions for such employee benefits were \$7,219, \$11,258 and \$18,362 for the years ended December 31, 2009, 2010 and 2011, respectively.

24. STATUTORY RESERVES AND RESTRICTED NET ASSETS

PRC legal restrictions permit payments of dividends by the Group's PRC entities only out of their retained earnings, if any, determined in accordance with PRC regulations. Prior to payment of dividends, pursuant to the laws applicable to the PRC Foreign Investment Enterprises, the Group's PRC subsidiaries must make appropriations from after-tax profit to non-distributable reserve funds as determined by the board of directors of the Company's PRC subsidiaries. These reserve funds include one or more of the following (i) a general reserve (ii) an enterprise expansion fund and (iii) a staff bonus and welfare fund. Subject to certain cumulative limits, the general reserve fund requires annual appropriations of 10% of after-tax profit (as determined under accounting principles generally accepted in the PRC at each year-end) until the balance reaches 50% of the registered capital, and the other fund appropriations are at the management's discretion. These statutory reserve funds can only be used for purposes of general enterprise expansion and staff bonus and welfare and are not distributable as cash dividends. Appropriations to these reserves by the Company's PRC subsidiaries were \$991, \$1,171 and \$2,895 for the years ended December 31, 2009, 2010 and 2011, respectively.

As a result of these PRC laws and regulations and the requirement that distributions by PRC entities can only be paid out of distributable profits computed in accordance with the PRC GAAP, the PRC entities are

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FOR THE YEARS ENDED DECEMBER 31, 2009, 2010 AND 2011
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24. STATUTORY RESERVES AND RESTRICTED NET ASSETS - (continued)

restricted from transferring a portion of their net assets to the Group. Amounts restricted include paid-in capital and the statutory reserves of the Company's PRC subsidiaries. The aggregate amounts of capital and statutory reserves restricted which represented the amount of net assets of the relevant subsidiaries in the Group not available for distribution was \$81,735 and \$85,102 as of December 31, 2010 and 2011, respectively. As a result of the above restrictions, parent-only financials are presented on financial statement schedule I.

25. LITIGATION THREAT AGAINST THE COMPANY

In August 2004, through VanceInfo Beijing, a wholly owned subsidiary of the Company, the Company acquired the IT services business and related assets of Wensi Chuangyi and its subsidiaries, the predecessor of the Company. On December 3, 2007, Chris Chen, chairman and chief executive officer of the Company, and David Chen, chief operating officer of the Company received a letter from a law firm in California purporting to set forth a notice of claim on behalf of Mr. Jonathan Jianguo Jiang against Chris Chen, David Chen, the Company, and two subsidiaries of the Company and VanceInfo Creative Software Technology Ltd., or VanceInfo California, a dissolved California corporation controlled by Wensi Chuangyi. The letter alleges the following:

- Mr. Jiang is a shareholder of Octiga, Inc., or Octiga, a dissolved California corporation; Octiga owns more than a 40% interest in the joint venture, Beijing Heteng Software Technology Co., Ltd. ("Heteng"); and Heteng owns 100% of Wensi Chuangyi, the predecessor of the Company.
- Valuable (but unspecified) proprietary information owned by Wensi Chuangyi and/or its subsidiaries as well as all its employees were transferred to VanceInfo Beijing not in good faith and without adequate consideration to Heteng and its joint venture partners. This unspecified proprietary information allegedly has been utilized by VanceInfo California and continues to be used by a Delaware subsidiary of the Company.
- In connection with these transactions, Chris Chen was an officer, director, beneficial owner or in control of the relevant entities that caused the transfer to be executed not in good faith and without adequate consideration or the receiving entity that obtained the valuable proprietary information not in good faith and without adequate consideration, all in breach of his fiduciary responsibilities to Octiga, Heteng and their shareholders and/or joint venture partners.
- The letter also alleges that Mr. Jiang will be able to demonstrate the role and responsibility of various other parties in these alleged improper transactions, including Wensi Chuangyi and/or its subsidiaries, VanceInfo Beijing, VanceInfo California and other subsidiaries of the Company.

The letter states that Mr. Jiang is considering commencing litigation on all legal theories available to him as well as for the benefit of other investors in Heteng, including Long March Launch Vehicle Technology Co., Ltd., or Long March, to recover the value of the assets that were allegedly improperly transferred by Wensi Chuangyi and its subsidiaries to VanceInfo Beijing as well as other damages and costs. The Company believes that Long March owned a 70% equity interest in Heteng in August 2004.

VANCEINFO TECHNOLOGIES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEARS ENDED DECEMBER 31, 2009, 2010 AND 2011
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25. LITIGATION THREAT AGAINST THE COMPANY - (continued)

In November 2010, Mr. Jiang filed an action naming the Company, its subsidiary VanceInfo Technologies Inc., a Delaware corporation, or VanceInfo US, and its executives Chris Shuning Chen and David Lifeng Chen as defendants in the Superior Court of California, County of San Mateo captioned Jonathan Jiang v. VanceInfo Technologies, et al., CIV 500979. An amended complaint filed on January 21, 2011 alleges:

- Mr. Jiang was a minority shareholder of Octiga, Inc., a dissolved California Corporation. Octiga, Inc. allegedly owned “more than 30% interest in a joint venture” in Heteng, a company incorporated in China.
- Heteng owned 95% of Wensi Chuangyi.
- Mr. Jiang owned 220,000 ordinary shares of Octiga, Inc. for which compensation was not appropriately provided.
- The transfer of assets of Wensi Chuangyi from Heteng to VanceInfo Beijing occurred without proper compensation to Octiga, Inc.

On March 10, 2011, the Company filed a motion to quash service on it and a demurrer to the amended complaint on behalf of VanceInfo US. On June 28, 2011, the Superior Court of California judged that there was lack of personal jurisdiction for VanceInfo Technologies Inc. In order to avoid further distraction of management attention, our Chairman and Chief Executive Officer, Chris Shuning Chen, personally made a payment of \$75 to settle this litigation. The Group has not made any contribution to such payment. The lawsuit was dismissed with prejudice on March 1, 2012. The Group made no admissions of liability as part of the settlement and continues to maintain that the August 2004 Transaction is lawful and in compliance with all applicable PRC laws and regulations.

26. COMMITMENTS

(i) Operating lease commitments

The Group has entered into operating lease agreements principally for its office spaces. These leases expire through 2016 and are renewable upon negotiation. Rental expense under operating leases was \$6,573, \$8,889 and \$13,340 for the years ended December 31, 2009, 2010 and 2011, respectively.

Future minimum lease payments under such non-cancelable leases as of December 31, 2011 are as follows:

2012	.....	11,701
2013	.....	6,766
2014	.....	2,924
2015	.....	2,601
2016	.....	609
		<u>24,601</u>

(ii) Purchase commitments

As of December 31, 2011, \$13,478 was contractually committed by the Group for the building construction project and leasehold improvements. \$13,475 will be paid in 2012 and \$3 will be paid in 2013.

VANCEINFO TECHNOLOGIES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
FOR THE YEARS ENDED DECEMBER 31, 2009, 2010 AND 2011
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27. SUBSEQUENT EVENTS

In February 2012, the Group acquired 100% equity interest in Beijing Sunwin Technology Co., Ltd. (“Beijing Sunwin”), a China-based company providing IT consulting and solutions to companies in Chinese airline industry. Under the terms of the acquisition agreement, the Group paid an initial consideration of approximately \$2,371 in cash and \$1,152 in the Company’s ordinary shares. Contingent consideration will be paid based on Beijing Sunwin’s financial performance in the next three years. Over 90 professionals from Beijing Sunwin joined the Company as a result of this transaction. In addition, Beijing Sunwin has a 50% equity interest in a PRC joint venture company, namely Beijing Yunxiang Weiye Information Technology Co., Ltd. Such equity interest was also acquired as part of the transaction.

The Group is in the process of performing the purchase price allocation of this acquisition.

VANCEINFO TECHNOLOGIES INC.

Additional Information - Financial Statement Schedule I
 Financial Information of Parent Company
 Balance Sheets
 (in U.S. dollars in thousands, except share data)

	As of December 31,	
	2010	2011
Assets		
Current assets:		
Cash and cash equivalents	102,832	1,202
Term deposit	5,000	5,000
Held-to-maturity securities - current	13,208	9,401
Prepaid expenses and other current assets	602	338
Amount due from related parties	35,802	111,352
Total current assets	157,444	127,293
Held-to-maturity securities - non-current	1,558	—
Investment in subsidiaries	143,426	181,781
Total assets	302,428	309,074
Liabilities		
Current liabilities:		
Amount due to related parties	3,775	956
Accrued expenses and other payables	719	1,812
Deferred income-current	462	478
Total current liabilities	4,956	3,246
Deferred income-non-current	1,305	2,384
Total liabilities	6,261	5,630
Equity:		
Ordinary shares (\$0.001 par value, 70,000,000 shares authorized; 44,556,910 and 44,714,963 shares issued as of December 31, 2010 and 2011, respectively; 44,556,910 and 42,320,390 shares outstanding as of December 31, 2010 and 2011, respectively)	45	45
Additional paid-in capital	208,431	223,707
Treasury stock, in the form of ADS at cost (nil and 2,394,573 shares as of December 31, 2010 and 2011, respectively)	—	(34,791)
Shares issuable in connection with business acquisitions	3,594	—
Accumulated other comprehensive income	8,836	17,029
Retained earnings	75,261	97,454
Total equity	296,167	303,444
Total liabilities and equity	302,428	309,074

VANCEINFO TECHNOLOGIES INC.
Financial Information of Parent Company
Statements of Operations and Comprehensive Income
(In U.S. dollars in thousands, except share and share related data)

	For the years ended December 31,		
	<u>2009</u>	<u>2010</u>	<u>2011</u>
Cost of revenues (including share-based compensation of \$313, \$492 and \$762 in 2009, 2010 and 2011, respectively)	(313)	(492)	(762)
Selling, general and administrative expenses (including share-based compensation of \$1,252, \$2,755 and \$7,682 in 2009, 2010 and 2011, respectively)	(1,853)	(3,073)	(8,100)
Other operating income	196	331	445
Loss from operations	(1,970)	(3,234)	(8,417)
Investment income in subsidiaries	22,755	33,139	30,106
Interest income	672	432	457
Exchange differences	51	(474)	47
Net income	<u>21,508</u>	<u>29,863</u>	<u>22,193</u>
Net income attributable to VanceInfo Technologies Inc. shareholders	<u>21,508</u>	<u>29,863</u>	<u>22,193</u>
Net income	21,508	29,863	22,193
Other comprehensive income, net of tax:			
Foreign currency translation adjustments	(48)	3,722	8,615
Unrealized gain (loss) on foreign currency exchange forward contract	145	(506)	(247)
(Gain) loss on foreign currency exchange forward contract transfer to statements of operations	(36)	202	319
Transfer to the statements of operations of realized gain on available-for-sale investment, net tax effect of \$87	—	—	(494)
Net unrealized gain on available-for-sale investment, net tax effect of (\$87)	—	494	—
Total other comprehensive income, net of tax	<u>61</u>	<u>3,912</u>	<u>8,193</u>
Comprehensive income	<u>21,569</u>	<u>33,775</u>	<u>30,386</u>
Comprehensive income attributable to VanceInfo Technologies Inc shareholders	<u>21,569</u>	<u>33,775</u>	<u>30,386</u>

VANCEINFO TECHNOLOGIES INC.

Financial Information of Parent Company
 Statements of Change in Equity
 (In U.S. dollars in thousands, except share data)

	Ordinary shares		Additional	Treasury	Shares issuable	Accumulated	Retained	Total
	Shares	Amount	paid-in capital	stock	in connection with business acquisitions	other comprehensive income	earnings	shareholders' equity
Balance as of January 1, 2009	39,120,879	39	101,184	—	1,527	4,863	23,890	131,503
Issuance of ordinary shares in connection with business acquisitions	422,213	1	2,088	—	(1,527)	—	—	562
Shares issuable in connection with TP acquisition (Note 4)	—	—	—	—	520	—	—	520
Repurchase of ordinary shares	(2,800)	—	(13)	—	—	—	—	(13)
Issuance of ordinary shares upon share offering	345,000	—	2,648	—	—	—	—	2,648
Ordinary shares issued for share-based compensation	2,800	—	4,208	—	—	—	—	4,208
Share-based compensation	—	—	1,565	—	—	—	—	1,565
Unrealized gain on foreign currency exchange forward contract recognized	—	—	—	—	—	145	—	145
Gain on foreign currency exchange forward contract transfer to statements of operations	—	—	—	—	—	(36)	—	(36)
Foreign currency translation adjustment	—	—	—	—	—	(48)	—	(48)
Net income	—	—	—	—	—	—	21,508	21,508
Balance as of December 31, 2009	39,888,092	40	111,680	—	520	4,924	45,398	162,562
Issuance of ordinary shares in connection with business acquisitions	26,442	—	520	—	(520)	—	—	—
Shares issuable in connection with TP acquisition (Note 4)	—	—	—	—	1,978	—	—	1,978
Shares issuable in connection with VanceInfo Financial Service acquisition (Note 4)	—	—	—	—	1,616	—	—	1,616
Ordinary shares returned from an employee (Note 20)	(27,772)	—	(537)	—	—	—	—	(537)
Issuance of ordinary shares upon share offering	2,530,000	3	89,223	—	—	—	—	89,226
Ordinary shares issued for share-based compensation	2,140,148	2	4,514	—	—	—	—	4,516
Share-based compensation	—	—	3,031	—	—	—	—	3,031
Unrealized loss on foreign currency exchange forward contract	—	—	—	—	—	(507)	—	(507)
Loss on foreign currency exchange forward contract transfer to statements of operations	—	—	—	—	—	202	—	202
Net unrealized gain on available-for-sale investment, net tax effect of (\$87)	—	—	—	—	—	494	—	494
Foreign currency translation adjustment	—	—	—	—	—	3,723	—	3,723
Net income	—	—	—	—	—	—	29,863	29,863
Balance as of December 31, 2010	44,556,910	45	208,431	—	3,594	8,836	75,261	296,167
Issuance of ordinary shares in connection with business acquisitions	158,053	—	5,443	—	(3,594)	—	—	1,849
Repurchase of ordinary share	(2,394,573)	—	—	(34,791)	—	—	—	(34,791)
Ordinary shares issued for share-based compensation	—	—	1,678	—	—	—	—	1,678
Share-based compensation	—	—	8,155	—	—	—	—	8,155
Unrealized loss on foreign currency exchange forward contract	—	—	—	—	—	(247)	—	(247)
Loss on foreign currency exchange forward contract transfer to statements of operations	—	—	—	—	—	319	—	319
Transfer to the statement of operations of net unrealized gain on available-for-sale investment, net tax effect of \$87	—	—	—	—	—	(494)	—	(494)
Foreign currency translation adjustment	—	—	—	—	—	8,615	—	8,615
Net income	—	—	—	—	—	—	22,193	22,193
Balance as of December 31, 2011	42,320,390	45	223,707	(34,791)	—	17,029	97,454	303,444

VANCEINFO TECHNOLOGIES INC.
Financial Information of Parent Company
Statements of Cash Flows
(In U.S. dollars in thousands)

	For the years ended December 31,		
	2009	2010	2011
Cash flows from operating activities:			
Net income	21,508	29,863	22,193
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Share-based compensation	1,565	3,247	8,444
Investment income in subsidiaries	(22,755)	(33,139)	(30,106)
(Gain) loss on foreign currency exchange forward contracts recognized in statements of operations	(52)	578	333
Allowance for doubtful accounts	—	—	15
Changes in operating assets and liabilities:			
Prepaid expenses and other current assets	(552)	1,188	66
Amounts due from related parties	(5,222)	12,666	(73,788)
Amounts due to related parties	5,865	(6,789)	(2,819)
Accrued expenses and other payables	151	(375)	(18)
Deferred income	757	(270)	1,094
Net cash provided by (used in) operating activities	1,265	6,969	(74,586)
Cash flows from investing activities:			
Purchase of non-current investment-held-to-maturity securities	—	(1,560)	(6,079)
Purchase of current investment-held-to-maturity securities	(12,104)	(15,213)	(5,253)
Proceeds from maturity of held-to-maturity securities	—	13,648	16,826
Purchase of businesses and increased investment in subsidiaries	—	(42,001)	—
Payment for settlement of foreign currency forward exchange contracts	—	(388)	(339)
Purchase of term deposit	(10,000)	—	(5,000)
Cash received upon maturity of term deposit	—	5,000	5,000
Net cash (used in) provided by investing activities	(22,104)	(40,514)	5,155
Cash flows from financing activities:			
Proceeds from exercise of options	3,625	5,011	1,434
Repayment of advance received for option granted	—	—	1,210
Repurchase of ordinary shares	(13)	—	(34,791)
Proceeds from issuance of ordinary shares upon share offering in 2009	3,624	—	—
Payment for issuance costs in connection with share offering in 2009	(712)	(220)	—
Proceeds from issuance of ordinary shares upon share offering in 2010	—	89,816	—
Payment for issuance costs in connection with share offering in 2010	—	(507)	(52)
Net cash provided (used in) by financing activities	6,524	94,100	(32,199)
Net (decrease) increase in cash and cash equivalents	(14,315)	60,555	(101,630)
Cash and cash equivalents, beginning of year	56,592	42,277	102,832
Cash and cash equivalents, end of year	42,277	102,832	1,202

VANCEINFO TECHNOLOGIES INC.
NOTES TO THE FINANCIAL INFORMATION OF PARENT COMPANY
FOR THE YEARS ENDED DECEMBER 31, 2009, 2010 AND 2011
(In U.S. dollars in thousands)

1. BASIS FOR PREPARATION

The condensed financial information of the Company has been prepared using the same accounting policies as set out in the Group's consolidated financial statements except that the Company used the equity method to account for investments in its subsidiaries.

2. INVESTMENTS IN SUBSIDIARIES

The Company and its subsidiaries were included in the consolidated financial statements where inter-company balances and transactions were eliminated upon consolidation. For purpose of the Company's stand- alone financial statements, its investments in subsidiaries were reported using the equity method of accounting. The Company's share of income from its subsidiaries was reported as equity in earnings of subsidiaries in the accompanying parent company financial statements.

3. INCOME TAX

The Company is a tax exempted company incorporated in the Cayman Island.

VANCEINFO FINANCIAL SOLUTIONS LIMITED

2011 SHARE INCENTIVE PLAN

**ARTICLE 1
PURPOSE**

The purpose of this 2011 Share Incentive Plan (the “Plan”) is to promote the success and enhance the value of VanceInfo Financial Solutions Limited, a company formed under the laws of the British Virgin Islands (the “Company”) by linking the personal interests of the members of the Board, Employees, and Consultants to those of the Company shareholders and by providing such individuals with an incentive for outstanding performance to generate superior returns to Company shareholders. The Plan is further intended to provide flexibility to the Company in its ability to motivate, attract, and retain the services of members of the Board, Employees, and Consultants upon whose judgment, interest, and special effort the successful conduct of the Company’s operation is largely dependent.

**ARTICLE 2
DEFINITIONS AND CONSTRUCTION**

Wherever the following terms are used in the Plan, they shall have the meanings specified below, unless the context clearly indicates otherwise. The singular pronoun shall include the plural where the context so indicates.

2.1 “Applicable Laws” means the legal requirements relating to the Plan and the Awards under applicable provisions of the corporate, securities, tax and other laws, rules, regulations and government orders, and the rules of any applicable stock exchange or national market system, of any jurisdiction applicable to Awards granted to residents therein.

2.2 “Award” means an Option, Restricted Share or Restricted Share Units award granted to a Participant pursuant to the Plan.

2.3 “Award Agreement” means any written agreement, contract, or other instrument or document evidencing an Award, including through electronic medium.

2.4 “Board” means the Board of Directors of the Company.

2.5 “Change in Control” means a change in ownership or control of the Company after the Registration Date effected through either of the following transactions:

(a) the direct or indirect acquisition by any person or related group of persons (other than an acquisition from or by the Company or by a Company-sponsored employee benefit plan or by a person that directly or indirectly controls, is controlled by, or is under common control with, the Company) of beneficial ownership (within the meaning of Rule 13d-3 under the Exchange Act) of securities possessing more than fifty percent (50%) of the total combined voting power of the Company’s outstanding securities pursuant to a tender or exchange offer made directly to the Company’s shareholders which a majority of the Incumbent Board (as defined below) who are not affiliates or associates of the offeror under Rule 12b-2 promulgated under the Exchange Act do not recommend such shareholders accept, or

(b) the individuals who, as of the Effective Date, are members of the Board (the “Incumbent Board”), cease for any reason to constitute at least fifty percent (50%) of the Board; provided that if the election, or nomination for election by the Company’s shareholders, of any new member of the Board is approved by a vote of at least fifty percent (50%) of the Incumbent Board, such new member of the Board shall be considered as a member of the Incumbent Board.

2.6 “Code” means the Internal Revenue Code of 1986 of the United States, as amended.

2.7 “Consultant” means any consultant or adviser if: (a) the consultant or adviser renders bona fide services to a Service Recipient; (b) the services rendered by the consultant or adviser are not in connection with the offer or sale of securities in a capital-raising transaction and do not directly or indirectly promote or maintain a market for the Company’s securities; and (c) the consultant or adviser is a natural person who has contracted directly with the Service Recipient to render such services.

2.8 “Corporate Transaction” means any of the following transactions, provided, however, that the Board shall determine under (d) and (e) whether multiple transactions are related, and its determination shall be final, binding and conclusive:

(a) an amalgamation, arrangement or consolidation or scheme of arrangement in which the Company is not the surviving entity, except for a transaction the principal purpose of which is to change the jurisdiction in which the Company is incorporated;

(b) the sale, transfer or other disposition of all or substantially all of the assets of the Company;

(c) the complete liquidation or dissolution of the Company;

(d) any reverse takeover or series of related transactions culminating in a reverse takeover (including, but not limited to, a tender offer followed by a reverse takeover) in which the Company is the surviving entity but (A) the Ordinary Shares of the Company outstanding immediately prior to such takeover are converted or exchanged by virtue of the takeover into other property, whether in the form of securities, cash or otherwise, or (B) in which securities possessing more than fifty percent (50%) of the total combined voting power of the Company’s outstanding securities are transferred to a person or persons different from those who held such securities immediately prior to such takeover or the initial transaction culminating in such takeover, but excluding any such transaction or series of related transactions that the Board determines shall not be a Corporate Transaction; or

(e) acquisition in a single or series of related transactions by any person or related group of persons (other than the Company or by a Company-sponsored employee benefit plan) of beneficial ownership (within the meaning of Rule 13d-3 under the Exchange Act) of securities possessing more than fifty percent (50%) of the total combined voting power of the Company’s outstanding securities but excluding any such transaction or series of related transactions that the Board determines shall not be a Corporate Transaction.

2.9 “Disability” means that the Participant qualifies to receive long-term disability payments under the Service Recipient’s long-term disability insurance program, as it may be amended from time to time, to which the Participant provides services regardless of whether the Participant is covered by such policy. If the Service Recipient to which the Participant provides service does not have a long-term disability plan in place, “Disability” means that a Participant is unable to carry out the responsibilities and functions of the position held by the Participant by reason of any medically determinable physical or mental impairment for a period of not less than ninety (90) consecutive days. A Participant will not be considered to have incurred a Disability unless he or she furnishes proof of such impairment sufficient to satisfy the Board in its discretion.

2.10 “Effective Date” shall have the meaning set forth in Section 10.1.

2.11 “Employee” means any person, including an officer or member of the Board of the Company, any Parent or Subsidiary of the Company, who is in the employ of a Service Recipient, subject to the control and direction of the Service Recipient as to both the work to be performed and the manner and method of performance. The payment of a director’s fee by a Service Recipient shall not be sufficient to constitute “employment” by the Service Recipient.

2.12 “Exchange Act” means the Securities Exchange Act of 1934 of the United States, as amended.

2.13 “Fair Market Value” means, as of any date, the value of Shares determined as follows:

(a) If the Shares are listed on one or more established stock exchanges or national market systems, including without limitation, The New York Stock Exchange and The Nasdaq Global Market, its Fair Market Value shall be the closing sales price for such shares (or the closing bid, if no sales were reported) as quoted on the principal exchange or system on which the Shares are listed (as determined by the Board) on the date of determination (or, if no closing sales price or closing bid was reported on that date, as applicable, on the last trading date such closing sales price or closing bid was reported), as reported in The Wall Street Journal or such other source as the Board deems reliable;

(b) If the Shares are regularly quoted on an automated quotation system (including the OTC Bulletin Board) or by a recognized securities dealer, its Fair Market Value shall be the closing sales price for such shares as quoted on such system or by such securities dealer on the date of determination, but if selling prices are not reported, the Fair Market Value of a Share shall be the mean between the high bid and low asked prices for the Shares on the date of determination (or, if no such prices were reported on that date, on the last date such prices were reported), as reported in The Wall Street Journal or such other source as the Board deems reliable; or

(c) In the absence of an established market for the Shares of the type described in (a) and (b), above, the Fair Market Value thereof shall be determined by the Board in good faith and in its discretion by reference to (i) the placing price of the latest private placement of the Shares and the development of the Company’s business operations and the general economic and market conditions since such latest private placement, (ii) other third party transactions involving the Shares and the development of the Company’s business operation and the general economic and market conditions since such sale, (iii) an independent valuation of the Shares, or (iii) such other methodologies or information as the Board determines to be indicative of Fair Market Value, relevant.

2.14 “Incentive Share Option” means an Option that is intended to meet the requirements of Section 422 of the Code or any successor provision thereto.

2.15 “Independent Director” means a member of the Board who is not an Employee of the Company.

2.16 “Non-Employee Director” means a member of the Board who qualifies as a “Non-Employee Director” as defined in Rule 16b-3(b)(3) under the Exchange Act, or any successor definition adopted by the Board.

2.17 “Non-Qualified Share Option” means an Option that is not intended to be an Incentive Share Option.

2.18 “Option” means a right granted to a Participant pursuant to Article 5 of the Plan to purchase a specified number of Shares at a specified price during specified time periods. An Option may be either an Incentive Share Option or a Non-Qualified Share Option.

2.19 “Participant” means a person who, as a member of the Board, Consultant or Employee, has been granted an Award pursuant to the Plan.

2.20 “Parent” means a parent corporation under Section 424(e) of the Code.

2.21 “Plan” means this 2011 Share Incentive Award Plan, as it may be amended from time to time.

2.22 “Related Entity” means any business, corporation, partnership, limited liability company or other entity in which the Company, a Parent or Subsidiary of the Company holds a substantial ownership interest, directly or indirectly but which is not a Subsidiary and which the Board designates as a Related Entity for purposes of the Plan.

2.23 “Restricted Share” means a Share awarded to a Participant pursuant to Article 6 that is subject to certain restrictions and may be subject to risk of compulsory repurchase.

2.24 “Restricted Share Unit” means the right granted to a Participant pursuant to Article 6 to receive a Share at a future date.

2.25 “Securities Act” means the Securities Act of 1933 of the United States, as amended.

2.26 “Service Recipient” means the Company, any Parent or Subsidiary of the Company and any Related Entity to which a Participant provides services as an Employee, Consultant or as a Director.

2.27 “Share” means an Ordinary Share of the Company, and such other securities of the Company that may be substituted for Shares pursuant to Article 8.

2.28 “Subsidiary” means any corporation or other entity of which a majority of the outstanding voting shares or voting power is beneficially owned directly or indirectly by the Company.

2.29 “Trading Date” means the closing of the first sale to the general public of the Shares pursuant to an effective registration statement under Applicable Law, which results in the Shares being publicly traded on one or more established stock exchanges or national market systems.

ARTICLE 3 SHARES SUBJECT TO THE PLAN

3.1 Number of Shares.

(a) Subject to the provisions of Article 8 and Section 3.1(b), the maximum aggregate number of Shares which may be issued pursuant to all Awards (including Incentive Share Options) is 1,000,000.

In addition to the above the maximum aggregate number of Shares, the Board may authorize, grant and issue Shares and Options pursuant to or in substitution for any plans, options or other awards assumed in connection with any mergers and acquisitions; provided that such grants comply with applicable law and the rules of any exchange on which the Company’s Shares are traded.

(b) To the extent that an Award terminates, expires, or lapses for any reason, any Shares subject to the Award shall again be available for the grant of an Award pursuant to the Plan. To the extent permitted by Applicable Laws, Shares issued in assumption of, or in substitution for, any outstanding awards of any entity acquired in any form or combination by the Company or any Parent or Subsidiary of the Company shall not be counted against Shares available for grant pursuant to the Plan. Shares delivered by the Participant or withheld by the Company upon the exercise of any Award under the Plan, in payment of the exercise price thereof or tax withholding thereon, may again be optioned, granted or awarded hereunder, subject to the limitations of Section 3.1(a). If any Restricted Shares are forfeited by the Participant or repurchased by the Company, such Shares may again be optioned, granted or awarded hereunder, subject to the limitations of Section 3.1(a). Notwithstanding the provisions of this Section 3.1(b), no Shares may again be optioned, granted or awarded if such action would cause an Incentive Share Option to fail to qualify as an incentive share option under Section 422 of the Code.

3.2 Shares Distributed. Any Shares distributed pursuant to an Award may consist, in whole or in part, of authorized and unissued Shares, treasury Shares (subject to Applicable Laws) or Shares purchased on the open market. Additionally, in the discretion of the Board, American Depository Shares in an amount equal to the number of Shares which otherwise would be distributed pursuant to an Award may be distributed in lieu of Shares in settlement of any Award. If the number of Shares represented by an American Depository Share is other than on a one-to-one basis, the limitations of Section 3.1 shall be adjusted to reflect the distribution of American Depository Shares in lieu of Shares.

ARTICLE 4 ELIGIBILITY AND PARTICIPATION

4.1 Eligibility. Persons eligible to participate in this Plan include Employees, Consultants, and all members of the Board, as determined by the Board.

4.2 Participation. Subject to the provisions of the Plan, the Board may, from time to time, select from among all eligible individuals, those to whom Awards shall be granted and shall determine the nature and amount of each Award.

4.3 Jurisdictions. In order to assure the viability of Awards granted to Participants employed in various jurisdictions, the Board may provide for such special terms as it may consider necessary or appropriate to accommodate differences in local law, tax policy, or custom applicable in the jurisdiction in which the Participant resides or is employed. Moreover, the Board may approve such supplements to, or amendments, restatements, or alternative versions of, the Plan as it may consider necessary or appropriate for such purposes without thereby affecting the terms of the Plan as in effect for any other purpose; *provided, however*, that no such supplements, amendments, restatements, or alternative versions shall increase the share limitations contained in Section 3.1 of the Plan. Notwithstanding the foregoing, the Board may not take any actions hereunder, and no Awards shall be granted, that would violate any Applicable Laws.

ARTICLE 5 OPTIONS

5.1 General. The Board is authorized to grant Options to Participants on the following terms and conditions:

(a) Exercise Price. The exercise price per Share subject to an Option shall be determined by the Board and set forth in the Award Agreement which may be a fixed or variable price related to the Fair Market Value of the Shares; *provided, however*, that no Option may be granted to an individual subject to taxation in the United States at less than the Fair Market Value on the date of grant.

(b) Time and Conditions of Exercise. The Board shall determine the time or times at which an Option may be exercised in whole or in part, including exercise prior to vesting; *provided* that the term of any Option granted under the Plan shall not exceed ten years, except as provided in Section 11.1. The Board shall also determine any conditions, if any, that must be satisfied before all or part of an Option may be exercised.

(c) Payment. The Board shall determine the methods by which the exercise price of an Option may be paid, the form of payment, including, without limitation (i) cash or check denominated in U.S. Dollars, (ii) to the extent permissible under the Applicable Laws, cash or check in Chinese Renminbi, (iii) cash or check denominated in any other local currency as approved by the Board, (iv) Shares held for such period of time as may be required by the Board in order to avoid adverse financial accounting consequences and having a Fair Market Value on the date of delivery equal to the aggregate exercise price of the Option or exercised portion thereof, (v) after the Trading Date the delivery of a notice that the Participant has placed a market sell order with a broker with respect to Shares then issuable upon exercise of the Option, and that the broker has been directed to pay a sufficient portion of the net proceeds of the sale to the Company in satisfaction of the Option exercise price; *provided* that payment of such proceeds is then made to the Company upon settlement of such sale, (vi) other property acceptable to the Board with a Fair Market Value equal to the exercise price, or (vii) any combination of the foregoing. Notwithstanding any other provision of the Plan to the contrary, no Participant who is a member of the Board or an “executive officer” of the Company within the meaning of Section 13(k) of the Exchange Act shall be permitted to pay the exercise price of an Option in any method which would violate Section 13(k) of the Exchange Act.

(d) Evidence of Grant. All Options shall be evidenced by an Award Agreement between the Company and the Participant. The Award Agreement shall include such additional provisions as may be specified by the Board.

5.2 Incentive Share Options. Incentive Share Options may be granted to Employees of the Company, a Parent or Subsidiary of the Company. Incentive Share Options may not be granted to Employees of a Related Entity or to Independent Directors or Consultants. The terms of any Incentive Share Options granted pursuant to the Plan, in addition to the requirements of Section 5.1, must comply with the following additional provisions of this Section 5.2:

(a) Expiration of Option. An Incentive Share Option may not be exercised to any extent by anyone after the first to occur of the following events:

(i) Ten years from the date it is granted, unless an earlier time is set in the Award Agreement;

(ii) Thirty days after the Participant's termination of employment as an Employee or such other period as the Board may determine from time to time; and

(iii) One year after the date of the Participant's termination of employment or service on account of Disability or death. Upon the Participant's Disability or death, any Incentive Share Options exercisable at the Participant's Disability or death may be exercised by the Participant's legal representative or representatives, by the person or persons entitled to do so pursuant to the Participant's last will and testament, or, if the Participant fails to make testamentary disposition of such Incentive Share Option or dies intestate, by the person or persons entitled to receive the Incentive Share Option pursuant to the applicable laws of descent and distribution.

(b) Individual Dollar Limitation. The aggregate Fair Market Value (determined as of the time the Option is granted) of all Shares with respect to which Incentive Share Options are first exercisable by a Participant in any calendar year may not exceed \$100,000 or such other limitation as imposed by Section 422(d) of the Code, or any successor provision. To the extent that Incentive Share Options are first exercisable by a Participant in excess of such limitation, the excess shall be considered Non-Qualified Share Options.

(c) Ten Percent Owners. An Incentive Share Option shall be granted to any individual who, at the date of grant, owns Shares possessing more than ten percent of the total combined voting power of all classes of shares of the Company only if such Option is granted at a price that is not less than 110% of Fair Market Value on the date of grant and the Option is exercisable for no more than five years from the date of grant.

(d) Transfer Restriction. The Participant shall give the Company prompt notice of any disposition of Shares acquired by exercise of an Incentive Share Option within (i) two years from the date of grant of such Incentive Share Option or (ii) one year after the transfer of such Shares to the Participant.

(e) Expiration of Incentive Share Options. No Award of an Incentive Share Option may be made pursuant to this Plan after the tenth anniversary of the Effective Date.

(f) Right to Exercise. During a Participant's lifetime, an Incentive Share Option may be exercised only by the Participant.

ARTICLE 6 RESTRICTED SHARES AND RESTRICTED SHARE UNITS

6.1 Grant of Restricted Shares. The Board is authorized to make Awards of Restricted Shares and/or Restricted Share Units to any Participant selected by the Board in such amounts and subject to such terms and conditions as determined by the Board. All Awards of Restricted Shares shall be evidenced by an Award Agreement.

6.2 Issuance and Restrictions. Restricted Shares shall be subject to such restrictions on transferability and other restrictions as the Board may impose (including, without limitation, limitations on the right to vote Restricted Shares or the right to receive dividends on the Restricted Share). These restrictions may lapse separately or in combination at such times, pursuant to such circumstances, in such installments, or otherwise, as the Board determines at the time of the grant of the Award or thereafter.

6.3 Compulsory Repurchase. Except as otherwise determined by the Board at the time of the grant of the Award or thereafter, upon termination of employment or service during the applicable restriction period, Restricted Shares that are at that time subject to restrictions shall be compulsorily repurchased in accordance with the Award Agreement; *provided, however*, that the Board may (a) provide in any Restricted Share Award Agreement that restrictions or repurchase conditions relating to Restricted Shares will be waived in whole or in part in the event of terminations resulting from specified causes, and (b) in other cases waive in whole or in part restrictions or repurchase conditions relating to Restricted Shares.

6.4 Certificates for Restricted Shares. Restricted Shares granted pursuant to the Plan may be evidenced in such manner as the Board shall determine. If certificates representing Restricted Shares are registered in the name of the Participant, certificates must bear an appropriate legend referring to the terms, conditions, and restrictions applicable to such Restricted Shares, and the Company may, at its discretion, retain physical possession of the certificate until such time as all applicable restrictions lapse.

6.5 Restricted Share Units. At the time of grant, the Board shall specify the date or dates on which the Restricted Share Units shall become fully vested and nonforfeitable, and may specify such conditions to vesting as it deems appropriate. At the time of grant, the Board shall specify the maturity date applicable to each grant of Restricted Share Units which shall be no earlier than the vesting date or dates of the Award and may be determined at the election of the grantee. On the maturity date, the Company shall, subject to Sections 7.4 and 7.5, transfer to the Participant one unrestricted, fully transferable Share for each Restricted Share Unit scheduled to be paid out on such date and not previously repurchased.

ARTICLE 7 PROVISIONS APPLICABLE TO AWARDS

7.1 Award Agreement. Awards under the Plan shall be evidenced by Award Agreements that set forth the terms, conditions and limitations for each Award which may include the term of an Award, the provisions applicable in the event the Participant's employment or service terminates, and the Company's authority to unilaterally or bilaterally amend, modify, suspend, cancel or rescind an Award.

7.2 Limits on Transfer. No right or interest of a Participant in any Award may be pledged, encumbered, or hypothecated to or in favor of any party other than the Company or a Subsidiary, or shall be subject to any lien, obligation, or liability of such Participant to any other party other than the Company or a Subsidiary. Except as otherwise provided by the Board, no Award shall be assigned, transferred, or otherwise disposed of by a Participant other than by will or the laws of descent and distribution. The Board by express provision in the Award or an amendment thereto may permit an Award (other than an Incentive Share Option) to be transferred to, exercised by and paid to certain persons or entities related to the Participant, including but not limited to members of the Participant's family, charitable institutions, or trusts or other entities whose beneficiaries or beneficial owners are members of the Participant's family and/or charitable institutions, or to such other persons or entities as may be expressly approved by the Board, pursuant to such conditions and procedures as the Board may establish. Any permitted transfer shall be subject to the condition that the Board receive evidence satisfactory to it that the transfer is being made for estate and/or tax planning purposes (or to a "blind trust" in connection with the Participant's termination of employment or service with the Company or a Subsidiary to assume a position with a governmental, charitable, educational or similar non-profit institution) and on a basis consistent with the Company's lawful issue of securities.

7.3 Beneficiaries. Notwithstanding Section 7.2, a Participant may, in the manner determined by the Board, designate a beneficiary to exercise the rights of the Participant and to receive any distribution with respect to any Award upon the Participant's death. A beneficiary, legal guardian, legal representative, or other person claiming any rights pursuant to the Plan is subject to all terms and conditions of the Plan and any Award Agreement applicable to the Participant, except to the extent the Plan and Award Agreement otherwise provide, and to any additional restrictions deemed necessary or appropriate by the Board. If the Participant is married and resides in a community property state, a designation of a person other than the Participant's spouse as his or her beneficiary

with respect to more than 50% of the Participant's interest in the Award shall not be effective without the prior written consent of the Participant's spouse. If no beneficiary has been designated or survives the Participant, payment shall be made to the person entitled thereto pursuant to the Participant's will or the laws of descent and distribution. Subject to the foregoing, a beneficiary designation may be changed or revoked by a Participant at any time provided the change or revocation is filed with the Board.

7.4 Share Certificates. Notwithstanding anything herein to the contrary, the Company shall not be required to issue or deliver any certificates evidencing shares of Share pursuant to the exercise of any Award, unless and until the Board has determined, with advice of counsel, that the issuance and delivery of such certificates is in compliance with all Applicable Laws, regulations of governmental authorities and, if applicable, the requirements of any exchange on which the Shares are listed or traded. All Share certificates delivered pursuant to the Plan are subject to any stop-transfer orders and other restrictions as the Board deems necessary or advisable to comply with all Applicable Laws, and the rules of any national securities exchange or automated quotation system on which the Shares are listed, quoted, or traded. The Board may place legends on any Share certificate to reference restrictions applicable to the Share. In addition to the terms and conditions provided herein, the Board may require that a Participant make such reasonable covenants, agreements, and representations as the Board, in its discretion, deems advisable in order to comply with any such laws, regulations, or requirements. The Board shall have the right to require any Participant to comply with any timing or other restrictions with respect to the settlement or exercise of any Award, including a window-period limitation, as may be imposed in the discretion of the Board.

7.5 Paperless Administration. Subject to Applicable Laws, the Board may make Awards, provide applicable disclosure and procedures for exercise of Awards by an internet website or interactive voice response system for the paperless administration of Awards.

7.6 Foreign Currency. A Participant may be required to provide evidence that any currency used to pay the exercise price of any Award were acquired and taken out of the jurisdiction in which the Participant resides in accordance with Applicable Laws, including foreign exchange control laws and regulations. In the event the exercise price for an Award is paid in Chinese Renminbi or other foreign currency, as permitted by the Board, the amount payable will be determined by conversion from U.S. dollars at the official rate promulgated by the People's Bank of China for Chinese Renminbi, or for jurisdictions other than the People's Republic of China, the exchange rate as selected by the Board on the date of exercise.

ARTICLE 8 CHANGES IN CAPITAL STRUCTURE

8.1 Adjustments. In the event of any dividend, share split or subdivision, combination or consolidation of shares, exchange of Shares, amalgamation, arrangement or consolidation, reorganization of the Company, including the Company becoming a subsidiary in a transaction not involving a Corporate Transaction, spin-off, recapitalization or other distribution (other than normal cash dividends) of Company assets to its shareholders, or any other change affecting the shares of Shares or the share price of a Share, the Board shall make such proportionate and equitable adjustments, if any, to reflect such change with respect to (a) the aggregate number and type of shares that may be issued under the Plan (including, but not limited to, adjustments of the limitations in Section 3.1 and substitutions of shares in a parent or surviving company); (b) the terms and conditions of any outstanding Awards (including, without limitation, any applicable performance targets or criteria with respect thereto); and (c) the grant or exercise price per share for any outstanding Awards under the Plan. The form and manner of any such adjustments shall be determined by the Board in its sole discretion.

8.2 Acceleration upon a Change of Control. Except as may otherwise be provided in any Award Agreement or any other written agreement entered into by and between the Company and a Participant, if a Change of Control occurs and a Participant's Awards are not converted, assumed, or replaced by a successor, such Awards shall become fully exercisable and all restrictions on such Awards shall lapse. Upon, or in anticipation of, a Change of Control, the Board may in its sole discretion provide for (i) any and all Awards outstanding hereunder to terminate at a specific time in the future and shall give each Participant the right to exercise such Awards

during a period of time as the Board shall determine, (ii) either the purchase of any Award for an amount of cash equal to the amount that could have been attained upon the exercise of such Award or realization of the Participant's rights had such Award been currently exercisable or payable or fully vested (and, for the avoidance of doubt, if as of such date the Board determines in good faith that no amount would have been attained upon the exercise of such Award or realization of the Participant's rights, then such Award may be terminated by the Company without payment), (iii) the replacement of such Award with other rights or property selected by the Board in its sole discretion or the assumption of or substitution of such Award by the successor or surviving corporation, or a parent or subsidiary thereof, with appropriate adjustments as to the number and kind of Shares and prices, or (iv) provide for payment of Awards in cash based on the value of Shares on the date of the Change of Control plus reasonable interest on the Award through the date such Award would otherwise be vested or have been paid in accordance with its original terms, if necessary to comply with Section 409A of the Code.

8.3 Outstanding Awards – Corporate Transactions. In the event of a Corporate Transaction, each Award will terminate upon the consummation of the Corporate Transaction, unless the Award is assumed by the successor entity or Parent thereof in connection with the Corporate Transaction. Except as provided otherwise in an individual Award Agreement, in the event of a Corporate Transaction and:

(a) the Award either is (x) assumed by the successor entity or Parent thereof or replaced with a comparable Award (as determined by the Board) with respect to shares of the capital stock of the successor entity or Parent thereof or (y) replaced with a cash incentive program of the successor entity which preserves the compensation element of such Award existing at the time of the Corporate Transaction and provides for subsequent payout in accordance with the same vesting schedule applicable to such Award, then such Award (if assumed), the replacement Award (if replaced), or the cash incentive program automatically shall become fully vested, exercisable and payable and be released from any restrictions on transfer (other than transfer restrictions applicable to Options) and repurchase or forfeiture rights, immediately upon termination of the Participant's employment or service with all Service Recipient within twelve (12) months of the Corporate Transaction without cause; and

(b) For each Award that is neither assumed nor replaced, such portion of the Award shall automatically become fully vested and exercisable and be released from any repurchase or forfeiture rights (other than repurchase rights exercisable at Fair Market Value) for all of the Shares at the time represented by such portion of the Award, immediately prior to the specified effective date of such Corporate Transaction, provided that the Participant remains an Employee, Consultant or Director on the effective date of the Corporate Transaction.

8.4 Outstanding Awards – Other Changes. In the event of any other change in the capitalization of the Company or corporate change other than those specifically referred to in this Article 8, the Board may, in its absolute discretion, make such adjustments in the number and class of shares subject to Awards outstanding on the date on which such change occurs and in the per share grant or exercise price of each Award as the Board may consider appropriate to prevent dilution or enlargement of rights.

8.5 No Other Rights. Except as expressly provided in the Plan, no Participant shall have any rights by reason of any subdivision or consolidation of shares of any class, the payment of any dividend, any increase or decrease in the number of shares of any class or any dissolution, liquidation, merger, or consolidation of the Company or any other corporation. Except as expressly provided in the Plan or pursuant to action of the Board under the Plan, no issuance by the Company of shares of any class, or securities convertible into shares of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number of shares subject to an Award or the grant or exercise price of any Award.

ARTICLE 9 ADMINISTRATION

9.1 Board. The Plan shall be administered by the Board of Directors (the "Board"). The full Board, acting by majority of its members in office shall conduct the general administration of the Plan if required by Applicable law.

9.2 Action by the Board. A majority of the Board shall constitute a quorum. The acts of a majority of the members present at any meeting at which a quorum is present, and acts approved in writing by a majority of the Board in lieu of a meeting, shall be deemed the acts of the Board. Each member of the Board is entitled to, in good faith, rely or act upon any report or other information furnished to that member by any officer or other employee of the Company or any Subsidiary, the Company's independent certified public accountants, or any executive compensation consultant or other professional retained by the Company to assist in the administration of the Plan.

9.3 Authority of Board. Subject to any specific designation in the Plan, the Board has the exclusive power, authority and discretion to:

- (a) Designate Participants to receive Awards;
- (b) Determine the type or types of Awards to be granted to each Participant;
- (c) Determine the number of Awards to be granted and the number of Shares to which an Award will relate;
- (d) Determine the terms and conditions of any Award granted pursuant to the Plan, including, but not limited to, the exercise price, grant price, or purchase price, any restrictions or limitations on the Award, any schedule for lapse of restrictions or restrictions on the exercisability of an Award, and accelerations or waivers thereof, any provisions related to non-competition and recapture of gain on an Award, based in each case on such considerations as the Board in its sole discretion determines;
- (e) Determine whether, to what extent, and pursuant to what circumstances an Award may be settled in, or the exercise price of an Award may be paid in, cash, Shares, other Awards, or other property, or an Award may be canceled, or surrendered;
- (f) Prescribe the form of each Award Agreement, which need not be identical for each Participant;
- (g) Decide all other matters that must be determined in connection with an Award;
- (h) Establish, adopt, or revise any rules and regulations as it may deem necessary or advisable to administer the Plan;
- (i) Interpret the terms of, and any matter arising pursuant to, the Plan or any Award Agreement; and
- (j) Make all other decisions and determinations that may be required pursuant to the Plan or as the Board deems necessary or advisable to administer the Plan.

9.4 Decisions Binding. The Board's interpretation of the Plan, any Awards granted pursuant to the Plan, any Award Agreement and all decisions and determinations by the Board with respect to the Plan are final, binding, and conclusive on all parties.

ARTICLE 10 EFFECTIVE AND EXPIRATION DATE

10.1 Effective Date. The Plan is effective as of the date the Plan is approved by the Company's shareholders (the "Effective Date"). The Plan will be deemed to be approved by the shareholders if it receives the affirmative vote of the holders of a majority of the share capital of the Company present or represented and entitled to vote at a meeting duly held in accordance with the applicable provisions of the Company's Memorandum of Association and Articles of Association.

10.2 Expiration Date. The Plan will expire on, and no Award may be granted pursuant to the Plan after, the tenth anniversary of the Effective Date. Any Awards that are outstanding on the tenth anniversary of the Effective Date shall remain in force according to the terms of the Plan and the applicable Award Agreement.

ARTICLE 11
AMENDMENT, MODIFICATION, AND TERMINATION

11.1 Amendment, Modification, And Termination. With the approval of the Board, at any time and from time to time, the Board may terminate, amend or modify the Plan; *provided, however*, that (a) to the extent necessary and desirable to comply with Applicable Laws, or stock exchange rules, the Company shall obtain shareholder approval of any Plan amendment in such a manner and to such a degree as required, and (b) shareholder approval is required for any amendment to the Plan that (i) increases the number of Shares available under the Plan (other than any increase as provided in Section 3 and any adjustment as provided by Article 8), (ii) permits the Board to extend the term of the Plan or the exercise period for an Option beyond ten years from the date of grant, or (iii) results in a material increase in benefits or a change in eligibility requirements.

11.2 Awards Previously Granted. Except with respect to amendments made pursuant to Section 12.15, no termination, amendment, or modification of the Plan shall adversely affect in any material way any Award previously granted pursuant to the Plan without the prior written consent of the Participant.

ARTICLE 12
GENERAL PROVISIONS

12.1 No Rights to Awards. No Participant, employee, or other person shall have any claim to be granted any Award pursuant to the Plan, and neither the Company nor the Board is obligated to treat Participants, employees, and other persons uniformly.

12.2 No Shareholders Rights. No Award gives the Participant any of the rights of a Shareholder of the Company unless and until Shares are in fact issued to such person in connection with such Award.

12.3 Taxes. No Shares shall be delivered under the Plan to any Participant until such Participant has made arrangements acceptable to the Board for the satisfaction of any income and employment tax withholding obligations under Applicable Laws. The Company or any Subsidiary shall have the authority and the right to deduct or withhold, or require a Participant to remit to the Company, an amount sufficient to satisfy all applicable taxes (including the Participant's payroll tax obligations) required or permitted by law to be withheld with respect to any taxable event concerning a Participant arising as a result of this Plan. The Board may in its discretion and in satisfaction of the foregoing requirement allow a Participant to elect to have the Company withhold Shares otherwise issuable under an Award (or allow the return of Shares) having a Fair Market Value equal to the sums required to be withheld. Notwithstanding any other provision of the Plan, the number of Shares which may be withheld with respect to the issuance, vesting, exercise or payment of any Award (or which may be repurchased from the Participant of such Award after such Shares were acquired by the Participant from the Company) in order to satisfy the Participant's federal, state, local and foreign income and payroll tax liabilities with respect to the issuance, vesting, exercise or payment of the Award shall, unless specifically approved by the Board, be limited to the number of Shares which have a Fair Market Value on the date of withholding or repurchase equal to the aggregate amount of such liabilities based on the minimum statutory withholding rates for federal, state, local and foreign income tax and payroll tax purposes that are applicable to such supplemental taxable income.

12.4 No Right to Employment or Services. Nothing in the Plan or any Award Agreement shall interfere with or limit in any way the right of the Service Recipient to terminate any Participant's employment or services at any time, nor confer upon any Participant any right to continue in the employ or service of any Service Recipient.

12.5 Unfunded Status of Awards. The Plan is intended to be an "unfunded" plan for incentive compensation. With respect to any payments not yet made to a Participant pursuant to an Award, nothing contained in the Plan or any Award Agreement shall give the Participant any rights that are greater than those of a general creditor of the Company or any Subsidiary.

12.6 Indemnification. To the extent allowable pursuant to applicable law, each member of the Board or of the Board shall be indemnified and held harmless by the Company from any loss, cost, liability, or expense that may be imposed upon or reasonably incurred by such member in connection with or resulting from any claim, action, suit, or proceeding to which he or she may be a party or in which he or she may be involved by reason of any action or failure to act pursuant to the Plan (save for in connection with fraud or dishonesty) and against and from any and all amounts paid by him or her in satisfaction of judgment in such action, suit, or proceeding against him or her; *provided* he or she gives the Company an opportunity, at its own expense, to handle and defend the same before he or she undertakes to handle and defend it on his or her own behalf. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such persons may be entitled pursuant to the Company's Memorandum of Association and Articles of Association, as a matter of law, or otherwise, or any power that the Company may have to indemnify them or hold them harmless.

12.7 Relationship to other Benefits. No payment pursuant to the Plan shall be taken into account in determining any benefits pursuant to any pension, retirement, savings, profit sharing, group insurance, welfare or other benefit plan of the Company or any Subsidiary except to the extent otherwise expressly provided in writing in such other plan or an agreement thereunder.

12.8 Expenses. The expenses of administering the Plan shall be borne by the Company and its Subsidiaries.

12.9 Titles and Headings. The titles and headings of the Sections in the Plan are for convenience of reference only and, in the event of any conflict, the text of the Plan, rather than such titles or headings, shall control.

12.10 Fractional Shares. No fractional shares of Share shall be issued and the Board shall determine, in its discretion, whether cash shall be given in lieu of fractional shares or whether such fractional shares shall be eliminated by rounding up or down as appropriate.

12.11 Government and Other Regulations. The obligation of the Company to make payment of awards in Share or otherwise shall be subject to all Applicable Laws and to such approvals by government agencies as may be required. The Company shall be under no obligation to register any of the Shares paid pursuant to the Plan under the Securities Act or any other similar law in any applicable jurisdiction. If the Shares paid pursuant to the Plan may in certain circumstances be exempt from registration pursuant to the Securities Act or other Applicable Laws, the Company may restrict the transfer of such shares in such manner as it deems advisable to ensure the availability of any such exemption.

12.12 Governing Law. The Plan and all Award Agreements shall be construed in accordance with and governed by the laws of the British Virgin Islands.

12.13 Appendices. The Board may approve such supplements, amendments or appendices to the Plan as it may consider necessary or appropriate for purposes of compliance with applicable laws or otherwise and such supplements, amendments or appendices shall be considered a part of the Plan; *provided, however*, that no such supplements shall increase the share limitations contained in Section 3.1 of the Plan.

12.15 Languages. The Plan is prepared and executed in the English and/or Chinese languages. In the event of any discrepancy between the two versions, the English language shall prevail.

* * * * *

I hereby certify that the foregoing Plan was duly adopted by the Board of Directors of VanceInfo Financial Solutions Limited on October 10, 2011.

* * * * *

I hereby certify that the foregoing Plan was initially approved by the shareholders of VanceInfo Financial Solutions Limited on October 10, 2011.

Executed on this 10th day of October , 2011.

/s/ Chris Shuning Chen

Director

**List of Subsidiaries of
VanceInfo Technologies Inc. 文思信息技术有限公司 (the “Registrant”)**

Name of Company	Jurisdiction of Incorporation	Percentage of Attributable Equity Interests
Subsidiaries		
1. VanceInfo Japan Inc.	a Japan company	99.9%
2. VanceInfo Creative Software Technology Ltd.	a PRC company	100%
3. VanceInfo Technologies Inc.	a Delaware, USA company	100%
4. VanceInfo Creative Software Technology Ltd.	a British Virgin Islands Company	100%
5. Nanjing VanceInfo Creative Software Technology Limited	a PRC company	100%
6. Shanghai VanceInfo Creative Software Technology Limited	a PRC company	100%
7. Shanghai VanceInfo Technologies Limited	a PRC company	100%
8. Beijing Viatt Information Technology Co., Ltd.	a PRC company	100%
9. VanceInfo Malaysia Inc. Sdn. Bhd.	a Malaysia company	100%
10. VanceInfo Technologies Limited	a Hong Kong company	100%
11. VanceInfo Technologies Limited	a PRC company	100%
12. Shenzhen VanceInfo Creative Software Technology Limited	a PRC company	100%
13. TP Teleservices Limited	a Hong Kong company	100%
14. TP (Hong Kong) Limited	a Hong Kong company	100%
15. TP Consultants Limited	a Hong Kong company	100%
16. TP (Taiwan) Limited	a Hong Kong company	100%
17. TP Software Technology (Shanghai) Co., Ltd.	a PRC company	100%
18. VanceInfo Financial Service Limited	a Hong Kong company	100%
19. VanceInfo Data Service (Shanghai) Co., Ltd.	a PRC company	100%
20. Lifewood Technology Limited	a Hong Kong company	100%
21. Lifewood Data Technology Limited	a Hong Kong company	100%
22. Lifewood Data Technology (Shenzhen) Limited	a PRC company	100%
23. Lifewood Data Technology (Dongguan) Limited	a PRC company	100%
24. VanceInfo Technologies Australia Pty. Ltd.	an Australian company	100%
25. VanceInfo Singapore Pte. Ltd.	a Singapore company	100%
26. VanceInfo Financial Solutions Limited	a British Virgin Islands company	100%
27. Beijing Kang Pu Wei Century Information Technology Co., Ltd.	a PRC company	100%
28. Beijing Data Pioneer Information Technology Co., Ltd.	a PRC company	100%
29. Beijing Sunwin Technology Co., Ltd.	a PRC company	100%

**Certification by the Chief Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Chris Shuning Chen, certify that:

1. I have reviewed this annual report on Form 20-F of VanceInfo Technologies Inc. 文思信息技术有限公司 (the “Company”);

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;

4. The Company’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the Company’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the Company’s internal control over financial reporting that occurred during the period covered by this annual report that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting; and

5. The Company’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company’s auditors and the audit committee of the Company’s board of directors (or persons performing the equivalent function):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company’s ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company’s internal control over financial reporting.

Date: April 26, 2012

By: /s/ Chris Shuning Chen

Name: Chris Shuning Chen

Title: Chief Executive Officer

**Certification by the Chief Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Sidney Xuande Huang, certify that:

1. I have reviewed this annual report on Form 20-F of VanceInfo Technologies Inc. 文思信息技术有限公司 (the “Company”);

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;

4. The Company’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the Company’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the Company’s internal control over financial reporting that occurred during the period covered by this annual report that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting; and

5. The Company’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company’s auditors and the audit committee of the Company’s board of directors (or persons performing the equivalent function):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company’s ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company’s internal control over financial reporting.

Date: April 26, 2012

By: /s/ Sidney Xuande Huang

Name: Sidney Xuande Huang

Title: Chief Financial Officer

**Certification by the Chief Executive Officer
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report of VanceInfo Technologies Inc. 文思信息技术有限公司 (the “Company”) on Form 20-F for the year ended December 31, 2011 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Chris Shuning Chen, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 26, 2012

By: /s/ Chris Shuning Chen

Name: Chris Shuning Chen

Title: Chief Executive Officer

**Certification by the Chief Financial Officer
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report of VanceInfo Technologies Inc. 文思信息技术有限公司 (the “Company”) on Form 20-F for the year ended December 31, 2011 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Sidney Xuande Huang, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 26, 2012

By: /s/ Sidney Xuande Huang

Name: Sidney Xuande Huang

Title: Chief Financial Officer

[Letterhead of Conyers Dill & Pearman (Cayman) Limited]

26 April, 2012

Matter No.: 876664
Doc Ref: 1230330.1
Tel: 852 2842 9511/2842 9554
David.Lamb@conyersdill.com
Rowan.Wu@conyersdill.com

VanceInfo Technologies Inc.
3/F, Building 8
Zhongguancun Software Park
Haidian District
Beijing, PRC 100193

Dear Sirs,

Re: VanceInfo Technologies Inc. 文思信息技术有限公司

We consent to the reference to our firm under the headings “Item 10.E - Additional Information - Taxation” in VanceInfo Technologies Inc.’s Annual Report on Form 20-F for the year ended December 31, 2011 (the “**Annual Report**”), which will be filed with the Securities and Exchange Commission (the “**SEC**”) in the month of April 2012. We also consent to the filing with the SEC of this consent letter as an exhibit to the Annual Report.

Yours faithfully,

/s/ Conyers Dill & Pearman (Cayman) Limited
Conyers Dill & Pearman (Cayman) Limited

[Letterhead of Fangda Partners]

April 26, 2012

VanceInfo Technologies Inc. 文思信息技术有限公司
3/F Building 8, Zhongguancun Software Park, Haidian District
Beijing 100193, People's Republic of China

Dear Sirs,

We consent to the reference to our firm under the headings “Item 3. Key Information - D. Risk Factors” and “Item 4. Information on the Company - B. Business Overview” in VanceInfo Technologies Inc.’s Annual Report on Form 20-F for the year ended December 31, 2011 (the “Annual Report”), which will be filed with the Securities and Exchange Commission (the “SEC”) in the month of April 2012. We also consent to the filing with the SEC of this consent letter as an exhibit to the Annual Report.

Yours faithfully,

/s/ Fangda Partners
Fangda Partners

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statement No. 333-151431 on Form S-8, No. 333-160287 and No. 333-170632 on Form F-3 of our report dated April 26, 2012, relating to the consolidated financial statements and financial statement schedule of VanceInfo Technologies Inc. and its subsidiaries (collectively the “Group”) and the effectiveness of the Group’s internal control over financial reporting, appearing in this Annual Report on Form 20-F of VanceInfo Technologies Inc. for the year ended December 31, 2011.

/s/ Deloitte Touche Tohmatsu CPA Ltd.
Beijing, the People’s Republic of China
April 26, 2012