51JOB, INC.
Form 20-F
March 30, 2018
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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

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# FORM 20-F

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**(Mark One)**

| | |
|---|---|
| **o** | **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934** |
| | **OR** |
| **x** | **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**<br>**For the fiscal year ended December 31, 2017** |
| | **OR** |
| **o** | **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** |
| | **For the transition period from to** |
| | **OR** |
| **o** | **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 . . . . . .

Commission file number: 000-50841

# 51job, Inc.

(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)

**Building 3**

**No. 1387, Zhang Dong Road**

**Shanghai 201203**

**People s Republic of China**

(Address of principal executive offices)

**Rick Yan, Chief Executive Officer**

**Telephone: +86-21-6160-1888**

**Facsimile: +86-21-6879-6233**

**Building 3**

**No. 1387, Zhang Dong Road**

**Shanghai 201203**

**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 |
|---|---|
| Common shares, par value US$0.0001 per share* | The NASDAQ Stock Market LLC |
| | (The NASDAQ Global Select Market) |

* Not for trading but only in connection with the listing of American depositary shares, or ADSs, on the NASDAQ Stock Market LLC. The ADSs are registered under the Securities Act of 1933, as amended, pursuant to a registration statement on Form F-6. Accordingly, the ADSs are exempt from registration under Section 12(b) of the Securities Exchange Act of 1934, as amended, pursuant to Rule 12a-8 thereunder. Each ADS represents the right to receive one common share of the Registrant.

Securities registered or to be registered pursuant to Section 12(g) of the Act: **None**

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Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: **None**

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report: 61,853,004 common shares, par value US$0.0001 per share.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

x Yes o No

If this 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.

o Yes x 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.

x Yes o 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).

x Yes o No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company. See definition of large accelerated filer, accelerated filer, and emerging growth company in Rule 12b-2 of the Exchange Act.

| Large accelerated filer x | Accelerated filer o | Non-accelerated filer o | Emerging growth company o |
|---|---|---|---|

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

The term new or revised financial accounting standard refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

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

| U.S. GAAP x | International Financial Reporting Standards as issued by the International Accounting Standards Board o | Other o |
|---|---|---|

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.

o Item 17 o 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).

o Yes x 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.

o Yes o No

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**INTRODUCTION**

Unless otherwise indicated, references in this annual report to:

- ADRs are to the American depositary receipts that evidence our ADSs;
- ADSs are to our American depositary shares, each of which represents one common share;
- China or the PRC are to the People s Republic of China, excluding for the purpose of this annual report Hong Kong, Macau and Taiwan;
- RMB are to Renminbi, the legal currency of the PRC;
- shares or common shares are to our common shares, with par value US$0.0001 per share;
- U.S. GAAP are to the generally accepted accounting principles in the United States of America; and
- US$ are to U.S. dollars, the legal currency of the United States of America.

Unless the context indicates otherwise, we, us, our company, our and 51job refer to 51job, Inc., its predecessor entities and subsidiaries, and the context of describing our operations, also include our affiliated entities.

In addition, unless otherwise indicated, references in this annual report to:

- 51net are to 51net.com Inc.;
- AdCo are to Shanghai Qianjin Advertising Co., Ltd.;
- Qian Cheng are to Beijing Qian Cheng Si Jin Advertising Co., Ltd.;
- Run An are to Beijing Run An Information Consultancy Co., Ltd.;
- Tech JV are to Qianjin Network Information Technology (Shanghai) Co., Ltd.;
- WFOE are to Qian Cheng Wu You Network Information Technology (Beijing) Co., Ltd.; and
- Wuhan AdCo are to Wuhan Mei Hao Qian Cheng Advertising Co., Ltd.

Any discrepancies in any table between the amounts identified as total amounts and the sum of the amounts listed therein are due to rounding.

This annual report contains translations of certain Renminbi amounts into U.S. dollar amounts at specified rates solely for your convenience. All translations from Renminbi to U.S. dollars were made at the noon buying rate in New York for cable transfers of Renminbi as certified for customs purposes by the Federal Reserve Bank of New York, which was RMB6.5063 to US$1.00 on December 29, 2017, as set forth in the Federal Reserve Board s H.10 Statistical Release. For further information on exchange rates, see Item 3. Key Information Selected Financial Data Exchange Rate Information.

This annual report on Form 20-F includes our audited consolidated statements of operations and comprehensive income data for the years ended December 31, 2015, 2016 and 2017, and audited consolidated balance sheets data as of December 31, 2016 and 2017.

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**FORWARD-LOOKING STATEMENTS**

This annual report on Form 20-F contains statements of a forward-looking nature. These statements are made within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, and as defined in the Private Securities Litigation Reform Act of 1995. You can identify these forward-looking statements by terminology such as may, will, should, is/are likely to, expect, intend, aim, anticipate, believe, estimate, predict, potential, continue or the negative of these terms or other comparable terminology. 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. The forward-looking statements included in this annual report relate to, among others:

- market acceptance of our services;
- our ability to expand into other recruitment and human resource services such as business process outsourcing;
- our ability to control our operating costs and expenses;
- our potential need for additional capital and the availability of such capital;
- behavioral and operational changes of our customers in meeting their human resource needs as they respond to evolving social, economic, regulatory and political changes in China as well as stock market volatilities;
- changes in our management team and other key personnel;
- introduction by our competitors of new or enhanced products and services;
- price competition in the market for the various human resource services that we provide in China;
- seasonality of our business;
- fluctuations in the value of the Renminbi against the U.S. dollar and other currencies;
- our ability to develop or introduce new products and services outside of the human resources industry;
- acquisitions or investments we have made or will make in the future; and
- fluctuations in general economic conditions in China and globally.

You should not place undue reliance on these forward-looking statements. You should read these statements in conjunction with the risks disclosed in Item 3. Key Information Risk Factors of this annual report and other risks outlined in our other filings with the U.S. Securities and Exchange Commission, or the SEC. Those risks are not exhaustive. Moreover, we operate in an emerging and evolving environment. New risks may emerge from time to time, and it is not possible for our management to predict all risks, nor can we assess the impact of such risks on our business or the extent to which any risk, or combination of risks, may cause actual results to differ materially from those contained in any

forward-looking statements. Except as required by law, we undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

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**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 tables present the selected consolidated financial information for our company. The selected consolidated statements of operations and comprehensive income data for the years ended December 31, 2015, 2016 and 2017, and the selected consolidated balance sheets data as of December 31, 2016 and 2017, are derived from our audited consolidated financial statements, which are included in this annual report beginning on page F-1. The selected consolidated statements of operations and comprehensive income data for the years ended December 31, 2013 and 2014, and the selected consolidated balance sheets data as of December 31, 2013, 2014 and 2015 have been derived from our audited consolidated financial statements, which are not included in this annual report. You should read the following information in conjunction with the consolidated financial statements and the related notes included elsewhere in this annual report and Item 5. Operating and Financial Review and Prospects. Our consolidated financial statements are prepared and presented in accordance with U.S. GAAP. The historical results presented below do not necessarily indicate results expected for any future period.

| | For the year ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2013 RMB | 2014 RMB | 2015 RMB | 2016 RMB | 2017 RMB | 2017 US$ |
| | (in thousands, except share and per share data) | | | | | |
| **Selected Consolidated Statements of Operations and Comprehensive Income Data:** | | | | | | |
| Revenues: | | | | | | |
| Online recruitment services | 1,084,448 | 1,248,101 | 1,356,442 | 1,547,143 | 1,871,700 | 287,675 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Print advertising | 51,023 | 14,247 | 5,328 | | | |
| Other human resource related revenues | 541,270 | 634,945 | 740,119 | 825,552 | 1,009,515 | 155,160 |
| Total revenues | 1,676,741 | 1,897,293 | 2,101,889 | 2,372,695 | 2,881,215 | 442,835 |
| Net revenues | 1,608,668 | 1,832,453 | 2,055,220 | 2,338,334 | 2,848,592 | 437,821 |
| Cost of services(1) | (442,454) | (496,000) | (569,979) | (663,001) | (763,440) | (117,339) |
| Gross profit | 1,166,214 | 1,336,453 | 1,485,241 | 1,675,333 | 2,085,152 | 320,482 |
| Operating expenses(1): | | | | | | |
| Sales and marketing | (459,802) | (563,565) | (654,468) | (783,492) | (917,784) | (141,061) |
| General and administrative | (217,765) | (249,275) | (263,067) | (280,002) | (296,608) | (45,588) |
| Total operating expenses | (677,567) | (812,840) | (917,535) | (1,063,494) | (1,214,392) | (186,649) |
| Income from operations | 488,647 | 523,613 | 567,706 | 611,839 | 870,760 | 133,833 |
| Income before income tax expense | 600,948 | 551,945 | 744,098 | 699,886 | 542,256 | 83,343 |
| Income tax expense | (100,308) | (113,035) | (126,301) | (134,699) | (169,493) | (26,051) |
| Net income | 500,640 | 438,910 | 617,797 | 565,187 | 372,763 | 57,292 |
| Net loss (income) attributable to non-controlling interests | | | 260 | 791 | (874) | (134) |
| Net income attributable to 51job, Inc. | 500,640 | 438,910 | 618,057 | 565,978 | 371,889 | 57,158 |
| Earnings per share: | | | | | | |
| Basic | 8.55 | 7.51 | 10.71 | 9.74 | 6.19 | 0.95 |
| Diluted | 8.33 | 7.35 | 10.41 | 9.68 | 6.08 | 0.93 |
| Weighted average number of common shares outstanding: | | | | | | |
| Basic | 58,551,925 | 58,475,397 | 57,714,850 | 58,132,976 | 60,087,306 | 60,087,306 |
| Diluted | 60,069,197 | 59,691,993 | 62,498,651 | 58,474,068 | 61,150,413 | 61,150,413 |

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| | As of December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2013 RMB | 2014 RMB | 2015 RMB | 2016 RMB | 2017 RMB | 2017 US$ |
| | (in thousands) | | | | | |
| **Selected Consolidated Balance Sheets Data:** | | | | | | |
| Assets: | | | | | | |
| Cash | 1,065,543 | 1,074,096 | 1,125,352 | 1,921,074 | 2,292,476 | 352,347 |
| Short-term investments | 2,081,964 | 3,420,650 | 3,825,547 | 4,159,318 | 4,839,550 | 743,825 |
| Total current assets | 3,580,622 | 5,045,764 | 5,560,298 | 6,719,585 | 7,878,241 | 1,210,863 |
| Total non-current assets | 542,369 | 535,956 | 861,964 | 1,016,325 | 2,145,491 | 329,757 |
| Total assets | 4,122,991 | 5,581,720 | 6,422,262 | 7,735,910 | 10,023,732 | 1,540,620 |
| Liabilities: | | | | | | |
| Convertible senior notes, current | | | | 1,257,709 | | |
| Total current liabilities | 785,889 | 963,974 | 1,136,038 | 2,703,022 | 2,042,654 | 313,951 |
| Convertible senior notes, non-current | | 1,111,207 | 1,108,877 | | 1,667,967 | 256,362 |
| Other non-current liabilities | 5,983 | 12,593 | 43,235 | 57,166 | 121,348 | 18,651 |
| Total liabilities | 791,872 | 2,087,774 | 2,288,150 | 2,760,188 | 3,831,969 | 388,964 |
| Total mezzanine equity | | | | | 228,230 | 35,078 |
| Shareholders equity: | | | | | | |
| Common shares | 48 | 48 | 48 | 49 | 50 | 8 |
| Additional paid-in capital | 1,316,713 | 1,040,639 | 1,052,788 | 1,299,350 | 1,809,732 | 278,151 |
| Total 51job, Inc. shareholders equity | 3,331,119 | 3,493,946 | 4,125,042 | 4,967,443 | 5,954,380 | 915,171 |
| Total equity | 3,331,119 | 3,493,946 | 4,134,112 | 4,975,722 | 5,963,533 | 916,578 |
| Total liabilities, mezzanine equity and equity | 4,122,991 | 5,581,720 | 6,422,262 | 7,735,910 | 10,023,732 | 1,540,620 |

(1) Share-based compensation was included in the consolidated statements of operations and comprehensive income data as follows:

| | For the year ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2013 RMB | 2014 RMB | 2015 RMB | 2016 RMB | 2017 RMB | 2017 US$ |
| | (in thousands) | | | | | |
| Cost of services | (10,391) | (12,997) | (13,770) | (14,080) | (14,029) | (2,156) |
| Operating expenses: | | | | | | |
| Sales and marketing | (8,933) | (11,173) | (11,837) | (12,104) | (12,060) | (1,854) |
| General and administrative | (45,534) | (57,210) | (60,338) | (59,886) | (59,879) | (9,203) |

**Exchange Rate Information**

We publish our financial statements in Renminbi. This annual report contains translations of certain Renminbi amounts into U.S. dollars at specified rates solely for your convenience. All translations from Renminbi to U.S. dollars were made at the noon buying rate in New York for cable transfers of Renminbi as certified for customs purposes by the Federal Reserve Bank of New York, which was RMB6.5063 to US$1.00 on December 29, 2017, as set forth in the Federal Reserve Board s H.10 Statistical Release. The noon buying rate on March 23, 2018 was RMB6.3110 to US$1.00. We make no representation that the Renminbi or U.S. dollar amounts referred to in this annual report could have been or could be converted into U.S. dollars or Renminbi, as the case may be, at any particular rate, the rates stated below, or at all. See Item 3. Key Information Risk Factors Risks Related to Doing Business in China Governmental control of currency conversion may affect the value of your investment and The fluctuation of the Renminbi may materially and adversely affect your investment as well as Item 11. Quantitative and Qualitative Disclosures about Market Risk Foreign Exchange Risk for discussions on our foreign exchange risk and the effects of currency control and fluctuating exchange rates on the value of our ADSs.

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The following table sets forth information regarding the noon buying rates for the periods indicated. The source of these rates is the Federal Reserve Board s H.10 Statistical Release.

| | | Noon buying rate of Renminbi per U.S. dollar | | |
|---|---|---|---|---|
| **Period** | **Period-end** | **Average(1)** | **Low** | **High** |
| 2013 | 6.0537 | 6.1412 | 6.2438 | 6.0537 |
| 2014 | 6.2046 | 6.1704 | 6.2591 | 6.0402 |
| 2015 | 6.4778 | 6.2869 | 6.4896 | 6.1870 |
| 2016 | 6.9430 | 6.6549 | 6.9580 | 6.4480 |
| 2017 | 6.5063 | 6.7350 | 6.9575 | 6.4773 |
| September | 6.6533 | 6.5690 | 6.6591 | 6.4773 |
| October | 6.6328 | 6.6254 | 6.6533 | 6.5712 |
| November | 6.6090 | 6.6200 | 6.6385 | 6.5967 |
| December | 6.5063 | 6.5932 | 6.6210 | 6.5063 |
| 2018 | | | | |
| January | 6.2841 | 6.4233 | 6.5263 | 6.2841 |
| February | 6.3280 | 6.3183 | 6.3471 | 6.2649 |
| March (through March 23) | 6.3110 | 6.3283 | 6.3565 | 6.3093 |

(1) Annual averages are calculated from month-end rates. Monthly averages are calculated using the average of the daily rates during the relevant period.

## B. Capitalization and Indebtedness

Not applicable.

## C. Reasons for the Offer and Use of Proceeds

Not applicable.

## D. Risk Factors

**Risks Related to Our Business**

***Because we face significant competition in all of our businesses, we may lose market share and our results of operations may be materially and adversely affected.***

We face significant competition in our online recruitment services and our other human resource related services businesses. Our online recruitment services are conducted through several websites, led by our core 51job.com platform. These websites and their related mobile applications face intense competition from other dedicated job search websites such as *www.zhaopin.com*. There are also niche recruitment services providers that focus on particular industry verticals, such as technology and finance, or job seeker segments, such as new college graduates and high-end, experienced professionals.

Our other human resource related services face significant competition from a variety of Chinese and foreign firms in all of our markets, including certain firms that compete with us in the market for online recruitment services. In addition, some of the competitors we encounter in our business process outsourcing business are affiliated with local government agencies and have licenses to provide a wider range of services than we do. The competition in the training services market is currently highly fragmented and primarily made up of small, local training firms, but we could face increased competition should there be a consolidation of these training firms.

Many of our competitors or potential competitors have long operating histories, have international strategic partners, have local government sponsorship, may have greater financial, management, technological development, sales, marketing and other resources than we do, and may be able to adopt our business model. As a result of competition, we may experience reduced margins, loss of market share or less use of our services by job seekers and employers. We cannot assure you that existing or future competitors will not develop or offer services and products which provide significant performance, price, creative or other advantages over our services. If we are unable to compete effectively with current or future competitors as a result of these or other factors, our market share and our results of operations may be materially and adversely affected.

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***New competitors face low entry barriers to our industries, and successful entry by new competitors may cause us to lose market share and materially and adversely affect our results of operations.***

In the future, we may face competition from new entrants in the recruitment advertising industry and other human resource industries in which we operate. We may face greater competition from Internet portals and search engines, dedicated recruitment advertising websites, professional and social networking platforms, online classified websites and other human resource services providers who may enter the market for any or all of our services. Our businesses are characterized by relatively low start-up and fixed costs, modest capital requirements, short start-up lead times and an absence of significant proprietary technology that would prevent or significantly inhibit new competitors. As a result, potential market entrants face relatively low barriers to entry to all of our businesses and could acquire significant numbers of corporate customers and individual users within a relatively short period of time. Increased competition could result in a loss of market share and revenues, and have a material adverse effect on our business, financial condition and results of operations.

***A slowdown or adverse development in the PRC economy may have a material and adverse impact on our customers, demand for our services and our business.***

Substantially all of our operations are conducted in China and a significant majority of our revenues are generated from providing recruitment advertising services for PRC businesses or affiliates of foreign firms operating in China. The growth of the Chinese economy has slowed in recent years. According to the National Bureau of Statistics of China, China s gross domestic product growth has decreased from 7.7% in 2013 to 6.9% in 2017. 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. In an environment of slower economic growth or recession, employers may take actions such as hiring fewer permanent employees, engaging in hiring freezes, reducing the number of employees and curtailing spending on online recruitment services and other human resource related services. In addition, to the extent we offer credit to any customer and the customer experiences financial difficulties due to an economic slowdown, we could have difficulty collecting payment from the customer. If there are slowdowns or other adverse developments in China s economic growth, our business, financial condition, results of operations and cash flow may be materially and adversely affected.

***If the use of online advertising to conduct recruitment does not achieve broader acceptance in China, we may be unable to expand our online recruitment business.***

We generate a majority of our revenues from online recruitment services, which are targeted toward employers and job seekers who use the Internet. We believe that the use of online advertising services by employers for recruitment remains relatively low in China, particularly for small and medium sized enterprises. Other informal recruitment channels, such as job fairs, personal referrals and professional networks, are also commonly utilized by the private sector. We cannot assure you that online recruitment advertising will achieve broader acceptance in China. We face challenges in promoting greater use of online advertising, which involves, among other things, significant changes in the way that employers disseminate information about jobs, the way that prospective employees search and apply for jobs, and the way in which hiring decisions are made. In addition, while China is acknowledged to possess the largest online population in the world, the use of the Internet as a commercial medium has a short history, and China s Internet penetration rate is

low compared to most developed countries. Moreover, telecommunications capacity constraints may impede further development of the Internet to the extent that users experience delays, transmission errors and other difficulties. Any negative perceptions as to the effectiveness of online recruitment services, or online advertising in general, or any significant failure of the Internet to gain acceptance and trust as a medium for recruitment, may adversely affect our online recruitment services business and hinder our ability to expand this business.

***The market for other human resource related services, including business process outsourcing, remains in the early development stage in China, and we may be unable to expand such existing services or successfully develop new services in this area.***

We believe the market for other human resource related services, including business process outsourcing, is at an early stage of development in China. Many employers are unfamiliar with these services and may not accept the value proposition of these service offerings. Processing, tracking, collecting and remitting funds to the applicable regulatory agencies, employees and other third parties are complex operations, and many employers may not trust us with employee data or to make representations and cash payments on their behalf. As such, companies may not be willing to use our services for significant administrative functions and may instead choose to continue to perform such operations in-house.

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If we are unable to extend our nationwide capability, effectively monitor ongoing changes in PRC laws and regulations, acquire, develop and use up-to-date business and management technology and software, including advanced computer and technology systems that could require significant capital expenditures, and maintain the integrity and security of our systems and process flow, we may be unable to expand our business process outsourcing operations or gain wider customer acceptance for these services. In addition, we rely on a number of third party service providers, including couriers, agents and banks. Failure by these providers, for any reason, to deliver their services in a timely and accurate manner could result in significant disruptions to our business process outsourcing operations, impact our client relationships, harm our brand names and reputation, and result in significant penalties or liabilities to us.

In addition, as part of our strategy to be a one-stop human resource services provider, we cross-promote our other human resource related services among our online recruitment services customers from time to time. However, we cannot assure you that such cross-promotion strategy will be effective or generate revenues as we expect. Furthermore, we may decide to develop new services in the area of other human resource related services. We cannot assure you that we will be able to deliver new products or services on a commercially viable basis or in a timely manner, or at all. If any of our efforts to cross-promote, develop or operate new human resource related services are unsuccessful, our financial condition and results of operations may be materially and adversely affected.

***Our business process outsourcing services may be adversely impacted by changes in PRC regulations and policies. In addition, new and future government regulations may significantly increase the number of labor disputes, which may result in higher operating costs.***

The PRC Labor Contract Law, which became effective on January 1, 2008 and its amendment which became effective on July 1, 2013, establishes restrictions and increases costs for employers, including specific provisions related to fixed-term employment contracts, temporary employment, probation, consultation with the labor union and employee assembly, employment without a contract, dismissal of employees, compensation upon termination and overtime work, and collective bargaining. The PRC Social Insurance Law, which became effective on July 1, 2011, specifies that the PRC establishes a social insurance system including basic pension insurance, basic medical insurance, work-related injury insurance, unemployment insurance and maternity insurance.

We provide business process outsourcing services for human resource administrative functions, in particular social insurance and benefits services, for employers. Our business process outsourcing services are designed to assist employers to be compliant with PRC regulations and policies that continually change. Changes in regulations could affect the extent and type of benefits employers are required to provide employees and the procedures, processes and documentation required by local government authorities to administer these benefits. Such changes could reduce or eliminate the need for some of our services. New or additional requirements could also increase our cost to provide our services and require us to undertake adjustments to our operating systems, processes and procedures. Any failure by us to be updated and knowledgeable on regulatory changes and to inform, educate and assist our clients regarding new or revised regulations that impact them could materially damage our brands and reputation. In addition, any failure by us to modify our business process outsourcing services in a timely fashion in response to regulatory changes could materially and adversely affect our results of operations.

In addition, since the PRC Labor Contract Law became effective, we have observed an increase in the number of labor disputes between employers and workers relating to its interpretation and application. The resolution of such labor disputes may require significant costs and resources, including the time our personnel spend dealing with increased human resource administration and legal issues for which we may not be compensated. If we incur higher operating costs for our business process outsourcing business, our results of operations could be materially and adversely affected.

***We may face greater risks of doubtful receivables as our business process outsourcing operations grow.***

In providing our business process outsourcing services to enterprises, due to the difference in timing between cash receipts and remittances, we may receive from time to time short-term deposits and advances in client funds and/or make short-term prepayments on behalf of our customers to be reimbursed to us. As our business process outsourcing operations have grown, our receivables have increased. We cannot assure you that we will be able to collect payment or reimbursement fully, or in a timely manner, on receivables from our business processing outsourcing services customers. As a result, we may face a greater risk of non-payment of these receivables, and as our business process outsourcing operations increase in scale, we may need to make increased provisions for doubtful accounts. If we are unable to successfully manage our receivables, our results of operations and financial condition may be materially and adversely affected.

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***We are subject to potential legal liability from both employers and individuals with respect to the recruitment process and our business process outsourcing services.***

We are exposed to potential claims associated with the recruitment process, including claims by clients seeking to hold us liable for recommending a candidate who subsequently proves to be unsuitable for the position filled, claims by current or previous employers of our candidates alleging interference with employment contracts, claims by candidates against us alleging our failure to maintain the confidentiality of their employment search or alleging discrimination or other violations of employment law or other laws or regulations by our clients, and claims by either employers or their employees alleging the failure of our business process outsourcing services to comply with laws or regulations relating to employment, employee s insurance or benefits, individual income taxes or other matters. Any such claims, regardless of merit, may force us to participate in time-consuming, costly litigation or investigation, divert significant management and staff attention, and damage our reputation and brand names. We do not maintain insurance coverage for liabilities arising from claims by employers, employees, candidates or third parties.

***If we are not able to respond successfully to technological or industry developments, our business may be materially and adversely affected.***

The market for online products and services is characterized by rapid technological developments, frequent launches of new products and services, introductions of new business models, changes in customer needs and behavior, and evolving industry standards. If we fail to adapt our products to these developments, our existing online recruitment services may become less competitive or obsolete. For example, the number of people accessing the Internet through mobile devices, including smartphones, tablets and other hand-held devices, has increased in recent years, and we expect this trend to continue as more advanced mobile communications technologies are broadly implemented. In order to respond to new developments, we may be required to undertake substantial efforts and incur significant costs. In the event that we do not successfully respond to such developments in a timely and cost-effective manner, our business may be materially and adversely affected.

***Due to seasonal variations in demand for human resource services, we experience material fluctuations in our revenue streams which affect our ability to predict our quarterly results and which may also cause quarterly results to vary from period to period.***

We experience material fluctuations in our revenue streams which affect our ability to predict quarterly results. For example, in the periods following the Chinese New Year holiday in the first quarter and the National Day holiday in October, we historically experience an increase in recruitment activity. During these peak periods, demand for recruitment advertising and other human resource related services may or may not rise significantly depending on the needs of employers as well as their perceptions of the job market. In addition, the Chinese New Year holiday is based on the lunar calendar, which varies from year to year and affects our first quarter results and their comparability to financial results of the same quarter in prior years. We have usually observed seasonal campus recruitment activity by employers in the fourth quarter of each year but also a general slowdown in overall recruitment activity at calendar year end. Due to these factors, our revenues may vary materially from quarter to quarter and quarterly results may not be comparable to the corresponding periods of prior years. Such uncertainty makes it difficult for us to predict revenues for a particular quarter. Therefore, actual results may differ significantly from our targets or estimated quarterly results, which could cause the price of our ADSs to fall.

***We are dependent on our Internet service providers, and we are vulnerable to failures of the Internet, fixed line telecommunications networks in China and our technology platform.***

Our online businesses, including the development of our websites and mobile applications, are heavily dependent on the performance and reliability of China s Internet infrastructure, the continual accessibility of bandwidth and servers to our service providers networks, and the continuing performance, reliability and availability of our technology platform. The Internet infrastructure in China may not support the demands associated with continued growth in Internet use.

Almost all access to the Internet is maintained through state-owned telecommunications operators under the administrative control and regulatory supervision of the PRC Ministry of Industry and Information Technology, or the MIIT. In addition, the national networks in China connect to the Internet through a government-controlled international gateway. This international gateway is the only channel through which a domestic user can connect to the international Internet network.

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We rely on a limited number of telecommunications service providers to provide us with data communications capacity through local telecommunications lines and data centers to host our servers. We are unlikely to have any access to alternative networks or services in the event of disruptions, failures or other problems with China s Internet infrastructure or the fixed line telecommunications networks provided by the telecommunications service providers. In addition, we have no control over the costs of the services provided by the telecommunications service providers. If they fail to provide these services, we would be required to seek other providers, and there is no assurance that we will be able to find alternative providers willing or able to provide high quality services and there is no assurance that such providers will not charge us higher prices for their services. If the prices that we are required to pay for Internet services rise significantly, our results of operations could be adversely affected.

***If we are unable to protect or promote our brand names and reputation, our business may be materially and adversely affected.***

If we fail to generate a high volume of recruitment advertisements, successfully promote and develop the perception of our websites and mobile applications as leading recruitment platforms, undertake effective marketing and promotional activities, and generally provide high quality services, we may not be successful in protecting or promoting our brand names and reputation in a cost-effective manner or at all. In addition, if job seeker profiles or recruitment advertisements on our websites and mobile applications are found to contain inaccurate or false information, the value proposition of our websites and mobile applications as leading online recruitment platforms may be weakened. Furthermore, we may be subject to claims by individuals and customers seeking to hold us liable for such inaccurate or false information. Any claims, regardless of merit, may force us to participate in time-consuming, costly litigation or investigation, divert significant management and staff attention, and damage our reputation and brand names. We may dedicate significantly greater resources in the future to advertising, marketing and other promotional efforts aimed at building awareness of our brands. Any significant damage to our reputation, the perceived quality or awareness of our brand names or services, or any significant failure on our part to promote and protect our brand names and reputation could make it more difficult for us to successfully attract job seekers, compete for customers or retain qualified personnel, which may have a material adverse effect on our business.

***If we are unable to prevent others from using our intellectual property, our business may be materially and adversely affected.***

Our intellectual property has been, and will continue to be, subject to various forms of theft and misappropriation. Competitors copy and distribute content from our websites and from the training materials that we use, and utilize misleadingly similar Internet domain names and URLs in an effort to divert Internet traffic away from our websites. We are also susceptible to others copying our business model and methods. The legal protection of trademarks, trade names, copyrighted material, domain names, trade secrets, know-how and other forms of intellectual property in the PRC is significantly more limited than in the United States and many other countries and may afford us little or no effective protection. Preventing unauthorized use of our intellectual property is difficult, time consuming and expensive. Misappropriation of our content, trademarks and other intellectual property could divert significant business to our competitors, damage our brand names and reputation, and require us to initiate litigation that could be expensive and divert management resources from the operation of our businesses.

***We rely heavily on our senior management team and key personnel, and the loss of any of their services could severely disrupt our business.***

Our future success is highly dependent on the ongoing efforts of the members of our senior management and key personnel, in particular on Rick Yan, our chief executive officer. The loss of the services of one or more of our senior executives or key personnel, Mr. Yan in particular, may have a material adverse effect on our business, financial condition and results of operations. Competition for senior management and key personnel is intense, and the pool of suitable candidates is very limited, and we may not be able to retain the services of our senior executives or key personnel, or attract and retain senior executives or key personnel in the future.

In addition, if Mr. Yan, any other members of our senior management or any of our other key personnel joins a competitor or forms a competing company, we may not be able to replace them easily and we may lose customers, business partners, key professionals and staff members. Each of our senior executives has entered into an employment agreement with us, which contains confidentiality and non-competition provisions. In the event of a dispute between any of our senior executives and us, we cannot assure you as to the extent, if any, that these provisions may be enforceable in the PRC due to uncertainties involving the PRC legal system.

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***If we are unable to attract and retain qualified personnel, our business process outsourcing, training and placement businesses may be materially and adversely affected.***

The success of our business process outsourcing, training and placement services depends heavily on our ability to attract and retain skilled personnel. Our business of performing traditional human resource department functions such as payroll, benefits and compliance management and related services for customers on an outsourced basis depends on having personnel with expertise in local and national PRC government employment regulations, payroll management and other human resource department functions. The success of our training business depends on personnel with the necessary skills to conduct and support our training seminars and other activities and services in this business. Similarly, our ability to provide high quality placement and executive search services depends on a dedicated team of consultants with expertise and relationships in the geographic markets and industries in which our clients seek candidates. If we are unable to attract and retain critical skilled personnel, our business process outsourcing, training and placement businesses may be materially and adversely affected.

***If we are unable to successfully detect and prevent criminal actions or fraud perpetrated on us, we may be subject to liability and financial loss.***

The management of our business process outsourcing services involves the collection of payments from our customers and the disbursement of funds on their behalf by our employees and agents. As a result, we are exposed to theft, embezzlement and other criminal and fraudulent activity by our employees, agents and third parties. If we are unable to successfully detect and prevent criminal or fraudulent activity, our results of operations and financial condition may be materially and adversely affected.

***Our business may suffer if we do not successfully manage our current and potential future growth.***

We have grown significantly since we commenced operations in 1998, and we intend to continue to expand in size and increase the number of services we provide. Our anticipated future growth will place demands on our management and operations. Our success in managing this growth will depend to a significant degree on the ability of our executive officers and other members of senior management to operate effectively both independently and as a group, and on our ability to improve and develop our financial and management information systems, controls and procedures. In addition, we will have to successfully adapt our existing systems and introduce new systems, expand, train and manage our workforce, and improve and expand our sales and marketing capabilities. If we are unable to properly manage our operations or our services in existing markets, or the quality of our services deteriorates due to mismanagement, we could significantly damage our brand names and reputation, which would adversely affect our ability to expand our customer base.

***Because we operate in a new and evolving market, our operating history may not serve as an adequate basis to judge our future prospects and results of operations.***

As we operate in a new and rapidly evolving market, we cannot assure you that we will maintain our profitability or that we will not incur net losses in the future. We expect that our operating expenses will increase as we expand in size and increase the scope of services we provide. Any significant delay or failure to realize anticipated revenue growth could result in significant operating losses. We may encounter risks and difficulties including our potential failure to:

- implement our business model and strategy and adapt and modify them as needed;

- increase awareness of our brands, protect our reputation and develop customer loyalty;

- anticipate with any degree of certainty the behavioral and operational changes of our customers that have a significant impact on our business from time to time as they respond to evolving social, economic, regulatory and political changes in China;

- manage our expanding operations and service offerings, including the integration of any acquisitions;

- maintain adequate control of our expenses;

- adequately and efficiently operate, maintain, upgrade and develop our websites, mobile applications and the other systems and equipment we utilize in providing our services;

- attract, retain and motivate qualified personnel; and

- anticipate and adapt to changing conditions in the human resource, online and other markets in which we operate as well as the impact of any changes in government regulation, mergers and acquisitions involving our competitors, technological developments and other significant competitive and market dynamics.

If we are not successful in addressing any or all of these risks, our business may be materially and adversely affected.

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***We may not be able to successfully execute future acquisitions or efficiently manage any acquired business.***

As part of our business expansion strategy, we may pursue acquisitions or investments in certain complementary or new businesses. The success of any acquisition will depend upon several factors, including:

- our ability to identify and acquire businesses on a cost-effective basis;

- our ability to integrate acquired personnel, operations, products and technologies into our organization effectively; and

- our ability to retain and motivate key personnel and to retain the clients of acquired firms.

Any such acquisition may require a significant commitment of management time, capital investment and other resources. If we are unable to effectively integrate an acquired business or are required to incur restructuring and other charges to complete an acquisition, our business, financial condition and results of operations may be materially and adversely affected. Also, if we use our equity securities as consideration for acquisitions, we may dilute the value of your ADSs.

In addition, our possible future acquisitions may expose us to other potential risks, including risks associated with unforeseen or hidden liabilities, the diversion of resources from our existing businesses and technologies, our inability to generate sufficient revenue to offset the costs, expenses of acquisitions and potential loss of, or harm to, relationships with employees and customers as a result of our integration of new businesses. The occurrence of any of these events could have a material and adverse effect on our ability to manage our business, our financial condition and our results of operations.

***We may experience impairment of goodwill in connection with our acquisition of entities or other assets.***

We are required to perform an annual goodwill impairment test. Goodwill can become impaired. We test goodwill for impairment annually or more frequently if events or changes in circumstances indicate possible impairment, but the fair value estimates involved require a significant amount of difficult judgment and assumptions. Our actual results may differ materially from our projections, which may result in the need to recognize impairment of some or all of the goodwill we recorded.

***If we choose to develop or introduce new products and services outside of the human resource services industry in China, these efforts may not be successful, which could materially and adversely affect our financial condition and results of operations.***

To leverage our large sales force, corporate customer base and brand names, we may expand the scope of services we provide and develop, introduce or invest in new products outside of the human resource services industry to increase our revenues. However, these efforts may not be successful. For example, our investment in a coupon advertising services company was sold at a loss in 2011. In the future, if we again choose to pursue products and services outside of the human resource services industry in China, we cannot assure you that we will be able to do so on a commercially viable basis or in a timely manner, or at all. Any of our efforts to begin or operate a business outside of the human resource services industry that are not successful may materially and adversely affect our financial condition and results of operations.

***We may be subject to liability for placing advertisements with content that is deemed inappropriate.***

PRC laws and regulations, such as the PRC Advertising Law which became effective on February 1, 1995 and its amendment which became effective on September 1, 2015, the Interim Measures for the Administration of Online Advertising promulgated by the PRC State Administration for Industry and Commerce, or the SAIC, which became effective on September 1, 2016, and the Circular on Launching a Special Program to Rectify Internet Advertisements promulgated by the SAIC, which became effective on February 9, 2018, prohibit advertising companies from producing, distributing or publishing any advertisement that contains any content that violates laws and regulations, impairs the national dignity of the PRC, infringes upon personal and property safety, discloses privacy or state secrets, harms the physical and mental health of minors or the disabled, involves designs of the national flag, national emblem or national anthem or the music of the national anthem of the PRC, is reactionary, obscene, superstitious or absurd, is fraudulent, or disparages similar products. Advertisers, advertising companies and advertisement publishers are also required to distinguish online advertisement by the mark of AD, obtain an user s prior consent before sending online advertisement, verify the content of online advertisement and properly display online advertisement. If we are deemed to be in violation of such laws and regulations, we may be subject to penalties including confiscation of the illegal revenues, levying of fines and suspension or revocation of our business license, any of which may materially and adversely affect our business.

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***We may be exposed to infringement or misappropriation claims by third parties, which, if successful, could cause us to pay significant damage awards.***

Third parties may bring claims against us alleging patent, trademark or copyright infringement, or misappropriation of their creative ideas or formats, or other infringement of their proprietary intellectual property rights. Any such claims, regardless of merit, may involve us in time-consuming, costly litigation or investigation, divert significant management and staff attention, require us to enter into expensive royalty or licensing arrangements, prevent us from using important technologies, business methods, content or other intellectual property, result in monetary liability, or otherwise disrupt our operations.

***We rely heavily on our information systems, and any failure to properly protect privacy and to maintain and secure our systems could seriously damage our reputation, disrupt our operations and harm our business.***

The PRC Constitution states that PRC laws protect the freedom and privacy of communications of citizens and prohibit infringement of such basic rights, and the PRC Contract Law prohibits contracting parties from disclosing or misusing the trade secrets of the other party. The PRC General Provisions of the Civil Law protect citizens rights to privacy, provides that personal information should be protected by law and prohibits illegal collection, use, processing, transmission, trade, provision or publication of any personal information. Further, companies or their employees who illegally trade or disclose customer data may face criminal charges.

The Internet industry is facing significant challenges regarding information security and privacy. Certain data and services collected, provided or used by us in our systems or provided to and used by us, our partners, our customers or our job seekers contain confidential and private information, such as names, user IDs and passwords and payment or transaction related information. Our ability to store, retrieve, process, manage and protect substantial amounts of data and information, including our client and candidate databases, is an important part of our operations and a critical component of our success.

In recent years, PRC government authorities have enacted legislation on Internet use to protect personal information from unauthorized disclosure. In December 2012 and July 2013, the Standing Committee of the National People s Congress and the MIIT issued new laws and regulations to enhance the legal protection of information security and privacy on the Internet, and also require Internet operators to take measures to ensure confidentiality of user information. The PRC Counter-Terrorism Law, which became effective on January 1, 2016, requires Internet service providers to prevent the dissemination of information containing terrorist or extremist content and conduct identity verification of individuals. The PRC Cyber Security Law, which became effective on June 1, 2017, further requires Internet product and service providers to take proper measures to protect Internet security and the personal information of users.

While we strive to comply with all relevant data protection laws and regulations, any failure or perceived failure to comply may result in proceedings or actions against us by government entities or others, and could damage our reputation. Concerns about our practices and systems with regard to the collection, use, disclosure, or security of personal information or other privacy related matters, and any negative publicity on our information safety or privacy protection mechanism and policy, even if unfounded, could adversely affect our business. We must further develop and enhance our information systems to compete effectively and ensure our compliance with relevant laws and regulations, which may require significant staff and financial resources. If our online platforms, including our websites and mobile applications, and our other products and systems are not properly maintained and secured, our operations could be seriously disrupted and our business significantly harmed.

***Hacking and computer viruses may cause delays or interruptions on our systems and may reduce use of our services and damage our reputation and brand names.***

Hacking and computer viruses may cause delays or other service interruptions on our systems. Hacking involves efforts to gain unauthorized access to information or systems or to cause intentional malfunctions, loss or corruption of data, software, hardware or other computer equipment. In addition, the inadvertent transmission of computer viruses could expose us to a material risk of loss or litigation and possible liability. Hacking and computer viruses could result in significant damage to our hardware and software systems and databases, disruptions to our business activities, including to our e-mail and other communications systems, breaches of security and the inadvertent disclosure of confidential or sensitive information, interruptions in access to our websites through the use of denial of service or similar attacks, and other material adverse effects on our operations. Although to date we have not been subject to significant targeted disruptions or hacking, and our websites and mobile applications have not gone off-line or been shut down for any significant period of time, we may incur significant costs to continue to protect our systems and equipment against the threat of, and to repair any damage caused by, hacking and computer viruses. Moreover, if hacking or a computer virus affects our systems and is highly publicized, our reputation and brand names could be materially damaged and use of our services may decrease.

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***If we do not appropriately maintain effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act of 2002, our business, results of operations and the market price of our ADSs may be materially and adversely affected.***

We are subject to reporting obligations under the U.S. securities laws. The SEC, as required under Section 404 of the Sarbanes-Oxley Act of 2002, adopted rules requiring every public company to include a management report on 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 attest to and report on the effectiveness of the company s internal control over financial reporting. Our management has concluded that our internal control over financial reporting was effective as of December 31, 2017. 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 in turn result in the loss of investor confidence in the reliability of our financial statements and negatively impact the trading price of our ADSs. Furthermore, we have incurred and may need to incur additional costs and use additional management and other resources in an effort to comply with Section 404 of the Sarbanes-Oxley Act and other requirements going forward.

***We have no business insurance coverage.***

Other than insurance for some of our properties, we do not maintain any insurance. We do not have any business liability insurance coverage for our operations. Any business disruption, litigation or natural disaster might result in substantial costs and diversion of resources.

***We face risks related to health epidemics and other natural disasters.***

Our business could be adversely affected by the effects of avian flu, H1N1 flu, Severe Acute Respiratory Syndrome, or SARS, or another epidemic or outbreak. Health or other government regulations adopted in response to an epidemic or other outbreaks may require temporary closure of our offices or institute restrictions on travel which could adversely affect our ability to provide services to our customers throughout China. Our operations could also be disrupted if any of our employees were suspected of having the avian flu, H1N1 flu, SARS or other disease epidemics, which could require us quarantine some or all of these employees or disinfect our offices. In addition, our results of operations could be adversely affected to the extent that an epidemic or outbreak harms the Chinese economy in general. We have not adopted any written preventive measures or contingency plans to combat any future epidemic.

We are also vulnerable to natural disasters and other calamities such as fire, floods, typhoons, earthquakes, power loss, telecommunications failures, break-ins, war, riots, terrorist acts or similar events. Any of the foregoing events may give rise to server interruptions, breakdowns, system failures, technology platform failures and Internet failures, which could cause the loss or corruption of data or malfunctions of software or hardware as well as adversely affect our ability to provide our services to users and harm our business. We have backup systems, but we cannot assure you that such backup systems will be adequate if there are problems, or that they will adequately protect us from the effects of any natural disaster or other calamity.

**Risks Related to Our Corporate Structure**

***We are controlled by a small number of our existing shareholders, whose interests may differ from those of other shareholders, and our board of directors has the power to discourage a change of control.***

As of February 28, 2018, the following shareholders beneficially owned 36.4 million common shares:

- Recruit Holdings Co., Ltd., or Recruit, a leading human resource and information services company in Japan listed on the Tokyo Stock Exchange, which beneficially owned 23.4 million common shares, or approximately 37.9% of our outstanding common shares, and which is affiliated with Junichi Arai, one of our directors; and

- Rick Yan, our chief executive officer and a director, who beneficially owned 13.0 million common shares, or approximately 20.8% of our outstanding common shares.

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These shareholders, together with our other directors and members of senior management, beneficially owned approximately 39.0 million common shares. Accordingly, Recruit or Mr. Yan individually could have significant influence in determining the outcome of any corporate transaction or other matter submitted to the shareholders for approval, including mergers, consolidations and the sale of all or substantially all of our assets, election of directors and other significant corporate actions. In cases where their interests are aligned and they vote together, these shareholders will also have the power to prevent or cause a change in control. Without the consent of some or all of these shareholders, we may be prevented from entering into transactions that could be beneficial to us. In addition, these parties could violate their director or employment agreements with us or otherwise violate their fiduciary duties by diverting business opportunities from us to themselves or others. The interests of our largest shareholders may differ from the interests of our other shareholders.

***If the PRC authorities determine that our past ownership structure was inconsistent with the requirements for operating certain of our businesses, we could be subject to sanctions.***

The PRC government has regulated foreign ownership in entities providing advertising and human resource related services. Prior to March 2004, PRC laws and regulations prohibited foreign persons from owning a controlling interest in advertising entities. This foreign ownership restriction has been relaxed and foreign persons are now permitted to wholly own advertising entities in China. Foreign ownership in entities providing human resource related services was limited to 49% beginning in November 2003, and this ownership limitation has been increased to 70% for human resource services companies registered in several locations in the PRC. For a discussion of the limitations on foreign ownership governing our businesses, see Item 4. Information on the Company Business Overview Regulation Limitations on Foreign Ownership of Our Businesses.

Prior to our restructuring in May 2004, 51net.com Inc., or 51net, our British Virgin Islands subsidiary and a foreign entity, owned 99% of Qianjin Network Information Technology (Shanghai) Co., Ltd., or Tech JV, which in turn owned, and continues to own, 80% of Shanghai Qianjin Advertising Co., Ltd., or AdCo. AdCo owned 90% of its principal subsidiaries. In May 2004, we restructured our operations to comply with then existing PRC laws and regulations governing foreign ownership in entities conducting advertising and human resource related services. We have not received any waiver from the PRC government with respect to this past non-compliance.

If we or any of our subsidiaries or affiliated entities were found to have been in violation of PRC laws or regulations governing foreign ownership of advertising or human resource services businesses and the proper operation of our businesses, the relevant regulatory authorities would likely have broad discretion in dealing with such violation, including but not limited to:

- levying fines;
- revoking business licenses;
- blocking our websites;

- restricting or prohibiting our use of proceeds from any capital raisings to finance our business and operations in China;

- requiring us to restructure the ownership structure or operations of our subsidiaries or affiliated entities; and/or

- requiring us to discontinue all or a portion of our business.

Any of these or similar actions could cause significant disruption to our business operations or render us unable to conduct a substantial portion of our business operations and may materially and adversely affect our business, financial condition and results of operations.

***We rely on agreements with Qian Cheng, Run An and their respective shareholders to receive all of the beneficial interest of these entities. These contractual arrangements may not be as effective as direct ownership.***

PRC laws and regulations currently limit foreign investment in entities providing human resource related services and in entities operating as Internet content providers. Tech JV and its subsidiaries conduct most of our operations and recognize most of our revenues. 50% of our equity interest in Tech JV is effectively held by Beijing Qian Cheng Si Jin Advertising Co., Ltd., or Qian Cheng, which is wholly owned by Beijing Run An Information Consultancy Co., Ltd., or Run An. Run An is jointly owned by two long-time members of our senior management team, Jingwu Chen, who replaced a previous nominee shareholder in 2017, and Tao Wang. Through agreements with Qian Cheng, Run An and their respective shareholders, we have the substantial ability to control, bear all the economic risks of, and receive all the economic rewards from, Qian Cheng and Run An. As a result, we consolidate all of these interests for U.S. GAAP reporting purposes. For a description of these contractual arrangements, see Item 7. Major Shareholders and Related Party Transactions Related Party Transactions Contractual Arrangements Among Our Group Entities.

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Although we have been advised by our PRC legal counsel, Jun He Law Offices, that the contractual arrangements as described in this annual report are valid, binding and enforceable under current PRC laws, these arrangements may not be as effective as direct ownership of these businesses. For example, Qian Cheng, Run An and their respective shareholders could violate their contractual arrangements with us by refusing to make payments or otherwise refusing to perform their obligations necessary for us to realize the economic rewards from Qian Cheng and Run An. In any such event, we will have to rely on the PRC legal system to enforce our rights, which could have uncertain results. Any legal proceeding may disrupt our business, damage our reputation, divert our resources and incur substantial costs. See Risks Related to Doing Business in China The PRC legal system has inherent uncertainties that could materially and adversely affect us.

If we are unable to enforce our rights, or if we suffer any significant delays or other obstacles in the process of enforcing these contractual arrangements, we may be unable to receive all of the economic rewards from Qian Cheng and Run An. If we are unable to consolidate Qian Cheng and Run An, and their equity interest in Tech JV, our results of operations would be materially reduced. In addition, a significant disruption in these contractual relationships as a result of governmental sanction or otherwise could result in our being required to restructure our operations which could require a significant expenditure of resources.

***The shareholders of our affiliated Chinese entities may have potential conflicts of interest with us, which may adversely affect our business.***

The principal shareholders of our affiliated entity, Run An, are Jingwu Chen and Tao Wang, and our other affiliated entity, Qian Cheng, is wholly owned by Run An. Although Messrs. Chen and Wang are contractually obligated, or obligated as a result of their fiduciary duty to our company, to act in good faith and in our best interest, potential conflicts of interest between their duties to our company and our affiliated Chinese entities may arise. When conflicts of interest arise, Messrs. Chen and Wang may not act entirely in our interests and any such conflicts of interest may not be resolved in our favor. If we cannot resolve any conflict of interest or dispute between us and the shareholders of our affiliated entities, we would have to rely on legal proceedings, which could disrupt our business, incur significant costs, distract management and subject us to substantial uncertainty as to the outcome of any such legal proceedings. See Risks Related to Doing Business in China The PRC legal system has inherent uncertainties that could materially and adversely affect us.

***The PRC laws and regulations governing our business operations and contractual arrangements are uncertain, and if we are found to be in violation, we could be subject to sanctions. In addition, any changes in such PRC laws and regulations may have a material and adverse effect on our business.***

There are substantial uncertainties regarding the interpretation and application of PRC laws and regulations, including but not limited to the laws and regulations governing our business, or the enforcement and performance of our contractual arrangements in the event of the imposition of statutory liens, death, bankruptcy and criminal proceedings. We and our subsidiaries are considered foreign persons or foreign funded enterprises under PRC laws, and, as a result, we are required to comply with PRC laws and regulations, including those governing foreign ownership in the human resource services and Internet content industries. These laws and regulations may be subject to future changes, and their official interpretation and enforcement may involve substantial uncertainty. The effectiveness of newly enacted laws, regulations or amendments may be delayed, resulting in detrimental reliance by foreign investors. New laws and regulations that affect existing and proposed future businesses may also be applied

retroactively. Licenses, permits and beneficial treatments issued or granted to us by relevant governmental bodies may be revoked at a later time under contrary findings of higher regulatory bodies. We cannot predict what effect the interpretation of existing or new PRC laws or regulations may have on our businesses. As a result of these substantial uncertainties, we cannot assure you that we will not be found in violation of any existing or future PRC laws or regulations.

According to PRC laws, trademark license agreements are required to be filed with the Trademark Office of the SAIC for the record. Under a trademark license agreement dated as of August 15, 2000, and supplemented and amended as of August 15, 2005 and August 15, 2010, WFOE has granted to Tech JV the right to use certain trademarks in the PRC. The trademark license agreement has not been filed with the Trademark Office of the SAIC, and as such it may not be enforceable against bona fide third parties until completion of such registration.

In or around September 2011, various media sources reported that the China Securities Regulatory Commission, or the CSRC, had prepared a report proposing regulating the use of variable interest entity, or VIE, structures or contractual arrangements, such as ours, in industry sectors subject to foreign investment restrictions in China and overseas listings by PRC-based companies. However, it is unclear whether the CSRC officially issued or submitted such a report to a higher level government authority or what any such report provides, or whether any new PRC laws or regulations relating to variable interest entity structures will be adopted or if adopted, what they would provide.

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On January 19, 2015, the PRC Ministry of Commerce, or the MOFCOM, published the draft Foreign Investment Law, or the Draft FIL, on its official website for public review and comment. Among other things, the Draft FIL expands the definition of foreign investment and introduces the principle of actual control in determining whether a domestic enterprise is considered a foreign-invested enterprise. In addition to control through direct or indirect ownership or equity, the Draft FIL includes control through contractual arrangements within the definition of actual control. Under the Draft FIL, variable interest entities would be deemed as foreign-invested enterprises, if they are ultimately controlled by foreign investors, and may not be allowed, or may be subject to foreign investment restrictions and prohibitions. However, the Draft FIL has not taken a position on what actions will be taken with respect to the existing companies with a variable interest entity structure, whether or not these companies are controlled by PRC citizens/entities. The Draft FIL has no immediate legal effect and it is unclear whether, when and how the legislative progress will proceed. If enacted as proposed, the Draft FIL may materially impact our corporate structure and increase our compliance costs.

On September 3, 2016, the Standing Committee of the National People s Congress passed a decision in connection with the revision of the Wholly Foreign Owned Enterprise Law and three other laws, which were implemented on October 1, 2016. According to this decision, formation of a foreign-invested enterprise in a sector not subject to special entry administrative measures will be simplified by requiring only a government filing instead of a government approval. The special entry administrative measures will be separately promulgated by the PRC State Council, or the State Council. Subsequently, the MOFCOM published the Provisional Administrative Measures on Record Filing for Establishment and Alteration of Foreign-Invested Enterprises, or the Provisional Measures, on October 8, 2016 and amended such Provisional Measures on July 30, 2017, which aim to implement and elaborate upon the filing requirements, procedures, supervision and other related matters for foreign-invested enterprises in sectors not subject to special entry administrative measures. According to an interpretation of the Provisional Measures published by the MOFCOM on October 8, 2016, foreign investments that are in the prohibited, restricted or encouraged industries and that are subject to the equity and senior management restrictions set forth in the Foreign Investment Industry Guidance Catalogue (2015), which was amended in 2017, will continue to be subject to government approvals regardless of the investment amount or method. In addition, the General Office of the State Council published the Circular on Issuing the Special Administrative Measures (Negative List) for Foreign Investment Access to Pilot Free Trade Zones (2017 edition), which became effective on July 10, 2017, aiming to further ease restrictions over foreign investment within free trade zones. On July 30, 2017, the MOFCOM published the Announcement on Matters Related to the Administration of the Record Filing of the Incorporation and Change of Foreign-Invested Enterprises to further elaborate on the Provisional Measures.

Although we believe our business operations and contractual arrangements are in compliance with current PRC regulations, if we or any of our subsidiaries or affiliated entities or any of our contractual arrangements are found to be or to have been in violation of any existing or future PRC laws or regulations, the relevant regulatory authorities would likely have broad discretion in dealing with such violation, including but not limited to:

- levying fines;
- revoking business licenses;
- blocking our websites;
- restricting or prohibiting our use of proceeds from any capital raisings to finance our business and operations in China;

- requiring us to restructure the ownership structure or operations of our subsidiaries or affiliated entities; and/or

- requiring us to discontinue all or a portion our business.

Any of these or similar actions could cause significant disruption to our business operations or render us unable to conduct a substantial portion of our business operations and may materially and adversely affect our business, financial condition and results of operations.

We are unable to quantify the likelihood that any sanctions would be imposed or the magnitude of the effect of any such sanctions on our business, financial condition or results of operations.

***The contractual arrangements with our affiliated Chinese entities may be subject to scrutiny by the PRC tax authorities and result in adverse tax consequences to us.***

Under applicable PRC laws and regulations, arrangements and transactions among related parties may be subject to audit or challenge by the PRC tax authorities. If the PRC tax authorities determine that the contractual arrangements with our affiliated Chinese entities were not entered into on an arm s length basis and therefore constitute a favorable transfer pricing, we could face material and adverse tax consequences. A transfer pricing adjustment could, among other things, result in an increase in the PRC tax liabilities of our affiliated Chinese entities. In addition, the PRC tax authorities may impose late payment fees and other penalties for the adjusted but unpaid taxes according to the applicable regulations. Our net income may be materially reduced if our affiliated Chinese entities tax liabilities increase.

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***Our subsidiaries face limitations on paying dividends or making other distributions to us.***

We are a holding company and rely substantially on dividends, royalty payments and license fees paid under trademark license agreements and certain other contractual arrangements paid to us by our subsidiaries and affiliated entities in the PRC to finance our operations and to pay dividends to our shareholders. These royalty payments and license fees paid under trademark license agreements and certain other contractual arrangements do not require governmental or other third party approval. However, the payment of dividends in China is subject to certain restrictions and taxes. PRC regulations currently permit payment of dividends only out of accumulated profits as determined in accordance with PRC accounting standards and regulations.

Our subsidiaries and affiliated entities in the PRC are also required to set aside a portion of their after-tax profits according to PRC accounting standards and regulations to fund certain reserve funds that are not distributable as cash dividends. In addition, the PRC government imposes controls on the convertibility of the Renminbi into foreign currencies and, in certain cases, the remittance of currency out of the PRC, and such controls are stringent. We may also experience difficulties in completing the administrative procedures necessary to obtain and remit foreign currency. See Item 4. Information on the Company Business Overview Regulation Regulations Relating to Foreign Currency Exchange and Regulations Relating to Dividend Distribution. If we or any of our subsidiaries are unable to receive all of the revenues from our operations through these contractual or dividend arrangements, we may be unable to effectively finance our operations or pay dividends on our common shares.

**Risks Related to Doing Business in China**

***Our business could be affected by changes in China s economic, political, regulatory or social conditions or government policies.***

The PRC economy differs from the economies of most developed countries in many respects, including the amount of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. While the PRC economy has experienced significant growth over the past decades, growth has been uneven, both geographically and among various sectors of the economy. We cannot assure you that the Chinese economy will continue to grow, or that if there is growth, such growth will be steady and uniform, or that if there is a slowdown, such slowdown will not have a negative effect on our business. We cannot assure you that the various macroeconomic measures and monetary policies adopted by the PRC government to guide economic growth and the allocation of resources will be effective in sustaining the fast growth rate of the Chinese economy. In addition, even if these measures benefit the overall Chinese economy, they may impact the hiring behavior of employers and reduce the level of expenditures on human resource services, which would adversely affect our results of operations and financial condition. The PRC government could determine to develop and support government owned or controlled human resource enterprises in direct competition with us. The PRC government could also determine to more closely regulate the telecommunications, Internet or human resource industries, which could impose additional regulatory costs and burdens on us.

***PRC laws and regulations governing operators of Internet websites are unclear and the regulation of the telecommunications and Internet industries may become more burdensome, and if we are found to be in violation of PRC laws and regulations, we could be subject to sanctions.***

The interpretation and application of existing and future PRC laws and regulations and the stated positions of the main governing authority, the MIIT, have created significant uncertainty regarding the legality of existing and future foreign investments in, and the businesses and activities of, companies with Internet operations, including those of our company. In particular, the MIIT has stated that the activities of Internet content providers are subject to regulation by various PRC government authorities, depending on the specific activities conducted by the Internet content provider. In addition, PRC government regulation of the telecommunications and Internet industries is burdensome and may become even more so. New regulations could increase our costs of doing business and prevent us from efficiently delivering our services. Our failure to comply with applicable PRC Internet regulations could subject us to severe sanctions.

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In July 2006, the MIIT issued the Notice on Strengthening the Administration of Foreign Investment in the Operation of Value-Added Telecommunications Business, or the MIIT Notice. According to the MIIT Notice, foreign investors can only operate a telecommunications business in China by establishing a telecommunications enterprise with a valid telecommunications business operation license. Domestic value-added telecommunications services license holders are prohibited from leasing, transferring or selling telecommunications business operation licenses to foreign investors in any form, and from providing any resource, sites or facilities to foreign investors to facilitate the illegal operation of a telecommunications business in China. The MIIT Notice also requires that value-added telecommunications services license holders (including their shareholders) directly own the domain names and registered trademarks used by such value-added telecommunications services license holders in their daily operations. The MIIT Notice further requires each value-added telecommunications services license holder to have the necessary facilities for its approved business operations and to maintain such facilities in the regions covered by its license. Tech JV, our operating entity which provides online recruitment services, has obtained a value-added telecommunications business operation license permitting it to provide information service via the Internet and mobile networks. However, we cannot assure you that relevant government authorities will not adopt new laws or regulations in the future which may be burdensome on our business or cause substantial compliance costs to us, nor can we assure you that we will always be able to comply with such laws and regulations.

***The PRC legal system has inherent uncertainties that could materially and adversely affect us.***

The PRC legal system is based upon written statutes. Prior court decisions may be cited for reference but are not binding on subsequent cases and have limited value as precedents. Since 1979, the PRC legislative bodies have promulgated laws and regulations dealing with economic matters such as foreign investment, corporate organization and governance, commerce, taxation and trade. The overall effect of legislation over the past decades has significantly increased the protections afforded to various forms of foreign or private-sector investment in China. However, since these laws and regulations are relatively new and 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. In addition, the PRC legal system is based in part on government policies and internal rules (some of which are not published in a timely manner or at all) that may have retroactive effect. As a result, we may be unaware of our violation of these policies and rules until some time later. Our contractual arrangements with our affiliated entities are governed by the laws of the PRC. The enforcement of these contracts and the interpretation of the laws governing these relationships is subject to uncertainty. See Risks Related to Our Corporate Structure The PRC laws and regulations governing our business operations and contractual arrangements are uncertain, and if we are found to be in violation, we could be subject to sanctions.

***There are significant uncertainties under the tax law in China and our results of operations could be materially and adversely affected if we are unable to maintain certain tax statuses. In addition, dividends we receive from our subsidiaries located in the PRC are subject to PRC withholding tax.***

The PRC Enterprise Income Tax Law, or the EIT Law, which became effective on January 1, 2008 and was amended on February 24, 2017, applies a uniform 25% enterprise income tax, or EIT, rate to both foreign-invested enterprises and domestic enterprises. There are uncertainties on how the EIT Law and its implementation rules are enforced, and whether its future implementation may be consistent with its current interpretation.

In December 2009, our main operating subsidiary, Tech JV, was designated by relevant local authorities in Shanghai as a High and New Technology Enterprise, or HNTE, under the EIT Law and became subject to a preferential tax rate of 15%. Tech JV is entitled to this

preferential 15% tax rate as long as it maintains the required qualifications, which is subject to review every three years. The current preferential tax status is valid through 2017, and Tech JV will seek to further renew this status with local tax authorities in 2018. We cannot assure you that Tech JV will continue to qualify as a HNTE when it is subject to reevaluation in the future.

The PRC Ministry of Science and Technology, the PRC Ministry of Finance, or the MOF, and the PRC State Administration of Taxation, or the SAT, jointly issued the Revised Measure for Certification of High and New Technology Enterprise, or Circular 32, which replaces current rules to provide clarifications on the new assessment criteria and administrative matters as well as the afterwards supervision of HNTEs. Circular 32 became effective on January 1, 2016. Highlights of the new rules include: (1) expanding the high and new technology areas; (2) adjusting certain assessment criteria and retaining the implicit requirement for enterprises to manage their HNTE qualifications systematically; and (3) simplifying the assessment procedure to facilitate application process and establishing an administrative mechanism of selective examination and key examination. However, there has been no detailed working guidance so far about the administrative procedures for HNTE assessment under the new rules. If Tech JV does not maintain its status as a HNTE and the EIT rates of our PRC subsidiaries increase, our financial condition and results of operations could be materially and adversely affected.

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Under the EIT Law and related regulations, dividends, interests, rent or royalties payable by a foreign-invested enterprise, such as our PRC subsidiaries, to any of its foreign non-resident enterprise investors shall be subject to a 10% withholding tax, and proceeds from the disposition of assets (after deducting the net value of such assets as determined under PRC tax laws) by such foreign enterprise investor shall be subject to a 10% tax, unless such foreign enterprise investor s jurisdiction of incorporation has a tax treaty with China that provides for a reduced rate of tax. We are incorporated in the Cayman Islands which does not have such a tax treaty with China. Undistributed profits earned by foreign-invested enterprises prior to January 1, 2008 are exempted from any withholding tax.

In 2012, the State Council instituted a business tax to value-added tax, or VAT, transformational pilot program in Shanghai. Under this program, industries subject to business tax were transitioned to VAT payers. As of May 1, 2016, the VAT program was expanded to cover all industries in the PRC. We have incurred an increase in tax payments under the VAT regime than under the business tax regime, which has reduced the amount of revenues we recognize. In addition, our online recruitment revenues from 2014 to 2015 and our other human resource related revenues from 2016 to 2017 have been negatively affected due to this policy change, which impacts the direct comparability between future and previously reported total revenue and net revenue figures. If further changes to PRC tax laws and regulations result in increased taxation, our financial condition and results of operations may be negatively impacted.

***We may be deemed a PRC resident enterprise under the EIT Law, which could subject us to PRC taxation on our global income and may have a material adverse effect on our results of operations.***

Under the EIT Law and its implementation rules, enterprises incorporated under the laws of jurisdictions outside China with their de facto management bodies located within China may be considered PRC resident enterprises and therefore subject to an EIT rate of 25% on their worldwide income. Under the implementation regulations issued by the State Council, relating to the EIT Law, de facto management bodies is defined as the bodies that have material and overall management control over the production and business operations, personnel, accounts and properties of an enterprise. The Circular on Identification of China-Controlled Overseas-Registered Enterprises as Resident Enterprises on the Basis of Actual Management Organization, or Circular 82, further provides certain specific criteria for determining whether the de facto management body of a PRC-controlled offshore incorporated enterprise is located in the PRC. For more details about these criteria, please refer to Item 10. Additional Information Taxation People s Republic of China Taxation. Although Circular 82 only applies to offshore enterprises controlled by enterprises or an enterprise group located within the PRC, the determining criteria set forth in Circular 82 may reflect the tax authorities general position on how the de facto management body test may be applied in determining the tax resident status of offshore enterprises. We are a Cayman Islands holding company and substantially all of our operational management is based in China. As the tax resident status of an enterprise is subject to the determination by the PRC tax authorities and uncertainties remain with respect to the interpretation of the term de facto management body as applicable to our offshore entities, we cannot assure you that we will not be considered as a PRC tax resident enterprise. If we are considered to be an enterprise established outside China with de facto management bodies located in China and thus a resident enterprise, we may be subject to the uniform 25% EIT rate as to our global income, which could have a material adverse effect on our results of operations.

***We face uncertainty from the PRC s Circular on Strengthening the Management of Enterprise Income Tax***

***Collection of Income Derived by Non-Resident Enterprises from Equity Transfers.***

The SAT issued the Circular on Strengthening the Management of Enterprise Income Tax Collection of Income Derived by Non-Resident Enterprises from Equity Transfers, or Circular 698, in December 2009, which addresses the transfer of equity by non-PRC tax resident enterprises. Circular 698 became effective retroactively on January 1, 2008. Under Circular 698, where a non-resident enterprise transfers the equity interests of a PRC resident enterprise indirectly by disposition of the equity interests of an overseas holding company, or an Indirect Transfer, it is required to report such Indirect Transfer to the PRC tax authority if the overseas holding company is located in a tax jurisdiction

that has an effective tax rate of less than 12.5% or does not levy tax on such foreign-sourced capital gains of its residents. If the overseas holding company mainly serves as a tax avoidance vehicle and does not have any reasonable business purpose, the PRC in-charge tax authority may, upon verification of the SAT, disregard the overseas holding company and re-characterize the Indirect Transfer by referring to its economic essence, and as a result, the overseas controlling party may be subject to a 10% PRC tax for the capital gains realized from the Indirect Transfer.

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On February 3, 2015, the SAT issued the Bulletin on Several Issues of Enterprise Income Tax on Income Arising from Indirect Transfers of Property by Non-Resident Enterprises, or Bulletin 7, which supersedes the existing tax rules in relation to Indirect Transfers, while the other provisions of Circular 698 remain in force. Bulletin 7 introduces a new tax regime that is significantly different from that under Circular 698. Bulletin 7 extends its tax jurisdiction to not only include Indirect Transfers as set forth under Circular 698 but also transactions involving the transfer of real property in China and the assets of an establishment or place situated in China, through the offshore transfer of a foreign intermediate holding company. Under Bulletin 7, if an Indirect Transfer is re-characterized as a direct transfer, the transaction will be subject to (i) 25% EIT rate on the gains derived from the transfer of the property of an establishment or place situated in China, or (ii) 10% EIT rate on the gains derived from the transfer of real property situated in China or equity interests in PRC resident enterprises, unless an applicable tax treaty provides otherwise. Moreover, Bulletin 7 provides clearer criteria than Circular 698 on how to assess reasonable commercial purposes and has introduced safe harbors for internal group restructurings and the purchase and sale of equity through a public securities market. However, Bulletin 7 also brings challenges to both the foreign transferor and transferee of the Indirect Transfer as they are required to make a self-assessment of whether the transaction should be subject to PRC tax and to file or withhold the PRC tax accordingly. Both the transferor and the transferee may be subject to penalties under PRC tax laws if the transferee fails to withhold the taxes and the transferor fails to pay the taxes.

On October 17, 2017, the SAT issued the Bulletin on Issues Concerning the Withholding of Enterprise Income Tax at Source on Non-Resident Enterprises, or Bulletin 37, which repeals Circular 698 effective on December 1, 2017. Bulletin 37 further elaborates on the taxable income from equity transfer, which is the balance of deducting the equity s net value from the total income from equity transfer. The equity s net value refers to (i) the capital actually contributed by the equity transferor when it invested in the PRC resident enterprise, or (ii) the actual cost at which the equity transferor bought such equities from its predecessor. Where such equity depreciates or appreciates during the shareholding by the transferor, and the amount depreciated or appreciated can be determined pursuant to the regulations issued by the relevant finance and tax authorities, such equity s net value should be adjusted accordingly.

We face uncertainties with respect to the reporting and consequences of private equity financing transactions, share exchange or other transactions involving the transfer of shares in our company by investors that are non-PRC resident enterprises, or sale or purchase of shares in other non-PRC resident companies or other taxable assets by us. The transferors and transferees may be subject to the tax filing and withholding or tax payment obligation, while our PRC subsidiaries may be requested to assist in the filing. Furthermore, we may be required to spend valuable resources to comply with Bulletin 7 and Bulletin 37, or to establish that we should not be taxed under Bulletin 7 and Bulletin 37, any of which could have an adverse effect on our financial condition and results of operations.

The PRC tax authorities have discretion under Bulletin 7 and Bulletin 37 to make adjustments to the taxable capital gains based on the difference between the fair value of the taxable assets transferred and cost of investment. We have made acquisitions in the past and may conduct additional acquisitions in the future. If the PRC tax authorities make adjustments to the taxable income of transactions under Bulletin 7 and Bulletin 37, our income tax costs associated with such potential acquisitions will increase, which may have an adverse effect on our financial condition and results of operations.

***PRC regulation of direct investment and loans by offshore holding companies to PRC entities may delay or limit us from making capital contributions or loans to our PRC subsidiaries.***

Any capital contributions or loans that we, as an offshore entity, make to our PRC subsidiaries are subject to PRC regulations. For example, none of our loans to a PRC subsidiary can exceed the difference between its total amount of investment and its registered capital approved under relevant PRC laws, and the loans must be registered with the local branch of the PRC State Administration of Foreign Exchange, or the SAFE. Our capital contributions to our PRC subsidiaries must be approved by or filed with the MOFCOM or its local counterpart. We cannot assure you that we will be able to complete the necessary registration or obtain the necessary approval on a timely basis, or at all. If we fail to complete the necessary registration or obtain the necessary approval, our ability to make loans or equity contributions to our PRC subsidiaries may be negatively affected, which could adversely affect our PRC subsidiaries liquidity and their ability to fund their working capital and expansion projects and meet their obligations and commitments.

***If the chops of our PRC subsidiaries and affiliated entities are not kept safely, are stolen, or are misused or misappropriated by unauthorized persons, our business and operations could be materially and adversely affected.***

In the PRC, a company chop or seal serves as the legal representation of the company to third parties even when unaccompanied by a signature. Each legally registered company in the PRC is required to have a company chop, which must be registered with the local public security bureau and the local administration for industry and commerce. In addition to this mandatory chop, companies may have several other chops which can be used for specific purposes. The chops of our PRC subsidiaries and affiliated entities are held securely by personnel designated or approved by us in accordance with our internal control procedures. To the extent these chops are not kept safely, are stolen, or are misused or misappropriated by unauthorized persons, the corporate governance of these entities could be severely and adversely compromised. As a result, these corporate entities may be bound to abide by the terms of any documents so chopped, even if they were chopped by an individual who lacked the requisite power and authority to do so, which may require us to take legal action, divert resources and management attention, and could materially and adversely affect our business and operations.

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***You may experience difficulties in effecting service of legal process, enforcing foreign judgments or bringing original actions in China based on United States or other foreign laws against us or our management.***

We conduct substantially all of our operations in China and the majority of our assets are located in China. In addition, many of our directors and executive officers reside within China. As a result, it may not be possible to effect service of process within the United States or elsewhere outside China upon these directors or executive officers, including with respect to matters arising under U.S. federal securities laws or applicable state securities laws. Moreover, our PRC legal counsel has advised us that the PRC does not have treaties with the United States or many other countries providing for the reciprocal recognition and enforcement of judgment of courts.

***Registered public accounting firms in China, including our independent registered public accounting firm, are not inspected by the U.S. Public Company Accounting Oversight Board, which deprives us and our investors of the benefits of such inspection.***

Auditors of companies whose shares are registered with the SEC and traded publicly in the United States, including our independent registered public accounting firm, must be registered with the U.S. Public Company Accounting Oversight Board, or the PCAOB, and are required by the laws of the United States to undergo regular inspections by the PCAOB to assess their compliance with the laws of the United States and professional standards applicable to auditors. Our independent registered public accounting firm is located in, and organized under the laws of, the PRC, which is a jurisdiction where the PCAOB, notwithstanding the requirements of U.S. law, is currently unable to conduct inspections without the approval of the Chinese authorities. In May 2013, the PCAOB announced that it had entered into a Memorandum of Understanding on Enforcement Cooperation with the CSRC and the MOF, which establishes a cooperative framework between the parties for the production and exchange of audit documents relevant to investigations undertaken by the PCAOB, the CSRC or the MOF in the United States and the PRC, respectively. The PCAOB continues to be in discussions with the CSRC and the MOF to permit joint inspections in the PRC of audit firms that are registered with the PCAOB and audit Chinese companies that trade on U.S. exchanges.

This lack of PCAOB inspections in China prevents the PCAOB from fully evaluating audits and quality control procedures of our independent registered public accounting firm. As a result, we and investors in our ADSs are deprived of the benefits of such PCAOB inspections. The inability of the PCAOB to conduct inspections of auditors in China makes it more difficult to evaluate the effectiveness of our independent registered public accounting firm s audit procedures or quality control procedures as compared to auditors outside of China that are subject to PCAOB inspections, which could cause investors and potential investors in our stock to lose confidence in our audit procedures and reported financial information and the quality of our financial statements.

***If additional remedial measures are imposed on the Big Four PRC-based accounting firms, including our independent registered public accounting firm, in administrative proceedings brought by the SEC alleging the firms failure to meet specific criteria set by the SEC, we could be unable to timely file future financial statements in compliance with the requirements of the Exchange Act.***

In December 2012, the SEC instituted administrative proceedings against the Big Four PRC-based accounting firms, including our independent registered public accounting firm, alleging that these firms had violated U.S. securities laws and the SEC s rules and regulations thereunder by failing to provide to the SEC the firms audit work papers with respect to certain PRC-based companies that are publicly traded in the United States. On January 22, 2014, the Administrative Law Judge, or ALJ, presiding over the matter rendered an initial decision that each of the firms had violated the SEC s rules of practice by failing to produce audit work papers to the SEC. The initial decision censured each of the firms and

barred them from practicing before the SEC for a period of six months. The Big Four PRC-based accounting firms appealed the ALJ s initial decision to the SEC. The ALJ s decision does not take effect unless and until it is endorsed by the SEC. In February 2015, each of the Big Four PRC-based accounting firms agreed to a censure and to pay a fine to the SEC to settle the dispute and avoid suspension of their ability to practice before the SEC and audit U.S.-listed companies. The settlement required the firms to follow detailed procedures and to seek to provide the SEC with access to Chinese firms audit documents via the CSRC. If future document productions fail to meet specified criteria, the SEC retains authority to impose a variety of additional remedial measures on the firms depending on the nature of the failure. While we cannot predict if the SEC will further review the Big Four PRC-based accounting firms compliance with specified criteria or if the results of such a review would result in the SEC imposing penalties such as suspensions or restarting the administrative proceedings, if the accounting firms are subject to additional remedial measures, our ability to file our financial statements in compliance with SEC requirements could be impacted. A determination that we have not timely filed financial statements in compliance with SEC requirements could ultimately lead to the delisting of our ADSs from the NASDAQ Global Select Market or the termination of the registration of our ADSs under the Exchange Act, or both, which would substantially reduce or effectively terminate the trading of our ADSs in the United States.

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***Governmental control of currency conversion may affect the value of your investment.***

The PRC government imposes controls on the convertibility of the Renminbi into foreign currencies and, in certain cases, the remittance of currency out of China, and such controls are stringent. We receive substantially all of our revenues in Renminbi, which is currently not a freely convertible currency. Under our current structure, our income will be primarily derived from dividend payments from our PRC subsidiaries and other payments such as royalty and licensing fees. Shortages in the availability of foreign currency may restrict the ability of our PRC subsidiaries and our affiliated entities to remit sufficient foreign currency to pay dividends, royalty payments or other fees 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 the transaction, can be made in foreign currencies without prior approval from the SAFE, by complying with certain procedural requirements. However, approval from appropriate governmental authorities is required where Renminbi is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of bank loans denominated in foreign currencies. The PRC government may also at its discretion restrict access in the future to foreign currencies for current account transactions. If the foreign exchange control system prevents us from obtaining sufficient foreign currency to satisfy our currency demands, we may not be able to pay dividends in foreign currencies to our shareholders, including holders of our ADSs.

***The fluctuation of the Renminbi may materially and adversely affect your investment.***

The value of the Renminbi against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in the PRC s political and economic conditions. In July 2005, the PRC government changed its policy of pegging the value of the Renminbi to the U.S. dollar and permitted the Renminbi to fluctuate within a managed band against a basket of certain foreign currencies. The value of the Renminbi against the U.S. dollar decreased 4.4% in 2015, decreased 7.2% in 2016 and increased 6.3% in 2017. Due to the U.S. dollar cash deposits we hold and our U.S. dollar-denominated convertible senior notes issued in 2014, we are exposed to foreign currency risks, and we recognized a loss from foreign currency translation of RMB55.9 million in 2015, a gain of RMB0.2 million in 2016 and a gain of RMB3.6 million (US$0.6 million) in 2017. It is possible that the Chinese government could adopt a more flexible currency policy in the future, which could result in further and more significant revaluations of the Renminbi against the U.S. dollar or any other foreign currency. As a material portion of our assets and liabilities are denominated in U.S. dollars, any future revaluations of the Renminbi may result in charges to our consolidated statements of operations and comprehensive income and significant changes in the values of these U.S. dollar-denominated assets and liabilities when translated into Renminbi.

In addition, as we rely substantially on dividends, royalty payments and other fees paid to us in Renminbi by our subsidiaries and affiliated entities in the PRC, any significant downward revaluation of the Renminbi may materially and adversely affect our cash flows, revenues and financial condition, and the value of, and any dividends payable on, our ADSs in foreign currency terms. Conversely, if we decide to convert our Renminbi into U.S. dollars for the purpose of making payments for dividends on our common shares or for other business purposes and the U.S. dollar appreciates against the Renminbi, the U.S. dollar equivalent of the Renminbi we convert would be reduced. For further information on our foreign exchange risks and certain exchange rates, see Item 3. Key Information Selected Financial Data Exchange Rate Information and Item

11. Quantitative and Qualitative Disclosures about Market Risk Foreign Exchange Risk.

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***PRC regulations relating to offshore investment activities by PRC residents may increase our administrative burden and adversely impact our business and prospects. If our shareholders who are PRC residents fail to make any required registrations or filings under such regulations, we may be unable to distribute profits and may become subject to liability under PRC laws.***

The SAFE promulgated the Notice on Issues Relating to the Administration of Foreign Exchange in Fund-Raising and Round-Trip Investment Activities of Domestic Residents Conducted via Offshore Special Purpose Companies, or Circular 75, which became effective on November 1, 2005, requiring PRC residents to register with local branches of the SAFE before establishing or controlling any company outside of China for the purpose of raising funds from overseas to acquire or exchange the assets of, or acquiring equity interests in, PRC entities held by such PRC residents. On July 4, 2014, the SAFE promulgated the Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents Offshore Investment and Financing and Round-Trip Investment through Special Purpose Vehicles, or Circular 37, which superseded Circular 75. Circular 37 requires PRC residents to register with local branches of the SAFE in connection with their direct establishment or indirect control of an offshore entity, for the purpose of overseas investment and financing, with such PRC residents legally owned assets or equity interests in domestic enterprises or offshore assets or interests, referred to in Circular 37 as a special purpose vehicle. Circular 37 further requires amendment to the registration in the event of any significant changes with respect to the special purpose vehicle, such as increase or decrease of capital contributed by PRC individuals, share transfer or exchange, merger, division or other material event. In the event that a PRC shareholder holding interests in a special purpose vehicle fails to fulfill the required SAFE registration, the PRC subsidiaries of that special purpose vehicle may be prohibited from making profit distributions to the offshore parent and from carrying out subsequent cross-border foreign exchange activities, and the special purpose vehicle may be restricted in its ability to contribute additional capital into its PRC subsidiary. Moreover, failure to comply with the various SAFE registration requirements described above could result in liability under PRC law for evasion of foreign exchange controls. On February 13, 2015, the SAFE promulgated the Notice on Further Simplifying and Improving Foreign Exchange Administration Policy on Direct Investment, or Circular 13, which became effective on June 1, 2015. Pursuant to Circular 13, entities and individuals are required to apply for foreign exchange registration of foreign direct investment and overseas direct investment, including those required under Circular 37, with qualified banks, instead of the SAFE. The qualified banks, under the supervision of the SAFE, will directly review the applications and process the registration.

We have notified beneficial owners of common shares of our company who we know are PRC residents of their filing obligation. However, we may not be aware of the identities of all of our beneficial owners who are PRC residents. We do not have control over our beneficial owners and cannot assure you that all of our PRC-resident beneficial owners have fully complied or will fully comply with Circular 37 and subsequent implementation rules. For example, we are not aware of available registration procedures for PRC residents that are non-PRC passport holders, which makes our beneficial owners who are foreign citizens residing in China currently unable to comply with these regulations. The failure or inability of our PRC-resident beneficial owners to comply with the registration procedures set forth therein may subject them to fines and legal sanctions and may also limit our ability to contribute additional capital into our PRC subsidiaries, limit our PRC subsidiaries ability to distribute profits to our company or otherwise adversely affect our business, financial condition and results of operations.

***Any failure to comply with PRC regulations regarding the registration requirements for employee stock incentive plans may subject the PRC plan participants or us to fines and other legal or administrative sanctions.***

In March 2007, the SAFE promulgated the Application Procedure of Foreign Exchange Administration for Domestic Individuals Participating in Employee Stock Holding Plan or Stock Option Plan of Overseas-Listed Company, or the Stock Option Rule, to regulate foreign exchange procedures for PRC individuals participating in employee stock holding and stock option plans of overseas companies. On February 15, 2012, the SAFE promulgated the Circular on Certain Foreign Exchange Issues Relating to Domestic Individuals Participation in Stock Incentive Plan of Overseas-Listed Company, or the New Stock Option Rule. Upon the effectiveness of the New Stock Option Rule on February 15, 2012, the

Stock Option Rule became void, although the basic requirements and procedures provided under the Stock Option Rule are kept unchanged in the New Stock Option Rule. Directors, supervisors, the senior management and other employees of the domestic subsidiary of an overseas-listed company (which shall include companies and other subsidiaries directly or indirectly established or controlled by such overseas-listed company in China) participating in any stock incentive plan of the overseas-listed company who are PRC citizens or who are non-PRC citizens residing in China for a continuous period of not less than one year, subject to a few exceptions, are required to register with the SAFE through a domestic qualified agent, which could be a PRC subsidiary of such overseas-listed company, and complete certain other procedures. We and our PRC employees, directors and senior management are subject to these regulations.

In addition, the SAT has issued circulars concerning employee share options. Under these circulars, individuals working in China who exercise share options will be subject to PRC individual income tax. We have obligations to file documents related to employee share options with relevant tax authorities and withhold the individual income taxes of employees who exercise their share options. If we or our PRC optionees fail to comply with these regulations, we or our PRC optionees may be subject to fines and other legal and administrative sanctions.

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**Risks Related to Our Common Shares and Our ADSs**

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

The trading price of our ADSs has been and may continue to be subject to wide fluctuations in response to factors including the following:

- actual or anticipated fluctuations in our quarterly operating results;
- changes or revisions by us to previously released operating and financial targets;
- announcements by us or our competitors of new services, significant acquisitions, strategic partnerships, joint ventures or capital commitments;
- changes in financial estimates or recommendations by securities analysts;
- conditions in our industry, which is the market for recruitment advertising services and other human resource related services in China;
- additions or departures of key personnel;
- fluctuations of exchanges rates between the Renminbi and U.S. dollar; and
- pending or potential litigation or regulatory investigations.

In addition, the stock market in general, and the market prices for Internet-related companies and companies with operations in China in particular, have experienced volatility that often has been unrelated to the operating performance of such companies. These market fluctuations

may also materially and adversely affect the market price of our ADSs. The securities of some PRC-based companies that have listed their securities in the United States have experienced significant volatility since their initial public offerings in recent years, including, in some cases, substantial declines in the trading prices of their securities. The trading performances of these companies securities after their offerings may affect the attitudes of investors towards Chinese companies listed in the United States in general, which consequently may impact the trading performance of our ADSs, regardless of our actual operating performance. Any negative news or perceptions about inadequate corporate governance practices or fraudulent accounting, corporate structure or other matters of other Chinese companies may also negatively affect the attitudes of investors towards Chinese companies in general, including us, regardless of whether we have engaged in any inappropriate activities. Furthermore, volatility or a lack of positive performance in our ADS price may adversely affect our ability to retain key employees, most of whom have been granted stock options.

***The future sales, or perceived potential sales, of a substantial number of our ADSs in the public market could adversely affect the price of our ADSs.***

Sales of substantial amounts of our ADSs in the public market, or the perception that these sales could occur, could adversely affect the market price of our ADSs. Such sales 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. Common shares held by our existing shareholders may also be sold in the public market under, and subject to the restrictions contained in, Rule 144 under the Securities Act. We cannot predict what effect, if any, market sales of securities held by our shareholders will have on the market price of our ADSs.

***Conversion of our convertible senior notes may dilute the ownership interest of existing shareholders.***

The conversion of some or all of our convertible senior notes may dilute the ownership interests of existing shareholders. Any sales in the public market of the ADSs issuable upon such conversion could adversely affect prevailing market prices of our ADSs. In addition, the existence of the convertible senior notes may encourage short selling by market participants because the conversion of the convertible senior notes could depress the market price of our ADSs.

***Your right to participate in any future rights offerings may be limited, which may cause dilution of your holdings.***

We may from time to time distribute rights to our shareholders, including rights to acquire our securities. Under the deposit agreement, the depositary bank will not offer you those rights unless the distribution to ADS holders of both the rights and any related securities is either registered under the Securities Act, or exempt from registration under the Securities Act. We are under no obligation to file a registration statement with respect to any such rights or securities or to endeavor to cause such a registration statement to be declared effective. Moreover, we may not be able to establish an exemption from registration under the Securities Act. Accordingly, you may be unable to participate in our rights offerings and may experience dilution in your holdings.

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***You may not be able to exercise your right to vote.***

As a holder of ADSs, you may only exercise the voting rights with respect to the underlying common shares in accordance with the provisions of the deposit agreement. Under the deposit agreement, you must vote by giving voting instructions to the depositary. Upon receipt of your voting instructions, the depositary will vote the underlying common shares in accordance with these instructions. Otherwise, you will not be able to exercise your right to vote unless you withdraw the shares. Under our memorandum and articles of association, the minimum notice period required for convening either an annual general meeting or an extraordinary general meeting called to vote on matters requiring the approval by special resolution is 20 days. The minimum notice period for other extraordinary general meetings is 14 days. When a general meeting is convened, you may not receive sufficient advance notice to withdraw the shares to allow you to vote with respect to any specific matter. If we ask for your instructions, the depositary will notify you of the upcoming vote and will arrange to deliver our voting materials to you. We cannot assure you that you will receive the voting materials in time to ensure that you can instruct the depositary to vote your shares. In addition, the depositary and its agents are not responsible for failing to carry out voting instructions or for the manner of carrying out voting instructions. This means that you may not be able to exercise your right to vote and there may be nothing you can do if the shares underlying your ADSs are not voted as you requested.

***You may not receive distributions on common shares or any value for them if it is illegal or impractical to make them available to you.***

The depositary of our ADSs has agreed to pay to you the cash dividends or other distributions it or the custodian receives on common shares or other deposited securities after deducting its fees and expenses. You will receive these distributions in proportion to the number of common shares your ADSs represent. However, the depositary is not responsible if it decides that it is inequitable or impractical to make a distribution available to any holders of ADSs. For example, the depositary may determine that it is not feasible to distribute certain property through the mail. Additionally, the value of certain distributions may be less than the cost of mailing them. In these cases, the depositary may determine not to distribute such property. We have no obligation to register under U.S. securities laws any ADSs, common shares, rights or other securities received through such distributions. We also have no obligation to take any other action to permit the distribution of ADSs, common shares, rights or anything else to holders of ADSs. This means that you may not receive the distribution we make on our common shares or any value for them if it is illegal or impractical for us to make them available to you. These restrictions may have a material adverse effect on the value of your ADSs.

***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 thinks 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.***

We are an exempted company incorporated under the laws of the Cayman Islands, and the majority of our assets are located outside the United States. In addition, many of our directors and executive officers are nationals or residents of jurisdictions other than the United States and all or a substantial portion of their assets are located outside the United States. As a result, it may be difficult for investors to effect service of process within the United States upon our directors or executive officers, or enforce judgments obtained in the United States courts against our directors or executive officers.

Our corporate affairs are governed by our memorandum and articles of association, the Cayman Islands Companies Law, as amended and revised from time to time, and the common law of the Cayman Islands. The rights of shareholders to take action against the directors, actions by minority shareholders and the fiduciary duties 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, the decisions of whose courts are of persuasive authority, but are not binding on a court in the Cayman Islands. The rights of our shareholders and the fiduciary duties of our directors under Cayman Islands law are not as clearly established as they would be under statutes or judicial precedent in some jurisdictions in the United States. In particular, the Cayman Islands has a less developed body of securities laws as compared to the United States, and some states, such as Delaware, have more fully developed and judicially interpreted bodies of corporate law. In addition, shareholders of Cayman Islands companies may not have standing to initiate a shareholder derivative action in a federal court of the United States.

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There are uncertainties as to whether Cayman Islands courts would:

- recognize or enforce against us judgments of courts of the United States based on certain civil liability provisions of U.S. securities laws; and

- impose liabilities against us, in original actions brought in the Cayman Islands, based on certain civil liability provisions of U.S. securities laws that are penal in nature.

There is no statutory recognition in the Cayman Islands of judgments obtained in the United States, although the courts of the Cayman Islands will in certain circumstances recognize and enforce a non-penal judgment of a foreign court of competent jurisdiction without retrial on the merits.

As a result of all of the above, public shareholders may have more difficulty in protecting their interests in the face of actions taken by management, members of the board of directors or controlling shareholders than they would as public shareholders of a U.S. company.

***If we are considered a PRC resident under the EIT Law, dividends we pay to non-resident holders may be subject to PRC withholding tax and gains realized by non-resident holders on sale of ADSs or common shares may be subject to PRC income tax.***

If we are considered to be a PRC resident enterprise under the EIT Law, any dividends payable to non-resident enterprise holders of our common shares or ADSs may be treated as income derived from sources within PRC and therefore subject to a 10% withholding tax (or 20% in the case of non-resident individual holders) unless an applicable income tax treaty provides otherwise. In addition, capital gains realized by non-resident enterprise holders upon the disposition of our common shares or ADSs may be treated as income derived from sources within PRC and therefore subject to 10% income tax (or 20% in the case of non-resident individual holders) unless an applicable income tax treaty provides otherwise. If we are required under the EIT Law to withhold PRC income tax on dividends payable to our non-PRC investors or if you are required to pay PRC income tax on any gains realized from the transfer of our common shares or ADSs, the value of your investment in our common shares or ADSs may be materially and adversely affected.

***We believe that we were not a passive foreign investment company, or a PFIC, for our taxable year ending on December 31, 2017, although there can be no assurance in this regard. However, we believe there is a risk that we may become one in the future, which could result in adverse U.S. federal income tax consequences to U.S. investors.***

Based on the past composition of our income and valuation of our assets, including goodwill, we believe that we were not a PFIC for our taxable year ending on December 31, 2017, although there can be no assurance in this regard. However, due to the volatility of the market price of our common shares, as represented by our ADSs, we believe there is a risk that we may become one in the future. Under the U.S. Internal Revenue Code of 1986, as amended, the determination of whether we are a PFIC is made annually and our PFIC status for any particular year will depend upon the character of our income and assets and the value of our assets at such time. Accordingly, our PFIC status for any particular taxable year

cannot be determined with certainty until after the close of that taxable year. In particular, our PFIC status may be determined in large part based on the market price of our common shares, as represented by our ADSs, which is likely to fluctuate (and may fluctuate considerably given that the global capital markets have been experiencing extreme volatility). Accordingly, fluctuations in the market price of our common shares, as represented by our ADSs, may result in our being a PFIC in the current or any future taxable year.

Further, if it is determined that we do not own the stock of our affiliated PRC entities, which is held through contractual arrangements, for U.S. federal income tax purposes, we may be treated as a PFIC for our current taxable year and any taxable year thereafter. There exist substantial uncertainties regarding the application, interpretation and enforcement of relevant current and future PRC laws and regulations and their potential effect on our corporate structure and contractual arrangements with certain of our affiliated PRC entities. There can be no assurance that the PRC regulatory authorities will not take a view different from those of our PRC legal counsel. Further, even if the uncertainties as to PRC laws and regulations did not exist, there are also substantial uncertainties as to the treatment of our corporate structure and ownership of these affiliated PRC entities for U.S. federal income tax purposes.

If we are a PFIC for any taxable year during which you hold our ADSs or common shares, such characterization could result in adverse U.S. federal income tax consequences to you if you are a U.S. investor. For example, if we are or become a PFIC, our U.S. investors may become subject to increased tax liabilities under U.S. federal income tax laws and regulations, and will become subject to burdensome reporting requirements. Moreover, non-corporate U.S. investors will not be eligible for reduced rates on taxation on any dividends received from us, if we are a PFIC in the taxable year in which such dividends are paid or in the preceding taxable year. See Item 10. Additional Information Taxation Certain United States Federal Income Tax Considerations Passive Foreign Investment Company Rules.

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## ITEM 4. INFORMATION ON THE COMPANY

### A. History and Development of the Company

We commenced our business in 1998. In March 2000, our founders incorporated a new holding company, now called 51job, Inc., as an exempted limited liability company in the Cayman Islands under the Cayman Islands Companies Law. Subsequently, 51job, Inc. acquired 51net.com Inc., or 51net, a British Virgin Islands company and the registered owner of our *www.51job.com* domain name, and other subsidiaries to become the holding company of our corporate group. As of December 31, 2017, we mainly operated our business through the following significant PRC subsidiaries and affiliated Chinese entities:

- Qianjin Network Information Technology (Shanghai) Co., Ltd., or Tech JV, which is owned by 51net, Qian Cheng and Wuhan AdCo, and holds licenses which allow it to provide online advertising, human resource related and value-added telecommunications services;

- Beijing Qian Cheng Si Jin Advertising Co., Ltd., or Qian Cheng, which is wholly owned by Run An, is our joint venture partner in Tech JV and has an equity interest in Shanghai Qianjin Advertising Co., Ltd., or AdCo;

- Beijing Run An Information Consultancy Co., Ltd., or Run An, which is jointly owned by Jingwu Chen and Tao Wang, two senior executives of our company;

- Qian Cheng Wu You Network Information Technology (Beijing) Co., Ltd., or WFOE, which is wholly owned by 51net Beijing, a Cayman Islands company wholly owned by 51job, Inc., and owns our trademarks and registered copyrights; and

- Wuhan Mei Hao Qian Cheng Advertising Co., Ltd., or Wuhan AdCo, which is wholly owned by Qian Cheng and has an equity interest in Tech JV.

Our business and operations are mainly conducted through Tech JV and its subsidiaries.

In May 2004, we restructured our operations to comply with then existing PRC laws and regulations governing foreign ownership in entities conducting advertising and human resource related services. For a discussion on our group structure, see Item 4. Information on the Company Organizational Structure.

In 2015, we acquired 100% of the equity interest in Yingjiesheng.com, an established online recruitment website which focuses on college graduates and students in China, for RMB250.0 million, acquired 60% of the equity interest in Beijing Zhiding Youyuan Management Consulting Co., Ltd., a provider of professional assessment services, for RMB18.7 million, and made several long-term, non-controlling investments totaling RMB22.8 million in companies that

provide services related to our operations and business strategy. In 2016, we made several long-term, non-controlling investments totaling RMB127.7 million, primarily in a provider of accounting and finance training courses as well as in companies that provide business process outsourcing services in China. In December 2017, we acquired 66% of the equity interest in Lagou Information Limited, or Lagou, which operates a recruitment website focused on technology and engineering talent in China, for RMB782.6 million (US$118.9 million), and made several long-term, non-controlling investments totaling RMB97.3 million (US$15.0 million) in companies that provide recruitment and human resource services. We have utilized our existing cash resources for payments related to these acquisitions and investments in 2015, 2016 and 2017. In addition to organic growth, we expect to selectively pursue acquisitions and investments in businesses that complement our existing operations and further our strategic objectives in the future.

Our principal executive offices are located at Building 3, No. 1387, Zhang Dong Road, Shanghai 201203, People s Republic of China. Our telephone number at this address is +86-21-6160-1888. Our registered office in the Cayman Islands is located at the offices of Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. Our agent for service of process in the United States is CCS Global Solutions, Inc., located at 530 Seventh Avenue, Suite 909, New York, New York 10018.

**Our Offerings and Securities Repurchases**

We completed our initial public offering of 6,037,500 ADSs, and on September 29, 2004, the trading of our ADSs commenced on the NASDAQ Global Select Market under the symbol JOBS.

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In April 2014, we completed an offering of US$172.5 million in aggregate principal amount of convertible senior notes due 2019. The notes were offered to qualified institutional buyers pursuant to Rule 144A under the Securities Act, and certain non-U.S. persons in compliance with Regulation S under the Securities Act. The notes bear interest at a rate of 3.25% per year, payable semiannually in arrears on April 15 and October 15 of each year. The notes will mature on April 15, 2019. The notes may be converted based on an initial conversion rate of 11.6976 ADSs per US$1,000 principal amount of the notes (which represents an initial conversion price of US$85.49 per ADS). The conversion rate is subject to adjustment in some events. Following the change in the ratio of our common shares to ADSs from 2:1 to 1:1 effective August 8, 2014, the initial conversion rate was adjusted to 23.3952 ADSs per US$1,000 principal amount of the notes (which represents an adjusted initial conversion price of approximately US$42.74 per ADS).

In September 2008, we announced a share repurchase program, which provided authorization to purchase up to US$25 million worth of our outstanding ADSs. Under this program, from 2008 to 2011, we purchased 2,030,658 ADSs, through open-market transactions for an aggregate consideration of approximately US$11 million, including transaction fees. In June 2014, our shareholders approved an increase to the size of the share repurchase program from US$25 million to US$75 million. Under this increased program and through open-market transactions, we purchased 898,950 ADSs for an aggregate consideration of approximately US$24 million in the year ended December 31, 2015, including transaction fees. We did not make any repurchase of our ADSs in the open market in 2016 and 2017.

In addition to the share repurchase program, we may from time to time make repurchases of our other securities, including our convertible senior notes due 2019, in open-market transactions, privately negotiated transactions or otherwise, subject to market conditions and other factors. The amounts involved may be material. We did not make any repurchase of our convertible senior notes in 2015, 2016 and 2017.

## B. Business Overview

We believe that we are a leading nationwide provider of integrated human resource services in China. We have a strong focus on online recruitment advertising, and our websites and their related mobile applications are utilized by a broad base of corporate employers, reach a wide and diverse audience of job seekers and aggregate job information from nearly 200 cities across China.

In addition to recruitment advertising services, we also provide other complementary human resource related services, consisting primarily of business process outsourcing, training, campus recruitment and placement services. We aim to be a comprehensive, one-stop solution to human resource departments by providing recruitment and other human resource related services to employers through 25 local sales offices and a national sales and customer service call center in Wuhan. Although we provide services to both employers and job seekers, we derive substantially all of our revenues from employers.

**Our Products and Services**

We provide a range of human resource services in the following categories:

- recruitment advertising services, mainly online recruitment and, historically, print advertising services; and

- other human resource related services, such as business process outsourcing, training, campus recruitment and placement services.

We generate a significant majority of our revenues from our recruitment advertising services. Our online recruitment services business generated 64.5% of our revenues in 2015, 65.2% of our revenues in 2016 and 65.0% of our revenues in 2017. Our print advertising business generated 0.3% of our revenues in 2015, nil in 2016 and nil in 2017. Other human resource related services generated 35.2% of our revenues in 2015, 34.8% of our revenues in 2016 and 35.0% of our revenues in 2017.

***Recruitment Advertising Services Online Recruitment Services***

Our online recruitment services are delivered through several websites and brands, each with a focus on the needs of job seekers and employers in a designated labor market segment or demographic group in China.

*www.51job.com*. We established our flagship online recruitment website, *www.51job.com*, in 1999. Recruitment advertisements on 51job.com primarily target white-collar workers between the ages of 20 to 35 and cover many different job categories ranging from professional and middle management positions to entry-level, clerical and hourly jobs. We generally update the advertisements on 51job.com several times each hour, which provides job seekers with new opportunities constantly and allows employers to receive timely responses.

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On the 51job.com platform, employers can:

- post recruitment advertisements, search our job candidate database and download resumés;
- manage, organize and streamline the recruitment process, such as to track applicant status, establish interview schedules, retain past job postings and maintain candidate folders;
- place advertising banners, trademarks, logos, website hyperlinks and other forms of advertising to promote their corporate image;
- utilize enhanced marketing tools, such as priority placement of their job postings in keyword search results and e-mail marketing campaigns to a targeted group of job seekers; and
- verify job candidate details through an online background-checking report.

In addition, we offer website design as a value-added service to increase the corporate image of employers. We can build customized private label recruitment websites with the look and feel of a dedicated website. We design these sites in-house to client specifications and operate and maintain these sites for our clients.

For job seekers, 51job.com has online tools which allow them to:

- view all current recruitment advertisements and search for positions using keywords or based on a number of criteria, including city of employment, industry, job function, company type, and salary level;
- submit resumés directly to prospective employers to apply for a desired position;
- organize job applications and track submission status;
- obtain career development advice, salary benchmarking data and other job-related information;
- receive updates and notifications on specific companies of their choice; and
- receive recommendations of job opportunities matching the job seeker s profile and preferences.

We believe that 51job.com is one of the largest dedicated national recruitment websites in China in terms of the number of recruitment advertisements. We also believe that 51job.com is among the largest in terms of the number of registered job user accounts and posted job seeker resumés, with approximately 123 million user accounts established since the launch of this website in 1999 and approximately 114 million resumés posted online as of December 31, 2017. We believe that 51job.com is perceived as a destination site by job seekers because of its large volume of advertisements and the job search, training, and general career management content available on the website.

*www.yingjiesheng.com*. In 2015, we acquired Yingjiesheng.com, or YJS, an online recruitment website which focuses on college graduates and students in China. YJS enables employers to place recruitment advertisements and allows job seekers to apply to full-time, part-time and internship job opportunities. YJS also disseminates information about application deadlines, on-campus talks, corporate visits and recruitment fairs. In addition, YJS moderates online career advice and job seeker counseling forums that facilitate information sharing and engagement among its users.

We believe YJS is an important complement to 51job.com as it attracts new highly educated, first-time workers that may be migrated to 51job.com for further job opportunities as they mature and gain experience. YJS also provides access to a younger audience that is particularly valuable to employers who seek to build a long-term talent pipeline. The collaboration of the online presence of YJS and our existing offline campus recruitment services further increase and strengthen our overall service effectiveness to employers.

*www.51jingying.com*. In 2015, we launched the website *www.51jingying.com*, or Jingying, which is a platform that connects recruiters with primarily passive job seekers who are usually currently employed, older, more experienced and highly skilled. We believe that Jingying addresses a segment of the labor market in China that has been traditionally served by a highly fragmented, offline community of local, small headhunting firms. Through Jingying, headhunters may post employment opportunities and search job candidate profiles. Conversely, job seekers can apply to these listings and access recruiter profiles that provide background details on industry of expertise, previous job placements and verification of professional credentials. However, to complete a connection, recruiters and job seekers are required to exchange and accept each other s electronic business cards through Jingying, after which, they can build a professional network of contacts and establish long-term relationships. The features of Jingying also include more powerful search capabilities that better prioritize relevant positions and candidates, and its mobile application has a private communication channel and name card scanning function.

Jingying hosts online talent fairs focused on popular, high demand job opportunities that require specific skills for particular industries and geographies, such as the need for investment managers in the financial services industry in Shanghai. Interested job seekers are required to register in advance for the online talent fairs, their qualifications are pre-screened and checked, and those who meet the requirements are accelerated into the hiring process among the group of participating employers to fill vacancies more quickly and efficiently.

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*www.lagou.com*. In December 2017, we acquired Lagou.com, a recruitment website specializing in technology and engineering talent in China. Recruitment advertisements on Lagou.com come from employers seeking to hire for positions including software developers, computer programmers, web designers, systems administrators, data analysts and project managers. For the convenience of its targeted audience of technology and engineering professionals, job opportunities on Lagou.com are organized and categorized into niches in the technology hiring spectrum, such as positions requiring experience with a certain programming language or those openings specifically in the emerging areas of artificial intelligence, big data or cloud computing. Lagou.com also provides industry trends, company profiles and reviews, and user discussion forums.

Due to the rapid rise of the technology industry and an increased focus on innovation among businesses in China, we believe Lagou.com addresses a growing imbalance between labor supply and demand as employers compete aggressively for workers with particular technical skills and expertise. We also believe that the strong demand for these highly skilled technology professionals will drive further need for effective recruitment solutions due to the scarcity of such professionals.

*Mobile applications.* For all of our online brands, we have mobile applications that enable job seekers to access their accounts through mobile devices and utilize most functions available on their respective websites. We believe that these mobile offerings help job seekers receive information anywhere and anytime, allowing them to more quickly apply to desired job positions and respond to employers when they do not have convenient access to a personal computer. We believe these mobile offerings increase job seeker engagement, provide important real-time benefits and enhance the job search experience for our users.

The following table sets forth the estimated number of unique employers who used our online recruitment services for the periods indicated.

| | For the year ended December 31, | | |
|---|---|---|---|
| | **2015** | **2016** | **2017** |
| Estimated unique employers using online recruitment services | 406,880 | 460,811 | 519,257 |

We provide job seekers access to our websites and mobile applications free of charge.

***Recruitment Advertising Services Print Advertising***

*51job Weekly. 51job Weekly* was a city-specific recruitment advertising publication which was published once a week and was distributed as an insert in a local newspaper and/or on a stand-alone basis.

Considering the emerging trend of online recruitment, we had decided to gradually discontinue the publication of *51job Weekly* in local cities since 2010 and had completely ceased all print advertising operations in 2015.

***Other Human Resource Related Services***

*Business Process Outsourcing*. We perform business process outsourcing services by managing human resource administrative functions for employers on an outsourced basis. Our services to corporate clients mainly consist of social insurance and benefits processing, regulatory compliance with local governmental employment regulations and payroll processing. While the market for business process outsourcing services in China is currently immature compared to developed economies like the United States, we believe that there is significant future potential for these services as companies in China grow and become more sophisticated, thereby increasing the need and demand for using third parties to perform human resource administrative functions. In providing our business process outsourcing services, we benefit from the close operational integration with our recruitment advertising services, which enables us to share staff resources and leverage our sales and marketing investments. We continue to build our outsourcing capability and aim to increase the number of companies and individuals we serve as well as to expand the type of services we provide.

*Training*. We conduct training seminars in business management, leadership, sales and marketing, human resource, negotiation skills, financial planning and analysis, public administration, manufacturing, secretarial and other skills. We provide our seminars to the general public and on a customized, in-house basis for corporate clients. We license content and materials from third parties for some of the training courses we provide. We also enter into arrangements with certain trainers and lecturers that meet our knowledge, expertise and experience requirements. In addition to classroom-style seminars, we provide outdoor-based training exercises and programs for corporate clients to promote personal development, team building and communication. We believe that our training services build our brand awareness as a provider of comprehensive, integrated human resource services.

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*Campus Recruitment*. We provide campus recruitment services to corporations seeking to recruit college and university students. We assist corporations with recruitment strategy, selection of schools, schedule of campus visits, promotion of their image to students and on-campus logistical arrangements.

*Placement and Executive Search*. We provide placement and executive search services to employers seeking to attract high demand talent and fill urgent job vacancies that require workers with specific skills, qualifications or experience. Depending on the terms and conditions stated in our scope of work agreements with employers, we may identify and select prospective candidates, conduct interviews, negotiate compensation packages and complete hiring procedures on behalf of our corporate clients.

*Professional Assessment Tools*. We provide professional and scientific assessment tools to assist human resource departments in evaluating capabilities and dispositions of job candidates and existing employees. In 2015, we expanded our product offerings with the acquisition of Beijing Zhiding Youyuan Management Consulting Co., Ltd., or Zhiding Youyuan. Zhiding Youyuan provides talent assessment services, including a system of in-house developed, proprietary psychometric tests, which help employers to identify ideal job candidates and better allocate talent resources in their organizations in China.

*Salary and Other Human Resource Related Surveys*. We conduct general and customized salary survey studies with analyses of compensation and benefits packages across various cities, industries and job positions. Human resource departments utilize this data to understand the market for compensation levels and to assist in their determination of compensation and benefits packages. We also conduct surveys on employee retention and other human resource related topics.

*Human Resource Conferences*. We organize and host annual human resource conferences and events in some of our cities. These conferences and events include lectures, seminars, workshops and networking opportunities for human resource professionals. Although we do not generate significant revenues from hosting these conferences and events, this service provides us with exposure to, and interaction with, existing and prospective clients.

*Other Products*. We also perform support and administrative services for employers on select recruitment projects.

**Technology**

We design and update our websites and mobile applications as well as develop our proprietary software entirely in-house. We own the copyrights, software, trademarks and other intellectual property with respect to the design and content of our websites and mobile applications, other than the advertisements and trademarks provided by our advertisers. Our websites are hosted by the major state-owned

telecommunications service providers in China.

We employ a large staff of website designers and technicians to update and enhance our websites as well as to design, build and provide assistance to customers whose recruitment websites we are maintaining. New recruitment advertisements provided to us by employers who have purchased and registered online accounts generally appear on our websites within a few hours.

From time to time we experience slower Internet service from our Internet service providers as a result of technical difficulties associated with high traffic volumes, computer viruses, the proliferation of spam e-mail traffic and other difficulties that generally affect Internet traffic. To date, we have not been subject to significant targeted disruptions or hacking and we believe that difficulties we have experienced relating to the speed of the Internet service and web-hosting provided by the telecommunications service providers are consistent with the difficulties that affect Internet service in China generally. To date, our websites and mobile applications have not gone off-line or been shut down for any significant period of time. We do not believe that our business has been materially disrupted or negatively affected by technical difficulties with respect to our websites and mobile applications. However, we cannot assure you that our business will not face material disruptions or damage from spam, viruses, hacking or other technical difficulties. See Item 3. Key Information Risk Factors Risks Related to Our Business Hacking and computer viruses may cause delays or interruptions on our systems and may reduce use of our services and damage our reputation and brand names; We face risks related to health epidemics and other natural disasters; and We are dependent on our Internet service providers, and we are vulnerable to failures of the Internet, fixed line telecommunications networks in China and our technology platform.

**Competition**

We face significant competition in all of our business lines. See Item 3. Key Information Risk Factors Risks Related to Our Business Because we face significant competition in all of our businesses, we may lose market share and our results of operations may be materially and adversely affected.

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***Online Recruitment Services***

We experience competition in our online recruitment services business from dedicated job search websites, such as *www.zhaopin.com*, as well as market niche players that focus on particular industry verticals, such as technology and finance, or job seeker segments.

None of the well-established nationwide Internet portals, search engines and online classified websites, such as *www.58.com*, www.*baidu.com*, *www.qq.com* and *www.sina.com.cn*, are dedicated providers of recruitment advertising or other human resource products in China, and each offers a wide variety of other online services. However, any or all of our online competitors may decide to allocate significant additional resources to providing recruitment advertising or other human resource services. We may also face competition from professional and social networking websites as well as other large Internet companies who may enter the market for any or all of our services in China. As a result of these events, we could encounter significantly increased competition in some or all of our markets.

***Other Services***

We believe the market for business process outsourcing services is in an early stage of development and the competition is generally localized. Our key competitors are typically service agencies affiliated with or sponsored by local government and human resources and social security bureaus. In the training services market, we face competition primarily from small, local training firms or individual trainers who specialize in specific areas of expertise. The competition in the placement and executive search services market in China is largely fragmented.

**Customers**

Our customers consist of large multinational corporations, large national Chinese corporations and local Chinese enterprises of all sizes.

**Sales and Marketing**

Our sales and marketing strategy is focused on promoting our brand names and further establishing our reputation as an integrated provider of high quality human resource services. We utilize various marketing channels to target these key groups:

- job seekers;
- employers with hiring and/or training needs;
- executive recruiters and headhunting firms; and

- human resource departments with actual or potential outsourcing needs.

*Direct Marketing*. We target employers principally through direct marketing, which we believe has been highly effective in attracting new customers and serving existing customers. As of December 31, 2017, we employed over 4,000 sales and account management representatives that identify and directly contact customers via the Internet, telephone and personal sales visits. We maintain 25 local sales offices and have also established a national sales and customer service call center in Wuhan. We train our sales staff to cross-sell all of our services and to design comprehensive packages of human resource services for clients to meet their specific requirements. In addition, we believe that the personal nature of direct marketing has enabled us to better understand the needs of our existing and prospective customers and helped us to develop new products and services.

*Event Marketing*. We organize customer events, such as recruiting workshops, product information seminars, industry roundtables and networking events, to provide our sales team an opportunity to personally interact with employers and understand their recruitment needs.

*Online and Mobile Marketing*. We utilize advertising, such as banner advertisements, keyword and hyperlink purchases, paid listings and video, to promote our brand names on the Internet and mobile marketplaces. We also conduct and sponsor online promotion campaigns such as drawings, giveaways and contests to attract traffic and enhance the loyalty of job seekers to our websites. In addition, we have developed mobile applications which can be downloaded by users for free.

*Mass Media Advertising*. We use traditional mass media advertising on a selective basis to increase our brand visibility and corporate image. We advertise through various media, including outdoor advertising on digital displays, billboards, bus stops and public transportation. In addition, we advertise on print media such as newspapers, magazines and industry publications.

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*Cross-Marketing*. We have established cross-marketing relationships between our websites and a variety of partners. In addition, we believe that we benefit from recommendations and referrals by the large base of job seekers and employers who use our websites and mobile applications.

*Media Promotions*. We produce surveys and analyses on job market trends and developments that are regularly featured and published in magazines, newspapers and on the Internet. We believe this exposure heightens our corporate image among both employers and job seekers and attracts interest and sales inquiries for our services.

**Intellectual Property and Proprietary Rights**

We regard our copyrights, trademarks, trade secrets and other intellectual property rights as critical to our business. We rely on trademark and copyright law, trade secret protection, non-competition and confidentiality and/or licensing agreements with our senior management, clients, contractors and others to protect our intellectual property rights. We have registered several Internet domain names, including our main website *www.51job.com*, as well as a number of similar and other domain names in an effort to prevent entities from diverting online traffic away from our websites.

We have registered trademarks, including , , *51job.com*, , and *eSearch*, with the Trademark Office of the SAIC in th January 2010, was designated a Well-Known Trademark, which is the highest recognition for consumer brands granted by the SAIC.

Under a trademark license agreement between WFOE, as licensor, and Tech JV, as licensee, Tech JV has the right to use certain trademarks in the PRC, with no right of assignment or sublicense. Under a domain name license agreement between 51net, as licensor, and Tech JV, as licensee, Tech JV has the right to use the *www.51job.com* domain name in connection with the operation of this website. See Item 7. Major Shareholders and Related Party Transactions Related Party Transactions Contractual Arrangements Among Our Group Entities.

Our intellectual property is subject to theft and other unauthorized use, and our ability to protect our intellectual property from unauthorized use is limited. In addition, we may in the future be subject to claims that we have infringed the intellectual property rights of others. See Item 3. Key Information Risk Factors Risks Related to Our Business If we are unable to prevent others from using our intellectual property, our business may be materially and adversely affected and We may be exposed to infringement or misappropriation claims by third parties, which, if successful, could cause us to pay significant damage awards.

**Regulation**

Advertising agencies, human resource services firms and Internet content providers are subject to substantial regulation by the Chinese government. An Internet content provider is a commercial operator providing the delivery of Internet content. This section sets forth a summary of the most significant PRC regulations that affect the businesses and the industries in which we operate.

In addition to laws and regulations that apply generally to advertising agencies, human resource firms and Internet content providers, special limitations apply to foreign ownership of businesses engaged in human resource and Internet content provider services in China.

***Limitations on Foreign Ownership of Our Businesses***

***Advertising***

The principal regulation governing foreign ownership of advertising companies in China, the Administrative Regulations Concerning Foreign-Invested Advertising Enterprises (2008 Revision), was repealed on June 29, 2015. Foreign investors are allowed to own 100% of an advertising agency in China subject to certain qualification requirements. However, for those advertising agencies that provide online advertising service, foreign ownership restrictions on the value-added telecommunications business are still applicable.

***Human Resource Services Companies***

The principal regulation governing foreign ownership in human resource services companies in China is the Interim Regulations on the Administration of Sino-Foreign Equity Joint Venture as Human Resource Agencies (2003), as amended in 2005 and 2015, jointly promulgated by the PRC Ministry of Human Resources and Social Security, or the MOHRSS, the MOFCOM and the SAIC. Under this regulation, the percentage of foreign ownership in the equity interest of a human resource services company cannot be less than 25% or more than 49%. This ownership limitation has been increased to 70% for Hong Kong service providers and Macau service providers since June 2005 and for human resource services companies registered in several locations, such as Pudong New District in Shanghai since June 2006, Zhongguancun National Innovation Demonstration Zone in Beijing since September 2014, Nanjing since December 2014, and Suzhou since April 2015. Starting from January 2008, the PRC government no longer implemented any foreign ownership percentage limitation for Hong Kong service providers and Macau service providers.

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***Value-Added Telecommunications Services and Internet Content Providers***

In the PRC, entities that coordinate with Internet service providers (such as telecommunications companies) to effect the online placement of content provided by either themselves or third parties are defined as Internet content providers and require a special license. Internet content providers are classified as value-added telecommunications businesses.

The principal regulations governing foreign ownership in Internet content providers in China include:

- Administrative Rules for Foreign Investments in Telecommunications Enterprises (2016 Revision), effective on February 6, 2016; and
- Foreign Investment Industry Guidance Catalogue (2017), effective on July 28, 2017.

Under these regulations, foreign investors, individually or in the aggregate, are prohibited from owning more than 50% of a PRC entity that provides value-added telecommunications services (except for a few businesses such as e-commerce and application store), which include the service of providing Internet content.

According to the Opinion on Further Opening Value-Added Telecommunications Services to Foreigners in China (Shanghai) Pilot Free Trade Zone, foreign ownership in certain value-added telecommunications services providers (e.g., Internet content providers providing application store services) may exceed 50% in China (Shanghai) Pilot Free Trade Zone; however, service providers providing online advertising and human resource services are not included.

In addition, according to the MIIT Notice, value-added telecommunications services license holders (including their shareholders) shall directly own the domain names and registered trademarks used by such value-added telecommunications services license holders in their daily operations and is prohibited from leasing, transferring or selling the license to foreign investors in any form, and from providing any assistance in forms of resources, sites or facilities to foreign investors that conduct value-added telecommunications business illegally in China. For those who are not in compliance with the above requirements and fail to rectify the non-compliance, the relevant PRC government authorities may revoke their operating licenses. See Item 3. Key Information Risk Factors Risks Related to Doing Business in China PRC laws and regulations governing operators of Internet websites are unclear and the regulation of the telecommunications and Internet industries may become more burdensome, and if we are found to be in violation of PRC laws and regulations, we could be subject to sanctions.

***General Regulation of Our Businesses***

***Advertising***

The SAIC is responsible for regulating advertising activities in the PRC. The principal regulations governing advertising (including online advertising) in China include:

- Advertising Law (2015 Revision);
- Interim Measures for the Administration of Online Advertising (2016);
- Administration of Advertising Regulations (1987); and
- Provisions on the Administration of Advertisement Publishing Registration (2016).

All enterprises, except for broadcast stations, television stations, newspapers and periodical publication entities, are no longer required to apply for the registration of advertisement publishing although they are required to apply for inclusion of advertising services in their business licenses.

***Human Resource Services***

Human resource services firms in China are mainly regulated by the MOHRSS. The principal regulation applicable to human resource services firms is the Regulations on Administration of Human Resource Markets (2001, as amended in 2005 and 2015), jointly promulgated by the MOHRSS and the SAIC. Under this regulation, any entity providing human resource services in China must obtain a human resource services license from the local administration of human resources and social security at the county level and above, while any foreign-invested entity providing human resource services in China must obtain such license from the administration at the provincial level. Each of these administrations may adopt rules, with some degrees of variation among provinces, to regulate human resource services operations conducted within the province.

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***Value-Added Telecommunications Services and Online Commerce***

The delivery of content on our websites is subject to PRC laws and regulations applicable to telecommunications and Internet service providers. We are also within the regulatory jurisdiction of various governmental bodies, including the MIIT and the SAIC. The principal regulations applicable to the telecommunications industry and Internet include:

- Telecommunications Regulations (2016 Revision);
- The Administrative Measures for Telecommunications Business Operating Licenses (2017); and
- The Internet Information Services Administrative Measures (2011 Revision).

Under these regulations, the delivery of Internet content provision services is classified as a value-added telecommunications business, and a commercial operator of such services must obtain an Internet content provider license from the appropriate telecommunications authorities.

With respect to our online business, the Administrative Measure on Online Commerce promulgated by the SAIC on January 26, 2014 applies to all online commerce businesses in general, which requires all online commerce operators to register with the SAIC or its local offices. There are no PRC laws that have national applicability to online commerce specifically relating to advertising and human resource services. However, local authorities may impose requirements on online business activities conducted within its jurisdiction, such as registration or filing requirements.

With respect to our mobile applications, the Cyberspace Administration of China, or the CAC, issued the Provisions on the Administration of Mobile Internet Applications Information Services on June 28, 2016, which became effective on August 1, 2016. Such regulation requires the filing of mobile applications with the CAC or its competent local counterpart and the protection of information security.

***Labor and Social Insurance***

Under the PRC Labor Law effective in 1995 and the PRC Labor Contract Law effective in 2008 and its amendment which became effective on July 1, 2013, a written labor contract must be executed between an employer and an employee. Labor-related regulations and rules of the PRC also stipulate the maximum number of working hours per day and per week as well as the minimum wage standards. In addition, an employer is required to establish occupational safety and sanitation systems, implement the national occupational safety and sanitation rules and standards, and provide employees with workplace safety training.

In the PRC, workers dispatched by an employment agency are normally engaged in temporary, auxiliary or substitute work. Under the PRC Labor Contract Law, an employment agency is the employer for workers dispatched by it and shall perform an employer s obligations toward them. The employment contract between the employment agency and the dispatched workers, and the placement agreement between the

employment agency and the company that receives the dispatched workers shall be in writing. Furthermore, the company that accepts the dispatched workers shall bear joint and several liability for any violation of the PRC Labor Contract Law by the employment agencies arising from their contracts with dispatched workers. The MOHRSS promulgated the Interim Provisions on Labor Dispatch, effective March 1, 2014, which clarified the use of the labor dispatch employment model, required revisions to the content in labor dispatch contracts and instituted a 10% maximum limit of dispatched workers to total workforce for companies in China while providing a two-year transition period for compliance.

An employer is obligated to sign an indefinite term labor contract with an employee if the employer continues to employ the employee after two consecutive fixed-term labor contracts and under some other circumstances. The employer also has to pay compensation to the employee if the employer terminates an indefinite term labor contract except where such employee makes certain serious faults. Except where the employer proposes to renew a labor contract by maintaining or raising the conditions of the labor contract and the employee is not agreeable to the renewal, an employer is required to compensate the employee when a definite term labor contract expires. Furthermore, under the Regulations on Paid Annual Leave for Employees issued in December 2007 and effective as of January 2008 and its implementation measures, an employee who has served an employer for more than one year and less than ten years is entitled to a 5-day paid vacation, those whose service period ranges from 10 to 20 years is entitled to a 10-day paid vacation, and those who has served for more than 20 years is entitled to a 15-day paid vacation. An employee who does not use such vacation time at the request of the employer shall be compensated at three times their normal salaries for each waived vacation day.

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Under the Regulations on Work-Related Injury Insurance effective in 2004 and amended in 2010, and the Interim Measures Concerning the Maternity Insurance for Enterprise Employees effective in 1995, PRC companies must pay work-related injury insurance premiums and maternity insurance premiums for their employees. On December 20, 2010, the State Council promulgated the amended Regulation on Work-Related Injury Insurance that became effective on January 1, 2011. The amendments to this regulation expand the scope of work-related injury to include the injury of employees caused by traffic accidents en route to or from the office not primarily attributable to the employees. Employees are entitled to certain treatments under work-related injury insurance that are calculated based on the circumstances of the work-related injury. Under the Interim Regulations on the Collection and Payment of Social Insurance Premiums effective in 1999 and the Interim Measures concerning the Administration of the Registration of Social Insurance effective in 1999, basic pension insurance, medical insurance and unemployment insurance are collectively referred to as social insurance. Both PRC companies and their employees are required to contribute to the social insurance plans. Under the Regulations on the Administration of Housing Fund effective in 1999, as amended in 2002, PRC companies must register with applicable housing fund management centers and establish a special housing fund account in an entrusted bank. Both PRC companies and their employees are required to contribute to the housing funds. On October 28, 2010, the National People s Congress promulgated the PRC Social Insurance Law, which became effective on July 1, 2011. The PRC Social Insurance Law specifies that the PRC establishes a social insurance system including basic pension insurance, basic medical insurance, work-related injury insurance, unemployment insurance and maternity insurance. An employer shall pay the social insurance for its employees in accordance with the rates provided under relevant regulations and shall withhold the social insurance that should be assumed by the employees. The authorities in charge of social insurance may request an employer s compliance and impose sanctions if such employer fails to pay and withhold social insurance in a timely manner.

***Regulations Relating to Intellectual Property Rights***

China has adopted comprehensive legislation governing intellectual property rights, including trademarks, patents and copyrights. China has adhered to the main international conventions on intellectual property rights and became a member of the Agreement on Trade Related Aspects of Intellectual Property Rights upon its accession to the WTO in December 2001, the amendment of which was approved by the Standing Committee of the National People s Congress in October 2007.

The PRC Copyright Law was adopted in 1990 and amended in 2001 and 2010 to widen the scope of works that are eligible for copyright protection. The amended PRC Copyright Law extends copyright protection to cover Internet activities and products disseminated over the Internet. Copyrighted software is protected under the PRC Copyright Law and other regulations. In addition, there is a voluntary registration system administered by the China Copyright Protection Center.

Registered trademarks are protected under the PRC Trademark Law adopted in 1982, revised in 2001 and further revised in 2013. Trademarks can be registered with the Trademark Office of the SAIC for renewable ten-year periods. Trademark license agreements are required to be filed with the Trademark Office of the SAIC for the record, and the failure to complete such filings may cause the trademark license agreements to be unenforceable against bona fide third parties.

Domain name disputes are governed by the Measures of China Internet Network Information Center for Resolving Disputes Regarding Domain Names promulgated by the Chinese Internet Network Infrastructure Center, or the CNNIC, on May 28, 2012 and effective on June 28, 2012, under which the CNNIC can authorize domain name dispute resolution institutions to decide disputes.

***Regulations Relating to Internet Privacy and Information Security***

The PRC Constitution provides that PRC law protects the freedom and privacy of communications of citizens and that infringement of such rights is not permitted. While PRC laws do not prohibit Internet content providers from collecting and using personal information of their users, such collection and use is subject to the users prior consent. Also, the relevant government authorities have enacted legislation on the use of the Internet that recognizes the protection of personal information from unauthorized disclosure. Under the Regulation on Internet Information Service, Internet information service providers are prohibited from producing, copying, publishing or distributing information that is humiliating or slanderous to others or that trespasses the lawful rights and interests of others. Depending on the nature of their violation, Internet content providers that violate this provision may face criminal charges or be sanctioned by security authorities. In addition, they may be ordered to temporarily suspend their service, or their licenses may be revoked.

Under the Several Provisions on Regulating the Market Order of Internet Information Services effective in March 2012, without the consent of users, Internet information service providers shall not collect personal information of users or provide such information to others. Where the Internet information service providers obtain the consent of users, it shall clearly inform users of the methods, contents and purposes for collecting and processing the personal information of users, and it shall not collect the information unnecessary for providing services, and nor use the personal information of users for purposes other than providing services.

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Under the Decision of the Standing Committee of the National People s Congress on Strengthening Information Protection on Networks effective in December 2012, Internet service providers and other enterprises and institutions shall, when gathering and using electronic personal information of citizens in business activities, adhere to the principles of legality and rationality to necessarily, explicitly state the purposes, manners and scopes of collecting and using information, and obtain the consent of those from whom information is collected, and shall not collect and use information in violation of laws, regulations or the agreement between both sides. Internet service providers and other enterprises and institutions shall, when gathering and using electronic personal information of citizens, publish their collection and use rules.

Under the Provisions on Protecting the Personal Information of Telecommunications and Internet Users effective in September 2013, telecommunications services operators and Internet information services providers shall formulate the rules for collection and use of users personal information and publish such rules in their business or service premises or on their websites. Without the consent of users, no telecommunications services operator or Internet information services provider may collect and use users personal information. When collecting and using users personal information, telecommunications services operators and Internet information services providers shall clearly inform users of the purpose, manner and scope for collection and use of information, the channels for inquiry and correction of information, the consequences from refusal to provide information and other relevant matters. Telecommunications services operators and Internet information services providers shall not collect users personal information other than that necessary for providing services, or use information for purposes other than the provision of services; and shall not collect and use information by fraud, misleading, coercion or any other means or in violation of laws, administrative regulations or agreements between both sides.

Under the Provisions on the Administration of Account Names of Internet Users effective in March 2015, Internet information service providers shall protect the users information and privacy of citizens and conduct identity verification of individuals before account registration. Under the Provisions on the Administration of Communications Short Message Services effective in June 2015, short message service providers and short message content providers shall not send commercial short messages to users without the users consent or request, or shall stop sending such short messages to users when the latter clearly present their refusal after their consent.

Under the PRC Advertising Law, the amendment of which became effective in September 2015, without the consent or request of the recipient, no entity or individual may send advertisements to the recipient s residence or vehicle, among others, or send advertisements in the form of electronic information. Where an advertisement is sent in the form of electronic information, the sender s true identity and contact information shall be explicitly indicated, and the sender shall provide the recipient with a method for the recipient to discontinue receiving such advertisements. Under the PRC Counter-Terrorism Law, which became effective in January 2016, Internet service providers shall conduct identity verification of individuals.

Under the PRC Cyber Security Law, which became effective on June 1, 2017, Internet product and service providers shall explicitly notify their users and obtain their consent for collection and use of personal information. If any user s personal information is involved, the provider shall also comply with the provisions of relevant laws and administrative regulations on the protection of personal information. Personal information and important data collected and produced by critical information infrastructure operators during their operations within the territory of China shall be stored within China. However, the PRC Cyber Security Law does not provide a detailed standard to classify critical information infrastructure operators.

To comply with these regulations, we provide users of our websites and mobile applications with a range of confidentiality, communications and information sharing options. They may choose to authorize us to disclose their personal information to third parties, or to instruct us to keep this information strictly confidential. Our systems are designed to maintain information received from these users in accordance with their instructions.

However, the PRC government retains the power and authority to order Internet content providers to turn over personal information of Internet users if the users post any prohibited content or engage in illegal activities on the Internet.

***Regulations Relating to Internet Publishing***

The Administrative Provisions on Online Publishing Services, or the Online Publishing Provisions, was jointly issued by the MIIT and the PRC State Administration of Press, Publication, Radio, Film and Television, or the SAPPRFT, in 2016, and came into effect on March 10, 2016. The Online Publishing Provisions define online publishing services as providing online publications to the public through information networks. Any online publishing services provided in the territory of the PRC are subject to these provisions. The Online Publishing Provisions require any Internet publishing services provider to obtain an online publishing service license to engage in online publishing services. Under the Online Publishing Provisions, online publications refer to digital works which have publishing features, such as digital works that have been edited, produced or processed and which are made available to the public through information networks, including written works, pictures, maps, games, cartoons, audio/video reading materials and other methods. Any online game shall obtain approval from the SAPPRFT before it is launched online. Furthermore, Sino-foreign equity joint ventures, Sino-foreign cooperative joint ventures and wholly foreign owned enterprises cannot engage in providing web publishing services.

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We do not believe the activities we engage in on our websites constitute Internet publishing activities as such term is used in the Online Publishing Provisions. As a result, we have not applied or obtained an Internet publishing license. However, in the event that our activities are deemed to be Internet publishing, we may be required to obtain approval from the relevant PRC authorities. If we are deemed to be in breach of the Internet publishing regulations, the relevant PRC authorities may seize the related equipment and servers used primarily for such activities and confiscate any revenues generated from such activities. In addition, the relevant PRC authorities may also impose fines.

***Regulations Relating to Foreign Currency Exchange***

The principal regulations governing foreign currency exchange in the PRC are the Foreign Exchange Administration Regulations, as amended in August 2008, and the Administration Rules of the Settlement, Sale and Payment of Foreign Exchange. Under these regulations, the Renminbi is freely convertible for payments of current account items, such as trade and service related foreign exchange transactions and dividend payments, but not for expenses of capital, such as direct investment, loan or investment in securities, outside the PRC unless the prior approval of the SAFE is obtained and prior registration with the SAFE is made.

Under the Foreign Exchange Administration Regulations, foreign-invested enterprises in the PRC may purchase or remit foreign exchange without the approval of the SAFE for trade and service related foreign exchange transactions by providing commercial documents evidencing these transactions. They may also retain foreign exchange (subject to a cap approved by the SAFE) to satisfy foreign exchange liabilities or to pay dividends. However, the relevant PRC government authorities, which have significant administrative discretion in implementing the laws, may restrict or eliminate the ability of foreign-invested enterprises to purchase and retain foreign currencies in the future. In addition, foreign exchange transactions involving direct investment, loan and investment in securities outside the PRC are subject to limitations and require approvals from the SAFE.

Under the Administration Rules of the Settlement, Sale and Payment of Foreign Exchange effective in 1996, foreign-invested enterprises may only buy, sell and/or remit foreign currencies at banks authorized to conduct foreign exchange business after providing valid supporting documents and, in the case of capital account item transactions, obtaining approval from the SAFE or its competent local counterpart.

The SAFE promulgated the Circular on the Relevant Operating Issues Regarding Administration Improvement of Payment and Settlement of Foreign Currency Capital of Foreign-Invested Enterprises, or Circular 142, on August 29, 2008. Under Circular 142, registered capital of a foreign-invested enterprise settled in Renminbi converted from foreign currencies may only be used within the business scope approved by the applicable governmental authority and may not be used for equity investments in the PRC. In addition, foreign-invested enterprises may not change how they use such capital without the SAFE s approval, and may not in any case use such capital to repay Renminbi loans if they have not used the proceeds of such loans.

The SAFE promulgated the Notice of the SAFE on Reforming the Administrative Approach Regarding the Settlement of the Foreign Exchange Capitals of Foreign-Invested Enterprises, or Circular 19, on June 1, 2015, which superseded Circular 142. Under Circular 19, foreign-invested enterprises are allowed to settle 100% of their capital in foreign currencies in Renminbi on a discretionary basis. The Renminbi obtained by foreign-invested enterprises from the discretionary settlement of their capital in foreign currencies shall be managed under the accounts for foreign exchange settlement pending payment, and foreign-invested enterprises shall make various payments from such account for the following scope of use:

expenditure within the business scope, payment for domestic equity investment and Renminbi deposits, transfers to the special centralized fund management account and the Account for Foreign Exchange Settlement Pending Payment under the same name, repayment of the Renminbi loans that have been fully used, repayment of external debts directly or by foreign exchange purchase and payment, external payment of funds to foreign investors due to capital reduction or divestment directly or by foreign exchange purchase and payment, external payment of current account expenditure directly or by foreign exchange purchase and payment, and other capital account expenditure registered by the relevant foreign exchange bureau (bank) or approved by the relevant foreign exchange bureau. Foreign-invested enterprises shall not use their capital and the Renminbi obtained from foreign exchange settlement for any of the following purposes: direct or indirect use for expenditure beyond its business scope or expenditure prohibited by the PRC laws and regulations; directly or indirect use for investment in securities, unless otherwise prescribed by laws and regulations; directly or indirect use for granting entrusted loans (unless permitted under its business scope), repaying inter-company loans (including third party advances) and repaying Renminbi bank loans that have been transferred to a third party; or use for the expenses related to the purchase of real estate not for self-use, unless it is a foreign-invested real estate enterprise. Circular 19 may adversely affect our liquidity and our ability to fund and expand our business in the PRC.

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The SAFE promulgated the Notice of the SAFE on Reforming and Standardizing the Administrative Provisions on Capital Account Foreign Exchange Settlement, or Circular 16, on June 9, 2016. Under Circular 16, onshore enterprises (including Chinese-funded enterprises and foreign-invested enterprises, excluding financial institutions) may all settle their external debts in foreign currencies according to the method of voluntary foreign exchange settlement. The banks shall, in handling each transaction of foreign exchange settlement for an onshore enterprise according to the principle of payment-based foreign exchange settlement, review the authenticity and compliance of the use by the domestic institution of the foreign exchange funds settled in the previous transaction (including voluntary settlement and payment-based settlement). The earnings and expenditures of the account for foreign exchange settlement pending payment are limited to certain scope. The use of foreign exchange earnings under capital account shall be within the enterprise s business scope and in a truthful manner for proprietary purposes.

***Regulations Relating to Foreign Exchange Registration of Offshore Investment by PRC Residents***

Under Circular 75 issued on October 21, 2005, (i) a PRC resident, including a PRC resident natural person (e.g., a PRC citizen or a foreign citizen who resides primarily in China), shall register with the local branch of the SAFE before it establishes or controls an overseas special purpose vehicle for the purpose of overseas equity financing (including convertible debt financing); (ii) when a PRC resident contributes the assets of or its equity interests in a domestic enterprise to an overseas special purpose vehicle, or engages in overseas financing after contributing assets or equity interests to an overseas special purpose vehicle, such PRC resident shall register his or her interest in the overseas special purpose vehicle and the change thereof with the local SAFE branch; and (iii) when the overseas special purpose vehicle undergoes a material event outside of China, such as a change in share capital, or merger or acquisition, the PRC resident shall, within 30 days of the occurrence of such event, register such change with the local SAFE branch. PRC residents who are shareholders of overseas special purpose vehicles established before November 1, 2005 were required to register with the local SAFE branch before March 31, 2006.

The SAFE promulgated Circular 37 on July 4, 2014, which superseded Circular 75. Circular 37 requires PRC residents to register with local branches of the SAFE in connection with their direct establishment or indirect control of an offshore entity, for the purpose of overseas investment and financing, with such PRC residents legally owned assets or equity interests in domestic enterprises or offshore assets or interests, referred to in Circular 37 as a special purpose vehicle. Circular 37 further requires amendment to the registration in the event of any significant changes with respect to the special purpose vehicle, such as increase or decrease of capital contributed by PRC individuals, share transfer or exchange, merger, division or other material event. According to Circular 13 issued by the SAFE on February 13, 2015, starting from June 1, 2015, all new such registrations required under Circular 37 (other than make-up registrations) will be handled by qualified banks instead of the local SAFE branches. The qualified banks, under the supervision of the SAFE, will directly review the applications and process the registration.

Under Circular 37, in the event that a PRC shareholder holding interests in a special purpose vehicle fails to fulfill the required SAFE registration, the PRC subsidiaries of that special purpose vehicle may be prohibited from making profit distributions to the offshore parent and from carrying out subsequent cross-border foreign exchange activities, and the special purpose vehicle may be restricted in its ability to contribute additional capital into its PRC subsidiary. Moreover, failure to comply with the various SAFE registration requirements described above could result in liability under PRC law for evasion of foreign exchange controls. See Item 3. Key Information Risk Factors Risks Related to Doing Business in China PRC regulations relating to offshore investment activities by PRC residents may increase our administrative burden and adversely impact our business and prospects.

***Regulations Relating to Employee Stock Option Plans***

On December 25, 2006, the People s Bank of China promulgated the Measures for the Administration of Individual Foreign Exchange, and on January 5, 2007, the SAFE further promulgated the implementation rules on those measures. Both became effective on February 1, 2007. According to the implementation rules, if individuals in the PRC participate in any employee stock ownership plan or stock option plan of an overseas-listed company, those individuals must apply as a group through the company or a domestic agency to the SAFE or the appropriate local branch for approval for any foreign exchange-related transactions concerning that plan.

On March 28, 2007, the SAFE promulgated the Stock Option Rule. Under the Stock Option Rule, PRC citizens who are granted stock options by an overseas-listed company are required, through a PRC agent or PRC subsidiary of such overseas-listed company, to register with the SAFE and complete certain other procedures.

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On February 15, 2012, the SAFE promulgated the New Stock Option Rule. Upon the effectiveness of the New Stock Option Rule on February 15, 2012, the Stock Option Rule became void, although the basic requirements and procedures provided under the Stock Option Rule are kept unchanged in the New Stock Option Rule, i.e., the domestic employees participating in stock incentive plan of an overseas-listed company shall appoint the PRC subsidiary of the overseas-listed company or a domestic qualified agent to make the registration of the stock incentive plan with the SAFE and handle all foreign exchange-related matters of the stock incentive plan through the special bank account approved by the SAFE. The New Stock Option Rule clarifies that the domestic subsidiary of an overseas-listed company shall include the limited liability company, partnership and the representative office directly or indirectly established by such overseas-listed company in China and the domestic employees shall include the directors, supervisors, the senior management and other employees of the domestic subsidiary, including the foreign employees of the domestic subsidiary who continuously reside in China for no less than one year.

Similar to the Stock Option Rule, the New Stock Option Rule requires that the annual allowance with respect to the purchase of foreign exchange in connection with stock holding or stock option exercises shall be subject to the approval of the SAFE. The New Stock Option Rule further requires that the material amendments of the stock incentive plan shall be filed with the SAFE within three months following the occurrence of the material amendments. The domestic agent shall also make a quarterly update to the SAFE to disclose the information with respect to the stock option exercises, the stock holding and foreign exchange matters. If the domestic employees or the domestic agent fails to comply with the requirements of the New Stock Option Rule, the SAFE may require the remedy and even impose administrative penalties that the SAFE deems appropriate.

In addition, the SAT has issued circulars concerning employee share options. Under these circulars, individuals working in China who exercise share options will be subject to PRC individual income tax. We have obligations to file documents related to employee share options with relevant tax authorities and withhold the individual income taxes of employees who exercise their share options.

***Regulations Relating to Dividend Distribution***

The principal regulations governing distribution of dividends paid by wholly foreign owned enterprises and Sino-foreign equity joint ventures include:

- Wholly Foreign Owned Enterprise Law (1986), as amended;
- Wholly Foreign Owned Enterprise Law Implementing Rules (1990), as amended;
- Sino-Foreign Equity Joint Venture Enterprise Law (1979), as amended;
- Sino-Foreign Equity Joint Venture Enterprise Law Implementing Rules (1983), as amended; and
- PRC Enterprise Income Tax Law and its Implementation Rules (2007), amended in 2017.

Under these regulations, foreign-invested enterprises in the PRC may pay dividends only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, foreign-invested enterprises in the PRC are required to set aside certain amounts out of their accumulated profits each year, if any, to fund certain reserve funds. These reserves are not distributable as cash dividends.

## C. Organizational Structure

The following chart illustrates our corporate structure, including our principal operating subsidiaries and consolidated affiliated entities as of the date of this annual report.

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(1) Acquired in December 2017. Includes Lagou Information HongKong Limited, a wholly owned Hong Kong subsidiary, which is the shareholder of Beijing Lagou Science and Technology Co, Ltd., a PRC wholly foreign owned enterprise.

(2) Includes Shanghai Wang Ju Human Resource Consulting Co., Ltd., incorporated in the PRC, which conducts human resource services and is 70% owned by 51net HR and 30% owned by Run An.

(3) In addition, 51net directly or indirectly wholly owns three PRC subsidiaries which have no current operations: Shanghai Wang Ju Advertising Co., Ltd.; Wang Jin Information Technology (Shanghai) Co., Ltd.; and Wuhan Wang Cai Information Technology Co., Ltd.

(4) Includes six PRC subsidiaries of Tech JV: Shanghai Qianjin Zhong Cheng Human Resources Co., Ltd., a wholly owned subsidiary which conducts human resource services; Shanghai Yishu Information Technology Co., Ltd., a wholly owned subsidiary which conducts online recruitment services; Shanghai Pinyi Information Technology Co., Ltd., a wholly owned subsidiary which conducts online recruitment services; Shanghai Qianjin Advertising Co., Ltd., an 80% owned subsidiary which conducts advertising services; Shanghai Wang Cai Advertising Co., Ltd., a subsidiary jointly owned by Shanghai Qianjin Advertising Co., Ltd. and Tech JV which conducts advertising services; and Beijing Zhiding Youyuan Management Consulting Co., Ltd., a 60% owned subsidiary which conducts human resource services.

(5) Includes Beijing Lagou Network Technology Co., Ltd., a 60% owned PRC subsidiary which conducts online recruitment services.

(6) Includes Qianjin Zhong Cheng Technology (Wuhan) Co., Ltd., a wholly owned PRC subsidiary which has no current operations.

Our subsidiary, 51net, directly holds 50% of the outstanding shares of Tech JV, Qian Cheng directly holds 1% of the outstanding shares of Tech JV, and Wuhan AdCo directly holds the remaining 49% of the outstanding shares of Tech JV. As a result of Qian Cheng s ownership of Wuhan AdCo, each of 51net and Qian Cheng effectively holds 50% of the equity interest in Tech JV.

Our services are principally provided through Tech JV and its subsidiaries, which hold licenses to provide online advertising services, human resource related services and information services via the Internet and mobile networks.

Tech JV and its subsidiaries recognize most of our revenues and receive most of the cash payments from our clients. Our relationships with Qian Cheng and Run An, our affiliated entities, have been governed by a series of agreements, under which we have borne all of the economic risks and received all of the economic rewards in these affiliated entities. In addition, through a call option agreement between 51net and Qian Cheng, 51net or its designee is able to purchase the equity interests in Tech JV that are held by Qian Cheng and Wuhan AdCo as well as the equity interest in AdCo that is held by Qian Cheng. As a result, the historical financial results of these entities have been consolidated in our financial statements. For a discussion on the contractual arrangements among our entities, see Item 7. Major Shareholders and Related Party Transactions Related Party Transactions Contractual Arrangements Among Our Group Entities.

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We have been advised by Jun He Law Offices, our PRC legal counsel, that:

- our current ownership structure is in compliance with existing PRC laws and regulations;
- the agreements among our subsidiaries, affiliated entities and their respective shareholders are valid and binding, and are enforceable under, and will not result in any violation of, existing PRC laws or regulations, with exception to the trademark license agreement, which may not be enforceable against bona fide third parties until registration with the relevant trademark administration authorities; and
- except as otherwise disclosed herein, our current business operations as described in this annual report are not in violation of existing PRC laws, rules and regulations in all material aspects.

There are, however, substantial uncertainties regarding the interpretation and application of PRC laws and regulations, including but not limited to the laws and regulations governing our business or the enforcement and performance of our contractual arrangements in the event of the imposition of statutory liens, death, bankruptcy and criminal proceedings. Accordingly, we cannot assure you that PRC regulatory authorities will not take a view contrary to that of our PRC legal counsel. See Item 3. Key Information Risk Factors Risks Related to Our Corporate Structure The PRC laws and regulations governing our business operations and contractual arrangements are uncertain, and if we are found to be in violation, we could be subject to sanctions and Risks Related to Doing Business in China The PRC legal system has inherent uncertainties that could materially and adversely affect us.

We intend to continue to evaluate from time to time the PRC regulatory environment with respect to the foreign ownership of human resource related services and value-added communications services, and plan to continue to streamline our ownership structure and operations as and when permitted by PRC laws and regulations.

### D. Property, Plants and Equipment

Our executive offices as well as our principal marketing and development facilities, comprising approximately 12,600 square meters, are currently located at No. 1387, Zhang Dong Road, Shanghai 201203, People s Republic of China. We operate a national sales and customer service call center with a total floor area of approximately 18,840 square meters across two locations in Wuhan. We also maintain a large sales office in downtown Shanghai comprising approximately 3,230 square meters. In addition, we lease space for our network of sales offices in Beijing, Changchun, Changsha, Chengdu, Chongqing, Dalian, Dongguan, Foshan, Fuzhou, Guiyang, Hangzhou, Harbin, Hefei, Jinan, Kunming, Nanjing, Ningbo, Qingdao, Shanghai, Shenyang, Shenzhen, Suzhou, Tianjin, Wuhan, Xian and Zhengzhou. As of the date of this annual report, we have leases for office space totaling approximately 40,200 square meters. We believe that we will be able to obtain adequate facilities to accommodate our expansion plans in the near future.

In April 2015, we completed the acquisition of office space in Shanghai to accommodate our growing business operations. The purchase price was RMB43.8 million and was funded from our existing cash resources.

**ITEM 4A. UNRESOLVED STAFF COMMENTS**

None.

**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 elsewhere in this annual report on Form 20-F. This discussion may contain forward-looking statements based upon current expectations that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under Item 3. Key Information Risk Factors or in other parts of this annual report.*

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## A. Operating Results

**Overview**

We believe that we are a leading nationwide provider of integrated human resource services in China. We offer recruitment advertising services which include online recruitment and, historically, print advertising services. We also provide other complementary human resource related services, consisting primarily of business process outsourcing, training, campus recruitment and placement services. We aim to be a one-stop solution to human resource departments by providing recruitment and other human resource related services to employers.

For the year ended December 31, 2017, our online recruitment services generated approximately 65% of our revenues with the remaining 35% from our other human resource related services.

**Factors Affecting Our Results of Operations**

The major factors affecting our results of operations and financial condition include:

- *Growth of the Chinese Economy and Demand for Human Resource Services in China.* China s rapid economic growth has served as an important catalyst for the development of the human resource services industry. In addition, the proliferation of new enterprises has led to increased market liberalization and competition. As a result, companies in China are increasingly recognizing the need for improved recruitment processes and talent management, which has driven the demand for human resource services.

We expect that our financial results will continue to be affected by the overall growth of the Chinese economy and market demand for human resource services, in particular recruitment services. Impacted by the global economic and financial market crisis in 2008 and 2009, the Chinese economy experienced a slowdown in economic activity, and we experienced a period of negative or lower revenue growth rates, decrease in customer spending and contraction in operating margins. Recently, the growth rate of China s gross domestic product slowed in 2014, 2015 and 2016. If there are slowdowns or other adverse developments in China s economic growth, we may experience material changes in market demand and customer spending, each of which would adversely affect our financial condition and operating results, such as negative or lower revenue growth rates, margin contraction and decreased profitability.

- *Changes in the Composition of the Chinese Labor Market.* As the Chinese economy grows, we believe that China is developing a large skilled and educated labor force. This growing skilled and educated work force is a key segment targeted by employers who use our human resource services as they seek to attract and retain talent to build a competitive advantage. In addition, China s large labor force is increasingly migrating toward urban centers due to continuing economic development and employer demand. As a result, major metropolitan areas have become the foundation for the growing human resource services industry in China. For this reason, we have established sales offices in 25 cities across China and cover 171 additional geographies through a national sales and customer service call center. We believe these changes in the composition of the Chinese labor market toward a larger, better skilled and urbanized work force will increase the number of job seekers and employers who utilize our human resource services.

- *Seasonality in the Human Resource Services Market.* The human resource services industry is characterized by seasonal fluctuations. Accordingly, these fluctuations, particularly in the seasonal peak recruitment periods following the Chinese New Year holiday in the first quarter and the National Day holiday in October, may cause our results to vary from quarter to quarter. During seasonal peak periods, demand for recruitment advertising and other human resource related services may or may not rise significantly depending on the needs of employers as well as their perceptions of the job market. In addition, the Chinese New Year holiday is based on the lunar calendar, which varies from year to year and affects our first quarter results and their comparability to financial results of the same quarter in prior years. We have usually observed seasonal campus recruitment activity by employers in the fourth quarter of each year but also a general slowdown in overall recruitment activity at calendar year end.

- *Increasing Acceptance of New Recruitment Channels and Human Resource Services.* While we have experienced growth in our recruitment advertising services, the use of advertising services to recruit employees has a limited history in China. In addition, we believe that the concept and use of business process outsourcing, training and assessment services is relatively new in China. Therefore, our ability to successfully increase employer acceptance and adoption of our services materially affects our results of operations.

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- *Growing Use of the Internet as a Platform for Providing Human Resource Services.* Our results of operations from our online recruitment services in particular will depend upon the continuing increase in Internet penetration and use. According to the CNNIC, the number of Internet users in China has increased from approximately 79 million in 2003 to approximately 772 million in 2017, ranking China as the largest market of Internet users in the world. We believe that further development of China s technology infrastructure, more affordable and diversified means of Internet access, and expanding ownership of personal computers, mobile phones and other devices with Internet capabilities will connect an increasingly larger group of job seekers and employers across a wider geographical area as well as facilitate the use of a web-based platform for the delivery of human resource services.

**Revenues**

A significant majority of our revenues come from employers who purchase our recruitment advertising services, primarily our online recruitment services. We also provide other complementary human resource related services, consisting primarily of business process outsourcing, training, campus recruitment and placement services.

The following table sets forth the revenues from our principal lines of business as a percentage of our total revenues for the periods indicated.

| | For the year ended December 31, | | |
|---|---|---|---|
| | **2015** | **2016** | **2017** |
| Revenues: | | | |
| Online recruitment services | 64.5% | 65.2% | 65.0% |
| Print advertising | 0.3 | | |
| Other human resource related revenues | 35.2 | 34.8 | 35.0 |
| Total revenues | 100.0% | 100.0% | 100.0% |

The following table sets forth our revenue growth rates by business line for the periods indicated.

| | **2015 compared to 2014** | **2016 compared to 2015** | **2017 compared to 2016** |
|---|---|---|---|
| Online recruitment services | 8.7% | 14.1% | 21.0% |
| Print advertising | (62.6) | | |
| Other human resource related revenues | 16.6 | 11.5 | 22.3 |
| Total revenues | 10.8% | 12.9% | 21.4% |

***Recruitment Advertising Revenues***

We receive recruitment advertising revenues from the fees that employers pay us for our online recruitment services and, historically, our print advertising services.

*Online Recruitment Services Revenues.* We generate our online recruitment services revenues from fees we charge employers for placing recruitment and related advertisements on our websites and mobile applications, downloading information from our online resumé database and utilizing our recruitment management tools and systems. In addition, we generate online revenues for website design and hosting services that we provide to corporations that wish to maintain their own dedicated recruitment website within our platforms. While we do not charge job seekers for accessing our websites and using basic functions, including the ability to register and maintain a user account, search and browse job postings and submit job applications, certain enhanced services are available to job seekers for a fee.

We believe that the increase of our online recruitment services revenues has been characterized by a combination of greater acceptance of the Internet as a recruitment medium in China and our effectiveness in increasing the number of employers using our online recruitment services.

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For the future, we expect the growth of our online recruitment services revenues will continue to be driven by an increase in the number of unique employers using these services as well as higher average revenue per unique employer due to our up-selling efforts and potential price adjustments over time. In addition, two opposing trends affect our average revenue per unique employer. Because new customers tend to use basic, lower priced online recruitment services, significant increases in the number of these customers generally result in higher aggregate online recruitment services revenues but lower average revenue per unique employer. Also, we may choose to offer introductory packages at reduced prices or provide complimentary trials from time to time, which decrease average revenue per unique employer. However, our ability to retain customers and migrate them over time to higher priced products has historically mitigated or offset these factors that reduce our average revenue per unique employer. As more customers become increasingly familiar with our online platforms and we build customer loyalty, we may be able to sell them a package of multiple online recruitment services or extend the length of their membership period, both of which increase our average revenue per unique employer. Our ability to retain customers and migrate them to higher priced products or multiple purchases may be adversely affected by, among other things, economic growth and policies in China, market demand for online recruitment services, difficulties we may encounter in developing or launching higher priced services and price competition in the online recruitment services market in China.

We define a unique employer as a customer that purchases our online recruitment services during a specified period. An employer who purchases online services multiple times or in multiple quarters throughout the fiscal year is counted as one unique employer for the annual total. We make adjustments for multiple purchases by the same customer within a city to avoid double counting. Each employer is assigned a unique identification number in our management information system. Affiliates and branches of a given employer may, under certain circumstances, be counted as separate unique employers. Our calculation of the number of unique employers is subject to misidentification and other forms of error, including errors in judgment as to appropriate adjustments to be made to the data. We cannot assure you that our methodology, employer identification, calculations and analyses are accurate, or that they yield results that are comparable between periods or give a correct approximation of actual numbers of customers.

We generally require that all advertising fees be paid in advance of posting an advertisement on our websites, although we may offer credit terms to select clients on a case-by-case basis.

*Print Advertising Revenues.* We generated our print advertising revenues from fees that we charged employers for placing recruitment and related advertisements in *51job Weekly*. Due to the growing acceptance of online recruitment services by employers and our belief that the demand and future use of print advertising services for recruitment purposes was limited, we had decided to gradually discontinue the publication of *51job Weekly* in local cities since 2010 and had completely ceased all print advertising operations in 2015.

***Other Human Resource Related Revenues***

We generate revenues from employers and enterprises for using our other human resource related services. For our business processing outsourcing services, we receive a monthly fee, which is based on such factors as the scope and complexity of services provided, the cities where services will be delivered and the number of employees under contract to us, per each individual we serve on behalf of our corporate clients. For our training services, we receive a registration fee per each participant who attends our seminars and workshops. For our campus recruitment services, we charge employers fees for preparing a customized campus recruitment strategic plan, promoting their image to students and schools, and handling on-campus logistics and administrative tasks. For engaging our placement and executive search services, we receive fees for

identifying prospective candidates, conducting interviews and completing new hires on behalf of employers. In addition, we also charge enterprises for utilizing our professional assessment services, purchasing our studies and reports on compensation and other human resource topics, and for participating in our industry conferences. We expect to continue to expand our outsourcing and training businesses and aim to develop additional human resource related services and products for our corporate clients. We believe that these services are an important component of our one-stop human resource solutions strategy and enhance our reputation and image as an industry innovator. In addition, we believe our business process outsourcing business may experience less seasonal and cyclical variations in revenues than our recruitment advertising services over time.

Growth of our other human resource related services will be dependent on our ability to successfully develop, introduce and increase adoption of these types of products and services as well as a relaxation of government regulations in China. We believe the increase in our other human resource related revenues has been primarily driven by growing customer acceptance of these products and services, particularly our business process outsourcing and training services, as well as our sales and marketing efforts. We expect that as we continue to expand the scale and scope of these services and meet growing market demand, revenues generated from these services may increase as a percentage of our overall revenues in the future.

**Net Revenues and Business Taxes**

Our net revenues reflect the impact of VAT, as well as historically PRC business tax, and other related surcharges which are levied on revenues generated from services we provide in China.

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Effective January 1, 2012, the State Council instituted a business tax to VAT transformational pilot program in Shanghai. Under this program, industries subject to business tax were transitioned to VAT payers. As of May 1, 2016, the VAT program was expanded to cover all industries in the PRC, and we ceased paying business tax in the PRC.

Generally, our PRC subsidiaries and affiliated entities are subject to VAT rates of 5% or 6%, and are permitted to offset input VAT supported by valid VAT invoices received from vendors against their VAT liability. VAT on the invoiced amount collected by the PRC subsidiaries and affiliated entities on behalf of tax authorities in respect of services provided, net of VAT paid for purchases, is recorded as taxes payable until it is paid to the tax authorities.

Our PRC subsidiaries and affiliated entities are also subject to certain government surcharges on the VAT payable in the PRC. In our consolidated statements of operations and comprehensive income, these surcharges are included under the account of business tax and surcharges, which is deducted from gross revenues to arrive at net revenues.

**Costs**

We operate and manage our various businesses as a single segment. In addition, we share operating costs and management resources amongst these businesses. As a result, we do not account for our results of operations on a geographical or other basis, and we are unable to allocate costs among our various businesses.

The following table sets forth our cost of services and total operating expenses as a percentage of our net revenues for the periods indicated.

| | For the year ended December 31, | | |
|---|---|---|---|
| | **2015** | **2016** | **2017** |
| Cost of services | (27.7)% | (28.4)% | (26.8)% |
| Total operating expenses | (44.7)% | (45.4)% | (42.6)% |

Our cost of services as a percentage of our net revenues is affected by our ability to achieve economies of scale and operating efficiencies. We believe that as we grow our operations and infrastructure, we can attract new employers and increase cross-selling opportunities with existing customers across multiple markets and services, thereby allowing us to achieve economies of scale as we may be able to realize a higher level of revenues relative to our direct costs. In addition, the expansion of our online recruitment services business requires limited additional fixed costs.

Although we expect to increase spending on sales and marketing activities and product development in order to strengthen our brand and enhance our service offerings, we aim to decrease our cost of services and total operating expenses as a percentage of our net revenues in the longer term through greater economies of scale and improved operating efficiencies. However, our ability to achieve these objectives is subject to significant uncertainties, and we cannot assure you that we will be able to decrease these costs as a percentage of our net revenues.

***Cost of Services***

Our cost of services primarily consists of salary and employee compensation, subcontracting expenses, costs related to training materials and contracted instructors, and data storage and bandwidth costs. The majority of our employee compensation and other costs of services are largely shared across our various business lines. We pay subcontracting fees to third parties to provide services to us in connection with the operations of our business process outsourcing business. For our online recruitment services business, we have been able to leverage our existing infrastructure to grow our revenues, allowing us to incur limited additional costs relative to the higher revenues we have generated. While we expect that our cost of services in absolute amount will increase as we expand our business operations, we aim to lower this cost as a percentage of net revenues over time through greater economies of scale and scope as well as improved efficiency and productivity. However, cost of services as a percentage of net revenues increased in 2016 due to the implementation of the VAT policy change in 2016 on other human resource related revenues which reduced the amount of net revenues recognized.

***Operating Expenses***

Our operating expenses include sales and marketing expenses and general and administrative expenses.

The following table sets forth our operating expenses as a percentage of our net revenues for the periods indicated.

| | For the year ended December 31, | | |
|---|---|---|---|
| | **2015** | **2016** | **2017** |
| Operating expenses: | | | |
| Sales and marketing | (31.9)% | (33.5)% | (32.2)% |
| General and administrative | (12.8) | (11.9) | (10.4) |
| Total operating expenses | (44.7)% | (45.4)% | (42.6)% |

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Our sales and marketing expenses primarily consist of salaries, commissions and share-based compensation for our sales and marketing staff, advertising and promotion expenses, and expenses for our management and staff related to our daily operations in local markets. The level of sales and marketing expenditures varies in each city annually and is impacted by a number of factors, including customer demand, competition and our strategic objectives in each market. In addition, the sales and marketing strategies we employ in each city varies depending on our determination of the most effective means to promote our brands and services. We expect to continue to invest resources to strengthen our market position and brands, to expand our sales force and to promote new products and services. Although we expect that our sales and marketing expenses in absolute amount will increase as we grow our businesses, we aim to maintain these expenses as a percentage of net revenues at a stable or lower level over time by focusing on operational scalability and efficiency improvements. However, sales and marketing expenses as a percentage of net revenues increased in 2016 due to higher employee compensation expenses, expansion of our sales team and greater spending on marketing and promotional activities.

Our general and administrative expenses primarily consist of employee salaries, bonuses and share-based compensation, building depreciation, office rent and property management fees, administrative office expenses and professional services fees. While we expect that our general and administrative expenses in absolute amount will increase as we grow our businesses, we aim to lower our general and administrative expenses as a percentage of net revenues in the longer term by capitalizing on operational and management efficiencies.

**Income Taxation**

We file income tax returns in multiple jurisdictions because we, our subsidiaries and our affiliated entities are tax residents of different jurisdictions.

***Cayman Islands***

Under the current laws of the Cayman Islands, we are not subject to income or capital gain taxes. In addition, upon payments of dividends by us to our shareholders, no Cayman Islands withholding tax will be imposed.

***British Virgin Islands***

51net, our subsidiary incorporated in the British Virgin Islands, or BVI, is a business company subject to the provisions of the BVI Business Companies Act 2004 (as amended). Under current BVI laws, 51net is exempt from all provisions of the Income Tax Ordinance of the BVI (including with respect to all dividends, interests, rents, royalties, compensation and other amounts payable by 51net to persons who are not persons resident in the BVI). Capital gains realized with respect to any shares, debt obligations or other securities of a company by persons who are not persons resident in the BVI are also exempt from all provisions of the Income Tax Ordinance of the BVI. In addition, there are no withholding taxes in the BVI.

***Hong Kong***

51net is registered in Hong Kong as a non-Hong Kong company and is subject to Hong Kong profits tax at a rate of 16.5% on its assessable profit.

***PRC***

In March 2007, the National People s Congress enacted the EIT Law (as amended in February 2017), which applies a uniform 25% EIT rate to both foreign-invested enterprises and domestic enterprises effective January 1, 2008. In December 2009, Tech JV was designated by relevant local authorities in Shanghai as a High and New Technology Enterprise, or HNTE, under the EIT Law and became subject to a preferential tax rate of 15%. Tech JV is entitled to this preferential 15% tax rate as long as it maintains the required qualifications, which is subject to review every three years. The current preferential tax status is valid through 2017, and Tech JV will seek to further renew this status with local tax authorities in 2018. We cannot assure you that Tech JV will continue to qualify as a HNTE when it is subject to reevaluation in the future.

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The amount of income tax payable by our PRC subsidiaries and affiliated entities in the future will depend on various factors, including, among other things, the results of operations and taxable income of, and the EIT rate applicable to, each of the subsidiaries and affiliated entities, and our effective tax rate depends in part on the extent of each of our subsidiaries and affiliated entities relative contribution to our consolidated taxable income. As our overseas entities recognize share-based compensation expense and may recognize losses from foreign currency translation and from the change in fair values of financial instruments, which are not deductible for PRC tax purposes, our effective tax rate has at times exceeded the EIT rate in our history, including in 2017.

Moreover, under the EIT Law, dividends payable by a foreign-invested enterprise to its foreign investors from profits earned after January 1, 2008 are subject to a 10% withholding tax, 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 we are incorporated, does not have such a tax treaty with China. Since we intend to permanently reinvest earnings to further expand our businesses in China, we do not intend to declare dividends from our foreign-invested enterprises in China to its immediate foreign holding entities in the foreseeable future. Accordingly, as of December 31, 2017, we have not recorded any withholding tax on the retained earnings of our foreign-invested enterprises in China.

In addition, under the EIT Law, enterprises organized under the laws of jurisdictions outside China with their de facto management bodies located within China may be considered PRC resident enterprises and therefore subject to an EIT rate of 25% on their worldwide income. See Item 3. Key Information Risk Factors Risks Related to Doing Business in China We may be deemed a PRC resident enterprise under the EIT Law, which could subject us to PRC taxation on our global income and may have a material adverse effect on our results of operations.

**Critical Accounting Policies**

We prepare financial statements in conformity with U.S. GAAP, which requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities on the date of the financial statements, and the reported amounts of revenues and expenses during the financial reporting period. Our significant estimates include those related to allowances for accounts receivable, allowances for prepayments and other current assets, estimated useful lives of property and equipment and intangible assets, fair values of options to purchase our common shares, fair values of financial instruments, impairment of long-lived assets, long-term investments and goodwill, the purchase price allocation and fair value of non-controlling interests with respect to business combinations, and deferred tax valuation allowance. We continually evaluate these estimates and assumptions based on the most recently available information, our own historical experience and various other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Since the use of estimates is an integral component of the financial reporting process, actual results could differ from those estimates. We consider the policies discussed below to be critical to an understanding of our financial statements as their application assists our management in making business decisions.

We operate and manage our various businesses as a single segment. In addition, since our revenues are primarily generated from customers in the PRC, we do not account for our results of operations on a geographical or other basis. Since many of our management and staff provide services with respect to many or all of our businesses, and since our infrastructure and operations are designed to facilitate all of our businesses

as an integrated unit, we are unable to allocate costs among our various businesses or present our financial results in terms of multiple business segments.

***Income Taxes***

We account for income taxes using the liability method. Under this method, deferred income taxes are recognized for the differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities by applying enacted statutory rates applicable to future years in which the differences are expected to reverse. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date.

We provide a valuation allowance on our deferred tax assets to the extent we consider it to be more likely than not that we will be unable to realize all or part of such assets. Our future realization of our deferred tax assets is dependent on many factors, including our ability to generate taxable income within the period during which temporary differences reverse or before our tax loss carryforwards expire, the outlook for the Chinese economy and overall outlook for our industry. We consider these factors at each balance sheet date and determine whether valuation allowances are necessary.

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All deferred tax assets and liabilities within a single tax jurisdiction are offset and presented as a single amount. We have early adopted the Financial Accounting Standards Board s Accounting Standard Update No. 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes prospectively starting from 2016 and classified all deferred tax assets and liabilities as non-current items on our consolidated balance sheet as of December 31, 2016 and 2017.

We had deferred tax assets, net of valuation allowance, of RMB2.4 million, RMB0.8 million and RMB12.9 million (US$2.0 million) as of December 31, 2015, 2016 and 2017, respectively. We had deferred tax liabilities of RMB34.8 million, RMB57.2 million and RMB121.3 million (US$18.7 million) as of December 31, 2015, 2016 and 2017, respectively.

As of December 31, 2015, 2016 and 2017, we recognized aggregate valuation allowances of RMB1.9 million, RMB2.4 million and RMB39.6 million (US$6.1 million), respectively. The increase in 2017 was related to the acquisition of Lagou, which has incurred operating losses and has tax loss carryforwards. In the event that unexpected developments prevent us from realizing some or all of our deferred tax assets, we will be required to take a charge against our net income for the period in which such events occur.

We account for uncertainties in income taxes under Accounting Standards Codification, or ASC, 740-10-25 Income Taxes Overall Recognition. We have elected to classify interest and penalties related to an uncertain tax position, if any and when required, as general and administrative expenses. In the years ended December 31, 2015, 2016 and 2017, we did not record any interest and penalties associated with uncertain tax positions as there were no uncertain tax positions.

***Revenue Recognition***

We recognize fees received from providing online recruitment services as revenue ratably over the display period of the contract or when services are provided, collectibility is reasonably assured, and other criteria in accordance with ASC 605 Revenue Recognition, or ASC 605, are met. For a transaction involving multiple services, we recognize revenue at relative fair value which is determined based on our regular selling prices charged in unbundled arrangements. Cash received in advance of services are recognized as advance from customers.

We recognized fees received from providing print recruitment advertising services as revenue when collectibility was reasonably assured, upon the publication of the advertisements and when other criteria in accordance with ASC 605 were met. Cash received in advance of services was recognized as advance from customers. We ceased all print advertising operations in 2015.

We recognize fees received from providing other human resource related services as revenue when (i) persuasive evidence of an agreement exists; (ii) services are rendered; (iii) the sales price and terms are fixed or determinable; and (iv) the collection of the receivable is reasonably assured, as prescribed by ASC 605.

***Share-Based Compensation***

We account for share-based compensation arrangements under ASC 718 Compensation Stock Compensation, or ASC 718, which requires companies to expense the value of employee stock options and similar awards. Under ASC 718, share-based compensation is measured at the grant date based on the fair value of the award and is recognized as an expense on a straight-line basis, net of estimated forfeitures, over the vesting period. We recognized share-based compensation expense of RMB85.9 million in 2015, RMB86.1 million in 2016 and RMB86.0 million (US$13.2 million) in 2017 in connection with the grant of options to our employees, executives and directors.

Under ASC 718, we applied the Black-Scholes valuation model in determining the fair value of options granted, which requires the input of highly subjective assumptions, including the expected life of the stock option, stock price volatility, dividend rate and risk-free interest rate. Our assumption for expected life takes into account vesting and contractual terms, employee demographics and historical exercise behavior, which we believe are useful reference points. We estimate expected volatility at the date of grant based on historical volatilities of the market price of our ADSs. The assumption for expected dividend yield is consistent with our current policy of no dividend payout. Risk-free interest rates are based on U.S. Treasury yield for the terms consistent with the expected life of award at the time of grant. The assumptions used in calculating the fair value of stock options represent our best estimates, but these estimates involve inherent uncertainties and the application of management judgment. As a result, if factors change and we use different assumptions, our share-based compensation expense could be materially different in the future. In addition, we are required to estimate the expected forfeiture rate and only recognize expense for those shares expected to vest.

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We estimate the forfeiture rate based on historical experience of our stock options that are granted, exercised and forfeited. If our actual forfeiture rate is materially different from our estimate, the share-based compensation expense could be significantly different from what we have recorded in the current period.

See Note 2(n) to our consolidated financial statements included elsewhere in this annual report for further discussion of share-based compensation under ASC 718. The guidance provided in ASC 718 may be subject to further interpretation and refinement over time.

***Basis for Consolidation and Our Relationships with Our Affiliated Variable Interest Entities***

We consolidate 100% of the interests of all of our subsidiaries and affiliated variable interest entities.

We have entered into contractual arrangements with Qian Cheng and Run An under which we bear all of their economic risks and received all of their economic rewards. In our consolidated financial statements, we have consolidated all of the interests of Qian Cheng and Run An under ASC 810 Consolidation, or ASC 810. Qian Cheng is wholly owned by Run An. Run An is jointly owned by Jingwu Chen and Tao Wang, PRC nationals and long-time members of our senior management team.

ASC 810 requires a variable interest entity to be consolidated by the primary beneficiary of such entity. An entity is considered to be a variable interest entity if certain conditions are present, such as if the equity investors in the entity do not have the characteristics of a controlling financial interest or the entity does not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. Under various agreements with Qian Cheng and Run An, we are considered the primary beneficiary of Qian Cheng and Run An, and all of their interests have been consolidated in our financial statements. All significant transactions and balances between us, our subsidiaries, Qian Cheng and Run An have been eliminated upon consolidation.

We have been advised by Jun He Law Offices, our PRC legal counsel, except as otherwise disclosed in this annual report, that these contractual arrangements are enforceable and our current business operations are not in violation of existing PRC laws, rules and regulations in all material aspects. There are, however, substantial uncertainties regarding the interpretation and application of PRC laws and regulations, including but not limited to the laws and regulations governing our business or the enforcement and performance of our contractual arrangements in the event of the imposition of statutory liens, death, bankruptcy and criminal proceedings. Accordingly, we cannot assure you that PRC regulatory authorities will not take a view contrary to that of our PRC legal counsel. See Item 3. Key Information Risk Factors Risks Related to Our Corporate Structure The PRC laws and regulations governing our business operations and contractual arrangements are uncertain, and if we are found to be in violation, we could be subject to sanctions and Risks Related to Doing Business in China The PRC legal system has inherent uncertainties that could materially and adversely affect us.

For additional information with respect to our contractual arrangements with Qian Cheng and Run An, see Item 7. Major Shareholders and Related Party Transactions Related Party Transactions Contractual Arrangements Among Our Group Entities.

***Allowances for Doubtful Accounts and Other Receivables***

We provide general and specific provisions for bad debts when facts and circumstances indicate that the receivable is unlikely to be collected. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

***Long-Term Investments***

Our long-term investments include cost method investments in privately-held companies and available-for-sale investments. For investees over which we do not have significant influence and a controlling interest, we account for these investments under the cost method. We review our cost method investments for other-than-temporary impairment by considering available quantitative and qualitative factors, such as current market conditions and the operating performance of the investees. No other-than-temporary impairment charge was incurred in the years ended December 31, 2015, 2016 and 2017. Available-for-sale investments are carried at their fair value at each balance sheet date and changes in fair value are reflected in the consolidated statements of operations and comprehensive income.

***Long-Lived Assets***

Our accounting for long-lived assets, including property and equipment, goodwill and intangible assets, is described in Notes 2(g) and 2(i) to our consolidated financial statements included elsewhere in this annual report. The recorded value of long-lived assets is affected by a number of management estimates, including estimated useful lives, residual values and impairment charges.

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***Impairment of Long-Lived Assets Other Than Goodwill***

We assess long-lived assets for impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. We assess the recoverability of an asset group based on the undiscounted future cash flows the asset group is expected to generate and recognize an impairment loss when the estimated undiscounted future cash flows expected to result from the use of the asset group plus net proceeds expected from the disposition of the asset group, if any, are less than the carrying value of the asset group. If we identify an impairment, we reduce the carrying amount of the asset group to its estimated fair value based on a discounted cash flow approach or, when available and appropriate, to comparable market values. We did not record any impairment charges for long-lived assets for the years ended December 31, 2015, 2016 and 2017. If different judgments or estimates had been utilized, material differences could have resulted in the amount and timing of the impairment charge and the related depreciation and amortization charges.

***Impairment of Goodwill***

We assess goodwill for impairment on an annual basis, or more frequently if events or changes in circumstances indicate that it might be impaired. Our annual testing date is December 31. We first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. In the qualitative assessment, we consider primary factors such as industry and market considerations, overall financial performance of the reporting unit, and other specific information related to the operations. Based on the qualitative assessment, if it is more likely than not that the fair value of each reporting unit is less than the carrying amount, the quantitative impairment test is performed.

In performing the two-step quantitative impairment test, we first compare the book value of net assets to the fair value of the reporting units. If the fair value is determined to be less than the book value, a second step is performed to compute the amount of impairment as the difference between the estimated fair value of goodwill and the carrying value.

Application of a goodwill impairment test requires significant management judgment, including the identification of reporting units, assigning assets, liabilities and goodwill to reporting units, and determining the fair value of each reporting unit. We estimate the fair value of the reporting unit using a discounted cash flow model. This valuation approach considers various assumptions including projections of future cash flows, perpetual growth rates and discount rates. The assumptions about future cash flows and growth rates are based on management s assessment of a number of factors, including the reporting unit s recent performance against budget, performance in the market that the reporting unit serves, as well as industry and general economic data from third party sources. Discount rate assumptions reflect an assessment of the risk inherent in those future cash flows. Changes to the underlying businesses could affect the future cash flows, which in turn could affect the fair value of the reporting unit.

We had no goodwill impairment for the years ended December 31, 2015, 2016 and 2017.

***Business Combinations***

We apply ASC 805 Business Combinations, which requires that all business combinations be accounted for under the purchase method. The cost of an acquisition is measured as the aggregate of the fair values at the date of exchange of the assets given, liabilities incurred and equity instruments issued. The transaction costs directly attributable to the acquisition are expensed as incurred. Identifiable assets, liabilities and contingent liabilities acquired or assumed are measured separately at their fair value as of the acquisition date, irrespective of the extent of any non-controlling interests. The excess of the (i) the total of cost of acquisition, fair value of the non-controlling interests and acquisition date fair value of any previously held equity interest in the acquiree over (ii) the fair value of the identifiable net assets of the acquiree is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the consolidated statements of operations and comprehensive income.

***Government Subsidies***

We have received government subsidies which represent discretionary cash subsidies granted by the local government to encourage the development of certain enterprises that are established in the local special economic region. Cash subsidies have no defined rules and regulations to govern the criteria necessary for companies to enjoy the benefits and are recognized as other income when received and when all conditions for their receipt have been satisfied. We recognized government subsidies of RMB70.6 million, RMB97.1 million and RMB86.3 million (US$13.3 million) for the years ended December 31, 2015, 2016 and 2017, respectively. We cannot assure you if or when we will receive such government subsidies in the future.

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**Recent Accounting Pronouncements**

See Note 2(y) to our consolidated financial statements included elsewhere in this annual report for discussion on recent accounting pronouncements.

**Results of Operations**

The following table sets forth a summary of our consolidated statements of operations and comprehensive income for the periods indicated both in Renminbi and as a percentage of net revenues:

| | | | | | | |
|---|---|---|---|---|---|---|
| Revenues: | | | | | | |
| Print advertising | 5,328 | 0.3 | | | | |
| Sales and marketing | (654,468) | (31.9) | (783,492) | (33.5) | (917,784) | (32.2) |
| Interest and investment income, net | 93,548 | 4.5 | 58,933 | 2.5 | 77,009 | 2.7 |
| Other income, net | 71,533 | 3.5 | 98,315 | 4.2 | 87,032 | 3.0 |
| Income before income tax expense | 744,098 | 36.2 | 699,886 | 29.9 | 542,256 | 19.0 |
| Income tax expense | (126,301) | (6.1) | (134,699) | (5.7) | (169,493) | (5.9) |

| | | | | | | |
|---|---|---|---|---|---|---|
| Net income | 617,797 | 30.1 | 565,187 | 24.2 | 372,763 | 13.1 |
| Net loss (income) attributable to non-controlling interests | 260 | 0.0 | 791 | 0.0 | (874) | (0.0) |
| Net income attributable to 51job, Inc. | 618,057 | 30.1 | 565,978 | 24.2 | 371,889 | 13.1 |

| | | | | | | |
|---|---|---|---|---|---|---|
| (1) Share-based compensation: | | | | | | |
| Included in cost of services | (13,770) | (0.7) | (14,080) | (0.6) | (14,029) | (0.5) |
| Included in operating expenses: | | | | | | |
| Sales and marketing | (11,837) | (0.6) | (12,104) | (0.5) | (12,060) | (0.4) |
| General and administrative | (60,338) | (2.9) | (59,886) | (2.6) | (59,879) | (2.1) |

***2017 Compared to 2016***

*Total Revenues.* Our total revenues increased 21.4% to RMB2,881.2 million (US$442.8 million) in 2017 from RMB2,372.7 million in 2016. This increase was driven by growth in revenues from our online recruitment services and other human resource related services. We derived our total revenues from:

- *Online Recruitment Services.* Our online recruitment services revenues increased 21.0% to RMB1,871.7 million (US$287.7 million) in 2017 from RMB1,547.1 million in 2016. The growth was driven by an increase in the number of unique employers utilizing our online recruitment services as well as an increase in the average revenue per unique employer. We estimate that the number of unique employers increased 12.7% to 519,257 in 2017 from 460,811 in 2016 primarily due to new customer additions. Although the prices we charged for our online services were relatively unchanged in 2017, our average revenue per unique employer increased 7.4% in 2017, mainly due to successful up-selling efforts which resulted in the purchase of higher value and/or multiple services by customers.

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- *Other Human Resource Related Revenues*. Our revenues from other human resource related services increased 22.3% to RMB1,009.5 million (US$155.2 million) in 2017 from RMB825.6 million in 2016. This growth was primarily due to greater customer acceptance and demand for our business process outsourcing, training, assessment and seasonal campus recruitment services.

*Net Revenues.* Our net revenues increased 21.8% to RMB2,848.6 million (US$437.8 million) in 2017 from RMB2,338.3 million in 2016. Government surcharges were RMB32.6 million (US$5.0 million) in 2017 compared with total business tax incurred prior to the adoption of VAT and government surcharges of RMB34.4 million in 2016.

*Cost of Services.* Our cost of services increased 15.1% to RMB763.4 million (US$117.3 million) in 2017 from RMB663.0 million in 2016. This increase was primarily due to higher salaries, staff additions and greater subcontracting expenses in 2017. However, our cost of services as a percentage of net revenues decreased in 2017 driven by improved operating and service efficiency. Our cost of services in 2017 also included share-based compensation expense of RMB14.0 million (US$2.2 million) compared with RMB14.1 million in 2016.

*Gross Profit.* As a result of the above factors, our gross profit increased 24.5% to RMB2,085.2 million (US$320.5 million) in 2017 from RMB1,675.3 million in 2016. Our gross profit margin, which is our gross profit as a percentage of net revenues, was 73.2% in 2017 compared with 71.6% in 2016.

*Operating Expenses.* Our total operating expenses increased 14.2% to RMB1,214.4 million (US$186.6 million) in 2017 from RMB1,063.5 million in 2016. The increase in our operating expenses was mainly due to greater sales and marketing expenses as well as higher general and administrative expenses. Our operating expenses consisted of:

- *Sales and Marketing Expenses.* Our sales and marketing expenses increased 17.1% to RMB917.8 million (US$141.1 million) in 2017 from RMB783.5 million in 2016. This increase was principally driven by higher employee compensation, the net addition of approximately 200 salespeople and greater spending on brand advertising activities. Our advertising and promotion expenses increased 3.3% to RMB130.4 million (US$20.0 million) in 2017 from RMB126.2 million in 2016. Our sales and marketing expenses in 2017 included share-based compensation expense of RMB12.1 million (US$1.9 million), relatively unchanged compared with 2016.

- *General and Administrative Expenses.* Our general and administrative expenses increased 5.9% to RMB296.6 million (US$45.6 million) in 2017 from RMB280.0 million in 2016. This increase was primarily due to higher employee compensation, provision for doubtful accounts and office expenses. Our general and administrative expenses in 2017 included share-based compensation expense of RMB59.9 million (US$9.2 million), relatively unchanged compared with 2016.

*Income from Operations.* As a result of the above factors, our income from operations increased 42.3% to RMB870.8 million (US$133.8 million) in 2017 from RMB611.8 million in 2016. Our operating margin, which is our income from operations as a percentage of net revenues, was 30.6% in 2017 compared with 26.2% in 2016.

*Gain from Foreign Currency Translation.* We recognized a gain from foreign currency translation of RMB3.6 million (US$0.6 million) in 2017 compared with RMB0.2 million in 2016. Due to the change in exchange rate between the Renminbi and the U.S. dollar in 2017, we realized a gain of RMB85.9 million (US$13.2 million) on our U.S. dollar-denominated convertible senior notes issued in 2014, which was largely offset by a loss of RMB82.3 million (US$12.6 million) on our U.S. dollar cash deposits. For more information about China s foreign exchange policy, see Item 4. Information on the Company Business Overview Regulation Regulations Relating to Foreign Currency Exchange.

*Interest and Investment Income, Net.* Our interest and investment income increased 30.7% to RMB77.0 million (US$11.8 million) in 2017 from RMB58.9 million in 2016. The increase was mainly due to a higher balance and income earned on our interest bearing bank deposits, which was partially offset by higher interest expense associated with our U.S. dollar-denominated convertible senior notes, which increased to RMB37.8 million (US$5.8 million) in 2017 from RMB37.3 million in 2016 due to changes in the exchange rate of the Renminbi against the U.S. dollar in 2017.

*Change in Fair Value of Convertible Senior Notes.* We recorded a loss of RMB496.2 million (US$76.3 million) in 2017 compared with RMB69.4 million in 2016. The large non-cash loss in 2017 was a result of the significant increase in the market price of our ADSs traded on the NASDAQ Global Select Market during the year and its corresponding effect on the fair value of the convertible senior notes.

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*Other Income, Net.* Other income decreased 11.5% to RMB87.0 million (US$13.4 million) in 2017 compared to RMB98.3 million in 2016 mainly due to a decrease in financial incentives received from local tax authorities, which totaled RMB86.3 million (US$13.3 million) in 2017 compared with RMB97.1 million in 2016.

*Income Tax Expense.* Our income tax expense increased 25.8% to RMB169.5 million (US$26.1 million) in 2017 compared with RMB134.7 million in 2016. Our effective tax rate increased to 31.3% in 2017 compared with 19.2% in 2016 primarily due to an increase in non-tax deductible items, such as the change in the fair value of convertible senior notes, which comprised a significant portion of the income before income tax expense.

*Net Income Attributable to 51job, Inc.* As a result of the above factors, our net income decreased 34.3% to RMB371.9 million (US$57.2 million) in 2017 from RMB566.0 million in 2016.

***2016 Compared to 2015***

*Total Revenues.* Our total revenues increased 12.9% to RMB2,372.7 million in 2016 from RMB2,101.9 million in 2015. This increase was driven by growth in revenues from our online recruitment services and other human resource related services. We derived our total revenues from:

- *Online Recruitment Services.* Our online recruitment services revenues increased 14.1% to RMB1,547.1 million in 2016 from RMB1,356.4 million in 2015. The growth was primarily due to an increase in the number of unique employers utilizing our online recruitment services as well as an increase in the average revenue per unique employer. We estimate that the number of unique employers increased 13.3% to 460,811 in 2016 from 406,880 in 2015 mainly due to successful new customer acquisition. Although the pricing of like-for-like services has been generally unchanged in recent years, our average revenue per unique employer grew 0.7% in 2016 as a result of the efforts of our sales force to increase spending with the purchase of multiple and/or higher value online services by existing customers, which was partially offset by new customer growth.

- *Print Advertising.* We had no print advertising revenues in 2016 compared with RMB5.3 million in 2015 as we had ceased all print advertising operations as of December 31, 2015.

- *Other Human Resource Related Revenues*. Our revenues from other human resource related services increased 11.5% to RMB825.6 million in 2016 from RMB740.1 million in 2015. This growth was primarily driven by increased usage of our business process outsourcing and seasonal campus recruitment services, which was partially offset by the impact of a government policy change from business tax to VAT during 2016 that increased taxation and

reduced the amount of revenues we recognize from our other human resource related services.

*Net Revenues.* Our net revenues increased 13.8% to RMB2,338.3 million in 2016 from RMB2,055.2 million in 2015. Effective May 1, 2016, we ceased paying business tax and all of our PRC subsidiaries and affiliated entities became subject to VAT. VAT is excluded in the recognition of revenues and recorded as taxes payable, while business tax is deducted from gross revenues to arrive at net revenues. The amount of business tax, incurred prior to the full adoption of VAT, and government surcharges totaled RMB34.4 million in 2016 compared with business tax and surcharges of RMB46.7 million in 2015.

*Cost of Services.* Our cost of services increased 16.3% to RMB663.0 million in 2016 from RMB570.0 million in 2015. This increase was mainly driven by higher employee compensation, headcount additions and greater subcontracting expenses in 2016. Our cost of services as a percentage of net revenues increased in 2016 mainly due to these higher expenses outpacing revenue growth, which was affected by the reduction in revenue recognition from the VAT policy change on other human resource related revenues. Our cost of services in 2016 also included an increase in share-based compensation expense to RMB14.1 million compared with RMB13.8 million in 2015.

*Gross Profit.* As a result of the above factors, our gross profit increased 12.8% to RMB1,675.3 million in 2016 from RMB1,485.2 million in 2015. Our gross profit margin was 71.6% in 2016 compared with 72.3% in 2015.

*Operating Expenses.* Our total operating expenses increased 15.9% to RMB1,063.5 million in 2016 from RMB917.5 million in 2015. The increase in our operating expenses was primarily due to greater sales and marketing expenses as well as higher general and administrative expenses. Our operating expenses consisted of:

- *Sales and Marketing Expenses.* Our sales and marketing expenses increased 19.7% to RMB783.5 million in 2016 from RMB654.5 million in 2015. This increase was primarily due to higher employee salaries, commissions and bonuses, the net addition of approximately 430 salespeople and greater spending on brand advertising and new product marketing activities. Our advertising and promotion expenses increased 2.0% to RMB126.2 million in 2016 from RMB123.7 million in 2015. Our sales and marketing expenses in 2016 included an increase in share-based compensation expense to RMB12.1 million compared with RMB11.8 million in 2015.

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- *General and Administrative Expenses.* Our general and administrative expenses increased 6.4% to RMB280.0 million in 2016 from RMB263.1 million in 2015. This increase was mainly due to higher employee compensation and office expenses. Our general and administrative expenses in 2016 included share-based compensation expense of RMB59.9 million compared with RMB60.3 million in 2015.

*Income from Operations.* As a result of the above factors, our income from operations increased 7.8% to RMB611.8 million in 2016 from RMB567.7 million in 2015. Our operating margin was 26.2% in 2016 compared with 27.6% in 2015.

*Gain (Loss) from Foreign Currency Translation.* We recognized a gain from foreign currency translation of RMB0.2 million in 2016 compared with a loss of RMB55.9 million in 2015. Due to the change in exchange rate between the Renminbi and the U.S. dollar in 2016, we realized a gain of RMB79.6 million on our U.S. dollar cash deposits, which was largely offset by a loss of RMB79.4 million on our U.S. dollar-denominated convertible senior notes issued in 2014.

*Interest and Investment Income, Net.* Our interest and investment income decreased 37.0% to RMB58.9 million in 2016 from RMB93.5 million in 2015. The decrease was primarily due to lower interest rates and less income earned on our interest bearing bank deposits as well as higher interest expense associated with our U.S. dollar-denominated convertible senior notes, which increased to RMB37.3 million in 2016 from RMB35.0 million in 2015 due to the depreciation of the Renminbi against the U.S. dollar in 2016.

*Change in Fair Value of Convertible Senior Notes.* We recorded a loss of RMB69.4 million in 2016 compared with a gain of RMB67.2 million in 2015 associated with the change in fair value of our convertible senior notes, primarily as a result of the change in the market price of the notes during the period.

*Other Income, Net.* Other income increased 37.4% to RMB98.3 million in 2016 compared to RMB71.5 million in 2015 primarily due to an increase in financial incentives received from local tax authorities, which totaled RMB97.1 million in 2016 compared with RMB70.6 million in 2015.

*Income Tax Expense.* Our income tax expense increased 6.6% to RMB134.7 million in 2016 compared with RMB126.3 million in 2015. Our effective tax rate increased to 19.2% in 2016 compared with 17.0% in 2015 primarily due to an increase in non-tax deductible items, such as the change in the fair value of convertible senior notes, which comprised a material portion of the income before income tax expense.

*Net Income Attributable to 51job, Inc.* As a result of the above factors, our net income decreased 8.4% to RMB566.0 million in 2016 from RMB618.1 million in 2015.

***Inflation***

According to the National Bureau of Statistics of China, the annual average percent changes in the consumer price index in China for 2015, 2016 and 2017 were increases of 1.4%, 2.0% and 1.6%, respectively. The year-over-year percent changes in the consumer price index for February 2016, 2017 and 2018 were an increase of 2.3%, 0.8% and 2.9%, respectively. Although we have not been materially and adversely affected by inflation in the past, we can provide no assurance that we will not be affected in the future by higher rates of inflation in China. For example, certain operating costs and expenses, such as employee compensation and office operating expenses, may increase as a result of higher inflation. Additionally, because a substantial portion of our assets consists of cash and short-term investments, high inflation could significantly reduce the value and purchasing power of these assets. We are unable to hedge our exposures to higher inflation in China.

## B. Liquidity and Capital Resources

**Liquidity**

Our liquidity from 2015 to 2017 has been principally affected by net cash generated from operating activities, our purchases of businesses, investments and equipment, the repurchase of our ADSs and the exercise of stock options.

The following table sets forth a summary of our cash flows for the periods indicated.

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| | For the year ended December 31, | | | |
|---|---|---|---|---|
| | 2015 RMB | 2016 RMB | 2017 RMB | 2017 US$ |
| | (in thousands) | | | |
| Net cash provided by operating activities | 864,450 | 1,086,877 | 1,441,703 | 221,585 |
| Net cash used in investing activities | (743,682) | (489,328) | (1,434,256) | (220,441) |
| Net cash provided by (used in) financing activities | (73,796) | 160,493 | 424,415 | 65,232 |
| Effect of foreign exchange rate changes on cash | 4,284 | 37,680 | (60,460) | (9,293) |
| Net increase in cash | 51,256 | 795,722 | 371,402 | 57,083 |

*Cash Flows from Operating Activities.* Our net cash provided by operating activities in 2017 was RMB1,441.7 million (US$221.6 million) compared with RMB1,086.9 million in 2016. The increase was principally driven by strong growth in our revenues and net income, as adjusted for a net add-back of RMB672.4 million (US$103.3 million) in non-cash items, relating primarily to share-based compensation expenses, depreciation expenses, loss from foreign currency translation, significant change in fair value of convertible senior notes and deferred tax expense; an increase in advance from customers of RMB234.5 million (US$36.0 million), primarily due to sales growth of our online recruitment services which usually requires payment at the time of purchase; an increase in other payables and accruals of RMB183.7 million (US$28.2 million), primarily due to an increase in receipts from our customers that will be remitted to third parties; and an increase of taxes payable of RMB74.4 million (US$11.4 million). The increase in net cash provided by operating activities in 2017 was partially offset by an increase in accounts receivable of RMB74.4 million (US$11.4 million), and an increase in prepayments and other current assets of RMB35.1 million (US$5.4 million), primarily due to an increase in payments we made on behalf of our customers to be reimbursed to us.

Our net cash provided by operating activities in 2016 was RMB1,086.9 million compared with RMB864.5 million in 2015. The increase was principally driven by growth in our revenues and net income, as adjusted for an add-back of RMB255.1 million in non-cash items, relating primarily to share-based compensation expenses, depreciation expenses, loss from foreign currency translation, change in fair value of convertible senior notes and deferred tax expense; an increase in other payables and accruals of RMB156.2 million, primarily due to an increase in receipts from our customers that will be remitted to third parties; an increase in advance from customers of RMB91.8 million, primarily due to sales growth of our online recruitment services which usually requires payment at the time of purchase; and an increase of taxes payable of RMB46.2 million. The increase in net cash provided by operating activities in 2016 was partially offset by an increase in prepayments and other current assets of RMB31.7 million, primarily due to an increase in payments we made on behalf of our customers to be reimbursed to us.

*Cash Flows from Investing Activities.* Our net cash used in investing activities was RMB1,434.3 million (US$220.4 million) in 2017 compared with RMB489.3 million in 2016. The increase was primarily due to the acquisition of Lagou at a purchase price of RMB786.2 million (US$118.9 million), as well as greater purchases of short-term investments and long-term investments in 2017.

Our net cash used in investing activities was RMB489.3 million in 2016 compared with RMB743.7 million in 2015. The decrease was primarily due to fewer purchases of short-term investments and property and equipment, which was offset by RMB126.7 million in the purchase of available-for-sale securities, which consisted of an investment in a company that provides online and offline accounting and finance training courses in China.

*Cash Flows from Financing Activities.* Our net cash provided by financing activities was RMB424.4 million (US$65.2 million) in 2017, which principally consisted of proceeds from the exercise of stock options, compared with RMB160.5 million in 2016.

Our net cash provided by financing activities was RMB160.5 million in 2016, which consisted of proceeds from the exercise of stock options, compared with net cash used in financing activities of RMB73.8 million in 2015, which was primarily related to the repurchase of our ADSs.

**Capital Resources**

To date, we have primarily financed our operations through cash flows from operating activities, our initial public offering in 2004 and the issuance of our convertible senior notes in 2014. As of December 31, 2017, we had RMB7,132.3 million (US$1,096.2 million) in cash, restricted cash and short-term investments held substantially in Renminbi, U.S. dollars and Hong Kong dollars. Cash consists of cash on hand and in banks. Restricted cash consists of cash proceeds from the exercise of share options by our employees, executives and directors held in a bank account which have yet to be transmitted to them. Short-term investments consist of time deposits with original maturities between three months and one year, and investment products issued by financial institutions with a variable interest rate indexed to the performance of underlying assets.

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As of December 31, 2017, we had RMB1,668.0 million (US$256.4 million) in debt, which consists of our convertible senior notes. In April 2014, we completed an offering of US$172.5 million in aggregate principal amount of convertible senior notes. The notes bear interest at a rate of 3.25% per year, payable semiannually in arrears on April 15 and October 15 of each year. The notes will mature on April 15, 2019. The notes may be converted into our ADSs at the option of the holders if the conversion criteria are met. In connection with the notes offering, we entered into zero-strike call option transactions with affiliates of the initial purchasers of the notes. The call options are intended to facilitate privately negotiated transactions by which investors in the notes are able to hedge their investment. We used approximately US$50 million in net proceeds from the notes offering to pay for the call option premium. The remainder of the net proceeds was for general corporate purposes.

Our operations are conducted primarily through Tech JV and its subsidiaries. As a result, our ability to finance our operations and any debt that we, or our subsidiaries, may incur is dependent, in part, upon the flow of dividends from, and the payment of royalties and other fees by, our subsidiaries. The payment of dividends in China is subject to restrictions. PRC regulations currently permit payment of dividends only out of accumulated profits as determined in accordance with PRC accounting standards and regulations. Our subsidiaries and affiliated entities in the PRC are also required to set aside a portion of their after-tax profits according to PRC accounting standards and regulations to fund certain reserve funds that are not distributable as cash dividends. Through certain contractual arrangements, we are able to require Qian Cheng to transfer to us its equity interests in Tech JV and its subsidiaries. Our ability to obtain cash or other assets under these contracts depends on their effectiveness and enforceability. For a description of these agreements and our PRC legal counsel s advice as to their enforceability, see Item 7. Major Shareholders and Related Party Transactions Related Party Transactions Contractual Arrangements Among Our Group Entities.

We believe that our current cash and cash flow from operations will be sufficient to meet our anticipated cash needs, including our cash needs for working capital and capital expenditures, for the foreseeable future. We may, however, require additional cash resources due to changing business conditions or other future developments, including any investments or acquisitions we may decide to pursue.

Our capital expenditures totaled RMB92.6 million, RMB47.3 million and RMB25.6 million (US$3.9 million) in 2015, 2016 and 2017, respectively. These capital expenditures were primarily for the purchases of computers, servers, office equipment, furnishings and software as well as the purchases of office space from time to time. In 2015, we paid RMB43.8 million for office space in Shanghai. As of December 31, 2017, our primary capital commitment was RMB4.1 million (US$0.6 million) in connection with capital expenditures of electronic equipment.

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

We employ a staff of approximately 700 website designers and software developers to design and update our websites, mobile applications and create our proprietary software. We did not incur material expenditures with respect to our research and development activities in any year from 2015 to 2017. We intend to continue to upgrade our proprietary management systems, search engine methodology and information technology as we grow our business operations and keep up with evolving user needs and behavior. For more information on our technology operations, see Item 4. Information on the Company Business Overview Technology.

### 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 since January 1, 2017 that are reasonably likely to have a material 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, other than the zero-strike call options, 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.

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## F. Tabular Disclosure of Contractual Obligations

The following table sets forth our contractual obligations as of December 31, 2017:

| | | Payments due by period | | | |
|---|---|---|---|---|---|
| | Total RMB | Less than 1 year RMB | 1-3 Years RMB | 3-5 years RMB | More than 5 years RMB |
| | | | (in thousands) | | |
| Convertible senior notes with principal and interest | 1,177,051 | 36,476 | 1,140,575 | | |
| Operating lease obligations | 125,765 | 64,565 | 47,364 | 13,836 | |
| Purchase obligations | 11,533 | 11,533 | | | |
| Total | 1,314,349 | 112,574 | 1,187,939 | 13,836 | |

Our convertible senior notes is in the aggregate principal amount of US$172.5 million and will mature in April 2019, unless earlier repurchased or converted into our ADSs.

Our operating lease obligations consist largely of property lease and management agreements for office premises, with terms ranging from one to six years at the time of signing, and office equipment lease agreements. Our purchase obligations consist primarily of agreements to purchase advertising services from media companies and to purchase office furnishings.

Rental expenses incurred under operating leases were RMB48.8 million in 2015, RMB50.9 million in 2016 and RMB53.4 million (US$8.2 million) in 2017.

WFOE, our wholly owned PRC subsidiary, has entered into an exclusive purchase option agreement with the shareholders of Run An. Under this agreement, WFOE has an irrevocable option to purchase all or a portion of the shareholder s equity interests in Run An at any time by issuing a written notice to the shareholders, subject to compliance with applicable PRC laws and regulations. In addition, through a call option agreement between 51net and Qian Cheng, 51net or its designee is able to purchase the equity interests in Tech JV that are held by Qian Cheng and Wuhan AdCo as well as the equity interest in AdCo that is held by Qian Cheng. For a detailed description of the exclusive purchase option agreement and the call option agreement, see Item 7. Major Shareholders and Related Party Transactions Related Party Transactions Contractual Arrangements Among Our Group Entities.

We do not have material contractual obligations in currencies other than U.S. dollars and Renminbi.

## G. Safe Harbor

See Forward-Looking Statements.

## ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

### A. Directors and Senior Management

The names of our directors and senior management, their ages as of the date of this annual report and the principal positions with 51job, Inc. held by them are as follows:

| Name | Age | Position / Title |
|---|---|---|
| David K. Chao(1) (2) (3) | 51 | Chairman of the board and independent director |
| Rick Yan | 55 | Director, chief executive officer, president and secretary |
| Junichi Arai | 52 | Non-executive director |
| Li-Lan Cheng(1) (2) | 53 | Independent director |
| Eric He(1) (3) | 58 | Independent director |
| Kathleen Chien | 48 | Chief operating officer and acting chief financial officer |
| David Weimin Jin | 47 | Senior vice president |
| Jingwu Chen | 50 | Senior vice president |
| Tao Wang | 55 | Vice president |

(1) Member of audit committee.

(2) Member of compensation committee.

(3) Member of nominating and corporate governance committee.

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There are no family relationships among any of the directors or senior management of our company.

**Biographical Information**

*David K. Chao* is the chairman of the board of directors of our company. Mr. Chao is an independent director who has been a member of our board since 2000. Mr. Chao is a co-founder and general partner of DCM, an early stage technology venture capital firm that manages over US$3.5 billion. DCM has offices in Menlo Park, USA, Beijing, China and Tokyo, Japan. Prior to joining DCM, Mr. Chao was a co-founder of Japan Communications, Inc., a publicly traded provider of mobile data and voice communications services in Japan. Prior to that, he also worked at McKinsey & Company, Apple Computer and Recruit Co., Ltd. Mr. Chao serves on the boards of directors of Renren Inc., which operates a social networking service and Internet finance business in China that is listed on the New York Stock Exchange, and numerous DCM portfolio companies. Mr. Chao received his Bachelor of Arts degree in Economics and East Asian Studies (Anthropology) from Brown University and his Master of Business Administration degree from Stanford University.

*Rick Yan* is a director, chief executive officer and president of our company. Mr. Yan has been a director and chief executive officer of our company since 2000. Mr. Yan is responsible for our overall strategy and management. Mr. Yan was an investor and advisor of our company from its inception and prior to his appointment as chief executive officer. Prior to joining our company, he was a Director and the Head of China Practice at Bain & Company, an international strategy consulting company. Mr. Yan joined the firm in London in 1989, returned to Asia and set up Bain & Company s Hong Kong and Beijing offices in 1991 and 1993, respectively. In his 11-year tenure with Bain & Company, he was widely acknowledged as an expert in the consumer products and technology sectors. Prior to his affiliation with Bain & Company, Mr. Yan worked at Hewlett-Packard in Hong Kong for four years and was awarded Marketing Executive of the Year. Mr. Yan received his Bachelor of Engineering degree and Master of Philosophy degree from the University of Hong Kong and his Master of Business Administration degree with distinction from INSEAD in France.

*Junichi Arai* is a director of our company. Mr. Arai has been a director of our company since May 2017. Mr. Arai is a corporate officer of Recruit Holdings Co., Ltd., a leading human resource and information services company in Japan that is listed on the Tokyo Stock Exchange, since November 2016. Mr. Arai is responsible for Recruit s capital market strategies in the finance department and corporate planning department. Prior to joining Recruit, Mr. Arai had an extensive career in investment banking, especially in strategic advisory services, for 28 years. He worked at Lehman Brothers Japan, Morgan Stanley Japan and Mitsubishi UFJ Securities and also co-founded Nakamura Arai Partners, a small boutique advisory firm, in 2011. Mr. Arai received his Bachelor degree in Economics from Keio University in 1988.

*Li-Lan Cheng* is a director of our company. Mr. Cheng has been an independent director of our company since

March 2013. Mr. Cheng is the chief operating officer of E-House (China) Holdings Limited, a real estate services company in China, since 2012 and served as its chief financial officer from 2006 to 2012. Mr. Cheng has also been the acting chief financial officer of Leju Holdings Limited, a leading online-to-offline real estate services provider in China that is listed on the New York Stock Exchange and an affiliate of E-House, since June 2017. From 2005 to 2006, Mr. Cheng served as the chief financial officer of SouFun Holdings Limited, a leading real estate Internet portal and a leading home furnishing website in China. From 2002 to 2004, he served as an executive director and the chief financial officer of SOHO China Limited, a real estate developer in Beijing. From 1997 to 2002, Mr. Cheng was an assistant director and the head of Asian transportation sector investment banking group of ABN AMRO Asia. Mr. Cheng received his Bachelor degree in Economics from Swarthmore College and his Ph.D. degree in Economics from the Massachusetts Institute of Technology. Mr. Cheng is a chartered financial analyst.

*Eric He* is a director of our company. Mr. He has been an independent director of our company since July 2014. From August 2011 to May 2017, Mr. He was the chief financial officer of YY Inc., a leading live streaming social media platform in China that is listed on the NASDAQ Stock Market. From March 2007 to August 2011, Mr. He served as the chief financial officer of Giant Interactive Group Inc. From 2004 to 2007, he served as the chief strategy officer of Ninetowns Internet Technology Group Company Limited. From 2002 to 2004, Mr. He served as a private equity investment director of AIG Global Investment Corporation (Asia) Ltd. Mr. He received his Bachelor degree in Accounting from National Taipei University and his Master of Business Administration degree from the Wharton School of the University of Pennsylvania. Mr. He is a chartered financial analyst and certified public accountant in the United States.

*Kathleen Chien* is chief operating officer and acting chief financial officer of our company. Ms. Chien joined our company in 1999 and served as our chief financial officer from 2004 to March 2009. Prior to joining our company, Ms. Chien worked in the financial services and management consulting industries, including three years with Bain & Company in Hong Kong and two years with Capital Securities Corp., a leading investment bank in Taiwan. During her tenure at Bain & Company, she was a consultant to a number of companies on strategic and marketing issues, including entry into the Chinese market and achieving cost and operational efficiencies. While at Capital Securities Corp., she completed a number of equity and equity-linked transactions, including the first ever Swiss-franc convertible bond issuance out of Taiwan, enabling client companies to raise significant capital from the European and U.S. investment community. Ms. Chien currently serves as a board member of Vipshop Holdings Ltd., a leading online discount retailer for brands in China listed on the New York Stock Exchange. Ms. Chien received her Bachelor of Science degree in Economics from the Massachusetts Institute of Technology and her Master of Business Administration degree from the Haas School of Business at the University of California, Berkeley.

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*David Weimin Jin* is a senior vice president of our company. Mr. Jin joined our company in 2000. Prior to joining our company, Mr. Jin held sales management positions in large multinational companies in Xian, including three years at Shell (China) Limited and one year with Colgate-Palmolive Co., Ltd. Mr. Jin received a Bachelor of Science degree in Engineering from Xidian University.

*Jingwu Chen* is a senior vice president of our company. Mr. Chen joined our company in 2000. Prior to joining our company, Mr. Chen worked as a senior sales manager in the consumer goods industry for more than 10 years including Amway (China) and Mars Foods (China). He received his Bachelor degree in Business Administration from Zhongnan University of Economics and Law in Wuhan.

*Tao Wang* is a vice president of our company. Mr. Wang joined our company in 2000. Prior to joining our company, Mr. Wang spent four years as a senior consultant at Bain & Company. Also, he served as a representative and the general manager of a joint venture company in Wuhan for TI Group Asia Pacific. Earlier in his career, Mr. Wang held engineering and project management positions at the PRC Ministry of Aerospace Industry in China. Mr. Wang received a Bachelor of Science degree in Math from Shandong University and a Master of Engineering degree from the Second Academy under the PRC Ministry of Aerospace Industry. Mr. Wang also holds a Master of Business Administration degree from the Business School at University of Warwick in the United Kingdom.

## B. Compensation

**Compensation of Directors and Senior Management**

We pay our chairman an annual fee of US$20,000 and each of our other non-executive directors an annual fee of US$15,000. In addition, our non-executive directors receive a fee of US$2,000 for each board meeting attended in person and US$1,000 for each committee meeting attended in person, or US$1,000 for each board meeting attended by conference call and US$500 for each committee meeting attended by conference call. Our directors are also reimbursed for reasonable travel expenses incurred in attending board meetings in person. There are no arrangements between us and our directors providing for special benefits upon our directors termination of service. For the year ended December 31, 2017, the aggregate cash compensation to our non-executive directors as a group was approximately US$75,000. In 2017, we granted options to acquire 120,000 common shares to two non-executive directors. See Stock-Based Compensation Plans below.

For the year ended December 31, 2017, the aggregate cash compensation to our senior management as a group was approximately RMB16.0 million (US$2.5 million). We granted options to acquire an aggregate of 480,000 common shares to our senior management in 2017.

**Directors and Officers Liability Insurance**

We maintain directors and officers liability insurance for our directors and officers.

**Employment Agreements**

We have entered into employment agreements with each of our executive officers. The terms of these agreements are substantially similar to each other. Under these agreements, each of our executive officers is employed at will, and their employment may be terminated, with or without cause, by either party. These agreements do not provide for any special termination benefits, nor do we have other arrangements with these executive officers for special termination benefits. Each executive officer has agreed to hold in strict confidence and not to use, except for the benefit of our company, any proprietary information, technical data, trade secrets and know-how of our company or the confidential or proprietary information of any third party, including our affiliated entities and our subsidiaries, received by our company. Each of these executive officers has also agreed not to engage in any other employment, occupation, consulting or other business activity directly related to the business in which we are involved, or engage in any other activities that conflict with his or her obligations to us during the term of his or her employment. For the 12-month period after any of these executive officers termination of employment with us for any reason, such officer is prohibited from recruiting any of our employees or soliciting or inducing our employees to leave their employment with us.

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**Stock-Based Compensation Plans**

In April 2009, our board of directors adopted our 2009 share option plan, or our 2009 Option Plan, which received shareholder approval in August 2009. In November 2015, our board of directors adopted our 2015 share incentive plan, or our 2015 Plan, which received shareholder approval in December 2015. The purposes of these plans are to attract and retain the best available personnel for positions of substantial responsibility, to provide additional incentive to employees, directors and consultants and to promote the success of our business.

Under our 2009 Option Plan, we are authorized to issue up to 5,000,000 common shares. In October 2011, our board of directors proposed an increase in the number of authorized shares reserved to 10,000,000 common shares, which was approved by our shareholders in December 2011. Our 2009 Option Plan has a term of ten years but may be terminated earlier by our board of directors. Our 2009 Option Plan was replaced by our 2015 Plan, and upon the adoption of our 2015 Plan, we ceased issuances from the 2009 Option Plan.

Under our 2015 Plan, the maximum aggregate number of common shares which may be issued pursuant to all share-based awards is (i) 10,000,000, and (ii) an automatic increase on January 1, 2019, January 1, 2022 and January 1, 2025 by that number of common shares representing 5% of our then total issued and outstanding common shares on an as-converted fully diluted basis as of December 31 of the respective preceding year.

The following paragraphs summarize the key terms of our 2015 Plan.

*Plan Administration.* Our 2015 Plan is administered by the compensation committee of the board of directors, or such other committee of the board to which the board has delegated power to act; provided, that in the absence of any such committee, our 2015 Plan will be administered by the board. The plan administrator has sole discretion in determining the terms and conditions of any award, any vesting acceleration or waiver of forfeiture restrictions, and any restrictions regarding any award or the common shares relating thereto.

*Types of Awards.* Our 2015 Plan provides for the granting of share-based awards such as incentive and non-statutory options, restricted shares, restricted share units, dividend equivalent rights, share appreciation rights, share payments or any other types of share-based award as determined and approved from time to time by the plan administrator.

*Eligibility.* Any employee, director or consultant of our company or affiliated companies is eligible to receive grants under our 2015 Plan.

*Award Agreements.* Awards granted under our 2015 Plan shall be evidenced by an award agreement, which include

details on the number of common shares subject to the award, and the terms, conditions and limitations of the award, such as the exercise price, vesting schedule and provisions applicable in the event the participant s employment or service ends.

*Term of Awards.* The term of awards granted under our 2015 Plan shall not exceed ten years from the date of grant.

*Change in Control.* If a change in control of our company occurs, the plan administrator may, in its sole discretion without consent of the plan participant, take any of the following actions:

- accelerate the vesting, in whole or in part of any award;
- purchase any award for an amount of cash or common shares of our company equal to the value that could have been attained upon the exercise of the award or the realization of the plan participant s rights had such award been currently exercisable or payable or fully vested; or
- provide for the assumption, conversion or replacement of any award by the successor corporation, or a parent or subsidiary of the successor corporation, with other rights or property selected by the plan administrator in its sole discretion, or the assumption or substitution of the award by the successor or surviving corporation, or a parent or subsidiary of the surviving or successor corporation, with such appropriate adjustments as to the number and kind of common shares and prices as the plan administrator deems, in its sole discretion, reasonable, equitable and appropriate.

*Amendment and Termination.* Unless earlier terminated, our 2015 Plan is effective for a term of ten years. The board may at any time terminate or amend our 2015 Plan in any respect, but to the extent required by applicable laws or stock exchange rules, shareholder approval of any amendments shall be obtained.

The following table summarizes the options granted to our directors, senior management and other employees and individuals under our option plans during the periods indicated.

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| | Common shares underlying options granted | Exercise price US$ | Grant date | Expiration date |
|---|---|---|---|---|
| **Granted in 2015** | | | | |
| David K. Chao | 150,000 | 34.48 | November 12, 2015 | November 11, 2021 |
| Rick Yan | 144,000 | 31.04 | May 29, 2015 | May 28, 2021 |
| Kathleen Chien | 144,000 | 31.04 | May 29, 2015 | May 28, 2021 |
| David Weimin Jin | 72,000 | 31.04 | May 29, 2015 | May 28, 2021 |
| Tao Wang | 64,800 | 31.04 | May 29, 2015 | May 28, 2021 |
| Jingwu Chen | 57,600 | 31.04 | May 29, 2015 | May 28, 2021 |
| Other employees and individuals | 783,600 | 31.04 | May 29, 2015 | May 28, 2021 |
| Other employees and individuals | 26,400 | 30.97 | October 16, 2015 | October 15, 2021 |
| | 1,442,400 | | | |
| | | | | |
| **Granted in 2016** | | | | |
| Rick Yan | 144,000 | 34.28 | September 28, 2016 | September 27, 2022 |
| Kathleen Chien | 144,000 | 34.28 | September 28, 2016 | September 27, 2022 |
| Jingwu Chen | 72,000 | 34.28 | September 28, 2016 | September 27, 2022 |
| Tao Wang | 48,000 | 34.28 | September 28, 2016 | September 27, 2022 |
| David Weimin Jin | 36,000 | 34.28 | September 28, 2016 | September 27, 2022 |
| Other employees and individuals | 678,600 | 34.28 | September 28, 2016 | September 27, 2022 |
| Other employees and individuals | 34,800 | 33.80 | December 30, 2016 | December 29, 2022 |
| | 1,157,400 | | | |
| | | | | |
| **Granted in 2017** | | | | |
| Rick Yan | 180,000 | 56.68 | August 21, 2017 | August 20, 2023 |
| Kathleen Chien | 180,000 | 56.68 | August 21, 2017 | August 20, 2023 |
| Jingwu Chen | 72,000 | 56.68 | August 21, 2017 | August 20, 2023 |
| Junichi Arai | 60,000 | 56.68 | August 21, 2017 | August 20, 2023 |
| Li-Lan Cheng | 60,000 | 56.68 | August 21, 2017 | August 20, 2023 |
| Tao Wang | 48,000 | 56.68 | August 21, 2017 | August 20, 2023 |
| Other employees and individuals | 679,872 | 56.68 | August 21, 2017 | August 20, 2023 |
| | 1,279,872 | | | |

## C. Board Practices

The directors will hold office until the next annual general meeting of shareholders and until such director s successor is duly elected and qualified, or until such director s death, resignation or removal. We have no specific policy with respect to director attendance at our board meetings, committee meetings or annual general meetings of shareholders.

**Board Committees**

To enhance our corporate governance, we have established three committees under the board of directors: the audit committee, the compensation committee and the nominating and corporate governance committee. We have adopted a charter for each of these committees. The committees have the following functions and members.

***Audit Committee***

The members of our audit committee are David K. Chao, who acts as the chairman of our audit committee, Li-Lan Cheng and Eric He. Our board of directors has determined that all members of our audit committee are independent directors within the meaning of NASDAQ Stock Market Rule 5605(a)(2) and meet the criteria for independence set forth in Section 10A(m)(3)(B)(i) of the Exchange Act.

Our audit committee is responsible for, among other things:

- the appointment, evaluation, compensation, oversight and termination of the work of our independent auditor (including resolution of disagreements between management and the independent auditor regarding financial reporting);

- ensuring that it receives from our independent auditor a formal written statement attesting to the auditor s independence and describing all relationships between the auditor and us;

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- pre-approving any audit and non-audit services, including tax services, to be provided by our independent auditor in accordance with NASDAQ Stock Market rules;

- reviewing our annual audited financial statements and quarterly financial statements with management and our independent auditor;

- reviewing with our independent auditor all critical accounting policies and practices to be used by us in preparing our financial statements, all alternative treatments of financial information within U.S. GAAP, and other material communications between our independent auditor and management;

- reviewing our policies with respect to risk assessment and risk management;

- reviewing, with management and counsel, any legal matters that may have a material impact on us and any material reports or inquiries from regulatory or governmental agencies; and

- establishing procedures for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls, auditing matters or potential violations of law, and the confidential, anonymous submission by our employees of concerns regarding questionable accounting or auditing matters or potential violations of law.

***Compensation Committee***

The current members of our compensation committee are Li-Lan Cheng, who acts as the chairman of the committee, and David K. Chao. Our board of directors has determined that all members of our compensation committee are independent directors within the meaning of NASDAQ Stock Market Rule 5605(a)(2) and meet the criteria for independence set forth in Section 10A(m)(3)(B)(i) of the Exchange Act.

Members of the compensation committee are not prohibited from direct involvement in determining their own compensation. Our chief executive officer may not be present at any committee meeting during which his compensation is deliberated.

Our compensation committee is responsible for, among other things:

- approving and overseeing the total compensation package for our executives;

- reviewing and making recommendations to the board with respect to the compensation of our directors;

- reviewing and approving corporate goals and objectives relevant to the compensation of our chief executive officer, evaluating the performance of our chief executive officer in light of those goals and objectives, and setting the compensation level of our chief executive officer based on this evaluation;

- reviewing the results of, and procedures for, the evaluation of the performance of other executive officers;

- reviewing periodically and making recommendations to the board regarding any long-term incentive compensation or equity plans, programs or similar arrangements, and administering these plans;

- reviewing and administering our stock-based compensation plans in accordance with the terms thereof;

- reviewing and making recommendations to the board regarding all new employment, consulting, retirement and severance agreements and arrangements proposed for our executives; and

- selecting peer groups of companies to be used for purposes of determining competitive compensation packages.

***Nominating and Corporate Governance Committee***

The current members of our nominating and corporate governance committee are Eric He, who acts as the chairman of our nominating and corporate governance committee, and David K. Chao. Our board of directors has determined that all members of our nominating and corporate governance committee are independent directors within the meaning of NASDAQ Stock Market Rule 5605(a)(2) and meets the criteria for independence set forth in Section 10A(m)(3)(B)(i) of the Exchange Act.

Our nominating and corporate governance committee is responsible for, among other things:

- identifying 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 in light of the characteristics of independence, age, skills, experience and availability of service to us;

- reviewing the continued board membership of a director upon a significant change in such director s principal occupation;

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- identifying 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 nominating and corporate governance committee itself;

- advising the board periodically with respect 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 corrective action to be taken;

- establishing criteria and processes for, and leading the board and each committee of the board in, its annual performance self-evaluation;

- reviewing and approving policies and procedures with respect to proposed transactions between us and our related parties, and approving in advance all such related-party transactions; 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 fiduciary duty to act honestly, in good faith and with a view to our best interests. Our directors also owe to our company a duty to act with skill and care. It was previously considered that a director need not exhibit in the performance of his duties a greater degree of skill than may reasonably be expected from a person of his knowledge and experience. However, English and commonwealth courts have moved towards an objective standard with regard to the required skill and care and these authorities are likely to be followed in the Cayman Islands. In fulfilling their duty of care to us, our directors must ensure compliance with our memorandum and articles of association, as amended and restated from time to time.

The functions and powers of our board of directors include, among others:

- convening shareholders annual general meetings and reporting its work to shareholders at such meetings;

- declaring dividends and distributions;

- appointing officers and determining the term of office of the officers;

- exercising the borrowing powers of our company and mortgaging the property of our company; and

- approving the transfer of shares in our company, including the registering of such shares in our register of members.

**Interested Transactions**

A director may vote in respect of any contract or transaction in which he is interested, provided that the nature of the interest of any director in such contract or transaction shall be disclosed by him at or prior to its consideration and any vote on that matter. A general notice or disclosure to the directors or otherwise contained in the minutes of a meeting or a written resolution of the directors or any committee of directors that a director is a shareholder of any specified firm or company and is to be regarded as interested in any transaction with such firm or company will be sufficient disclosure, and, after such general notice, it will not be necessary to give special notice relating to any particular transaction.

**Remuneration and Borrowing**

The directors may determine remuneration to be paid to the directors. The compensation committee will assist the directors in reviewing and approving the compensation structure for the directors. We do not provide for any termination benefits for the directors, nor do we have other arrangements with the directors for special termination benefits. The directors may exercise all the powers of our company to borrow money and to mortgage or charge its undertaking, property and uncalled capital or any part thereof and to issue debentures, debenture stock and other securities whether outright or as security for any debt, liability or obligation of our company or of any third party.

**Qualification**

There is no shareholding qualification for directors. Further, shareholding qualification for directors may not be fixed by our company in a general meeting.

**Terms of Directors and Executive Officers**

At each annual general meeting of the shareholders of our company, all of our directors at such time are required to retire from office and are eligible for re-election. All of these directors will retain office until the close of such general meeting.

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**Limitation on Liability and Other Indemnification Matters**

Cayman Islands law allows us to indemnify our directors, officers, auditors and trustee acting in relation to any of our affairs against actions, costs, charges, losses, damages and expenses incurred by reason of any act done or omitted in the execution of their duties as our directors, officers, auditors and trustee, except to the extent that it may be held by the Cayman Islands courts to be contrary to public policy such as to provide indemnification against civil fraud or the consequences of committing a crime.

Under our memorandum and articles of association, we may indemnify our directors, officers, employees and agents against expenses (including attorneys fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such persons in connection with actions, suits or proceedings to which they are party or are threatened to be made a party by reason of their acting as our directors, officers, employees or agents. To be entitled to indemnification, these persons must have acted in good faith and in the best interest or not opposed to the interest of our company and must not have acted in a manner willfully or grossly negligent, and, with respect to any criminal action, they must have had no reasonable cause to believe their conduct was unlawful. Our memorandum and articles of association also provides for indemnification of such person in the case of a suit initiated by our company or in the right of our company. Such indemnification covers expenses (including attorneys fees) actually and reasonably incurred in connection with the defense or settlement of such suit. There are good faith and other similar conduct requirements for such indemnification rights as those imposed on other types of suits described above. However, if such persons are successful in the merits of the actions, suits or proceedings described above, including suits initiated by or in the right of our company, then they may be indemnified for actual and reasonable expenses without having to meet the conduct requirements.

We have entered into indemnification agreements with each of our directors under which we agree to indemnify each of them to the fullest extent permitted by applicable law and our articles of association, from and against all costs, charges, expenses, liabilities and losses (including attorney s fees) incurred in connection with any litigation, suit or proceeding to which such director is or is threatened to be made a party, witness or other participant. Within 20 days after our receipt of a written demand of such director, we will advance funds for the payment of indemnification of these expenses.

## D. Employees

We had 6,567 employees, 7,373 employees and 7,637 employees as of December 31, 2015, 2016 and 2017, respectively. The following table sets forth the number of our employees categorized by function as of December 31, 2017.

| | |
|---|---|
| Sales and account management | 4,065 |
| Customer service and production | 2,059 |
| Technology and online operations | 695 |
| Search and training consultants | 222 |
| Marketing and merchandising | 113 |
| General and administrative | 483 |
| Total | 7,637* |

* Includes 670 temporary, part-time and contract employees.

The above table does not include approximately 500 employees of Lagou, which we acquired just prior to December 31, 2017.

We believe that we maintain a good working relationship with our employees and we have not experienced any significant labor disputes or any difficulty in recruiting staff for our operations. Our employees are not represented by any collective bargaining agreements or labor unions.

## E. Share Ownership

There are no different voting rights among our shareholders. We are not aware of any arrangement that may, at a subsequent date, result in a change of control of our company. For information regarding the share ownership of our directors and officers, see Item 7. Major Shareholders and Related Party Transactions Major Shareholders. For information as to stock options granted to our directors, senior management and other employees, see Compensation Stock-Based Compensation Plans.

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## ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

### A. Major Shareholders

The following table sets forth information with respect to the beneficial ownership of our common shares as of February 28, 2018, unless otherwise stated:

- by each of our directors and members of senior management; and
- each person known to us to own beneficially more than 5% of our common shares.

Beneficial ownership is determined in accordance with the rules of the SEC and includes voting or investment power a person has with respect to the common shares. A person is also deemed to be a beneficial owner of any securities of which that person has a right to acquire beneficial ownership within 60 days. The percentage of beneficial ownership of each person is based on 61,863,004 common shares outstanding as of February 28, 2018 and the number of common shares underlying options that have vested or will vest within 60 days after February 28, 2018. Except as otherwise noted, the address of each person listed in the table is c/o 51job, Inc., Building 3, No. 1387, Zhang Dong Road, Shanghai 201203, People s Republic of China.

| | Common shares beneficially owned | |
|---|---|---|
| | Number | % |
| **Directors and senior management:** | | |
| Rick Yan | 12,986,519 | 20.8 |
| Kathleen Chien | 1,869,238 | 3.0 |
| David K. Chao(1) | * | * |
| Tao Wang | * | * |
| Jingwu Chen | * | * |
| David Weimin Jin | * | * |
| Eric He | * | * |
| Li-Lan Cheng | * | * |
| Junichi Arai(2) | | |
| All directors and senior management as a group | 15,534,130 | 24.6 |
| | | |
| **Principal shareholders:** | | |
| Recruit Holdings Co., Ltd.(2) | 23,443,981 | 37.9 |
| Rick Yan | 12,986,519 | 20.8 |
| Harding Loevner LP(3) | 4,785,523 | 7.7 |

* Less than 1% of our total outstanding common shares.

(1) The address of David K. Chao is 2420 Sand Hill Road, Suite 200, Menlo Park, CA 94025.

(2) The address of Junichi Arai and Recruit Holdings Co., Ltd. is GranTokyo South Tower, 1-9-2 Marunouchi, Chiyoda-ku, Tokyo 100-6640, Japan.

(3) Represents 4,785,523 common shares in the form of ADSs held by Harding Loevner LP. The information regarding beneficial ownership is as of December 31, 2017, based on the information contained in the Schedule 13G (Amendment No. 2) filed by Harding Loevner LP on February 12, 2018. The address of Harding Loevner LP is 400 Crossing Blvd., Bridgewater, NJ 08807.

To our knowledge, as of February 28, 2018, 27,221,955 common shares were held by six record holders with addresses in the United States, representing approximately 44% of our common shares outstanding. Of this total, 25,786,095 common shares (excluding 10,650,076 common shares that we have reserved for issuance upon exercise of our outstanding options) were held by JPMorgan Chase Bank, N.A., the depositary 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 common shares in the United States.

## B. Related Party Transactions

**Contractual Arrangements Among Our Group Entities**

The PRC government has regulated foreign ownership of advertising, human resource related services and Internet content provision businesses. As a result, relationships and economic arrangements among our subsidiaries, affiliated entities and their respective shareholders are governed by a series of agreements. The material agreements which govern the relationships and economic arrangements among our group entities are described in greater detail below.

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***Technical and Consulting Service Agreements***

*Qian Cheng Technical and Consulting Service Agreement.* WFOE and Qian Cheng have entered into a technical and consulting service agreement dated as of May 3, 2004, and supplemented and amended as of July 2, 2004 and January 27, 2014, under which WFOE has the exclusive right to provide advertising, software design and web related technical and consulting services to Qian Cheng. Qian Cheng will pay service fees to WFOE based on the extent and nature of the services provided by WFOE, as set forth in invoices issued by WFOE to Qian Cheng from time to time. WFOE did not issue any invoices to Qian Cheng and Qian Cheng did not pay any fees to WFOE for the years ended December 31, 2015, 2016 and 2017. The technical and consulting service agreement is valid through May 2, 2034 and may be extended with the consent of the parties. Although the renewal is upon mutual consent, WFOE may, through its power of attorney, direct Run An to cause Qian Cheng to renew the technical and consulting service agreement upon expiration. The technical and consulting service agreement is not subject to early termination, other than by WFOE solely upon a default by Qian Cheng. Qian Cheng has no early termination rights with respect to this agreement. Qian Cheng is wholly owned by Run An.

*Run An Technical and Consulting Service Agreement*. WFOE and Run An have entered into a technical and consulting service agreement dated as of September 11, 2007, and supplemented and amended as of September 4, 2017, under which WFOE has the exclusive right to provide human resources, software design and web related technical and consulting services to Run An. Run An will pay service fees to WFOE based on the extent and nature of the services provided by WFOE, as set forth in invoices issued by WFOE to Run An from time to time. WFOE did not issue any invoices to Run An and Run An did not pay any fees to WFOE for the years ended December 31, 2015, 2016 and 2017. The technical and consulting service agreement is valid to September 11, 2027 and may be extended with the consent of the parties. Although the renewal is upon mutual consent, WFOE may, through its power of attorney, direct Run An to renew the technical and consulting service agreement upon expiration. The technical and consulting service agreement is not subject to early termination, other than by WFOE solely upon a default by Run An. Run An has no early termination rights with respect to this agreement.

***Equity Pledge Agreement***

As security for the obligations of Run An under the technical and consulting service agreement and the obligations of Run An and its shareholders under the exclusive purchase option agreement described below, the shareholders of Run An have pledged all of their equity interest in Run An to WFOE under an equity pledge agreement. According to the pledge agreement, WFOE has the right to dispose of the pledged equity pursuant to PRC law in the event of default by Run An or its shareholders as provided in the pledge agreement. The shareholders of Run An have agreed that they will not dispose of the pledged equity interest or take any actions that will prejudice WFOE s interest under the Run An equity pledge agreement. The equity pledge agreement was entered into on September 4, 2017 and shall expire two years after the fulfillment of all obligations under the Run An technical and consulting service agreement and the exclusive purchase option agreement. This pledge agreement, in combination with the exclusive purchase option agreement, contains content that is substantially the same as the pledge agreements entered into between WFOE and Run An s shareholders in September 2007 and January 2014, and between WFOE and Qian Cheng s shareholders in May 2004. The pledge of the equity interest by the shareholders of Run An to WFOE has been registered with the relevant bureau of the SAIC in Beijing.

***Exclusive Purchase Option Agreement***

WFOE has entered into an exclusive purchase option agreement with the shareholders of Run An, dated as of January 27, 2014, and supplemented and amended as of September 4, 2017, under which WFOE or its designee is granted an irrevocable option to purchase all or a portion of their equity interests in Run An at any time by issuing a written notice to the shareholders, subject to compliance with applicable PRC laws and regulations. The purchase price shall be equal to the contribution actually made by the shareholder for his equity interest in Run An. If the lowest price permitted under PRC law is above the contribution actually made by the shareholder, the premium shall be paid to Tech JV in accordance with the terms of the loan agreements described below. The exclusive purchase option agreement has the same term as the Run An technical and consulting service agreement. WFOE also has the exclusive right to terminate the agreement at any time by delivering a written notice to the shareholders of Run An.

***Powers of Attorney***

In conjunction with the signing of the equity pledge agreement and the exclusive purchase option agreement, the shareholders of Run An has each signed an irrevocable power of attorney to appoint WFOE, as attorney-in-fact to vote, by itself or any other person to be designated at its discretion, on all matters of Run An that need to be decided by its shareholders. Because Qian Cheng is a wholly owned subsidiary of Run An and Wuhan AdCo is a wholly owned subsidiary of Qian Cheng, through controlling all material matters of Run An (including but not limited to all material operational matters and the appointment and removal of directors and senior management), WFOE also has indirect control on all material matters of Qian Cheng and Wuhan AdCo. Each power of attorney was entered into on January 27, 2014, and supplemented and amended as of September 4, 2017, and will remain effective for as long as Run An exists. The shareholders of Run An are not entitled to terminate or amend the terms of the power of attorney without prior written consent from WFOE.

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***Other Agreements***

*Loan Agreements.* Tech JV has entered into loan agreements dated as of September 11, 2007, and supplemented and amended as of September 4, 2017, with the shareholders of Run An for the sole and exclusive purpose to fund the capitalization of Run An. A loan amount of RMB3.0 million was provided to each individual to acquire a 50% equity interest in Run An. The loans can be repaid only with the proceeds received from the transfer of the shareholders equity interest in Run An to Tech JV or its designee. The term of the interest-free loan agreements is valid to September 11, 2027 and may be extended upon written consent of the parties.

*Call Option Agreement.* 51net has entered into a call option agreement with Qian Cheng dated as of August 1, 2002, and supplemented and amended as of May 3, 2004 and August 1, 2012, under which 51net or its designee is granted an irrevocable option to purchase all of Qian Cheng s equity interest in Tech JV and AdCo for RMB1.2 million or, if such purchase price is not permissible under the applicable PRC laws, the lowest price permitted under then applicable PRC laws. In addition, Qian Cheng granted 51net an irrevocable option to purchase any and all of its equity interests in AdCo s subsidiaries at the lowest price permitted under PRC laws. The call option agreement is valid to July 31, 2022, and the term may be extended upon written consent of the parties.

*Domain Name License Agreement.* 51net has entered into a domain name license agreement with Tech JV dated as of August 15, 2000, and supplemented and amended as of August 15, 2010, under which 51net has granted to Tech JV the right to use the *www.51job.com* domain name in the PRC in connection with Tech JV s operation of this website. Tech JV is not permitted to assign its right under this agreement to any third party. The license fee to be paid under the domain name license agreement will be agreed to by both parties. The domain name license agreement is effective until August 14, 2018 and is renewable upon the written consent of 51net.

*Trademark License Agreement.* WFOE has entered into a trademark license agreement with Tech JV dated as of August 15, 2000, and supplemented and amended as of August 15, 2005 and August 15, 2010, under which WFOE has granted to Tech JV the right to use certain trademarks in the PRC, with no right of assignment or sublicense. The license fee to be paid under the trademark license agreement will be agreed to by both parties. The trademark license agreement is effective until August 14, 2018 and is renewable upon the written consent of both parties.

We have been advised by Jun He Law Offices, our PRC legal counsel, that the agreements among our subsidiaries, affiliated entities and their respective shareholders are valid and binding, and are enforceable under, and will not result in any violation of, existing PRC laws or regulations, with exception to the trademark license agreement, which may not be enforceable against bona fide third parties until registration with the relevant trademark administration authorities. However, there are substantial uncertainties regarding the interpretation and application of PRC laws and regulations, including but not limited to the laws and regulations governing our business or the enforcement and performance of our contractual arrangements in the event of the imposition of statutory liens, death, bankruptcy and criminal proceedings. Accordingly, we cannot assure you that PRC regulatory authorities will not take a view contrary to that of our PRC legal counsel. See Item 3. Key Information Risk Factors Risks Related to Doing Business in China The PRC legal system has inherent uncertainties that could materially and adversely affect us.

**Stock Option Grants**

We have granted options to purchase common shares in our company to certain of our employees, directors and officers under our share option plans. As of December 31, 2017, there were outstanding options to purchase an aggregate of 4,806,982 common shares in our company. For a description of our share option plans and these option grants, see Item 6. Directors, Senior Management and Employees Compensation Stock-Based Compensation Plans.

**Related Party Transactions with Recruit**

We have entered into royalty agreements with Recruit Management Solutions Co., Ltd., or RMS, and Recruit Career Co., Ltd., or RCC, which are wholly owned subsidiaries of Recruit, for the use of training and online assessment materials. The royalty fees charged by RMS were RMB0.1 million, RMB0.2 million and RMB0.3 million (US$0.04 million) during the years ended December 31, 2015, 2016 and 2017, respectively. The royalty fees charged by RCC were RMB0.2 million, RMB0.06 million and RMB0.02 million (US$3,100) during the years ended December 31, 2015, 2016 and 2017, respectively.

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### C. Interests of Experts and Counsel

Not applicable.

## ITEM 8. FINANCIAL INFORMATION

### A. Consolidated Statements and Other Financial Information

See Item 18. Financial Statements for our audited consolidated financial statements filed as part of this annual report.

**Legal Proceedings**

From time to time, we undertake legal action against entities that misappropriate the content of our websites, including recruitment advertisements and the design of our websites, our brands and trademarks, materials from our training courses and other proprietary intellectual property. Our intellectual property is subject to theft and other unauthorized use, and our ability to protect our intellectual property is limited. In addition, we may in the future be subject to claims that we have infringed the intellectual property rights of others. See Item 3. Key Information Risk Factors Risks Related to Our Business We may be exposed to infringement or misappropriation claims by third parties, which, if successful, could cause us to pay significant damage awards.

**Dividend Policy**

Since the incorporation of our company in 2000, we have never declared or paid any cash dividends on our common shares. We have historically retained earnings to finance operations and the expansion of our business. The timing, amount and form of future dividends, if any, will depend, among other things, on our future results of operations and cash flow, our future prospects, our capital requirements and surplus, the amount of distributions, if any, received by us from our subsidiaries and our affiliated entities, and other factors deemed relevant by our board of directors. Any future dividends on our common shares would be declared by and subject to the discretion of our board of directors.

Holders of ADSs will be entitled to receive dividends, if any, subject to the terms of the deposit agreement, to the same extent as holders of common shares, less the fees and expenses payable under the deposit agreement, and after deduction of any applicable taxes.

### B. Significant Changes

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 have been trading on the NASDAQ Global Select Market since September 29, 2004 under the symbol JOBS.

The following table provides the high and low trading prices for our ADSs on the NASDAQ Global Select Market for the periods presented. We effected a change in the ratio of our common shares to ADSs from 2:1 to 1:1 effective August 8, 2014. All prices have been retroactively adjusted to reflect the current ADS to common share ratio of one ADS to one common share for all periods presented.

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| | Trading price | |
|---|---|---|
| | **High US$** | **Low US$** |
| **Annual highs and lows** | | |
| 2013 | 40.00 | 23.64 |
| 2014 | 43.00 | 29.24 |
| 2015 | 38.12 | 22.32 |
| 2016 | 35.87 | 25.33 |
| 2017 | 65.85 | 31.25 |
| | | |
| **Quarterly highs and lows** | | |
| First quarter 2016 | 33.49 | 25.33 |
| Second quarter 2016 | 32.78 | 27.56 |
| Third quarter 2016 | 35.26 | 28.02 |
| Fourth quarter 2016 | 35.87 | 31.58 |
| First quarter 2017 | 37.93 | 31.25 |
| Second quarter 2017 | 46.99 | 36.26 |
| Third quarter 2017 | 62.00 | 44.68 |
| Fourth quarter 2017 | 65.85 | 56.22 |
| | | |
| **Monthly highs and lows** | | |
| September 2017 | 62.00 | 57.95 |
| October 2017 | 65.85 | 60.26 |
| November 2017 | 64.47 | 56.94 |
| December 2017 | 63.08 | 56.22 |
| January 2018 | 71.35 | 58.56 |
| February 2018 | 71.77 | 63.12 |
| March 2018 (through March 23) | 89.31 | 62.59 |

## B. Plan of Distribution

Not applicable.

## C. Markets

Our ADSs have been trading on the NASDAQ Global Select Market since September 29, 2004 under the symbol JOBS.

## D. Selling Shareholders

Not applicable.

### E. Dilution

Not applicable.

### F. Expenses of the Issue

Not applicable.

## ITEM 10. ADDITIONAL INFORMATION

### A. Share Capital

Not applicable.

### B. Memorandum and Articles of Association

Our shareholders adopted our amended and restated memorandum and articles of association at an extraordinary shareholder meeting on April 26, 2004 and approved an amendment by special resolution passed at an extraordinary shareholder meeting on June 20, 2014.

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## 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

See Item 4. Information on the Company Business Overview Regulation Regulations Relating to Foreign Currency Exchange.

## E. Taxation

The following summary of the material Cayman Islands, People s Republic of China and United States federal income tax consequences of an investment in our ADSs or common shares is based upon laws and relevant interpretations thereof in effect as of the date of this annual report, all of which are subject to change. This summary does not deal with all possible tax consequences relating to an investment in our ADSs or common shares, such as the tax consequences under state, local and other tax laws.

**Cayman Islands Taxation**

According to Maples and Calder (Hong Kong) LLP, our counsel as to Cayman Islands law, 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 our company levied by the Government of the Cayman Islands except for stamp duties that may be applicable on instruments executed in, or after execution brought within the jurisdiction of, the Cayman Islands. The Cayman Islands are not party to any double taxation treaties that are applicable to any payments made to or by our company. There are no exchange control regulations or currency restrictions in the Cayman Islands.

**People s Republic of China Taxation**

Under the EIT Law and its implementation rules, enterprises incorporated under the laws of jurisdictions outside China with their de facto management bodies located within China may be considered PRC resident enterprises and therefore subject to an EIT rate of 25% on their worldwide income. Under the implementation regulations issued by the State Council relating to the EIT Law, de facto management bodies is defined as the bodies that have material and overall management control over the production and business operations, personnel, accounts and

properties of an enterprise. Circular 82 further provides certain specific criteria for determining whether the de facto management body of a PRC-controlled offshore incorporated enterprise is located in the PRC. The criteria include whether: (i) the premises where the senior management and the senior management bodies responsible for the routine production and business management of the enterprise perform their functions are mainly located within the PRC; (ii) decisions relating to the enterprise s financial and human resource matters are made or subject to approval by organizations or personnel in the PRC; (iii) the enterprise s primary assets, accounting books and records, company seals, and board and shareholders meeting minutes are located or maintained in the PRC; and (iv) 50% or more of voting board members or senior executives of the enterprise habitually reside in the PRC. Although Circular 82 only applies to offshore enterprises controlled by enterprises or enterprise groups located within the PRC, the determining criteria set forth in Circular 82 may reflect the tax authorities general position on how the de facto management body test may be applied in determining the tax resident status of other offshore enterprises as well. We are a Cayman Islands holding company and substantially all of our operational management is currently based in China. As the tax resident status of an enterprise is subject to the determination by the PRC tax authorities and uncertainties remain with respect to the interpretation of the term de facto management body as applicable to us, we cannot assure you that we will not be considered as a PRC tax resident enterprise. If we are considered a PRC resident enterprise under the EIT Law, we may be subject to the uniform 25% EIT rate as to our global income.

Moreover, under the EIT Law and related regulations, dividends payable by a foreign-invested enterprise, such as our PRC subsidiaries, to any of its foreign non-resident enterprise investors shall be subject to a 10% withholding tax unless such foreign enterprise investor s jurisdiction of incorporation has a tax treaty with China that provides for a reduced rate of withholding tax. We are incorporated in the Cayman Islands which does not have such a tax treaty with China.

In addition, if we were treated as a PRC resident enterprise, any dividends payable to non-resident enterprise holders of our common shares or ADSs may be treated as income derived from sources within PRC and therefore subject to a 10% withholding tax (or 20% in the case of non-resident individual holders) unless an applicable income tax treaty provides otherwise. In addition, capital gains realized by non-resident enterprise holders upon the disposition of our common shares or ADSs may be treated as income derived from sources within PRC and therefore subject to 10% income tax (or 20% in the case of non-resident individual holders) unless an applicable income tax treaty provides otherwise.

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**Certain United States Federal Income Tax Considerations**

The following summarizes certain U.S. federal income tax consequences to a U.S. Holder, as defined below, of the ownership and disposition of our ADSs or common shares as of the date of this annual report.

Except where noted, this summary deals only with ADSs and common shares that are held as capital assets by U.S. Holders. This summary does not describe all of the U.S. federal income tax consequences applicable to U.S. Holders that are subject to special treatment under the U.S. federal income tax laws, including:

- dealers in securities or currencies;
- regulated investment companies;
- certain financial institutions;
- real estate investment trusts;
- insurance companies;
- U.S. expatriates;
- tax-exempt organizations;
- persons holding ADSs or common shares as part of a hedging, integrated or conversion transaction, constructive sale or straddle;
- traders in securities that have elected the mark-to-market method of accounting;
- persons liable for alternative minimum tax;
- partnerships or other pass-through entities for U.S. federal income tax purposes;
- persons who own or are deemed to own 10% or more of our shares (by vote or value);
- persons who acquired common shares or ADSs pursuant to the exercise of any employee share option or otherwise as compensation;
- persons required to accelerate the recognition of any item of gross income with respect to our ADSs or common shares as a result of such income being recognized on an applicable financial statement; or
- persons whose functional currency is not the U.S. dollar.

This summary is based in part on representations by the depositary and assumes that each obligation under the deposit agreement will be performed in accordance with its terms. Furthermore, the discussion below is based upon the provisions of the Internal Revenue Code of 1986, as amended, or the Code, and U.S. Treasury regulations, rulings and judicial decisions thereunder as of the date hereof, and such authorities may be replaced, revoked or modified, possibly on a retroactive basis, so as to result in U.S. federal income tax consequences different from those discussed below.

A U.S. Holder that holds or is considering the disposition of ADSs or common shares should consult its own tax advisor concerning the U.S. federal income tax consequences and any other U.S. federal tax consequences (such as the effects of the Medicare contribution tax), as well as any consequences arising under the laws of any other taxing jurisdiction in light of the particular circumstances of the U.S. Holder.

As used herein, the term U.S. Holder means a beneficial owner of ADSs or common shares that is for U.S. federal income tax purposes:

- an individual 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 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 if it is subject to the primary supervision of a court within the United States and one or more U.S. persons have the authority to control all substantial decisions of the trust or if the trust has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

If a partnership holds ADSs or common shares, the tax treatment of a partner will generally depend on the status of the partner and the activities of the partnership. A partner of a partnership holding ADSs or common shares should consult its own tax advisors.

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***ADSs***

In general, for U.S. federal income tax purposes, a U.S. Holder of ADSs will be treated as the owner of the underlying common shares that are represented by such ADSs. Deposits and withdrawals of common shares in exchange for ADSs will not be subject to U.S. federal income taxation.

***Distributions on ADSs or Common Shares***

Subject to the discussion under Passive Foreign Investment Company Rules below, the gross amount of any distributions on the ADSs or common shares (including amounts withheld to reflect PRC withholding taxes, if any) will be taxable to a U.S. Holder as dividends to the extent of our current or accumulated earnings and profits, as determined under U.S. federal income tax principles. Such income will be includable in a U.S. Holder s gross income as ordinary income on the day actually or constructively received by a U.S. Holder, in the case of common shares, or by the depositary, in the case of ADSs. Such dividends will not be eligible for the dividends received deduction allowed to corporations under U.S. federal income tax law. Subject to certain limitations, dividends paid to certain non-corporate U.S. Holders, including individuals, will be eligible for a reduced rate of taxation if we are deemed to be a qualified foreign corporation for U.S. federal income tax purposes. A qualified foreign corporation includes:

- a foreign corporation that is eligible for the benefits of a comprehensive income tax treaty with the United States which the U.S. Treasury determines to be satisfactory for these purposes and which includes an exchange of information program; and
- a foreign corporation if its shares with respect to which a dividend is paid or its ADSs backed by such shares are readily tradable on an established securities market within the United States,

but does not include an otherwise qualified corporation that is a passive foreign investment company, or a PFIC, in the taxable year in which the dividends are paid or the preceding taxable year. We believe that we will be a qualified foreign corporation with respect to dividends paid on our ADSs for so long as (i) we are not a PFIC and (ii) the ADSs are listed on the NASDAQ Global Select Market or a national securities exchange in the United States, and thus are considered to be readily tradable on an established securities market. However, our status as a qualified foreign corporation may change. In addition, subject to the following sentence, we do not believe that dividends that we pay on our common shares that are not represented by ADSs currently meet the conditions required for these reduced tax rates. In the event that we are deemed to be a PRC resident enterprise under the PRC tax law, we may be eligible for the benefits of the income tax treaty between the United States and the PRC, and if we are eligible for such benefits, dividends we pay on our common shares, regardless of whether such shares are represented by ADSs, would be eligible for the reduced rates of taxation. Non-corporate U.S. Holders that do not meet at minimum holding period requirement during which they are not protected from the risk of loss or that elect to treat the dividend income as investment income pursuant to section 163(d)(4) of the Code will not be eligible for the reduced rates of taxation regardless of our status as a qualified foreign corporation. In addition, the rate reduction will not apply to dividends if the recipient of a dividend is obligated to make related payments with respect to positions in substantially similar or related property. This disallowance applies even if the minimum holding period requirement has been met. U.S. Holders should consult their own tax advisors regarding the application of these rules to their particular circumstances.

Under the PRC tax law, if the dividends paid by us are deemed to be derived from sources within the PRC, a U.S. Holder may be subject to PRC withholding taxes on dividends paid with respect to the ADSs or common shares. See People s Republic of China Taxation. Subject to certain conditions and limitations, PRC withholding taxes on dividends, if any, may be treated as foreign taxes eligible for credit against a U.S. Holder s U.S. federal income tax liability. Dividends paid on the ADSs or common shares will be treated as income from sources outside the United States and generally will constitute passive category income for U.S. foreign tax credit limitation purposes. Furthermore, in certain circumstances, if a U.S. Holder has held the ADSs or common shares for less than a specified minimum period during which it is not protected from risk of loss, or is obligated to make payments related to the dividends, the U.S. Holder will not be allowed a foreign tax credit for any PRC withholding taxes imposed on dividends paid on the ADSs or common shares. The rules governing the foreign tax credit are complex. U.S. Holders are urged to consult their own tax advisors regarding the availability of the foreign tax credit under their particular circumstances.

To the extent that the amount of any distribution exceeds our current or accumulated earnings and profits for a taxable year, as determined under U.S. federal income tax principles, the distribution will first be treated as a tax-free return of capital, causing a reduction in the adjusted basis of the ADSs or common shares (thereby increasing the amount of gain, or decreasing the amount of loss, a U.S. Holder would recognize on a subsequent disposition of the ADSs or common shares), and the balance in excess of adjusted basis will be taxed as capital gain. However, we do not expect to provide U.S. Holders of common shares or ADSs with information regarding the amount of our current or accumulated earnings and profits, as determined under U.S. federal income tax principles. Therefore, U.S. Holders should generally expect distributions to be treated as dividends for U.S. federal income tax purposes (as discussed above).

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Distributions of ADSs or common shares that are received as part of a pro rata distribution to all of our common shareholders (including ADS holders) generally will not be subject to U.S. federal income tax. The basis of the new ADSs or common shares so received will be determined by allocating a U.S. Holder s basis in the old ADSs or common shares between the old ADSs or common shares and the new ADSs or common shares received, based on their relative fair market values on the date of distribution.

***Sale, Exchange or Other Disposition of ADSs or Common Shares***

Subject to the discussion under Passive Foreign Investment Company Rules below, upon the sale, exchange or other disposition of ADSs or common shares, a U.S. Holder generally will recognize capital gain or loss equal to the difference between the amount realized upon the sale, exchange or other disposition and the adjusted tax basis of the U.S. Holder in the ADSs or common shares. Subject to the discussion under Passive Foreign Investment Company Rules below, a U.S. Holder s adjusted tax basis in an ADS or a common share will be, in general, the price it paid for that ADS or common share. The capital gain or loss generally will be long-term capital gain or loss if, at the time of sale, exchange or other disposition, the U.S. Holder has held the ADS or common share for more than one year. Net long-term capital gains of non-corporate U.S. Holders, including individuals, are eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations. Any gain or loss that a U.S. Holder recognizes generally will be treated as gain or loss from sources within the United States for U.S. foreign tax credit limitation purposes. However, in the event that we are deemed to be a PRC resident enterprise under the PRC tax law and PRC tax is imposed on any gain from the sale, exchange or other disposition of the ADSs or common shares, a U.S. Holder eligible for the benefits of the income tax treaty between the United States and the PRC may be able to elect to treat such gain as PRC-source income. U.S. Holders are urged to consult their own tax advisors regarding the tax consequences if a foreign income tax is imposed on a disposition of ADSs or common shares, including the availability of the foreign tax credit under their particular circumstances.

***Passive Foreign Investment Company Rules***

Based on the past composition of our income and valuation of our assets, including goodwill, we believe that we were not a PFIC for our taxable year ending on December 31, 2017, although there can be no assurance in this regard. However, due to the volatility of the market price of our common shares, as represented by our ADSs, we believe there is a risk that we may become a PFIC in the future. Under the Code, the determination of whether we are a PFIC is made annually and PFIC status will depend upon the character of our income and assets and the value of our assets at such time. Accordingly, our PFIC status for any particular taxable year cannot be determined with certainty until after the close of that taxable year. In particular, our PFIC status may be determined in large part based on the market price of our common shares, as represented by our ADSs, which is likely to fluctuate (and may fluctuate considerably given that the global capital markets have been experiencing extreme volatility). Accordingly, fluctuations in the market price of our common shares, as represented by our ADSs, may result in our being a PFIC in the current or any future taxable year.

In addition, as described under Item 3. Key Information Risk Factors Risks Related to Our Corporate Structure, there exist substantial uncertainties regarding the application, interpretation and enforcement of relevant current and future PRC laws and regulations and their potential effect on our corporate structure and contractual arrangements with certain of our affiliated PRC entities. There can be no assurance that the PRC regulatory authorities will not take a view different from that of our PRC legal counsel. Further, even if the uncertainties as to PRC laws and regulations did not

exist, there are also substantial uncertainties as to the treatment of our corporate structure and ownership of these affiliated PRC entities for U.S. federal income tax purposes. If it is determined that we do not own the stock of the affiliated PRC entities, which is held through contractual arrangements, for U.S. federal income tax purposes, we may be treated as a PFIC for our taxable year ending on December 31, 2017 and any taxable year thereafter. If we are a PFIC for any taxable year during which a U.S. Holder holds our ADSs or common shares, the U.S. Holder will be subject to special tax rules discussed below.

In general, we will be a PFIC for any taxable year in which either (i) at least 75% of our gross income for the taxable year is passive income or (ii) at least 50% of the value (determined on the basis of a quarterly average) of our assets held during the taxable year is attributable to assets that produce or are held for the production of passive income. For this purpose, passive income generally includes dividends, interest, royalties and rents (other than royalties or rents derived in the active conduct of a trade or business and not derived from a related person). If we own at least 25% by value of the equity shares of another corporation, we will be treated for purposes of the PFIC tests as owning a proportionate share of the assets of the other corporation, and as receiving directly a proportionate share of the other corporation s income

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If we are a PFIC for any taxable year during which a U.S. Holder holds our ADSs or common shares, unless the U.S. Holder makes a mark-to-market election or a qualified electing fund election, as discussed below, such U.S. Holder will be subject to the following special tax rules even if we subsequently ceased to be a PFIC.

Gain realized upon the sale or disposition of ADSs or common shares and distributions made to a U.S. Holder by us during a taxable year with respect to the ADSs or common shares that are excess distributions (defined generally as the excess of the amount received with respect to the ADSs or common shares in the taxable year over 125% of the average amount received in the shorter of either the three preceding years or a U.S. Holder s holding period before the taxable year) must be allocated ratably to each day of the U.S. Holder s holding period. The amount allocated to the current taxable year or any year before we became a PFIC will be included as ordinary income in a U.S. Holder s gross income for that year. The amount allocated to other prior taxable years will be taxed as ordinary income at the highest rate in effect for the class of U.S. Holder, corporate or non-corporate, in that prior year and the tax is subject to an interest charge at the rate applicable to deficiencies in income taxes.

If we are a PFIC for any taxable year and any of our subsidiaries or affiliated entities is also a PFIC (a lower-tier PFIC ), a U.S. Holder would be treated as owning a proportionate amount (by value) of the shares of the lower-tier PFIC for purposes of the application of these rules. U.S. Holders are urged to consult their own tax advisors about the application of the PFIC rules to any of our subsidiaries or affiliated entities.

In addition, non-corporate U.S. Holders will not be eligible for reduced rates of taxation on any dividends received from us if we are a PFIC in the taxable year in which such dividends are paid or in the preceding taxable year.

In certain circumstances, instead of being subject to the rules discussed above with respect to excess distributions and realized gains, a U.S. Holder may make an election to include gain on the ADSs or common shares of a PFIC as ordinary income under a mark-to-market method, provided that the ADSs or common shares are regularly traded on a qualified exchange. Under current law, the mark-to-market election is available for ADSs or common shares that are regularly traded within the meaning of U.S. Treasury regulations on certain designated U.S. exchanges and foreign exchanges that meet trading, listing, financial disclosure and other requirements to be treated as a qualified exchange under applicable U.S. Treasury regulations. The NASDAQ Global Select Market is a qualified exchange but no assurance can be given that the ADSs will be regularly traded for the purposes of the mark-to-market election.

If a U.S. Holder makes an effective mark-to-market election, for each year that we are a PFIC, the U.S. Holder will include as ordinary income, rather than capital gain, the excess, if any, of the fair market value of the U.S. Holder s ADSs or common shares at the end of the taxable year over such U.S. Holder s adjusted basis in the ADSs or common shares, and will be permitted an ordinary loss in respect of the excess, if any, of the adjusted basis of these ADSs or common shares over their fair market value at the end of the taxable year, but only to the extent of the net amount previously included in income as a result of the mark-to-market election. A U.S. Holder s basis in the ADSs or common shares will be adjusted to reflect any such income or loss amounts. Any gain or loss on the sale of the ADSs or common shares in a year that we are a PFIC will be ordinary income or loss, except that this loss will be ordinary loss only to the extent of the previously included net mark-to-market gain. If a U.S. Holder makes a mark-to-market election, it will be effective for the taxable year for which the election is made and all subsequent taxable years unless the ADSs or common shares are no longer regularly traded on a qualified exchange or the Internal Revenue Service consents to the revocation of the election. U.S. Holders should consider carefully the impact of a mark-to-market election with respect to their common shares or ADSs given that we may have lower-tier PFICs for which a mark-to-market election may not be available.

Instead of being subject to the rules discussed above with respect to excess distributions and realized gains, a U.S. Holder of shares in a PFIC alternatively may elect to have the company treated as a qualified electing fund, provided that the company provides certain information to make such an election effective. However, this option will not be available to U.S. Holders because we do not intend to provide such information to U.S. Holders.

If a U.S. Holder owns ADSs or common shares during any year that we are a PFIC, the U.S. Holder generally must file an annual report.

A U.S. Holder should consult its own tax advisors concerning the availability and the making of a mark-to-market election and the U.S. federal income tax consequences of holding the ADSs or common shares if we are deemed to be a PFIC in any taxable year.

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***Information Reporting and Backup Withholding***

In general, unless a U.S. Holder belongs to a category of certain exempt recipients, information reporting requirements will apply to distributions on ADSs or common shares made within the United States and to the proceeds of sales of ADSs or common shares that are effected through the U.S. office of a broker or the non-U.S. office of a broker that has certain connections with the United States. Backup withholding may apply to these payments if a U.S. Holder fails to provide a correct taxpayer identification number or certification of exempt status, or fails to report in full dividend and interest income.

Backup withholding is not an additional tax and any amounts withheld under the backup withholding rules will be allowed as a refund or a credit against a U.S. Holder s U.S. federal income tax, provided the U.S. Holder furnishes the required information to the Internal Revenue Service in a timely manner.

## F. Dividends and Paying Agents

Not applicable.

## G. Statements by Experts

Not applicable.

## H. Documents on Display

We have previously filed with the SEC our registration statement on Form F-1 and prospectus under the Securities Act with respect to our ADSs.

We are subject to the periodic reporting and other informational requirements of the Exchange Act. Under the Exchange Act, we are required to file reports, including annual reports on Form 20-F, and other information with 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.

The registration statements, reports and other information so filed can be inspected and copied at the public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549. You can request copies of these documents upon payment of a duplicating fee, by writing to the SEC. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference rooms. The SEC also maintains a website at *www.sec.gov* that contains reports, proxy and information statements, and other information regarding registrants that make electronic filings with the SEC using its EDGAR system.

Each year, we furnish our shareholders with an annual report containing a review of operations and annual audited consolidated financial statements prepared in conformity with U.S. GAAP. We will post this annual report on Form 20-F on our website at *ir.51job.com*.

## I. Subsidiary Information

Not applicable.

## ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

**Interest Rate Risk**

Our exposure to interest rate risk for changes in interest rates relates primarily to the interest income generated by excess cash deposited in banks. As of December 31, 2017, we had cash, restricted cash and short-term investments totaling RMB7,132.3 million (US$1,096.2 million). Cash consists of cash on hand and in banks. Restricted cash consists of cash proceeds from the exercise of share options by our employees, executives and directors held in a bank account which have yet to be transmitted to them. Short-term investments consist of time deposits with original maturities between three months and one year, and investment products issued by financial institutions with a variable interest rate indexed to the performance of underlying assets.

We have not used any derivative financial instruments to hedge interest rate risk. We have not been exposed nor do we anticipate being exposed to material risks due to changes in interest rates, although our future interest income may fluctuate in line with changes in interest rates. The risk associated with fluctuating interest rates is principally confined to our cash deposits in banks, and, therefore, our exposure to interest rate risk is minimal.

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A hypothetical 10% increase in the average applicable interest rate for our demand deposits would result in an increase of approximately RMB11.4 million (US$1.8 million) in interest income from the assumed average cash, restricted cash and short-term investments balance in 2017.

**Credit Risk**

The carrying amounts of cash, restricted cash, short-term investments, accounts receivable and other receivables represent our principal exposure to credit risk in relation to our financial assets. As of December 31, 2017, substantially all of our cash were held in uninsured accounts located in China and Hong Kong that we believe are of acceptable credit quality.

**Foreign Exchange Risk**

Substantially all of our revenue-generating operations are transacted in the Renminbi, which is not fully convertible into foreign currencies, and a significant portion of our liabilities are denominated in Renminbi. As a result, the conversion of our revenues is subject to PRC regulatory restrictions on currency conversion and we are exposed to risks posed by fluctuations in the foreign exchange market. The value of the Renminbi against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in the PRC s political and economic conditions. In July 2005, the PRC government changed its policy of pegging the value of the Renminbi to the U.S. dollar, and the Renminbi is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. The value of the Renminbi against the U.S. dollar decreased 4.4% in 2015, decreased 7.2% in 2016 and increased 6.3% in 2017. Due to the U.S. dollar cash deposits we hold and our U.S. dollar-denominated convertible senior notes issued in 2014, we are exposed to foreign currency risks, and we recognized a loss from foreign currency translation of RMB55.9 million in 2015, a gain of RMB0.2 million in 2016 and a gain of RMB3.6 million (US$0.6 million) in 2017. It is possible that the Chinese government could adopt a more flexible currency policy in the future. As a material portion of our assets and liabilities are denominated in U.S. dollars, future revaluations of the Renminbi could result in charges to our consolidated statements of operations and comprehensive income and reductions in the value of these assets. In addition, as we rely entirely on dividends, royalty payments and other fees paid to us in Renminbi by our subsidiaries and affiliated entities in the PRC, future downward revaluations of the Renminbi may materially and adversely affect our cash flows, revenues and financial condition, and the value of, and any dividends payable on, our ADSs in foreign currency terms.

Based on the amount of our cash, restricted cash and short-term investments denominated in U.S. dollars as of December 31, 2017, a 10% change in the exchange rates between the Renminbi and the U.S. dollar would result in an increase or decrease of RMB81.6 million (US$12.5 million) in our cash, restricted cash and short-term investments. Based on the amount of convertible senior notes denominated in U.S. dollars as of December 31, 2017, a 10% change in the exchange rates between the Renminbi and the U.S. dollar would result in an increase or decrease of RMB112.2 million (US$17.3 million) in our convertible senior notes.

We have not used any forward contracts or currency borrowings to hedge our exposure to foreign currency risk. See Item 3. Key Information Risk Factors Risks Related to Doing Business in China The fluctuation of the Renminbi may materially and adversely affect your investment.

## 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.

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## D. American Depositary Shares

**Fees Paid by Our ADS Holders**

ADS holders will be charged a fee for each issuance of ADSs, including issuances resulting from distributions of shares, rights and other property, and for each surrender of ADSs in exchange for deposited securities. The fee in each case is US$5.00 for each 100 ADSs (or any portion thereof) issued or surrendered.

The following additional charges will be incurred by the ADS holders, by any party depositing or withdrawing shares or by any party surrendering ADSs or to whom ADSs are issued (including, without limitation, issuance pursuant to a stock dividend or stock split declared by us or an exchange of stock regarding the ADSs or the deposited securities or a distribution of ADRs), whichever is applicable:

- a fee of US$1.50 per ADR or ADRs for transfers of certificated or direct registration ADRs, in each case, on the books of the depositary;

- a fee of US$0.02 or less per ADS (or portion thereof) for any cash distribution made pursuant to the deposit agreement;

- a fee of US$0.02 per ADS (or portion thereof) per year to cover such expenses as are incurred by the depositary in administering our ADS program (which fee shall be assessed against holders of ADSs as of the record date set by the depositary not more than once each calendar year and is payable in the manner described in the next succeeding provision);

- any other charge payable by any of the depositary, any of the depositary s agents, including, without limitation, the custodian, or the agents of the depositary s agents in connection with the servicing of our shares or other deposited securities (which charge will be assessed against registered holders of our ADSs as of the record date or dates set by the depositary and will be payable at the sole discretion of the depositary by billing such registered holders or by deducting such charge from one or more cash dividends or other cash distributions);

- a fee for the distribution of securities, such 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 (treating all such securities as if they were shares) but which securities or the net cash proceeds from the sale thereof are instead distributed by the depositary to those holders entitled thereto;

- stock transfer or other taxes and other governmental charges;

- cable, telex and facsimile transmission and delivery charges incurred at the request of the ADS holders;

- transfer or registration fees for the registration of transfer of deposited securities on any applicable register in connection with the deposit or withdrawal of deposited securities;

- expenses of the depositary in connection with the conversion of foreign currency into U.S. dollars; and

- such fees and expenses as are incurred by the depositary (including without limitation expenses incurred in connection with compliance with foreign exchange control regulations or any law or regulation relating to foreign investment) in delivery of deposited securities or otherwise in connection with the depositary s or its custodian s compliance with applicable law, rule or regulation.

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

**Fees and Payments from the Depositary to Us**

In 2017, we received from our depositary, JPMorgan Chase Bank, N.A., a reimbursement of approximately US$309,000, net of U.S. withholding tax, for our expenses incurred in connection with the advancement of our ADR and investor relations programs, including legal fees, investor relations expenses, and other expenses related to our ongoing compliance with NASDAQ Stock Market and SEC rules and regulations.

The depositary has agreed to reimburse us for our expenses incurred in connection with our ADR and investor relations programs in the future. The amount of such reimbursements is subject to certain limits.

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**PART II**

## ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

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

Not applicable.

## ITEM 15. CONTROLS AND PROCEDURES

**Disclosure Controls and Procedures**

As required by Rule 13a-15(b) of the Exchange Act, our management, with the participation of our chief executive officer and chief financial officer, has evaluated the effectiveness of our disclosure controls and procedures, as defined in Rule 13a-15(e) of the Exchange Act, as of the end of the period covered by this annual report. Based on that evaluation, our management has concluded that, as of the end of the period covered by this annual report, our disclosure controls and procedures were effective.

**Management s Annual Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) under the Exchange Act, for our company. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with U.S. GAAP. Included in our internal control over financial reporting are policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. GAAP, and that our receipts and expenditures are being made only in accordance with authorizations from our management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on our financial statements.

Because of its inherent limitations, a system of internal control over financial reporting can provide only reasonable assurance with respect to consolidated financial statement preparation and presentation and may not prevent or detect misstatements. In addition, projections of any evaluation of effectiveness of our internal control over financial reporting 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.

As required by Section 404 of the Sarbanes-Oxley Act of 2002 and related rules as promulgated by the SEC, our management has assessed the effectiveness of our internal control over financial reporting as of December 31, 2017 based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, our management has concluded that our internal control over financial reporting was effective as of December 31, 2017.

Our independent registered public accounting firm, PricewaterhouseCoopers Zhong Tian LLP, has audited the effectiveness of our company s internal control over financial reporting as of December 31, 2017, as stated in its report, which appears on page F-2 of this Form 20-F.

**Changes in Internal Control Over Financial Reporting**

There were no significant changes in our internal control over financial reporting during the period covered by this annual report on Form 20-F 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 concluded that Messrs. David K. Chao, Li-Lan Cheng and Eric He, the three independent directors of our company, each meet the criteria of audit committee financial expert as established by the SEC. See Item 6. Directors, Senior Management and Employees Board Practices.

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## ITEM 16B. CODE OF ETHICS

Our board of directors has adopted a code of ethics that applies to our directors, officers and employees, including our principal executive officer, principal financial officer, principal accounting officer or controller and any other persons who perform similar functions for us. We have posted our code of business conduct and ethics on our website at *ir.51job.com*.

## ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table sets forth the aggregate fees by the categories specified below in connection with certain professional services rendered by PricewaterhouseCoopers Zhong Tian LLP, our principal external auditors, for the periods indicated. We did not pay any other fees to our auditors during the periods indicated below.

| | 2016 RMB | 2017 RMB | 2017 US$ |
|---|---|---|---|
| | | (in thousands) | |
| Audit fees(1) | 4,840 | 5,170 | 795 |
| Tax fees(2) | | 192 | 30 |

(1) Audit fees represent the aggregate fees for professional services rendered by our principal auditors for the audit of our annual consolidated financial statements, review of quarterly financial information, and audit services that are normally provided by the principal accountant in connection with regulatory filings.

(2) Tax fees represent the aggregate fees for professional services rendered by our principal auditors for tax compliance.

The policy of our audit committee is to pre-approve all audit and non-audit services to be provided by PricewaterhouseCoopers Zhong Tian LLP, including audit services and tax services as described above, other than those for de minimis services which are approved by the audit committee prior to the completion of the audit.

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

Not applicable.

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

In September 2008, our board of directors and shareholders approved a share repurchase program, which provided authorization to purchase up to US$25 million worth of our outstanding ADSs. Under this program, from 2008 to 2011, we purchased 2,030,658 ADSs, through open-market transactions for an aggregate consideration of approximately US$11 million, including transaction fees.

In June 2014, our board of directors and shareholders authorized an increase to the size of the share repurchase program originally approved in 2008 from US$25 million to US$75 million. In 2015, we purchased 898,950 ADSs through open-market transactions for an aggregate consideration of approximately US$24 million, including transaction fees. We did not make any repurchase of ADSs in the open market in 2016 and 2017.

In addition to the share repurchase program, we may from time to time make repurchases of our other securities, including our convertible senior notes due 2019, in open-market transactions, privately negotiated transactions or otherwise, subject to market conditions and other factors. The amounts involved may be material. We did not make any repurchase of our convertible senior notes in 2015, 2016 and 2017.

## ITEM 16F. CHANGE IN REGISTRANT S CERTIFYING ACCOUNTANT

Not applicable.

## ITEM 16G. CORPORATE GOVERNANCE

NASDAQ Stock Market Rule 5615(a)(3) permits foreign private issuers like us to follow home country practice with respect to certain corporate governance matters. We are committed to a high standard of corporate governance and we do not believe that there are any significant differences between our corporate governance practices and those of U.S. domestic companies under the NASDAQ Stock Market rules.

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**ITEM 16H. MINE SAFETY DISCLOSURE**

Not applicable.

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**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 for 51job, Inc. and its subsidiaries are included at the end of this annual report.

## ITEM 19. EXHIBITS

| Exhibit number | Description of document |
|---|---|
| 1.1 | Amended and Restated Memorandum and Articles of Association, as amended as of June 20, 2014 (incorporated by reference to Exhibit 1.1 from our Annual Report on Form 20-F for the year ended December 31, 2014 filed with the Securities and Exchange Commission on March 31, 2015) |
| 2.1 | Specimen of Share Certificate (incorporated by reference to Exhibit 4.1 from our Registration Statement on Form F-1 (File No. 333-117194) filed with the Securities and Exchange Commission on July 7, 2004) |
| 2.2 | Specimen of American Depositary Receipt (incorporated by reference to Exhibit A of the Post-Effective Amendment No. 1 to Form F-6 (File No. 333-117254) filed with the Securities and Exchange Commission with respect to American Depositary Shares representing common shares on July 18, 2014) |
| 2.3 | Form of Deposit Agreement among 51job, Inc., JPMorgan Chase Bank, N.A., as Depositary, and Holders and Beneficial Holders from time to time of American Depositary Shares evidenced by American Depositary Receipts issued thereunder, including the form of American Depositary Receipt (incorporated by reference to the Post-Effective Amendment No. 1 to Form F-6 (File No. 333-117254) filed with the Securities and Exchange Commission with respect to American Depositary Shares representing common shares on July 18, 2014) |
| 2.4 | Indenture dated as of April 9, 2014 between 51job, Inc. and The Bank of New York Mellon, constituting US$172.5 million 3.25% Convertible Senior Notes due 2019 (incorporated by reference to Exhibit 2.4 from our Amendment No. 1 to Form 20-F for the year ended December 31, 2014 filed with the Securities and Exchange Commission on April 17, 2015) |
| 4.1 | 2009 Share Option Plan (incorporated by reference to Exhibit 99.2 from our Form 6-K (File No. 000-50841) filed with the Securities and Exchange Commission on July 30, 2009) |
| 4.2 | 2015 Share Incentive Plan (incorporated by reference to Exhibit 99.3 from our Form 6-K (File No. 000-50841) filed with the Securities and Exchange Commission on November 23, 2015) |
| 4.3 | Form of Employment, Confidential Information and Invention Assignment Agreement (incorporated by reference to Exhibit 10.2 from our Registration Statement on Form F-1 (File No. 333-117194) filed with the Securities and Exchange Commission on July 7, 2004) |
| 4.4 | Form of Indemnification Agreement (incorporated by reference to Exhibit 10.3 from our Registration Statement on Form F-1 (File No. 333-117194) filed with the Securities and Exchange Commission on July 7, 2004) |
| 4.5 | Loan Agreements dated as of September 11, 2007 between Qianjin Network Information Technology (Shanghai) Co., Ltd. and the shareholders of Beijing Run An Information Consultancy Co., Ltd. (incorporated by reference to Exhibit 4.5 from |

| | |
|---|---|
| | our Annual Report on Form 20-F for the year ended December 31, 2007 filed with the Securities and Exchange Commission on June 28, 2008) |
| 4.6* | Supplementary Agreement to the Loan Agreements dated as of September 4, 2017 between Qianjin Network Information Technology (Shanghai) Co., Ltd. and the shareholders of Beijing Run An Information Consultancy Co., Ltd. |

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| Exhibit number | Description of document |
|---|---|
| 4.7 | English Translation of Technical and Consulting Service Agreement dated as of May 3, 2004, as amended as of July 2, 2004, between Beijing Qian Cheng Si Jin Advertising Co., Ltd. and Qian Cheng Wu You Network Information Technology (Beijing) Co., Ltd. (incorporated by reference to Exhibit 10.8 from our Registration Statement on Form F-1 (File No. 333-117194) filed with the Securities and Exchange Commission on July 7, 2004) |
| 4.8 | English Translation of Supplement Agreement to Technical and Consulting Service Agreement dated as of January 27, 2014 between Beijing Qian Cheng Si Jin Advertising Co., Ltd. and Qian Cheng Wu You Network Information Technology (Beijing) Co., Ltd. (incorporated by reference to Exhibit 4.8 from our Annual Report on Form 20-F for the year ended December 31, 2013 filed with the Securities and Exchange Commission on March 28, 2014) |
| 4.9 | English Translation of Technical and Consulting Service Agreement dated as of September 11, 2007 between Beijing Run An Information Consultancy Co. Ltd. and Qian Cheng Wu You Network Information Technology (Beijing) Co., Ltd. (incorporated by reference to Exhibit 4.8 from our Annual Report on Form 20-F for the year ended December 31, 2007 filed with the Securities and Exchange Commission on June 28, 2008) |
| 4.10* | English Translation of Supplementary Agreement to the Technical and Consulting Service Agreement dated as of September 4, 2017 between Beijing Run An Information Consultancy Co, Ltd. and Qian Cheng Wu You Network Information Technology (Beijing) Co., Ltd. |
| 4.11* | English Translation of Equity Pledge Agreement dated as of September 4, 2017 between Qian Cheng Wu You Network Information Technology (Beijing) Co., Ltd. and the shareholders of Beijing Run An Information Consultancy Co., Ltd. |
| 4.12* | English Translation of Share Transfer Agreement dated as of September 4, 2017 among the shareholders of Beijing Run An Information Consultancy Co., Ltd. |
| 4.13 | English Translation of Share Transfer Agreement dated as of November 12, 2007 between the shareholders of Beijing Qian Cheng Si Jin Advertising Co., Ltd. (incorporated by reference to Exhibit 4.14 from our Annual Report on Form 20-F for the year ended December 31, 2007 filed with the Securities and Exchange Commission on June 28, 2008) |
| 4.14 | English Translation of Domain Name License Agreement dated as of August 15, 2000, and as supplemented and amended as of August 15, 2010 between 51net.com Inc. and Qianjin Network Information Technology (Shanghai) Co., Ltd. (incorporated by reference to Exhibit 4.13 from our Annual Report on Form 20-F for the year ended December 31, 2011 filed with the Securities and Exchange Commission on April 12, 2012) |
| 4.15 | English Translation of Call Option Agreement dated as of August 1, 2002, as supplemented and amended as of May 3, 2004, between Beijing Qian Cheng Si Jin Advertising Co., Ltd. and 51net.com Inc. (incorporated by reference to Exhibit 10.13 from our Registration Statement on Form F-1 (File No. 333-117194) filed with the Securities and Exchange Commission on July 7, 2004) |
| 4.16 | English Translation of Supplement Agreement II to Call Option Agreement dated as of August 1, 2012, between Beijing Qian Cheng Si Jin Advertising Co., Ltd. and 51net.com Inc. (incorporated by reference to Exhibit 4.15 from our Annual Report on Form 20-F for the year ended December 31, 2012 filed with the Securities and Exchange Commission on April 12, 2013) |
| 4.17 | English Translation of Share Transfer Agreement dated as of April 26, 2009 between 51net.com Inc. and Wuhan Mei Hao Qian Cheng Advertising Co., Ltd. (incorporated by reference to Exhibit 4.20 from our Annual Report on Form 20-F for the year ended December 31, 2009 filed with the Securities and Exchange Commission on April 16, 2010) |
| 4.18 | English Translation of Share Transfer Agreement dated as of June 19, 2009 between Shanghai Qianjin Advertising Co., Ltd. and Beijing Qian Cheng Si Jin Advertising Co., Ltd. (incorporated by reference to Exhibit 4.21 from our Annual Report on Form 20-F for the year ended December 31, 2009 filed with the Securities and Exchange Commission on April 16, 2010) |
| 4.19 | English Translation of Power of Attorney issued by a shareholder of Beijing Run An Information Consultancy Co., Ltd. on January 27, 2014 (incorporated by reference to Exhibit 4.18 from our Annual Report on Form 20-F for the year ended December 31, 2013 filed with the Securities and Exchange Commission on March 28, 2014) |

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| Exhibit number | Description of document |
|---|---|
| 4.20 | English Translation of Power of Attorney issued by a shareholder of Beijing Run An Information Consultancy Co., Ltd. on January 27, 2014 (incorporated by reference to Exhibit 4.19 from our Annual Report on Form 20-F for the year ended December 31, 2013 filed with the Securities and Exchange Commission on March 28, 2014) |
| 4.21 | English Translation of Exclusive Purchase Option Agreement dated as of January 27, 2014 between Qian Cheng Wu You Network Information Technology (Beijing) Co., Ltd. and the shareholders of Beijing Run An Information Consultancy Co., Ltd. (incorporated by reference to Exhibit 4.20 from our Annual Report on Form 20-F for the year ended December 31, 2013 filed with the Securities and Exchange Commission on March 28, 2014) |
| 4.22* | English Translation of Supplementary Agreement to the Control Agreements dated as of September 4, 2017 among Qian Cheng Wu You Network Information Technology (Beijing) Co., Ltd., Beijing Run An Information Consultancy Co., Ltd. and the shareholders of Beijing Run An Information Consultancy Co., Ltd. |
| 8.1* | List of subsidiaries and affiliated entities of 51job, Inc. |
| 11.1 | Code of Business Conduct and Ethics (incorporated by reference to Exhibit 10.6 from our Registration Statement on Form F-1 (File No. 333-117194) filed with the Securities and Exchange Commission on July 7, 2004) |
| 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 Maples and Calder (Hong Kong) LLP |
| 15.2* | Consent of Jun He Law Offices |
| 15.3* | Consent of PricewaterhouseCoopers Zhong Tian LLP |
| 101.INS* | XBRL Instance Document |
| 101.SCH* | XBRL Taxonomy Extension Schema Document |
| 101.CAL* | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF* | XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB* | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE* | XBRL Taxonomy Extension Presentation Linkbase Document |

* Filed with this annual report on Form 20-F.

** Furnished with this annual report on Form 20-F.

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**SIGNATURES**

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

51job, Inc.

| | |
|---|---|
| By: | /s/ Rick Yan |
| Name: | Rick Yan |
| Title: | President and Chief Executive Officer |

Date: March 30, 2018

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**51JOB, INC.**

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**


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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

**To the Board of Directors and Shareholders of 51job, Inc.:**

***Opinions on the Financial Statements and Internal Control over Financial Reporting***

We have audited the accompanying consolidated balance sheets of 51job, Inc. and its subsidiaries as of December 31, 2017 and December 31, 2016, and the related consolidated statements of operations and comprehensive income, of changes in shareholders equity and of cash flows for each of the three years in the period ended December 31, 2017, including the related notes (collectively referred to as the consolidated financial statements ). We also have audited the Company s internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and December 31, 2016, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2017 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

***Basis for Opinions***

The Company s management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management s Annual Report on Internal Control over Financial Reporting appearing in Item 15 of this Form 20-F. Our responsibility is to express opinions on the Company s consolidated financial statements and on the Company s internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ( PCAOB ) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation

of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As described in Management s Annual Report on Internal Control over Financial Reporting appearing in Item 15 of this Form 20-F, management has excluded Lagou Information Limited from its assessment of internal control over financial reporting as of December 31, 2017 because it was acquired by the Company in a purchase business combination during 2017.

***Definition and Limitations of Internal Control over Financial Reporting***

A company s internal control over financial reporting is a process designed 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

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includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) 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 (iii) 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 its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. 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.

/s/ PricewaterhouseCoopers Zhong Tian LLP

PricewaterhouseCoopers Zhong Tian LLP

Shanghai, the People s Republic of China

March 30, 2018

We have served as the Company s auditor since 2003.

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**51JOB, INC.**

**CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME**
**FOR THE YEARS ENDED DECEMBER 31, 2015, 2016 AND 2017**

| | Note | 2015 | 2016 | 2017 | 2017 |
|---|---|---|---|---|---|
| | | RMB | RMB | RMB | US$ (Note 2(c)) |
| | | (in thousands, except share and per share data) | | | |
| Revenues: | | | | | |
| Online recruitment services | | 1,356,442 | 1,547,143 | 1,871,700 | 287,675 |
| Print advertising | | 5,328 | | | |
| Other human resource related revenues | | 740,119 | 825,552 | 1,009,515 | 155,160 |
| Total revenues | | 2,101,889 | 2,372,695 | 2,881,215 | 442,835 |
| Less: Business tax and surcharges | 2(k) | (46,669) | (34,361) | (32,623) | (5,014) |
| Net revenues | | 2,055,220 | 2,338,334 | 2,848,592 | 437,821 |
| Cost of services(1) | 2(l) | (569,979) | (663,001) | (763,440) | (117,339) |
| Gross profit | | 1,485,241 | 1,675,333 | 2,085,152 | 320,482 |
| Operating expenses(1): | | | | | |
| Sales and marketing | 2(m) | (654,468) | (783,492) | (917,784) | (141,061) |
| General and administrative | | (263,067) | (280,002) | (296,608) | (45,588) |
| Total operating expenses | | (917,535) | (1,063,494) | (1,214,392) | (186,649) |
| Income from operations | | 567,706 | 611,839 | 870,760 | 133,833 |
| Gain (Loss) from foreign currency translation | | (55,857) | 238 | 3,630 | 558 |
| Interest and investment income, net | | 93,548 | 58,933 | 77,009 | 11,836 |
| Change in fair value of convertible senior notes | 13 | 67,168 | (69,439) | (496,175) | (76,261) |
| Other income, net | 2(x) | 71,533 | 98,315 | 87,032 | 13,377 |
| Income before income tax expense | | 744,098 | 699,886 | 542,256 | 83,343 |
| Income tax expense | 10 | (126,301) | (134,699) | (169,493) | (26,051) |
| | | | | | |
| Net income | | 617,797 | 565,187 | 372,763 | 57,292 |
| Net loss (income) attributable to non-controlling interests | | 260 | 791 | (874) | (134) |
| Net income attributable to 51job, Inc. | | 618,057 | 565,978 | 371,889 | 57,158 |
| | | | | | |
| Net income | | 617,797 | 565,187 | 372,763 | 57,292 |
| Other comprehensive income: | | | | | |
| Foreign currency translation adjustments | | 890 | 984 | (6,037) | (928) |
| Unrealized gain on available-for-sale securities, net of tax effect of nil, RMB9,625 and RMB36,900 in 2015, 2016 and 2017, respectively | 16 | | 28,876 | 110,702 | 17,015 |
| Total comprehensive income | | 618,687 | 595,047 | 477,428 | 73,379 |
| Comprehensive loss (income) attributable to non-controlling interests | | 260 | 791 | (874) | (134) |
| Comprehensive income attributable to 51job, Inc. | | 618,947 | 595,838 | 476,554 | 73,245 |
| | | | | | |
| Earnings per share: | 15 | | | | |
| Basic | | 10.71 | 9.74 | 6.19 | 0.95 |
| Diluted | | 10.41 | 9.68 | 6.08 | 0.93 |

| | | | | |
|---|---|---|---|---|
| Weighted average number of common shares outstanding: | | | | |
| Basic | 57,714,850 | 58,132,976 | 60,087,306 | 60,087,306 |
| Diluted | 62,498,651 | 58,474,068 | 61,150,413 | 61,150,413 |

| | | | | |
|---|---|---|---|---|
| (1) Share-based compensation: | | | | |
| Included in cost of services | (13,770) | (14,080) | (14,029) | (2,156) |
| Included in operating expenses | | | | |
| Sales and marketing | (11,837) | (12,104) | (12,060) | (1,854) |
| General and administrative | (60,338) | (59,886) | (59,879) | (9,203) |

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

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**51JOB, INC.**

**CONSOLIDATED BALANCE SHEETS**

**AS OF DECEMBER 31, 2016 AND 2017**

| | Note | 2016 RMB | 2017 RMB | 2017 US$ (Note 2(c)) |
|---|---|---|---|---|
| | | (in thousands, except share and per share data) | | |
| **ASSETS** | | | | |
| Current assets: | | | | |
| Cash | 2(d) | 1,921,074 | 2,292,476 | 352,347 |
| Restricted cash | 2(d) | 389 | 249 | 38 |
| Short-term investments | 2(f) | 4,159,318 | 4,839,550 | 743,825 |
| Accounts receivable (net of allowance for doubtful accounts of RMB6,144 and RMB5,384 as of December 31, 2016 and 2017, respectively) | 4 | 111,246 | 186,861 | 28,720 |
| Prepayments and other current assets | 5 | 527,558 | 559,105 | 85,933 |
| Total current assets | | 6,719,585 | 7,878,241 | 1,210,863 |
| Non-current assets: | | | | |
| Long-term investments | 2(f) | 189,017 | 433,886 | 66,687 |
| Property and equipment, net | 6 | 526,541 | 497,845 | 76,517 |
| Goodwill | 7 | 217,394 | 1,021,454 | 156,995 |
| Intangible assets, net | 8 | 73,620 | 162,024 | 24,903 |
| Other long-term assets | | 8,988 | 17,370 | 2,670 |
| Deferred tax assets, non-current | 10 | 765 | 12,912 | 1,985 |
| Total non-current assets | | 1,016,325 | 2,145,491 | 329,757 |
| **Total assets** | | 7,735,910 | 10,023,732 | 1,540,620 |
| | | | | |
| **LIABILITIES, MEZZANINE EQUITY AND EQUITY** | | | | |
| Current liabilities (including amounts of the consolidated VIEs and VIEs subsidiaries without recourse to the primary beneficiaries of RMB327 and RMB62,795 as of December 31, 2016 and 2017, respectively): | 2(b) | | | |
| Accounts payable | | 32,516 | 35,532 | 5,462 |
| Salary and employee related accrual | | 103,559 | 134,966 | 20,744 |
| Taxes payable | | 155,786 | 230,734 | 35,463 |
| Advance from customers | | 655,416 | 937,981 | 144,165 |
| Convertible senior notes, current | 13 | 1,257,709 | | |
| Other payables and accruals | 9 | 498,036 | 703,441 | 108,117 |
| Total current liabilities | | 2,703,022 | 2,042,654 | 313,951 |
| Non-current liabilities (including amounts of the consolidated VIEs and VIEs subsidiaries without recourse to the primary beneficiaries of RMB9,625 and RMB49,860 as of December 31, 2016 and 2017, respectively): | | | | |
| Deferred tax liabilities, non-current | 10 | 57,166 | 121,348 | 18,651 |
| Convertible senior notes, non-current | 13 | | 1,667,967 | 256,362 |
| Total non-current liabilities | | 57,166 | 1,789,315 | 275,013 |
| Total liabilities | | 2,760,188 | 3,831,969 | 588,964 |
| Commitments and contingencies | 17 | | | |
| Mezzanine equity: | | | | |

| | | | | |
|---|---|---|---|---|
| Redeemable non-controlling interests | 18 | | 228,230 | 35,078 |
| Shareholders equity: | | | | |
| Common shares (US$0.0001 par value per share; 500,000,000 shares authorized, 60,062,385 and 61,853,004 shares issued and outstanding as of December 31, 2016 and 2017, respectively) | | 49 | 50 | 8 |
| Additional paid-in capital | | 1,299,350 | 1,809,732 | 278,151 |
| Statutory reserves | 2(q) | 13,360 | 13,874 | 2,132 |
| Accumulated other comprehensive income | | 32,282 | 136,947 | 21,048 |
| Retained earnings | | 3,622,402 | 3,993,777 | 613,832 |
| Total 51job, Inc. shareholders equity | | 4,967,443 | 5,954,380 | 915,171 |
| Non-controlling interests | | 8,279 | 9,153 | 1,407 |
| Total equity | | 4,975,722 | 5,963,533 | 916,578 |
| **Total liabilities, mezzanine equity and equity** | | 7,735,910 | 10,023,732 | 1,540,620 |

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

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**51JOB, INC.**

**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY**

**FOR THE YEARS ENDED DECEMBER 31, 2015, 2016 AND 2017**

| | Common shares | | Additional paid-in capital | Statutory reserves | Accumulated other comprehensive income | Retained earnings | Total 51job, Inc. shareholders equity | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|
| | Number of shares | Par value RMB | RMB | RMB | RMB | RMB | RMB | RMB | RMB |
| | (in thousands, except share data) | | | | | | | | |
| Balance as of December 31, 2014 | 59,004,772 | 48 | 1,040,639 | 10,785 | 1,532 | 2,440,942 | 3,493,946 | | 3,493,946 |
| Exercise of share options | 838,809 | 0 | 83,476 | | | | 83,476 | | 83,476 |
| Share-based compensation | | | 85,945 | | | | 85,945 | | 85,945 |
| Repurchase and retirement of common shares | (898,950) | (0) | (157,272) | | | | (157,272) | | (157,272) |
| Appropriation of statutory reserves | | | | 2,447 | | (2,447) | | | |
| Foreign currency translation adjustments | | | | | 890 | | 890 | | 890 |
| Net income (loss) | | | | | | 618,057 | 618,057 | (260) | 617,797 |
| Acquisition of a subsidiary | | | | | | | | 9,330 | 9,330 |
| Balance as of December 31, 2015 | 58,944,631 | 48 | 1,052,788 | 13,232 | 2,422 | 3,056,552 | 4,125,042 | 9,070 | 4,134,112 |
| Exercise of share options | 1,117,754 | 1 | 160,492 | | | | 160,493 | | 160,493 |
| Share-based compensation | | | 86,070 | | | | 86,070 | | 86,070 |
| Appropriation of statutory reserves | | | | 128 | | (128) | | | |
| Foreign currency translation adjustments | | | | | 984 | | 984 | | 984 |
| Unrealized gain on available-for-sale securities, net of tax effect of RMB9,625 | | | | | 28,876 | | 28,876 | | 28,876 |
| Net income (loss) | | | | | | 565,978 | 565,978 | (791) | 565,187 |
| Balance as of December 31, 2016 | 60,062,385 | 49 | 1,299,350 | 13,360 | 32,282 | 3,622,402 | 4,967,443 | 8,279 | 4,975,722 |
| Exercise of share options | 2,147,819 | 1 | 424,449 | | | | 424,450 | | 424,450 |
| | | | 85,968 | | | | 85,968 | | 85,968 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Share-based compensation | | | | | | | | | |
| Settlement of zero-strike call options and retirement of common shares | (357,200) | (0) | (35) | | | | (35) | | (35) |
| Appropriation of statutory reserves | | | | 514 | | (514) | | | |
| Foreign currency translation adjustments | | | | | (6,037) | | (6,037) | | (6,037) |
| Unrealized gain on available-for-sale securities, net of tax effect of RMB36,900 | | | | | 110,702 | | 110,702 | | 110,702 |
| Net income | | | | | | 371,889 | 371,889 | 874 | 372,763 |
| Balance as of December 31, 2017 | 61,853,004 | 50 | 1,809,732 | 13,874 | 136,947 | 3,993,777 | 5,954,380 | 9,153 | 5,963,533 |
| Balance as of December 31, 2017 (US$ Note 2(c)) | 61,853,004 | 8 | 278,151 | 2,132 | 21,048 | 613,832 | 915,171 | 1,407 | 916,578 |

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

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**51JOB, INC.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**FOR THE YEARS ENDED DECEMBER 31, 2015, 2016 AND 2017**

| | 2015 RMB | 2016 RMB | 2017 RMB | 2017 US$ (Note 2(c)) |
|---|---|---|---|---|
| | | (in thousands) | | |
| **Cash flows from operating activities:** | | | | |
| Net income for the year | 617,797 | 565,187 | 372,763 | 57,292 |
| Adjustments for: | | | | |
| Share-based compensation | 85,945 | 86,070 | 85,968 | 13,213 |
| Depreciation | 49,781 | 53,754 | 53,422 | 8,211 |
| Amortization of intangible assets | 6,167 | 9,022 | 10,245 | 1,574 |
| Allowance for doubtful accounts | 5,515 | 7,548 | 15,394 | 2,366 |
| Loss due to disposal of fixed assets | 109 | 122 | 690 | 106 |
| (Gain) Loss from foreign currency translation | 55,617 | 14,749 | (2,248) | (346) |
| Change in fair value of convertible senior notes | (67,168) | 69,439 | 496,175 | 76,261 |
| Deferred tax expense | 18,129 | 14,419 | 12,787 | 1,965 |
| Changes in operating assets and liabilities, net of effects of acquisition: | | | | |
| Increase in accounts receivable | (25,030) | (20,071) | (74,356) | (11,428) |
| Increase in prepayments and other current assets | (68,165) | (31,686) | (35,128) | (5,399) |
| Increase in accounts payable | 750 | 7,474 | 2,565 | 394 |
| Increase in salary and employee related accrual | 14,805 | 19,374 | 18,087 | 2,780 |
| Increase in taxes payable | 14,897 | 46,200 | 74,436 | 11,441 |
| Increase in advance from customers | 72,716 | 91,795 | 234,523 | 36,046 |
| Increase in other payables and accruals | 81,254 | 156,156 | 183,657 | 28,228 |
| Decrease (Increase) in other long-term assets | 1,331 | (2,675) | (7,277) | (1,119) |
| Net cash provided by operating activities | 864,450 | 1,086,877 | 1,441,703 | 221,585 |
| **Cash flows from investing activities:** | | | | |
| Purchase of short-term investments | (396,789) | (305,823) | (576,452) | (88,599) |
| Cash paid for long-term investments | (22,800) | (1,000) | (97,267) | (14,950) |
| Cash paid for acquisitions, net of cash acquired | (231,531) | (8,450) | (734,895) | (112,951) |
| Cash paid for available-for-sale securities | | (126,716) | | |
| Purchase of property and equipment | (86,434) | (20,328) | (23,655) | (3,636) |
| Purchase of intangible assets | (6,128) | (26,276) | (1,987) | (305) |
| Purchase of other long-term assets | | (735) | | |
| Net cash used in investing activities | (743,682) | (489,328) | (1,434,256) | (220,441) |
| | | | | |
| **Cash flows from financing activities:** | | | | |
| Repurchase and retirement of common shares | (157,272) | | | |
| Settlement of zero-strike call options and retirement of common shares | | | (35) | (5) |
| Proceeds from the exercise of share options | 83,476 | 160,493 | 424,450 | 65,237 |
| Net cash provided by (used in) financing activities | (73,796) | 160,493 | 424,415 | 65,232 |
| Effect of foreign exchange rate changes on cash | 4,284 | 37,680 | (60,460) | (9,293) |
| **Net increase in cash** | 51,256 | 795,722 | 371,402 | 57,083 |
| **Cash, beginning of year** | 1,074,096 | 1,125,352 | 1,921,074 | 295,264 |
| **Cash, end of year** | 1,125,352 | 1,921,074 | 2,292,476 | 352,347 |

| | | | | |
|---|---|---|---|---|
| **Supplemental disclosure of cash flow information:** | | | | |
| Cash paid during the years for income taxes | 113,066 | 107,239 | 121,929 | 18,740 |
| Cash paid for interest, net of amounts capitalized | 34,445 | 36,773 | 38,377 | 5,898 |
| **Supplemental disclosure of non-cash investing activities:** | | | | |
| Accrual related to purchase of property, equipment and software | (1,459) | (2,405) | (1,043) | (160) |
| Unpaid cash consideration for business combinations | (16,900) | (8,450) | (27,923) | (4,292) |
| **Supplemental disclosure of non-cash financing activities:** | | | | |
| Restricted cash and payables related to the exercise of share options, end of year | 13,059 | 389 | 249 | 38 |

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

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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(Amounts expressed in thousands of RMB and US$, except share and per share data)

## 1. ORGANIZATION AND NATURE OF OPERATIONS

The accompanying consolidated financial statements include the financial statements of 51job, Inc. (the Company ), which was incorporated in the Cayman Islands in March 2000, its subsidiaries and certain variable interest entities ( VIEs ).

The Company, its subsidiaries and VIEs are hereinafter collectively referred to as the Group. The Group is an integrated human resource services provider in the People s Republic of China (the PRC or China ) and is principally engaged in recruitment related advertising services, including Internet recruitment services and, historically, print advertising services. The Group also provides other human resource related services, such as business process outsourcing, training, campus recruitment and placement services.

## 2. PRINCIPAL ACCOUNTING POLICIES

### *(a) Basis of Presentation and Use of Estimates*

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ( U.S. GAAP ).

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the balance sheet dates and the reported amounts of revenues and expenses during the reported years. Management s significant estimates include those related to allowances for accounts receivable, allowances for prepayments and other current assets, estimated useful lives of property and equipment and intangible assets, fair values of options to purchase the Company s common shares, fair values of financial instruments, impairment of long-lived assets, long-term investments and goodwill, the purchase price allocation and fair value of non-controlling interests with respect to business combinations, and deferred tax valuation allowance. Management bases the estimates on historical experience and on various other assumptions that are believed to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results may materially differ from those estimates.

***(b)*** ***Basis of Consolidation***

The consolidated financial statements include the financial statements of the Company, its subsidiaries and the VIEs of which the Company is the primary beneficiary. All significant transactions and balances between the Company, its subsidiaries and VIEs have been eliminated upon consolidation.

A subsidiary is an entity in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to appoint or remove the majority of the members of the board of directors; to cast majority of votes at the meeting of the board of directors; or to govern the financial and operating policies of the investee under a statute or agreement among the shareholders or equity holders.

The Company has adopted Accounting Standards Codification ( ASC ) 810 Consolidation for all periods presented. It requires a VIE to be consolidated by the reporting entity that has a controlling financial interest in the VIE, and thus is the VIE s primary beneficiary. An entity is considered to be a VIE if certain conditions are present, such as if the equity investors in the entity do not have the characteristics of a controlling financial interest or the entity does not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. In determining whether the Company or its subsidiary has a controlling financial interest in a VIE, the Company considered whether the Company or its subsidiaries have the power to direct activities that most significantly impact the VIE s economic performance, including the power to appoint senior management, right to direct company strategy, power to approve capital expenditure budgets, power to establish and manage ordinary business operation procedures and internal regulations and systems, and the right to receive benefits from the VIE that could potentially be significant to the VIE or the obligation to absorb losses of the VIE that could potentially be significant to the VIE.

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## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

The Company s subsidiaries include the following:

- 51net.com Inc. ( 51net ), incorporated in the British Virgin Islands in August 1999, which is wholly owned by the Company;
- 51net Beijing, incorporated in the Cayman Islands in April 2000, which wholly owns Qian Cheng Wu You Network Information Technology (Beijing) Co., Ltd. ( WFOE ), incorporated in the PRC in July 2000, which is wholly owned by the Company;
- 51net HR, incorporated in the Cayman Islands in April 2000, which owns 70% of Shanghai Wang Ju Human Resource Consulting Co., Ltd. ( Wang Ju ), incorporated in the PRC in October 2006, which is wholly owned by the Company; and
- Lagou Information Limited ( Lagou ), incorporated in the Cayman Islands in December 2013, which was acquired and became 66% owned by the Company in December 2017.

51net s principal subsidiaries include the following:

- Qianjin Network Information Technology (Shanghai) Co., Ltd. ( Tech JV ), incorporated in the PRC in January 2000, which is 50% owned by 51net;
- Wang Jin Information Technology (Shanghai) Co., Ltd. ( Wang Jin ), incorporated in the PRC in June 2004, which is wholly owned by 51net;
- Shanghai Wang Ju Advertising Co., Ltd., incorporated in the PRC in June 2007, which is wholly owned by 51net; and

- Wuhan Wang Cai Information Technology Co., Ltd., incorporated in the PRC in December 2009, which is wholly owned by Wang Jin.

Tech JV s principal subsidiaries include the following:

- Shanghai Qianjin Advertising Co., Ltd. ( AdCo ), incorporated in the PRC in June 2001, which is 80% owned by Tech JV;

- Shanghai Wang Cai Advertising Co., Ltd., incorporated in the PRC in April 2005, which is jointly owned by Tech JV and AdCo;

- Shanghai Qianjin Zhong Cheng Human Resources Co., Ltd., incorporated in the PRC in December 2010; which is wholly owned by Tech JV;

- Shanghai Yishu Information Technology Co., Ltd., incorporated in the PRC in May 2007; which was acquired and became wholly owned by Tech JV in April 2015;

- Beijing Zhiding Youyuan Management Consulting Co., Ltd., incorporated in the PRC in September 2010, which was acquired and became 60% owned by Tech JV in June 2015; and

- Shanghai Pinyi Information Technology Co., Ltd., incorporated in the PRC in November 2010; which was acquired and became wholly owned by Tech JV in April 2015.

The Group s VIEs include the following:

- Beijing Run An Information Consultancy Co., Ltd. ( Run An ), incorporated in the PRC in January 1997, which wholly owns Beijing Qian Cheng Si Jin Advertising Co., Ltd. ( Qian Cheng ), owns 30% of Wang Ju, and owns 60% of Beijing Lagou Network Information Technology Co, Ltd., incorporated in the PRC in March 2013 and acquired by Run An in December 2017; and

- Qian Cheng, incorporated in the PRC in February 1999, which owns 20% of AdCo and effectively owns 50% of Tech JV by direct and indirect ownership through Qian Cheng s wholly owned subsidiary Wuhan Mei Hao Qian Cheng Advertising Co., Ltd. ( Wuhan AdCo ), incorporated in the PRC in August 2001.

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## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

As of December 31, 2017 and for all years presented, the Company is the primary beneficiary of two VIEs, Run An and Qian Cheng, which were in existence prior to the establishment of the Company and are considered predecessors of the Group. The Company does not have any direct equity ownership in the VIEs and VIEs subsidiaries, but through certain arrangements as described below, the Company receives all of the economic benefits, absorbs all of the expected losses and has the power to direct activities that are significant to the VIEs. In addition, through a call option agreement between 51net and Qian Cheng, 51net is able to purchase the equity interests in Tech JV that are held by Qian Cheng and Wuhan AdCo as well as the equity interests in AdCo and its subsidiaries that are held by Qian Cheng. As a result, Run An, Qian Cheng and all of Tech JV and AdCo are included in the consolidated financial statements, and the Company effectively holds all of the equity interests in its subsidiaries including the VIEs.

Run An holds a human resource service permit issued by the Beijing human resources and social security bureau which allows it to provide recruitment, training and human resource consulting services. Run An is jointly owned by two long-time members of the Company s senior management team, Jingwu Chen, who replaced a previous nominee shareholder in 2017, and Tao Wang. As of December 31, 2017, the registered capital of Run An was RMB6,000 and its accumulated loss was RMB3,920.

Qian Cheng holds an advertisement license. Qian Cheng is wholly owned by Run An. As of December 31, 2017, the registered capital of Qian Cheng was RMB1,500 and its retained earnings were RMB5,589.

As the consolidated VIEs are incorporated as limited liability companies under the PRC Company Law, creditors of the VIEs do not have recourse to the general credit of the Company. Currently, there is no contractual arrangement that could require the Company to provide additional financial support to the consolidated VIEs, but the Company may provide such support on a discretionary basis in the future, which could expose the Company to loss.

The Group has entered into various agreements as related to its VIEs. The key provisions of the agreements with the Company or its subsidiaries and the VIEs or its shareholders are as follows:

*Technical and Consulting Service Agreements.* WFOE has entered into technical and consulting service agreements with Run An and Qian Cheng, respectively, under which WFOE has the exclusive right, subject to certain exceptions, to provide technical services to Run An and Qian Cheng for service fees. WFOE did not issue any invoices to either Run An or Qian Cheng, and neither Run An nor Qian Cheng paid any fees to WFOE for the years ended December 31, 2015, 2016 and 2017. The technical and consulting service agreements with WFOE are valid to September 11, 2027 under the Run An agreement and valid to May 2, 2034 under the Qian Cheng agreement, and can only be terminated by WFOE during the term. Such term is renewable upon written consent of the parties. Although the renewal is upon mutual consent, WFOE may, through its power of attorney, direct Run An and, through Run An, cause Qian Cheng to renew the technical and consulting service agreements upon expiration.

*Equity Pledge Agreement.* As security for the obligations of Run An under the technical and consulting service agreement and the obligations of Run An and its shareholders under the exclusive purchase option agreement described below, the shareholders of Run An have pledged all of their equity interest in Run An to WFOE. According to the pledge agreement, WFOE has the right to dispose of the pledged equity pursuant to PRC law in the event of default by Run An or its shareholders as provided in the pledge agreement. Additionally, the shareholders of Run An have agreed that they will not dispose of the pledged equity or take any actions that will prejudice WFOE s interest under the equity pledge agreement. The equity pledge agreement among WFOE, Run An and its shareholders was entered into on September 4, 2017 and shall expire two years after the fulfillment of all obligations under the Run An technical and consulting service agreement and the exclusive purchase option agreement. This pledge agreement, in combination with the exclusive purchase option agreement, contains content that is substantially the same as the pledge agreements entered into between WFOE and Run An s shareholders in September 2007 and January 2014, and between WFOE and Qian Cheng s shareholders in May 2004. The pledge of the equity interest by the shareholders of Run An to WFOE has been registered with the relevant bureau of the PRC State Administration for Industry and Commerce.

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## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

*Exclusive Purchase Option Agreement.* WFOE has entered into an exclusive purchase option agreement with the shareholders of Run An, dated as of January 27, 2014, and supplemented and amended as of September 4, 2017, under which WFOE or its designee is granted an irrevocable option to purchase all or a portion of the equity interests in Run An at any time by issuing a written notice to the shareholders, subject to compliance with applicable PRC laws and regulations. The purchase price shall be equal to the contribution actually made by the shareholder for his equity interest in Run An. If the lowest price permitted under PRC law is above the contribution actually made by the shareholder, the premium shall be paid to Tech JV in accordance with the terms of the loan agreements described below. The exclusive purchase option agreement has the same term as the Run An technical and consulting service agreement. WFOE also has the exclusive right to terminate the agreement at any time by delivering a written notice to the shareholders of Run An.

*Powers of Attorney.* In conjunction with the signing of the equity pledge agreement and the exclusive purchase option agreement, each of the shareholders of Run An has signed an irrevocable power of attorney to appoint WFOE, as attorney-in-fact to vote, by itself or any other person to be designated at its discretion, on all matters of Run An that need to be decided by its shareholders. Because Qian Cheng is a wholly owned subsidiary of Run An and Wuhan AdCo is a wholly owned subsidiary of Qian Cheng, through controlling all material matters of Run An (including but not limited to all material operational matters and the appointment and removal of directors and senior management), WFOE also has indirect control on all material matters of Qian Cheng and Wuhan AdCo. Each power of attorney was entered into on January 27, 2014, and supplemented and amended as of September 4, 2017, and will remain effective for as long as Run An exists. The shareholders of Run An are not entitled to terminate or amend the terms of the power of attorney without prior written consent from WFOE.

*Loan Agreements.* Tech JV has entered into loan agreements dated as of September 11, 2007, and supplemented and amended as of September 4, 2017, for an aggregate amount of RMB6,000 with the shareholders of Run An, with the sole and exclusive purpose to fund the capitalization of Run An. The loans can be repaid only with the proceeds received from the transfer of the shareholders equity interest in Run An to Tech JV or its designee. The interest-free loan agreements are valid to September 11, 2027, and the term may be extended upon written consent of the parties.

*Call Option Agreement.* 51net has entered into a call option agreement with Qian Cheng dated as of August 1, 2002, and supplemented and amended as of May 3, 2004 and August 1, 2012, under which 51net or its designee is granted an irrevocable option to purchase all of Qian Cheng s equity interest in Tech JV and AdCo for RMB1,200 or, if such purchase price is not permissible under the applicable PRC laws, the lowest price permitted under then applicable PRC laws. In addition, Qian Cheng granted 51net an irrevocable option to purchase any and all of its equity interests in the subsidiaries of AdCo at the lowest price permitted under PRC laws. The call option agreement is valid to July 31, 2022, and the term may be extended upon written consent of the parties.

Management monitors the regulatory risk associated with these contractual arrangements. The Company s PRC legal counsel has advised management that these contractual arrangements are not in violation of existing PRC laws, rules and regulations in all material aspects. Based on such advice and management s knowledge and experience, the Company believes that its contractual arrangements with its consolidated VIEs and their shareholders are valid, legally binding and in compliance with current PRC laws. However, there are substantial uncertainties regarding the interpretation and application of current or future PRC laws, rules and regulations that could limit the Company s ability to enforce these contractual arrangements. Management monitors the regulatory risk associated with these contractual arrangements. See Note 19 for further discussion.

Summary financial information of the Group s VIEs and VIEs subsidiaries included in the consolidated financial statements is as follows:

| | As of December 31, | |
|---|---|---|
| | **2016 RMB** | **2017 RMB** |
| Total assets | 195,289 | 268,484 |
| Total liabilities | 9,952 | 112,655 |

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## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

| | For the year ended December 31, | | |
|---|---|---|---|
| | 2015 RMB | 2016 RMB | 2017 RMB |
| Total revenues | 592 | | |
| Net loss | (1,167) | (2,300) | (4,088) |

| | For the year ended December 31, | | |
|---|---|---|---|
| | 2015 RMB | 2016 RMB | 2017 RMB |
| Net cash provided by (used in) operating activities | (568) | 1,257 | (7,131) |
| Net cash provided by (used in) investing activities | | (126,716) | 4,152 |
| Net cash provided by financing activities | | 126,745 | 3,334 |
| Net increase (decrease) in cash | (568) | 1,286 | 355 |
| Cash, beginning of year | 6,809 | 6,241 | 7,527 |
| Cash, end of year | 6,241 | 7,527 | 7,882 |

### *(c) Foreign Currencies*

The Group s functional and reporting currency is the Renminbi ( RMB ). Transactions denominated in currencies other than RMB are translated into RMB at the exchange rates quoted by the People s Bank of China prevailing at the dates of the transactions. Gains and losses resulting from foreign currency transactions are included in the consolidated statements of operations and comprehensive income. Monetary assets and liabilities denominated in foreign currencies are translated into RMB using the applicable exchange rates quoted by the People s Bank of China at the balance sheet dates. All such exchange gains and losses are included in the consolidated statements of operations and comprehensive income. The exchange differences for translation of group companies balances where RMB is not their functional currency are included in cumulative translation adjustments, which is a separate component of shareholders equity in the consolidated financial statements.

The unaudited United States dollar ( US$ ) amounts disclosed in the accompanying financial statements are presented solely for the convenience of the readers. Translations of amounts from RMB into US$ for the convenience of the reader were calculated at the rate of US$1.00 = RMB6.5063 on December 29, 2017, representing the noon buying rate in The City of New York for cable transfers of RMB as certified for customs purposes by the Federal Reserve Bank of New York. No representation is made that the RMB amounts could have been, or could be, converted into US$ at that rate on December 29, 2017, or at any other rate.

***(d) Cash and Restricted Cash***

Cash represents cash on hand and demand deposits placed with banks or other financial institutions. Restricted cash represents cash proceeds from the exercise of share options by the Company s employees, executives and directors held in a bank account which have yet to be transmitted to them. Included in the cash and restricted cash balances as of December 31, 2016 and 2017 are amounts denominated in United States dollars totaling US$193,254 and US$125,450, respectively (equivalent to approximately RMB1,340,603 and RMB819,715, based on the RMB to US$ exchange rate quoted by the People s Bank of China on December 30, 2016 and December 29, 2017, respectively). The Group receives substantially all of its revenues in RMB, which currently is neither a freely convertible currency nor can it be freely remitted out of China.

***(e) Accounts Receivable***

Accounts receivable is presented net of allowance for doubtful accounts. The Company provides general and specific provisions for bad debts when facts and circumstances indicate that the receivable is unlikely to be collected. If the financial condition of its customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

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## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

### *(f) Investments*

The Group s short-term investments consist of time deposits with original maturities between three months and one year with banks in the PRC and Hong Kong, and investment products issued by financial institutions in the PRC with a variable interest rate indexed to the performance of underlying assets.

The Group s long-term investments consist of cost method and available-for-sale investments.

*Cost Method Investments*

For investees over which the Group does not have significant influence and a controlling interest, the Group accounts for these investments under the cost method. The Group reviews its cost method investments for other-than-temporary impairment by considering available quantitative and qualitative factors, such as current market conditions and the operating performance of the investees. No other-than-temporary impairment charge was incurred in the years ended December 31, 2015, 2016 and 2017.

The Group s cost method long-term investments consist of a number of small, non-controlling equity investments in companies that provide services related to the Group s operations or the overall human resources industry. In the year ended December 31, 2016, the Group made long-term investments totaling RMB1,000 for a 5% equity interest in each of 10 companies that provide business process outsourcing services in China. In the year ended December 31, 2017, the Group made long-term investments including RMB96,967 for a 9.5% equity interest in a mobile-based platform focused on short-term, on-demand work opportunities in the United States and a total of RMB300 for a 5% equity interest in each of three companies that provide business process outsourcing services in China.

*Available-for-Sale Investments*

Available-for-sale investments are carried at their fair value at each balance sheet date and changes in fair value are reflected in the consolidated statements of operations and comprehensive income.

In September 2016, the Group completed an investment of RMB126,716 for a 15% equity interest in Shanghai Gaodun Education & Training Co., Ltd. ( Golden Finance ), a provider of online and offline accounting and finance training courses in China. The Group s shares in Golden Finance have liquidation preference, and the Group has a right to demand redemption of its investment. Accordingly, due to the redemption option available to the Group, the Golden Finance investment was determined to be a debt, which was classified as available-for-sale security measured at fair value. Unrealized gain net of tax of RMB28,876 and RMB110,702 associated with the Golden Finance investment was included in other comprehensive income in the years ended December 31, 2016 and 2017, respectively.

***(g) Property and Equipment***

Property and equipment are stated at cost less accumulated depreciation. Depreciation is calculated on a straight-line basis to allocate the cost of the assets to their estimated residual value over the following estimated useful lives:

| | **Estimated useful lives** |
|---|---|
| Land use rights | 32.42 to 50 years |
| Building | 20 years |
| Leasehold improvements | Lesser of the lease period or the estimated useful life |
| Electronic equipment | 3 to 5 years |
| Furniture and fixtures | 5 years |
| Motor vehicles | 5 years |
| Other assets | 5 years |

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## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

### *(h) Business Combinations*

U.S. GAAP requires that all business combinations not involving entities or businesses under common control be accounted for under the purchase method. The Group has adopted ASC 805 Business Combinations, and the cost of an acquisition is measured as the aggregate of the fair values at the date of exchange of the assets given, liabilities incurred and equity instruments issued. The transaction costs directly attributable to the acquisition are expensed as incurred. Identifiable assets, liabilities and contingent liabilities acquired or assumed are measured separately at their fair value as of the acquisition date, irrespective of the extent of any non-controlling interests. The excess of the (i) the total of cost of acquisition, fair value of the non-controlling interests and acquisition date fair value of any previously held equity interest in the acquiree over (ii) the fair value of the identifiable net assets of the acquiree is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the consolidated statements of operations and comprehensive income.

The determination and allocation of fair values to the identifiable assets acquired and liabilities assumed is based on various assumptions and valuation methodologies requiring considerable management judgment. The most significant variables in these valuations are discount rates, the number of years on which to base the cash flow projections, as well as the assumptions and estimates used to forecast the future cash inflows and outflows. Management determines discount rates to be used based on the risk inherent in the related activity s current business model and industry comparisons. Although management believes that the assumptions applied in the determination are reasonable based on information available at the date of acquisition, actual results may differ from the forecasted amounts and the difference could be material.

A non-controlling interest is recognized to reflect the portion of a subsidiary s equity which is not attributable, directly or indirectly, to the Company. When the non-controlling interest is contingently redeemable upon the occurrence of a conditional event, which is not solely within the control of the Company, the non-controlling interest is classified as mezzanine equity. Consolidated net income on the consolidated statements of operations and comprehensive income includes the net income (loss) attributable to non-controlling interests and mezzanine equity holders when applicable. Net income (loss) attributable to mezzanine equity holders is included in net income (loss) attributable to non-controlling interests on the consolidated statements of operations and comprehensive income, while it is excluded from the consolidated statements of changes in shareholders equity. For the year ended December 31, 2017, there was no net income or loss attributable to mezzanine equity holders. The cumulative results of operations attributable to non-controlling interests are also recorded as non-controlling interests in the Company s consolidated balance sheets. Cash flows related to transactions with non-controlling interests are presented under financing activities in the consolidated statements of cash flows when applicable.

***(i) Goodwill and Intangible Assets***

*Goodwill*

Goodwill represents the excess of the total cost of the acquisition, the fair value of any non-controlling interests and the acquisition date fair value of any previously held equity interest in the acquiree over the fair value of the identifiable tangible and intangible assets acquired and liabilities assumed of the acquired entity as a result of the Company s acquisitions of interests in its subsidiaries and VIEs. Goodwill is not amortized but is tested for impairment on an annual basis, or more frequently if events or changes in circumstances indicate that it might be impaired. The Company first assesses qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. In the qualitative assessment, the Company considers primary factors such as industry and market considerations, overall financial performance of the reporting unit and other specific information related to the operations. Based on the qualitative assessment, if it is more likely than not that the fair value of each reporting unit is less than the carrying amount, the quantitative impairment test is performed.

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## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

In performing the two-step quantitative impairment test, the first step compares the fair values of each reporting unit to its carrying amount, including goodwill. If the fair value of each reporting unit exceeds its carrying amount, goodwill is not considered to be impaired and the second step will not be required. If the carrying amount of a reporting unit exceeds its fair value, the second step compares the implied fair value of goodwill to the carrying value of a reporting unit s goodwill. The implied fair value of goodwill is determined in a manner similar to accounting for a business combination with the allocation of the assessed fair value determined in the first step to the assets and liabilities of the reporting unit. The excess of the fair value of the reporting unit over the amounts assigned to the assets and liabilities is the implied fair value of goodwill. This allocation process is only performed for the purposes of evaluating goodwill impairment and does not result in an entry to adjust the value of any assets or liabilities.

Application of a goodwill impairment test requires significant management judgment, including the identification of reporting units, assigning assets, liabilities and goodwill to reporting units, and determining the fair value of each reporting unit. The Company estimates the fair value of the reporting unit using a discounted cash flow model. This valuation approach considers various assumptions including projections of future cash flows, perpetual growth rates and discount rates. The assumptions about future cash flows and growth rates are based on management s assessment of a number of factors, including the reporting unit s recent performance against budget, performance in the market that the reporting unit serves, as well as industry and general economic data from third party sources. Discount rate assumptions reflect an assessment of the risk inherent in those future cash flows. Changes to the underlying businesses could affect the future cash flows, which in turn could affect the fair value of the reporting unit. Management performs its annual goodwill impairment test on December 31. No impairment of goodwill was recognized in the years ended December 31, 2015, 2016 and 2017.

*Intangible Assets*

Intangible assets purchased and intangible assets arising from acquisitions of subsidiaries are recognized and measured at fair value upon acquisition. The Company s purchased intangible assets include computer software, acquired technology and licenses, which are amortized on a straight-line basis over their estimated useful lives, ranging from 3 to 10 years. Separately identifiable intangible assets arising from acquisitions consist of trade names, technology and customer relationships, which are amortized on a straight-line basis over their estimated useful lives of 5 to 20 years. The estimated life of intangible assets subject to amortization is reassessed if circumstances occur that indicate the life has changed. Intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. No impairment of intangible assets was recognized in the years ended December 31, 2015, 2016 and 2017.

***(j) Impairment of Long-Lived Assets Other Than Goodwill***

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that carrying amount of an asset group may not be recoverable. The recoverability of an asset group is based on the undiscounted future cash flows the asset group is expected to generate and recognize an impairment loss when the estimated undiscounted future cash flows expected to result from the use of the asset group plus net proceeds expected from the disposition of the asset group, if any, are less than the carrying value of the asset group. If the Group identifies an impairment, the Group reduces the carrying amount of the asset group to its estimated fair value based on a discounted cash flow approach or, when available and appropriate, to comparable market values. No impairment of long-lived assets was recognized in the years ended December 31, 2015, 2016 and 2017.

***(k) Revenue Recognition***

*Online Recruitment Services Revenues*

The Group provides online recruitment advertising and other technical services through several websites, including *www.51job.com*, *www.yingjiesheng.com* and *www.51jingying.com*. The average display period of online recruitment services normally ranges from one week to one year. Fees for its online recruitment advertisement and other technical services are recognized as revenue ratably over the display period of the contract or when services are provided, collectibility is reasonably assured, and other criteria in accordance with ASC 605 Revenue Recognition ( ASC 605 ) are met. For a transaction involving multiple services, the Company recognizes revenue at relative fair value which is determined based on the Company s regular selling prices charged in unbundled arrangements. Cash received in advance of services are recognized as advance from customers.

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## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

*Print Advertising Revenues*

The Group provided recruitment advertising services through a weekly newspaper in the PRC. Arrangements for recruitment advertisement on the weekly newspaper were generally short-term in nature. Fees for these types of print recruitment advertising services were recognized as revenue when collectibility was reasonably assured, upon the publication of the advertisements and when other criteria in accordance with ASC 605 were met. Cash received in advance of services were recognized as advance from customers. As of December 31, 2015, the Group had ceased all print advertising operations.

*Other Human Resource Related Revenues*

The Group also provides other value-added human resource services, such as business process outsourcing, training, campus recruitment, placement and other services. Revenue is recognized when (i) persuasive evidence of an agreement exists; (ii) services are rendered; (iii) the sales price and terms are fixed or determinable; and (iv) the collection of the receivable is reasonably assured, as prescribed by ASC 605.

*Value-Added Tax, Business Tax and Surcharges*

Effective January 1, 2012, the PRC State Council instituted a business tax to value-added tax ( VAT ) transformational pilot program in Shanghai. Under this program, industries subject to business tax were transitioned to VAT payers. As of May 1, 2016, the VAT program was expanded to cover all industries in the PRC, the VAT chain for all industries was completed, and the Company ceased paying business tax in the PRC.

Generally, the main businesses of the Group s PRC subsidiaries and VIEs are subject to VAT rates of 5% or 6%, and are permitted to offset input VAT supported by valid VAT invoices received from vendors against their VAT liability. VAT on the invoiced amount collected by the PRC subsidiaries and VIEs on behalf of tax authorities in respect of services provided, net of VAT paid for purchases, is recorded as taxes payable until it is paid to the tax authorities.

The Group s PRC subsidiaries and VIEs are also subject to certain government surcharges on the VAT payable in the PRC. In the consolidated statements of operations and comprehensive income, these surcharges are included under the account of business tax and surcharges, which is deducted from gross revenues to arrive at net revenues.

### *(l) Cost of Services*

Cost of services consist primarily of payroll compensation and related employee costs, subcontracting fees and other expenses incurred by the Group which are directly attributable to the rendering of the Group s recruitment advertising and other human resource services.

### *(m) Sales and Marketing Expenses*

Sales and marketing expenses consist primarily of the Group s sales and marketing personnel payroll compensation and related employee costs and advertising and promotion expenses. Advertising and promotion expenses generally represent the cost of promotions to create or stimulate a positive image of the Group or a desire for the Group s services. Advertising and promotion expenses are charged to the consolidated statements of operations and comprehensive income when incurred and totaled RMB123,745, RMB126,205 and RMB130,355 for the years ended December 31, 2015, 2016 and 2017, respectively.

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## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

### *(n) Share-Based Compensation*

The Company accounts for share-based compensation arrangements with employees in accordance with ASC 718 Compensation Stock Compensation. It requires the Company to measure at the grant date the fair value of the stock-based award and recognize compensation costs, net of estimated forfeitures, on a straight-line basis, over the requisite service period. The Company uses the Black-Scholes option pricing model to determine the fair value of stock options. Risk-free interest rates are based on U.S. Treasury yield for the terms consistent with the expected life of award at the time of grant. Expected life takes into account vesting and contractual terms, employee demographics and historical exercise behavior, which the Company believes are useful reference points. The assumption for expected dividend yield is consistent with the Company s current policy of no dividend payout. The Company estimates expected volatility at the date of grant based on historical volatilities of the market price of its American depositary shares ( ADSs ). Forfeiture rate is estimated based on historical forfeiture patterns and adjusted to reflect future change in circumstances and facts, if any. If actual forfeitures differ from those estimates, the Company may need to revise those estimates used in subsequent periods. The weighted average fair value per stock option on grant date is RMB68.90, RMB66.87 and RMB101.63 for the years ended December 31, 2015, 2016 and 2017, respectively.

For the years ended December 31, 2015, 2016 and 2017, the fair value of options granted was estimated with the following assumptions:

| | 2015 | 2016 | 2017 |
|---|---|---|---|
| Risk-free interest rate | 1.14%-1.49% | 1.00%-1.70% | 1.61% |
| Expected life (years) | 4 | 4 | 4 |
| Expected dividend yield | 0% | 0% | 0% |
| Volatility | 38%-42% | 33%-34% | 32% |
| Weighted average fair value per common share on date of option grant | US$31.40 | US$34.27 | US$56.68 |

***(o) Operating Leases***

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases, net of any incentives received by the Group from the leasing company, are charged to the consolidated statements of operations and comprehensive income on a straight-line basis over the lease periods.

***(p) Taxation***

The Company accounts for income taxes using the liability method. Under this method, deferred income taxes are recognized for the differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities by applying enacted statutory rates applicable to future years in which the differences are expected to reverse. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is provided to reduce the amount of deferred tax assets if it is considered more likely than not that some portion of, or all of, the deferred tax assets will not be realized.

The Company accounts for uncertainties in accordance with ASC 740-10-25 Income Taxes Overall Recognition. The Company recognizes a tax benefit associated with an uncertain tax position when, in management s judgment, it is more likely than not that the position will be sustained upon examination by a taxing authority. The Company has elected to classify interest and penalties related to an uncertain tax position, if any and when required, as general and administrative expenses. In the years ended December 31, 2015, 2016 and 2017, the Company did not record any interest and penalties associated with uncertain tax positions as there were no uncertain tax positions.

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## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

### *(q) Statutory Reserves*

With the exception of Tech JV which is 50% owned by 51net, a British Virgin Islands company, and Wang Ju which is majority owned by 51net HR, a Cayman Islands company, the Group s subsidiaries and VIEs incorporated in the PRC are required on an annual basis to allocate at least 10% of their after-tax profit, after the recovery of accumulated deficit to the statutory common reserve. The amount of allocation is calculated based on an entity s after-tax profit shown in its statutory financial statements which are prepared in accordance with PRC accounting standards and regulations until the reserve has reached 50% of the registered capital of each company. Once the total statutory common reserve fund reaches 50% of the registered capital of the respective companies, further appropriations are discretionary. The statutory common reserve fund is not distributable to shareholders except in the event of liquidation. Since 2008, the statutory common reserve fund for more than half of the Group s subsidiaries and VIEs incorporated in the PRC had reached 50% of the registered capital of the respective companies. As a result, no appropriations were made by these entities to their respective statutory reserve funds in the years ended December 31, 2015, 2016 and 2017. With the exception of a few entities, all remaining subsidiaries whose total statutory common reserve fund had not reached 50% of its respective registered capital had accumulative losses as of December 31, 2015, 2016 and 2017. As a result, these entities did not make appropriations to their statutory reserve funds in the years ended December 31, 2015, 2016 and 2017. During the years ended December 31, 2015, 2016 and 2017, the Group s subsidiaries made total appropriations to their statutory common reserve fund in the amount of RMB2,447, RMB128 and RMB514, respectively.

In addition, the Group s subsidiaries and VIEs incorporated in the PRC may, at the discretion of its board of directors, on an annual basis set aside the statutory common welfare fund, which can be used for staff welfare of the Group. No appropriations to the statutory common welfare fund were made for the years ended December 31, 2015, 2016 and 2017.

Appropriations to the statutory common reserve fund and the statutory common welfare fund are accounted for as a transfer from retained earnings to the statutory reserves.

There are no legal requirements in the PRC to fund these reserves by transfer of cash to any restricted accounts, and the Group does not do so. These reserves are not distributable as cash dividends.

### *(r) Dividend*

Dividends are recognized when declared. PRC regulations currently permit payment of dividends only out of accumulated profits as determined in accordance with PRC accounting standards and regulations. Additionally, the Group s PRC subsidiaries and VIEs can only distribute dividends after they have met the PRC requirements for appropriation to statutory reserves. See Note 2(q). In addition, the net assets of the Group s subsidiaries and VIEs associated with their paid-in capital are not distributable in the form of dividends. Aggregate net assets of the Group s PRC subsidiaries and VIEs not distributable in the form of dividends to the parent as a result of the aforesaid PRC regulations and related to the paid-in capital and statutory reserves were approximately RMB522,078 and RMB522,592, or 10.5% and 8.4% of total consolidated net assets as of December 31, 2016 and 2017, respectively. However, the PRC subsidiaries may transfer such net assets to the Company by other means, including through royalty and trademark license agreements or certain other contractual agreements, at the discretion of the Company without third party consent.

### *(s) Earnings Per Share*

In accordance with ASC 260 Earnings Per Share, basic earnings per share is computed by dividing net income attributable to common shareholders by the weighted average number of common shares outstanding during the year. Diluted earnings per share is calculated by dividing net income attributable to common shareholders, as adjusted for the change in income resulting from the assumed conversion of securities or other contracts (i.e., zero-strike call option contracts) to common shares, by the weighted average number of common and dilutive common equivalent shares outstanding during the period. Common equivalent shares consist of the common shares issuable upon the conversion of the convertible senior notes (using the if-converted method) and common shares issuable upon the exercise of outstanding share options (using the treasury stock method).

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## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

The common shares underlying the zero-strike call option contracts are excluded from both the basic and diluted earnings per share calculation as they are considered as deemed repurchased for the purpose of calculating both basic and diluted earnings per share. See Note 13.

### *(t) Fair Value Measurement of Financial Instruments*

Fair value reflects the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participates at the measurement date in accordance with ASC 820 Fair Value Measurements and Disclosures ( ASC 820 ). 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 considers assumptions that market participants would use when pricing the asset or liability. ASC 820 clarifies the definition of fair value, prescribes methods for measuring fair value, establishes a fair value hierarchy based on the inputs used to measure fair value and expands disclosures about fair value measurements.

ASC 820 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

*Level 1* Observable inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities

*Level 2* Include other inputs that are directly or indirectly observable in the marketplace

*Level 3* Unobservable inputs which are supported by little or no market activity

ASC 820 describes three main approaches to measuring the fair value of assets and liabilities: (i) market approach; (ii) income approach; and (iii) cost approach. The market approach uses prices and other relevant information generated from market transactions involving identical or comparable assets or liabilities. The income approach uses valuation techniques to convert future amounts to a single present value amount. The measurement is based on the value indicated by current market expectations about those future amounts. The cost approach is based on the amount that would currently be required to replace an asset.

Financial instruments of the Group are primarily comprised of cash, restricted cash, short-term investments, available-for-sale investments, receivables, payables, convertible senior notes and zero-strike call options.

As of December 31, 2016 and 2017, the carrying values of cash, restricted cash, accounts receivable and payables approximated their estimated fair values due to the short-term maturities of these instruments. Short-term investments in time deposits are categorized as Level 1 under the fair value hierarchy and the carrying values approximated their estimated fair values because such deposits bear market interest rates. Short-term investments in investment products are categorized as Level 2 under the fair value hierarchy and their fair values are based on quoted prices or other observable inputs in active markets.

The Group reports available-for-sale investments at fair value at each balance sheet date and changes in fair value are reflected in the consolidated statements of operations and comprehensive income. Fair value of the available-for-sale investments is measured using Level 3 inputs within the fair value hierarchy. In determining the fair value, the Group utilizes an income approach of a discounted cash flow model, which includes unobservable inputs such as future cash flows, growth rates and discount rates. These assumptions are inherently uncertain and subjective, and changes in any unobservable inputs may have a significant impact on the fair value. See Note 16 for the change in fair value of available-for-sale investments.

In accordance with ASC 820, the Company measures the convertible senior notes at fair value on a recurring basis. The Company reports the convertible senior notes at fair value at each balance sheet date and changes in fair value are reflected in the consolidated statements of operations and comprehensive income. Fair value of the convertible senior notes is measured using Level 1 inputs within the fair value hierarchy as they are based on quoted market prices that are currently available on a dealer market. See Note 13.

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## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Fair value of the zero-strike call options is measured using Level 2 inputs within the fair value hierarchy as they are based on market prices of the Company s publicly traded ADSs underlying the options. A change in fair value of the zero-strike call options was recognized in the year ended December 31, 2014 and reflected the difference in the closing stock price of the Company s ADSs as quoted on the NASDAQ Global Select Market between when the zero-strike call options were initially entered into in April 2014 and their inclusion in equity in June 2014. See Note 13.

In determining the debt issuance costs related to the convertible senior notes and zero-strike call options, the Company applied the accounting for the fair value of a share lending arrangement using Level 3 inputs. The fair value of a share lending arrangement represents the economic loss from the share lending arrangement over the expected term of the underlying zero-strike call option contract. The inputs used in calculating fair value of the share lending arrangement include the contract value of the zero-strike call options, the estimated long-term share lending commission rate and the expected term of the zero-strike call option contract. See Note 13.

### *(u) Segment Reporting*

Based on the criteria established by ASC 280 Segment Reporting, the Group currently operates and manages its business as a single operating and single reportable segment. The Group s chief operating decision-maker ( CODM ) is the chief executive officer. The CODM reviews operating results to make decisions about allocating resources and assessing performance for the entire Group. The Group primarily generates its revenues from customers in the PRC, and assets of the Group are also located in PRC. Accordingly, no geographical segments are presented.

### *(v) Stock Repurchase*

When the Company s common shares are repurchased for retirement, the excess of cost over par value is charged entirely to additional paid-in capital, limited to additional paid-in capital of the same issue being retired.

### *(w) Comprehensive Income*

The Company has adopted ASC 220 Comprehensive Income. Other comprehensive income/loss is defined as the change in equity of a company during the period from transactions and other events and circumstances excluding transactions resulting from investments from owners and distributions to owners. Accumulated other comprehensive income mainly consists of cumulative foreign currency translation adjustments and unrealized gains on available-for-sale securities.

### *(x) Government Subsidies*

Government subsidies represent discretionary cash subsidies granted by the local government to encourage the development of certain enterprises that are established in the local special economic region. Cash subsidies have no defined rules and regulations to govern the criteria necessary for companies to enjoy the benefits and are recognized as other income when received and when all conditions for their receipt have been satisfied.

The Group recognized government subsidies of RMB70,625, RMB97,092 and RMB86,287 which was included in other income for the years ended December 31, 2015, 2016 and 2017, respectively.

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## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

### *(y) Recent Accounting Pronouncements*

In May 2014, the Financial Accounting Standards Board ( FASB ) issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), a new standard on revenue which will supersede the revenue recognition requirements in ASC 605. In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, which delays the effective date of ASU 2014-09 by one year. The FASB also agreed to allow entities to choose to adopt the standard as of the original effective date. In March 2016, the FASB issued ASU No. 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net), which clarifies the implementation guidance on principal versus agent considerations. Further, in 2016, the FASB issued five amendments to the new standard. The new standard, as amended, sets forth a single comprehensive model for recognizing and reporting revenues. The new guidance requires the Company to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new guidance requires the Company to apply the following steps: (1) identify the contract with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when, or as, the Company satisfies a performance obligation. The standard also requires additional financial statement disclosures that will enable users to understand the nature, amount, timing and uncertainty of revenues and cash flows relating to customer contracts. The standard is effective for fiscal years, and interim periods within those years, beginning on or after January 1, 2018. Early adoption is permitted but not before periods beginning on or after January 1, 2017. The Company expects to adopt the standard starting January 1, 2018. The standard allows for two methods of adoption: the full retrospective adoption, which requires the standard to be applied to each prior period presented, or the modified retrospective adoption, which requires the cumulative effect of adoption to be recognized as an adjustment to opening retained earnings in the period of adoption. The Company anticipates adopting the standard using the modified retrospective method. The Company has identified and evaluated all of its contracts with customers, and compared the requirements of the new standard with its current accounting policies. This includes an analysis of, among other things: the timing of revenue recognition, the allocation of value for performance obligations that might be bundled within contractual arrangements, and the method of recording revenue on a gross vs. net basis. The Company has also evaluated whether any revenue-related costs for commissions, customer acquisition or similar costs would be affected by the new standard. After performing this analysis, the Company does not expect the adoption of the new standard to have a material impact on its revenue recognition and

consolidated financial statements.

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities ( ASU 2016-01 ). The main objective of this update is to enhance the reporting model for financial instruments to provide users of financial statements with more decision-useful information. ASU 2016-01 changes how entities measure certain equity investments and present changes in the fair value of financial liabilities measured under the fair value option that are attributable to their own credit. The guidance also changes certain disclosure requirements and other aspects of current U.S. GAAP. Further, in March 2018, the FASB issued Technical Corrections and Improvements to Financial Instruments Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, which provides further guidance on adjustments for observable transaction for equity securities without a readily determinable fair value and clarification on fair value option for liabilities instruments. ASU 2016-01 is effective for annual reporting periods, and interim periods within those years beginning after December 15, 2017. Early adoption by public entities is permitted only for certain provisions. The Company is in the process of evaluating the impact of ASU 2016-01 on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases ( ASU 2016-02 ). Under the new guidance, lessees will be required to recognize a lease liability and a lease asset for all leases, including operating leases, with a term greater than 12 months on its balance sheet. The update also expands the required quantitative and qualitative disclosures surrounding leases. This update is effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years, with earlier application permitted. The Company expects to adopt the new standard in the first quarter of 2019 on a modified retrospective basis and is currently in the process of evaluating the impact of ASU 2016-02 on its consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments Credit Losses ( ASU 2016-13 ), which introduces new guidance for credit losses on instruments within its scope. The new guidance introduces an approach based on expected losses to estimate credit losses on certain types of financial instruments, including, but not limited to, trade and other receivables, held-to-maturity debt securities, loans and net investments in leases. The new guidance also modifies the impairment model for available-for-sale debt securities and requires the entities to determine whether all or a portion of the unrealized loss on an available-for-sale debt security is a credit loss. The standard also indicates that entities may not use the length of time a security has been in an unrealized loss position as a factor in concluding whether a credit loss exists. The ASU is effective for public companies for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted for all entities for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is in the process of evaluating the impact of ASU 2016-13 on its consolidated financial statements.

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## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230), a consensus of the FASB s Emerging Issues Task Force ( ASU 2016-15 ). The new guidance is intended to reduce the diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The ASU is effective for public companies for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including interim periods within those fiscal years. An entity that elects early adoption must adopt all of the amendments in the same period. The guidance requires application using a retrospective transition method. The Company has adopted ASU 2016-15 in the current year and the adoption had no material impact on the Company s consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows ( ASU 2016-18 ). This ASU affects all entities that have restricted cash or restricted cash equivalents and are required to present a statement of cash flows under Topic 230. ASU 2016-18 requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. This update will become effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019, and early adoption is permitted in any interim or annual period. The Company is in the process of evaluating the impact of ASU 2016-18 on its consolidated statement of cash flows.

In January 2017, the FASB issued ASU No. 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business ( ASU 2017-01 ), which clarifies the definition of a business to assist entities with evaluating whether transactions should be accounted for as acquisitions or disposals of assets or businesses. The standard introduces a screen for determining when assets acquired are not a business and clarifies that a business must include, at a minimum, an input and a substantive process that contribute to an output to be considered a business. The ASU is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company has adopted ASU 2017-01 in the current year and the adoption had no material impact on the Company s consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, Simplifies Goodwill Impairment Test ( ASU 2017-04 ), which removes the requirement to compare the implied fair value of goodwill with its carrying amount as part of the second step of the goodwill impairment test. As a result, under the ASU, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit s fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. The ASU is effective prospectively for fiscal years beginning after December 15, 2019. The Company is in the process of evaluating the impact of ASU 2017-04 on its consolidated financial statements.

In May 2017, the FASB issued ASU No. 2017-09, Compensation Stock compensation (Topic 718): Scope of modification accounting ( ASU 2017-09 ), which clarifies when to account for a change to the terms or conditions of a share-based payment award as a modification. ASU 2017-09 is effective prospectively for all companies for annual periods beginning on or after December 15, 2017, and early adoption is permitted. The Company has adopted ASU 2017-05 in the current year and the adoption had no material impact on the Company s consolidated financial statements.

## 3. ACQUISITIONS

*Yingjiesheng.com*

In April 2015, to expand its online operations, the Company acquired 100% of the equity interests in Shanghai Yishu Information Technology Co., Ltd. and Shanghai Pinyi Information Technology Co., Ltd. These two companies wholly own and operate Yingjiesheng.com ( YJS ), an established online recruitment website which focuses on college graduates and students in China. The total purchase price was RMB250,000 and was funded from the Company s existing cash resources. Beginning April 3, 2015, the date of acquisition, YJS has been fully consolidated into the Group s financial statements. The allocation of the purchase price at the date of acquisition is summarized as follows:

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## 3. ACQUISITIONS (Continued)

| | RMB |
|---|---|
| Net assets | 10,524 |
| Identifiable intangible assets: | |
| Trade names | 35,600 |
| Customer relationships | 12,270 |
| Goodwill | 203,574 |
| Deferred tax liabilities | (11,968) |
| Total | 250,000 |

*Beijing Zhiding Youyuan Management Consulting Co., Ltd.*

In June 2015, to expand the scope of its training services, the Company completed an acquisition of a 60% equity interest in Beijing Zhiding Youyuan Management Consulting Co., Ltd. ( Zhiding Youyuan ), a provider of talent assessment and psychometric testing services in China. The total purchase price was RMB18,660 and was fully paid from the Company s existing cash resources. Beginning June 23, 2015, the date of acquisition, Zhiding Youyuan has been fully consolidated into the Group s financial statements. The allocation of the purchase price at the date of acquisition is summarized as follows:

| | RMB |
|---|---|
| Net assets | 14,170 |
| Goodwill | 13,820 |
| Non-controlling interests | (9,330) |
| Total | 18,660 |

*Lagou Information Limited*

In December 2017, to expand its online operations, the Company completed an acquisition of a 66% equity interest in Lagou Information Limited, an entity incorporated in the Cayman Islands. Lagou is the holding company of Beijing Lagou Network Technology Co., Ltd., which owns and operates a recruitment website focused on technology and engineering talent in China. The total purchase price was RMB782,594 and was funded from the Company s existing cash resources. Beginning December 26, 2017, the date of acquisition, Lagou has been fully

consolidated into the Group s financial statements. As the acquisition date was just prior to end of the year, there was no material contribution from Lagou to the Company s consolidated statement of operations and comprehensive income for the year ended December 31, 2017. The allocation of the purchase price at the date of acquisition is summarized as follows:

| | RMB |
|---|---|
| Net assets | 125,026 |
| Identifiable intangible assets: | |
| Trade names | 60,183 |
| Technology | 35,979 |
| Goodwill | 804,060 |
| Deferred tax liabilities | (14,424) |
| Redeemable non-controlling interests | (228,230) |
| Total | 782,594 |

Based on the Company s assessment, the revenues and net earnings of YJS, Zhiding Youyuan and Lagou were not considered material to the Group. Pro forma results of operations for the acquisitions described above have not been presented because they are not material to the consolidated statements of operations and comprehensive income, either individually or in aggregate.

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## 4. ACCOUNTS RECEIVABLE

| | 2016 RMB | 2017 RMB |
|---|---|---|
| Accounts receivable | 117,390 | 192,245 |
| Less: Allowance for doubtful accounts | (6,144) | (5,384) |
| | 111,246 | 186,861 |

The movement of allowance for doubtful accounts is analyzed as follows:

| | 2015 RMB | 2016 RMB | 2017 RMB |
|---|---|---|---|
| Balance at beginning of period | 1,103 | 3,290 | 6,144 |
| Additions | 3,792 | 6,705 | 5,738 |
| Write-offs | (1,605) | (3,851) | (6,498) |
| Balance at end of period | 3,290 | 6,144 | 5,384 |

## 5. PREPAYMENTS AND OTHER CURRENT ASSETS

| | 2016 RMB | 2017 RMB |
|---|---|---|
| Rental and other deposits | 677 | 3,116 |
| Prepayments for rental and others | 19,725 | 29,799 |
| Employee advances | 4,082 | 9,268 |
| Payments made on behalf of customers | 462,841 | 458,199 |
| Prepaid insurance premium | 958 | 1,035 |
| Interest income receivable | 37,344 | 51,374 |
| Others | 1,931 | 6,314 |
| Total | 527,558 | 559,105 |

Payments made on behalf of customers are associated with the operations of the Company s business process outsourcing services. The Company has remitted funds in advance on behalf of its customers for purposes such as monthly customers employee benefits, social insurance and payroll

payments, which will be reimbursed to the Company in the near term. The Company provides an allowance for payments made on behalf of customers when facts and circumstances indicate that the receivable is unlikely to be collected. The movement of allowance for payments made on behalf of customers is analyzed as follows:

| | 2015 RMB | 2016 RMB | 2017 RMB |
|---|---|---|---|
| Balance at beginning of period | 958 | 856 | 459 |
| Additions | 1,723 | 843 | 9,656 |
| Write-offs | (1,825) | (1,240) | (7,068) |
| Balance at end of period | 856 | 459 | 3,047 |

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## 6. PROPERTY AND EQUIPMENT

| | 2016 RMB | 2017 RMB |
|---|---|---|
| Land and building | 575,443 | 575,443 |
| Leasehold improvements | 30,841 | 35,709 |
| Electronic equipment | 137,236 | 141,787 |
| Furniture and fixtures | 11,837 | 7,194 |
| Motor vehicles | 6,910 | 7,210 |
| Other assets | 48,583 | 49,095 |
| Less: Accumulated depreciation | (284,309) | (318,593) |
| Net book value | 526,541 | 497,845 |

Depreciation expense was RMB49,781, RMB53,754 and RMB53,422 for the years ended December 31, 2015, 2016 and 2017, respectively.
Loss due to disposal of fixed assets was RMB109, RMB122 and RMB690 for the years ended December 31, 2015, 2016 and 2017, respectively.

## 7. GOODWILL

The changes in the carrying amount of goodwill for the years ended December 31, 2016 and 2017 are as follows:

| | 2016 RMB | 2017 RMB |
|---|---|---|
| Balance at beginning of period | 217,394 | 217,394 |
| Acquisition of Lagou | | 804,060 |
| Balance at end of period | 217,394 | 1,021,454 |

## 8. INTANGIBLE ASSETS

| | 2016 RMB | 2017 RMB |
|---|---|---|
| Computer software | 30,521 | 31,958 |
| Acquired technology | 24,272 | 60,251 |
| Trade names | 35,600 | 95,783 |
| Customer relationships | 12,270 | 12,270 |
| Acquired training and other licenses | 3,101 | 4,151 |
| Less: Accumulated amortization | (32,144) | (42,389) |
| Net book value | 73,620 | 162,024 |

Acquired technology consists of software and technology assets. For the year ended December 31, 2016, the Company acquired a mobile application for business card digitalization and contact management that enhances the Company s online services to its users. The purchase price was RMB25,000, including related taxes.

Amortization expense was RMB6,167, RMB9,022 and RMB10,245 for the years ended December 31, 2015, 2016 and 2017, respectively.

The Company will record estimated amortization expenses of RMB23,386, RMB22,092, RMB19,486, RMB18,413 and RMB17,989 for the years ending December 31, 2018, 2019, 2020, 2021 and 2022, respectively.

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## 9. OTHER PAYABLES AND ACCRUALS

| | 2016 RMB | 2017 RMB |
|---|---|---|
| Receipts from customers | 469,471 | 580,794 |
| Payables to customers related to government policy compliance incentives | | 71,638 |
| Professional service fees | 2,271 | 3,274 |
| Office expenses | 5,240 | 8,636 |
| Payables to employees related to net proceeds from share options exercised | 264 | 137 |
| Accrued interest expense related to convertible senior notes | 8,210 | 7,632 |
| Payable for acquisition | 8,450 | 27,923 |
| Others | 4,130 | 3,407 |
| Total | 498,036 | 703,441 |

Receipts from customers are associated with the operations of the Company s business process outsourcing services. The Company has received funds in advance from its customers for purposes such as monthly customers employee benefits, social insurance and payroll payments, which will be disbursed by the Company to other parties on behalf of its customers in the near term.

## 10. TAXATION

***Cayman Islands***

Under the current laws of the Cayman Islands, the Company and its subsidiaries that are incorporated in the Cayman Islands are not subject to tax on income or capital gain. In addition, upon payments of dividends by those companies to their shareholders, no Cayman Islands withholding tax will be imposed.

***British Virgin Islands***

Under the current laws of the British Virgin Islands, the Company s subsidiary that is incorporated in the British Virgin Islands is not subject to tax on income or capital gain. In addition, upon payments of dividends by that company to its shareholders, no British Virgin Islands withholding tax will be imposed.

***Hong Kong***

51net is registered in Hong Kong as a non-Hong Kong company and is subject to Hong Kong profits tax at a rate of 16.5% on its assessable profit.

***China***

The PRC Enterprise Income Tax Law ( EIT Law ), which became effective January 1, 2008, applies a uniform enterprise income tax ( EIT ) rate of 25% to both foreign-invested enterprises ( FIEs ) and domestic enterprises.

In December 2009, Tech JV was designated by relevant local authorities in Shanghai as a High and New Technology Enterprise under the EIT Law. Tech JV became subject to a preferential tax rate of 15%. Tech JV is entitled to this preferential 15% tax rate as long as it maintains the required qualifications, which is subject to review every three years. The current preferential tax status is valid through 2017, and Tech JV will seek to further renew this status with local tax authorities in 2018.

Beijing Lagou Network Technology Co., Ltd. has also been designated as a High and New Technology Enterprise under the EIT Law. Its current preferential tax status of 15% is valid through 2017, and it will seek to renew this status with local tax authorities in 2018.

The Group s other PRC subsidiaries, VIEs and VIEs subsidiaries are subject to the statutory EIT rate of 25%.

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## 10. TAXATION (Continued)

The EIT Law also imposes a 10% withholding income tax ( WHT ) for dividends declared out of the profits earned after January 1, 2008 by a FIE to its immediate holding company outside China. For certain treaty jurisdictions such as Hong Kong which has signed tax treaties with the PRC, the WHT rate is 5%. Since the Company intends to permanently reinvest earnings to further expand its businesses in mainland China, its FIEs do not intend to declare dividends to its immediate foreign holding entities in the foreseeable future. Accordingly, as of December 31, 2017, the Company has not recorded any withholding tax on the retained earnings of its FIEs in China. Cumulative undistributed earnings of the Company s PRC subsidiaries intended to be permanently reinvested totaled RMB4,355,109 and RMB5,324,204, and the amount of the unrecognized deferred tax liability on the permanently reinvested earnings was RMB435,511 and RMB532,420 as of December 31, 2016 and 2017, respectively.

***Composition of Income Tax Expense***

Income (loss) before income tax expense for the years ended December 31, 2015, 2016 and 2017 were taxed within the following jurisdictions:

| | 2015 RMB | 2016 RMB | 2017 RMB |
|---|---|---|---|
| PRC entities | 823,007 | 875,175 | 1,139,978 |
| Non-PRC entities | (78,909) | (175,289) | (597,722) |
| Total | 744,098 | 699,886 | 542,256 |

The current and deferred portion of income tax expense included in the consolidated statements of operations and comprehensive income for the years ended December 31, 2015, 2016 and 2017 are as follows:

| | 2015 RMB | 2016 RMB | 2017 RMB |
|---|---|---|---|
| **Current income tax expense** | | | |
| PRC entities | 108,172 | 120,280 | 156,706 |
| Non-PRC entities | | | |

| | | | |
|---|---|---|---|
| Total | 108,172 | 120,280 | 156,706 |
| **Deferred income tax expense** | | | |
| PRC entities | 18,129 | 14,419 | 12,787 |
| Non-PRC entities | | | |
| Total | 18,129 | 14,419 | 12,787 |
| **Income tax expense** | | | |
| PRC entities | 126,301 | 134,699 | 169,493 |
| Non-PRC entities | | | |
| Total | 126,301 | 134,699 | 169,493 |

***Reconciliation of the Differences Between Statutory Tax Rate and the Effective Tax Rate***

Reconciliation between the statutory EIT rate in the PRC and the Group s effective tax rate for the years ended December 31, 2015, 2016 and 2017 are as follows:

| | 2015 | 2016 | 2017 |
|---|---|---|---|
| EIT statutory rate | 25% | 25% | 25% |
| Difference in EIT rates of certain subsidiaries | (10)% | (11)% | (20)% |
| Non-deductibility of expenses incurred outside the PRC | 3% | 6% | 28% |
| Other permanent differences | (1)% | (1)% | (2)% |
| Effective EIT rate of the Group | 17% | 19% | 31% |

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## 10. TAXATION (Continued)

Income tax expense for the years ended December 31, 2015, 2016 and 2017 differs from the amounts computed by applying the EIT rate primarily due to the preferential tax rate enjoyed by Tech JV in the PRC. The aggregate amount and per share effect of the preferential tax rate are as follows:

| | 2015 RMB | 2016 RMB | 2017 RMB |
|---|---|---|---|
| | | (in thousands, except per share data) | |
| Aggregate effect | 75,864 | 81,300 | 107,547 |
| Basic net income per share effect | 1.31 | 1.40 | 1.79 |
| Diluted net income per share effect | 1.21 | 1.39 | 1.76 |

Significant components of deferred tax assets and liabilities as of December 31, 2016 and 2017 are as follows:

| | 2016 RMB | 2017 RMB |
|---|---|---|
| Deductible temporary differences related to other payables and accruals | 860 | 1,053 |
| Deductible temporary differences related to provision for doubtful accounts | 992 | 1,265 |
| Deductible temporary differences related to advertising expenses | | 12,076 |
| Tax loss carryforwards | 9,843 | 50,900 |
| Amount offset by non-current deferred tax liabilities | (8,487) | (12,806) |
| Total non-current deferred tax assets | 3,208 | 52,488 |
| Less: Valuation allowance | (2,443) | (39,576) |
| Net non-current deferred tax assets | 765 | 12,912 |
| Total deferred tax assets | 765 | 12,912 |
| Taxable temporary differences related to depreciation period | (5,218) | (6,153) |
| Taxable temporary differences related to available-for-sale securities | (9,625) | (46,526) |
| Taxable temporary differences related to government subsidy income | (40,695) | (57,995) |
| Taxable temporary differences related to trade names, technology and customer relationships | (10,115) | (23,480) |
| Amount offset by non-current deferred tax assets | 8,487 | 12,806 |
| Total non-current deferred tax liabilities | (57,166) | (121,348) |
| Total deferred tax liabilities | (57,166) | (121,348) |

All deferred tax assets and liabilities within a single tax jurisdiction are offset and presented as a single amount in accordance with ASC 740-10-45-6 Income Taxes Overall Other Presentation Matters. The Group has early adopted ASU 2015-17 prospectively starting from 2016 and classified all deferred tax assets and liabilities as non-current items on its consolidated balance sheet as of December 31, 2016 and 2017.

As of December 31, 2016 and 2017, valuation allowances were provided on the deferred tax assets to the extent that management believed it was more likely than not that such deferred tax assets would not be realized in the foreseeable future. Valuation allowances were also provided because it was more likely than not that the Group will not be able to utilize certain tax loss carryforwards generated by certain subsidiaries or VIEs. As those entities continue to generate tax losses and tax planning strategies are not available to utilize those tax losses in other group companies, management believes it is more likely than not that such losses will not be utilized before they expire. However, certain valuation allowance was reversed in 2015, 2016 and 2017 when certain entities generated sufficient taxable income to utilize the deferred tax assets. If events occur in the future that prevent these entities from realizing some or all of its deferred tax assets, an adjustment to the valuation allowances will be recognized when such events occur. As of December 31, 2017, the Group had net operating loss carryforwards in PRC entities of RMB202,645, which can be carried forward to offset taxable income. The carryforward period for net operating losses under the EIT Law is five years. The net operating loss carryforwards of the Group will expire in varying amounts from 2018 to 2022. Other than the expiration, there are no other limitations or restrictions upon the Group s ability to use these operating loss carryforwards.

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## 10. TAXATION (Continued)

The following represents a roll-forward of the valuation allowance for each of the years:

| | 2015 RMB | 2016 RMB | 2017 RMB |
|---|---|---|---|
| Balance at beginning of period | 464 | 1,851 | 2,443 |
| Additions | 1,443 | 1,019 | 37,902 |
| Reversals | (56) | (427) | (769) |
| Balance at end of period | 1,851 | 2,443 | 39,576 |

## 11. SHARE-BASED COMPENSATION

In April 2009, the Company adopted a share option plan ( 2009 Option Plan ), which provided for the issuance of up to 5,000,000 common shares. The total number of common shares reserved under the 2009 Option Plan was increased to 10,000,000 in December 2011. Issuances from this plan ceased in 2015.

In November 2015, the Company adopted a share incentive plan ( 2015 Plan ). Under the 2015 Plan, share-based awards such as share options, restricted shares, restricted share units, dividend equivalent rights, share appreciation rights and share payments may be granted. The 2015 Plan has a term of ten years. The maximum aggregate number of common shares which may be issued pursuant to all share-based awards under the 2015 Plan is (i) 10,000,000, and (ii) an automatic increase on January 1, 2019, January 1, 2022 and January 1, 2025 by that number of common shares representing 5% of the then total issued and outstanding common shares of the Company on an as-converted fully diluted basis as of December 31 of the respective preceding year.

Under the share option and incentive plans, the directors may, at their discretion, grant share-based awards to any senior executives, directors, employees or consultants of the Group. As of December 31, 2017, the only share-based awards that have been granted under the plans are share options to purchase the Company s common shares. The share options are granted at the fair market value of the common shares at the date of

grant, vest over a period of four years and expire six years from the date of grant.

The following table summarizes the Company s share option activity for the year ended December 31, 2017:

| | Number of shares | Weighted average exercise price | Weighted average remaining contractual life (years) | Aggregate intrinsic value (thousands) |
|---|---|---|---|---|
| Outstanding at January 1, 2017 | 5,794,831 | US$ 30.58 | | |
| Granted | 1,279,872 | US$ 56.68 | | |
| Exercised | (2,147,819) | US$ 29.04 | | |
| Forfeited | (119,902) | US$ 32.64 | | |
| Outstanding at December 31, 2017 | 4,806,982 | US$ 38.17 | 3.83 | US$ 109,017 |
| Vested and expected to vest at December 31, 2017 | 4,560,233 | US$ 37.86 | 3.78 | US$ 104,855 |
| Exercisable at December 31, 2017 | 2,236,685 | US$ 30.66 | 2.65 | US$ 67,535 |

The aggregate intrinsic value in the table above represents the difference between the Company s closing stock price on the last trading day in 2017 and the exercise price for in-the-money options.

The total intrinsic value of options exercised for the years ended December 31, 2015, 2016 and 2017 was RMB92,723, RMB83,976 and RMB184,932 (US$28,424), respectively.

As of December 31, 2017, there was RMB215,124 (US$33,064) of unrecognized share-based compensation cost related to non-vested share options. That deferred cost is expected to be recognized over a weighted average vesting period of 3.00 years. To the extent the actual forfeiture rate is different from the original estimate, actual share-based compensation related to these awards may be different from the expectation. For the year ended December 31, 2017, total cash received from the exercise of share options amounted to RMB424,450 (US$65,237).

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## 11. SHARE-BASED COMPENSATION (Continued)

A summary of non-vested share option activity for the year ended December 31, 2017 is presented below:

| | Number of shares | | Weighted average grant-date fair value (per share) |
|---|---|---|---|
| Non-vested at January 1, 2017 | 2,495,346 | US$ | 10.37 |
| Granted | 1,279,872 | US$ | 15.62 |
| Vested | (1,085,019) | US$ | 10.50 |
| Forfeited | (119,902) | US$ | 10.55 |
| Non-vested at December 31, 2017 | 2,570,297 | US$ | 12.86 |
| Expected to vest at December 31, 2017 | 2,323,548 | US$ | 12.88 |

There were no capitalized share-based compensation costs for the years ended December 31, 2015, 2016 and 2017. Share-based compensation expense with respect to the share option plans recognized during the years ended December 31, 2015, 2016 and 2017, totaled RMB85,945, RMB86,070 and RMB85,968 (US$13,213), respectively. The total fair value of share options vested during the years ended December 31, 2015, 2016 and 2017 was RMB84,594, RMB79,139 and RMB74,100 (US$11,389), respectively.

*Share-Based Compensation of Subsidiary*

Lagou has adopted a 2014 Stock Option Plan and a 2016 Stock Option Plan (collectively, the Lagou Stock Option Plans ), which permit the granting of stock options and/or stock purchase rights of Lagou to employees, directors and consultants. As of December 31, 2017, the unrecognized share-based compensation expenses related to the Lagou Stock Option Plans were RMB4,088 (US$628). The expenses are expected to be recognized over a weighted-average period of 1.92 years.

## 12. EMPLOYEE BENEFITS

The full-time employees of the Group s subsidiaries and VIEs that are incorporated in the PRC are entitled to staff welfare benefits including medical care, welfare subsidies, unemployment insurance, pension benefits and housing fund. These companies are required to contribute to these benefits based on certain percentages of the employees salaries in accordance with the relevant regulations and charge the amount contributed to these benefits to the consolidated statements of operations and comprehensive income. The total amounts charged to the consolidated statements of operations and comprehensive income for such employee benefits amounted to RMB169,572, RMB198,272 and RMB230,263 for the years ended December 31, 2015, 2016 and 2017, respectively. The PRC government is responsible for the welfare and medical benefits and ultimate pension liability to these employees.

## 13. CONVERTIBLE SENIOR NOTES

On April 3, 2014, the Company issued US$172,500 of convertible senior notes due April 15, 2019 (the Notes ). The Notes bear interest at a rate of 3.25% per year, payable semiannually in arrears. The interest expense incurred associated with the Notes was RMB34,983, RMB37,298 and RMB37,799 for the years ended December 31, 2015, 2016 and 2017, respectively.

The Notes may be converted to the Company s ADSs based on an initial conversion rate of 11.6976 ADSs per US$1,000 principal amount of the Notes (which represents an initial conversion price of US$85.49 per ADS). The conversion rate is subject to certain anti-dilutive adjustments. Following the change in the ratio of the Company s common shares to ADSs from 2:1 to 1:1 effective August 8, 2014, the initial conversion rate was adjusted to 23.3952 ADSs per US$1,000 principal amount of the Notes (which represents an adjusted initial conversion price of approximately US$42.74 per ADS).

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## 13. CONVERTIBLE SENIOR NOTES (Continued)

Holders may convert their Notes on or after October 15, 2018 until the close of business on the second scheduled trading day immediately preceding the maturity date, or at their option prior to the close of business on the business day immediately preceding October 15, 2018 only under the following circumstances: (i) during any calendar quarter commencing after the calendar quarter ending on June 30, 2014 (and only during such calendar quarter), if the last reported sale price of ADSs for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day; (ii) during the five business day period after any ten consecutive trading day period (the measurement period ) in which the trading price (as defined in the indenture agreement) per US$1,000 principal amount of the Notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of the ADSs and the conversion rate on each such trading day; (iii) if the Company call the Notes for redemption; or (iv) upon the occurrence of specified corporate events (as defined in the indenture agreement). Upon conversion, the Company will pay or deliver, as the case may be, cash, ADSs, or a combination of cash and ADSs, at its election.

Holders had the right to require the Company to repurchase for cash all or part of the Notes on April 15, 2017 at a repurchase price equal to 100% of the principal amount of the Notes to be repurchased, plus any accrued and unpaid interest to, but not including, the repurchase date. The Company did not receive any repurchase requests from holders on April 15, 2017, and the Notes were reclassified from current to non-current on the consolidated balance sheet following this date.

If the Company undergoes a fundamental change (as defined in the indenture agreement), holders may require the Company to repurchase for cash all or part of the Notes at a repurchase price equal to 100% of the principal amount of the Notes to be repurchased, plus any accrued and unpaid interest to, but not including, the fundamental change repurchase date. The Company does not have the option to redeem the Notes prior to their maturity, except in the event of tax redemption.

The Notes are senior unsecured obligations. The Notes (i) rank senior in right of payment to any of the Company s indebtedness that is expressly subordinated in right of payment to the Notes; (ii) rank equally in right of payment with any unsecured indebtedness that is not so subordinated; (iii) be effectively junior in right of payment to any secured indebtedness to the extent of the value of the assets securing such indebtedness; and (iv) be structurally subordinated to all indebtedness and other liabilities (including trade payables) of the Company s subsidiaries and consolidated VIEs.

The Group s functional currency is the RMB, and the Notes are denominated in US$. As a result, the conversion feature of the Notes is indexed to the Company s stock as well as the RMB and US$ exchange rate. Therefore, it is considered an embedded derivative which is required to be bifurcated from the host instrument in accordance with ASC 815 Derivatives and Hedging.

Under ASC 815-15-25, if an entity has a hybrid financial instrument that would require bifurcation of embedded derivatives, the entity may irrevocably elect to initially and subsequently measure a hybrid financial instrument in its entirety at fair value with changes in fair value recognized in earnings. The Company has elected to measure the Notes in their entirety at fair value with changes in fair value recognized as non-operating income or loss at each balance sheet date in accordance with ASC 815-15-25. Furthermore, the fair value of the Notes is translated into RMB, the Group s functional currency, at each balance sheet date with the difference being reported as foreign currency translation gain or loss. In addition, issuance costs of RMB33,093 associated with the Notes offering have been fully expensed as incurred in the year ended December 31, 2014 in accordance with ASC 825-10-25-3, which states that upfront costs and fees related to items for which the fair value option is elected shall be recognized in the consolidated statements of operations and comprehensive as incurred and not deferred.

As of December 31, 2017, the estimated fair value of the Notes amounted to RMB1,667,967. The Company recorded a foreign currency translation loss of RMB64,838, a loss of RMB79,393 and a gain of RMB85,917 for the years ended December 31, 2015, 2016 and 2017, respectively, associated with the Notes. The change in fair value of the Notes was a gain of RMB67,168, a loss of RMB69,439 and a loss of RMB496,175 for the years ended December 31, 2015, 2016 and 2017, respectively. See Note 2(t).

As of December 31, 2017, none of the Notes had been converted yet.

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## 13. CONVERTIBLE SENIOR NOTES (Continued)

*Zero-Strike Call Options*

On April 3, 2014 and in connection with the issuance of the Notes, the Company used approximately US$50,000 of the net proceeds from the offering to enter into zero-strike call option transactions ( Call Options ), covering 1,462,204 ADSs, with affiliates of the initial purchasers of the Notes ( Dealers ). The Call Options are intended to facilitate privately negotiated transactions by which investors in the Notes are able to hedge their investment. The Call Options expire soon after the maturity date of the Notes or when the Dealers request early settlement. The Company will receive the fixed number of ADSs determined at the commencement date of the transaction, which is based on the market price per ADS at the commencement date. 357,200 ADSs were early settled in 2017. There was no early settlement in 2015 and 2016.

The economic substance of the Call Options is the same as a traditional forward repurchase contract. Because the Call Options permitted net cash settlement prior to shareholder approval of an increase in the Company s share repurchase program, they were classified as a derivative instrument measured initially and subsequently at fair value with changes in fair value recorded in earnings. The Company accounted for the Call Options as a free-standing derivative asset on its consolidated balance sheet when the Call Options were entered into in April 2014. The derivative asset was initially recorded at its fair value of US$50,000 on the commencement date which represented the amount of cash transferred to the Dealers. The derivative asset was subsequently recorded at fair value with the change in fair value through June 20, 2014, the date on which shareholder approval was received, recorded in the consolidated statements of operations and comprehensive income in the amount of RMB24,874. Upon shareholder approval of an increase to the Company s share repurchase program in June 2014, the asset was reclassified and recorded as a reduction to equity to reflect the Company s repurchase of its own shares.

A prepaid forward contract is considered a form of a stock borrowing facility, and economically, the contract is construed as a share lending arrangement between the Company and the Dealers. Therefore, the accounting for a share lending arrangement was applied by analogy in accordance with ASC 470-20-25-20A. In the year ended December 31, 2014, the Company recorded a debt issuance cost of RMB14,429 with the offset to additional paid-in capital for the fair value of the arrangement. Given that the Company has elected to fair value the Notes entirely, the debt issuance costs in connection with the Notes were recognized in earnings as incurred in the consolidated statements of operations and comprehensive income in accordance with ASC 825-10-25-3. See Note 2(t).

## 14. REPURCHASE OF SHARES

On June 20, 2014, the Company s shareholders resolved to increase the size of a share repurchase program originally approved by shareholders on September 30, 2008 from US$25,000 to US$75,000. The share repurchases may be made on the open market, in block trades or otherwise and is subject to the Company s memorandum and articles of association, the relevant rules under United States securities laws and regulations, and the relevant stock exchange rules. The program does not have an expiration date and may be suspended or discontinued at any time.

For the year ended December 31, 2015, the Company repurchased 898,950 ADSs for a total consideration of RMB157,272, including transaction fees, from the open market. The Company did not repurchase ADSs in the open market in 2016 and 2017. In addition, the Company received 357,200 ADSs from the early settlement of some shares related to the zero-strike call options in the year ended December 31, 2017. All of the shares repurchased and received from early settlement were retired. See Note 2(v).

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## 15. EARNINGS PER SHARE

Basic earnings per share and diluted earnings per share have been calculated for the years ended December 31, 2015, 2016 and 2017 as follows:

| | 2015 RMB | 2016 RMB | 2017 RMB |
|---|---|---|---|
| | (in thousands, except share and per share data) | | |
| Numerator: | | | |
| Net income attributable to 51job, Inc. | 618,057 | 565,978 | 371,889 |
| Eliminate the dilutive effect of interest expense, change in fair value and foreign exchange translation related to convertible senior notes | 32,653 | | |
| Numerator for diluted earnings per share | 650,710 | 565,978 | 371,889 |
| Denominator: | | | |
| Denominator for basic earnings per share weighted average common shares outstanding | 57,714,850 | 58,132,976 | 60,087,306 |
| Dilutive effect of convertible senior notes | 4,035,672 | | |
| Dilutive effect of share options | 748,129 | 341,092 | 1,063,107 |
| Denominator for diluted earnings per share | 62,498,651 | 58,474,068 | 61,150,413 |
| Basic earnings per share | 10.71 | 9.74 | 6.19 |
| Diluted earnings per share | 10.41 | 9.68 | 6.08 |

The convertible senior notes were not included in the calculation of diluted earnings per share in 2016 and 2017 because their inclusion would have been anti-dilutive.

The Company excluded outstanding share options of 3,312,749 in 2015, 3,881,628 in 2016 and 1,176,660 in 2017 from the calculation of diluted earnings per share because their inclusion would have been anti-dilutive.

The Company excluded common shares underlying the zero-strike call option contracts from both the basic and diluted earnings per share calculation as they are considered as deemed repurchased for the purpose of calculating both basic and diluted earnings per share.

## 16. RECURRING CHANGE IN FAIR VALUE

The following table provides information about the reconciliation of the Level 3 fair value measurements of available-for-sale investments using significant unobservable inputs for the periods indicated:

| | RMB |
|---|---|
| Balance at January 1, 2016 | |
| Initial recognition | 126,716 |
| Unrealized gain | 38,501 |
| Balance at December 31, 2016 | 165,217 |
| Unrealized gain | 147,602 |
| Balance at December 31, 2017 | 312,819 |

The unrealized gain on available-for-sale investments of RMB28,876 and RMB110,702, representing the unrealized fair value gain netting relevant income tax of RMB9,625 and RMB36,900, was recognized in other comprehensive income for the years ended December 31, 2016 and 2017, respectively.

In determining the fair value, the Group utilizes an income approach of a discounted cash flow model with unobservable inputs including future cash flows, a terminal growth rate of 3%, a discount rate of 21% and a risk-free rate of 3.82%. The determination of the fair value was assisted by an independent appraisal, based on estimates, judgments and information of other comparable companies.

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## 17. COMMITMENTS AND CONTINGENCIES

*Operating Lease Commitments*

The Group has entered into non-cancelable agreements with initial or remaining terms in excess of one year for the rental and property management of office premises and for the lease of office equipment. Future minimum payments with respect to these agreements for the twelve months ending December 31 of the coming years are as follows:

| | Office Premises RMB | Office equipment RMB | Total RMB |
|---|---|---|---|
| 2018 | 50,363 | 14,202 | 64,565 |
| 2019 | 28,416 | 544 | 28,960 |
| 2020 | 18,205 | 199 | 18,404 |
| 2021 | 9,861 | 20 | 9,881 |
| 2022 and thereafter | 3,955 | | 3,955 |
| | 110,800 | 14,965 | 125,765 |

Rental expenses for the years ended December 31, 2015, 2016 and 2017 were RMB48,760, RMB50,946 and RMB53,433, respectively.

*Contractual Purchase Obligations*

The Group s contractual purchase obligations consist of agreements to purchase advertising services from media companies and to purchase electronic equipment. Future minimum payments with respect to these agreements for the twelve months ending December 31 of the coming year are as follows:

| | Total |
|---|---|

| | Advertising Services RMB | Electronic equipment RMB | RMB |
|---|---|---|---|
| 2018 | 7,483 | 4,050 | 11,533 |

*Contingencies*

As of the filing date of this annual report on Form 20-F, the Group is not currently a party to, nor is aware of, any legal proceeding, investigation or claim which is likely to have a material adverse effect on the Group s business, financial condition, results of operations and cash flows.

Tech JV obtained an advertising license in May 2000, when Tech JV was a 98% foreign owned entity, and a license to conduct human resource services in September 2002, when Tech JV was a 99% foreign owned entity. During the period from the date Tech JV acquired these licenses to the Group s restructuring in May 2004, Tech JV and its licensed PRC subsidiaries conducted all of the advertising and human resource related services. Following the acquisition of these licenses and commencing these operations, the PRC government enacted laws limiting foreign ownership in entities conducting advertising and human resource related services. The PRC government has permitted 100% foreign ownership of advertising businesses since December 2005. For the foreign ownership of human resource services companies, the limitation was 70% for Hong Kong service providers and Macau service providers since June 2005 and for human resource services companies registered in several locations in the PRC, such as Pudong New District, Shanghai since June 2006. Starting from January 2008, the PRC government no longer implemented any foreign ownership percentage limitation for Hong Kong service providers and Macau service providers.

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## 17. COMMITMENTS AND CONTINGENCIES (Continued)

Prior to the restructuring in May 2004, the ownership percentage of Tech JV was above the maximum foreign ownership permitted for an entity conducting advertising and human resource operations. The PRC government has not published an official ruling with respect to the status of foreign ownership arrangements that were established prior to the enactment of these limitations and the Group has not received any waiver from the PRC government with respect to this past non-compliance. The PRC government may determine that the Group s ownership structure was inconsistent with or insufficient for the proper operation of the Group s businesses, or that the Group s business licenses or other approvals were not properly issued or not sufficient. In the opinion of management, the likelihood of loss with respect to the Group s past ownership structure is remote.

## 18. REDEEMABLE NON-CONTROLLING INTERESTS

In December 2017, the Company acquired an approximately 66% equity interest in Lagou on a fully diluted basis. Lagou has been consolidated into the Group s financial statements as of December 31, 2017. As Lagou has shares that could be redeemed by minority shareholders upon the occurrence of certain events that are not solely within the control of the Company, these preferred shares are accounted for as redeemable non-controlling interests in mezzanine equity.

The redeemable non-controlling interests for the year ended December 31, 2017 are summarized below:

| | RMB |
|---|---|
| Balance at January 1, 2017 | |
| Addition | 228,230 |
| Balance at December 31, 2017 | 228,230 |

## 19. CERTAIN RISKS AND CONCENTRATION

*Concentration of Credit Risk*

Financial instruments that potentially subject the Group to significant concentrations of credit risk consist primarily of cash, restricted cash, short-term investments and receivables. As of December 31, 2016 and 2017, the Group s cash, restricted cash and short-term investments were held in major financial institutions located in the PRC, Hong Kong and the United States which management believes are of high credit quality. As of December 31, 2017, the Company had approximately RMB6,314,177 (US$970,471) in cash, time deposits and investment products, which constitute about 89% of total cash, restricted cash and short-term investments, held at reputable financial institutions in the PRC. The Company believes that it is not exposed to unusual risks as these PRC financial institutions have high credit quality. However, in the event of bankruptcy of a financial institution in which the Company has deposits or investments, it may be unlikely to claim its deposits or investments back in full.

Receivables are typically unsecured and denominated in RMB, and are derived from revenues earned from operations or from payments made on behalf of certain customers arising in the PRC. Management believes credit risk on receivables is moderate due to the diversity of its services and customers.

No individual customer accounted for more than 10% of net revenues during the years ended December 31, 2015, 2016 and 2017. No individual customer accounted for more than 10% of accounts receivable as of December 31, 2016 and 2017.

*Currency Risk*

The Group s sales and purchase and expense transactions are generally denominated in RMB and a significant portion of the Group s liabilities are denominated in RMB. RMB is not freely convertible into foreign currencies.

In the PRC, foreign exchange transactions are required by law to be transacted only by authorized financial institutions at exchange rates set by the People s Bank of China. In addition, the Group s cash and convertible senior notes denominated in US$ subject the Group to risks associated with changes in the exchange rate of RMB against US$ and may affect the Group s results of operations going forward.

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## 19. CERTAIN RISKS AND CONCENTRATION (Continued)

*PRC Regulatory Risk*

The Group is subject to regulatory risks, which include the interpretation of current laws, the legality of its corporate structure and the scope of its operations in the PRC, which may result in limitations on the Group s ability to conduct business in the PRC.

The Group conducts some of its operations in the PRC through VIEs and consolidates them pursuant to a series of contractual arrangements. If the contractual arrangements establishing the VIE structure are found to be in violation of any existing or future PRC laws, rules or regulations, the Group may be subject to penalties, which may include but not be limited to, the cancellation or revocation of the Group s business and operating licenses, being required to restructure the Group s operations or discontinue the Group s operating activities. The imposition of any of these or other penalties may result in a material and adverse effect on the Group s ability to conduct its operations. In such case, the Group may lose its rights to direct the activities of and receive economic benefits from its VIEs, which may result in deconsolidation of the VIEs.

In addition, any change in interpretation of current laws or any future laws affecting the determination of whether a VIE is a domestic or foreign-invested company may materially impact the viability of the Group s current corporate structure, corporate governance and business operations in many aspects. For example, the draft Foreign Investment Law published by the PRC Ministry of Commerce ( MOFCOM ) on January 19, 2015, if enacted as proposed, may cause the VIEs to be deemed as entities with foreign investment, and as a result, the Group s VIEs and subsidiaries in which these VIEs have direct or indirect equity ownership could be subject to the current restrictions on foreign investment in an industry within the catalogue of special management measures ( the negative list ) to be issued by the PRC State Council. If the enacted version of the Foreign Investment Law and the final negative list mandate further actions, such as MOFCOM market entry clearance or certain restructuring of the corporate structure and operations to be completed by companies with existing VIE structure like the Group s, the Group will face substantial uncertainties as to whether these actions can be timely completed, or at all. As a result, the Group s business, operating results and financial condition may be adversely affected.

## 20. RELATED PARTY TRANSACTION AND BALANCES

The Company has entered into royalty agreements with Recruit Management Solutions Co., Ltd. ( RMS ) and Recruit Career Co., Ltd. ( RCC ), which are wholly owned subsidiaries of Recruit Holdings Co., Ltd. ( Recruit ), for the use of training and online assessment materials. Recruit is a shareholder of the Company. The royalty fees charged by RMS were RMB133, RMB152 and RMB270 during the years ended December 31, 2015, 2016 and 2017, respectively. The royalty fees charged by RCC were RMB169, RMB60 and RMB20 during the years ended December 31, 2015, 2016 and 2017, respectively. As of December 31, 2016 and 2017, the royalty payables due to RMS were RMB74 and RMB68, respectively. As of December 31, 2016 and 2017, the royalty payables due to RCC were RMB8 and RMB0.5, respectively.

## 21. SUBSEQUENT EVENT

In March 2018, the Company entered into an agreement to acquire assets, including an online audio/video program transmission license, of an online training services company in the PRC for approximately RMB89,796.