51JOB, INC.
Form 20-F
March 29, 2019
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

(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** **For the fiscal year ended December 31, 2018**
	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, Email and/or Facsimile number and Address of Company Contact Person)

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

Title of Each Class	Name of Each Exchange on Which Registered
American depositary shares, each representing one common share, par value US$0.0001 per share	**NASDAQ Stock Market LLC**
Common shares, par value US$0.0001 per share*	**(NASDAQ Global Select Market)**

* Not for trading but only in connection with the listing of American depositary shares on the NASDAQ Global Select Market.

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

None
(Title of Class)

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

None
(Title of Class)

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

61,874,716 common shares, par value
US$0.0001 per share, as of December 31, 2018.

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 report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

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 every Interactive Data File required to be submitted 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 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.

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

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:

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

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

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.

We publish our financial statements in Renminbi. 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 RMB6.8755 to US$1.00 on December 31, 2018, as set forth in the Federal Reserve Board s H.10 Statistical Release. 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.

This annual report on Form 20-F includes our audited consolidated statements of operations and comprehensive income data for the years ended December 31, 2016, 2017 and 2018, and audited consolidated balance sheets data as of December 31, 2017 and 2018.

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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. Although we believe that our expectations expressed in these forward-looking statements are reasonable, our expectations may later be found to be incorrect. You should read these statements in conjunction with the risks disclosed in Item 3.D. 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, 2016, 2017 and 2018, and the selected consolidated balance sheets data as of December 31, 2017 and 2018, 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, 2014 and 2015, and the selected consolidated balance sheets data as of December 31, 2014, 2015 and 2016 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,					
	2014 RMB	2015 RMB	2016 RMB	2017 RMB	2018 RMB	2018 US$
	(in thousands, except share and per share data)					
Selected Consolidated Statements of Operations and Comprehensive Income Data:						
Revenues:						
Online recruitment services	1,248,101	1,356,442	1,547,143	1,871,700	2,431,898	353,705
	634,945	740,119	825,552	1,009,515	1,350,048	196,356

Other human resource related revenues						
Print advertising	14,247	5,328				
Total revenues	1,897,293	2,101,889	2,372,695	2,881,215	3,781,946	550,061
Net revenues	1,832,453	2,055,220	2,338,334	2,848,592	3,739,701	543,917
Cost of services(1)	(496,000)	(569,979)	(663,001)	(763,440)	(1,038,766)	(151,082)
Gross profit	1,336,453	1,485,241	1,675,333	2,085,152	2,700,935	392,835
Operating expenses(1):						
Sales and marketing	(563,565)	(654,468)	(783,492)	(917,784)	(1,197,178)	(174,122)
General and administrative	(249,275)	(263,067)	(280,002)	(296,608)	(353,557)	(51,423)
Total operating expenses	(812,840)	(917,535)	(1,063,494)	(1,214,392)	(1,550,735)	(225,545)
Income from operations	523,613	567,706	611,839	870,760	1,150,200	167,290
Income before income tax expense	551,945	744,098	699,886	542,256	1,486,875	216,257
Income tax expense	(113,035)	(126,301)	(134,699)	(169,493)	(242,434)	(35,261)
Net income	438,910	617,797	565,187	372,763	1,244,441	180,996
Net loss (income) attributable to non-controlling interests		260	791	(874)	7,878	1,146
Net income attributable to 51job, Inc.	438,910	618,057	565,978	371,889	1,252,319	182,142
Earnings per share:						
Basic	7.51	10.71	9.74	6.19	20.42	2.97
Diluted	7.35	10.41	9.68	6.08	19.82	2.88
Weighted average number of common shares outstanding:						
Basic	58,475,397	57,714,850	58,132,976	60,087,306	61,318,292	61,318,292
Diluted	59,691,993	62,498,651	58,474,068	61,150,413	63,175,483	63,175,483

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	As of December 31,					
	2014 RMB	2015 RMB	2016 RMB	2017 RMB	2018 RMB	2018 US$
	(in thousands)					
Selected Consolidated Balance Sheets Data:						
Assets:						
Cash	1,074,096	1,125,352	1,921,074	2,292,476	1,968,351	286,285
Short-term investments	3,420,650	3,825,547	4,159,318	4,839,550	6,865,886	998,602
Total current assets	5,045,764	5,560,298	6,719,585	7,878,241	9,676,990	1,407,461
Total non-current assets	535,956	861,964	1,016,325	2,145,491	2,561,426	372,543
Total assets	5,581,720	6,422,262	7,735,910	10,023,732	12,238,416	1,780,004
Liabilities:						
Convertible senior notes, current			1,257,709		1,725,182	250,917
Total current liabilities	963,974	1,136,038	2,703,022	2,042,654	4,209,468	612,242
Convertible senior notes, non-current	1,111,207	1,108,877		1,667,967		
Other non-current liabilities	12,593	43,235	57,166	121,348	210,752	30,653
Total liabilities	2,087,774	2,288,150	2,760,188	3,831,969	4,420,220	642,895
Total mezzanine equity				228,230	225,645	32,818
Shareholders equity:						
Common shares	48	48	49	50	50	7
Additional paid-in capital	1,040,639	1,052,788	1,299,350	1,809,732	2,055,036	298,893
Total 51job, Inc. shareholders equity	3,493,946	4,125,042	4,967,443	5,954,380	7,569,241	1,100,901
Total equity	3,493,946	4,134,112	4,975,722	5,963,533	7,592,551	1,104,291
Total liabilities, mezzanine equity and equity	5,581,720	6,422,262	7,735,910	10,023,732	12,238,416	1,780,004

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

	For the year ended December 31,					
	2014 RMB	2015 RMB	2016 RMB	2017 RMB	2018 RMB	2018 US$
	(in thousands)					
Cost of services	(12,997)	(13,770)	(14,080)	(14,029)	(16,316)	(2,373)
Operating expenses:						
Sales and marketing	(11,173)	(11,837)	(12,104)	(12,060)	(14,026)	(2,040)
General and administrative	(57,210)	(60,338)	(59,886)	(59,879)	(74,623)	(10,854)

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.

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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 remains 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.

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 online recruitment 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 and mobile applications, professional and social networking platforms, online classified websites and other human resource related 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 online recruitment 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 6.6% in 2018. 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, 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 candidates are evaluated and 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 lower than those of most developed countries. 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.

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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.

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 strive to cross-promote our other human resource related services among our online recruitment services customers. 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 or acquire 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 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, established 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 and was amended on December 29, 2018, specified that the PRC establish a social insurance system including basic pension insurance, basic medical insurance, work-related injury insurance, unemployment insurance and maternity insurance. On August 31, 2018, the Standing Committee of the National People s Congress passed the Draft Amendment to the PRC Individual Income Tax Law, which became fully effective on January 1, 2019 and significantly changed major provisions of the law, including the determination of residence, income tax brackets, and allowable personal deduction and special itemized deductions.

We provide business process outsourcing services for human resource administrative functions, in particular social insurance, benefits and payroll 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 social insurance and individual taxable income calculations, the extent and type of benefits employers are required to provide employees, and the administrative procedures, processes and documentation required by local government authorities. 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.

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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.

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 online recruitment 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, 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. We cannot assure you that the Internet infrastructure and telecommunications networks in China will be able to support the demands associated with the continued growth in Internet usage.

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.

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 telecommunications networks. 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 large volume of recruitment advertisements, successfully develop and enhance 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 platforms 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.

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 and tax 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.

We operate in an evolving market, and our business and results of operations may suffer if we do not successfully manage our growth.

We operate in a rapidly evolving market. While we have grown significantly since we commenced operations in 1998, we intend to continue to expand in size and increase the number of services we provide. Our success in managing this growth will depend to a significant degree on the ability of the members of our senior management to operate effectively both independently and as a group.

As a growing company, 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 platforms and equipment we utilize in providing our services;
- improve and develop financial and management information systems, controls and procedures;
- 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.

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Although we have achieved profitability for a period of time, we expect that our ongoing expansion will increase our operating expenses. In addition, new business initiatives may expose us to new challenges and uncertainties. Our historical results of operations should not be taken as indicative of the rate of growth, if any, or the level of profitability, if any, that can be expected in the future. If we do not successfully manage our growth, our business and results of operations may be materially and adversely affected.

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 State Administration for Industry and Commerce, or the SAIC (currently known as the PRC State Administration for Market Regulation, or the SAMR, since March 22, 2018), which became effective on September 1, 2016, the Circular on Launching a Special Program to Rectify Internet Advertisements promulgated by the SAIC, which became effective on February 9, 2018, and the PRC Electronic Commerce Law, which became effective on January 1, 2019, 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. With regard to products or services displayed in the order of keyword auction or keyword bidding, a clear mark AD shall be affixed to the search results containing such products or services. 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. In January 2019, the Announcement of Launching Special Crackdown Against Illegal Collection and Use of Personal Information by Apps was promulgated and became effective immediately, under which, Internet application, or app, operators shall strictly fulfill their obligations regulated in the PRC Cyber Security Law when collecting and using personal information, and the relevant authorities will strengthen the supervision and punishment of the illegal collection and use of personal information.

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.

If we do not appropriately maintain effective internal control over financial reporting, 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, 2018. 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 limited insurance coverage.

While we have insurance for some of our properties, vehicles and equipment, we do not maintain any business liability or disruption 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 to 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

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.B. 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, Jingwu Chen 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.B. Major Shareholders and Related Party Transactions Related Party Transactions Contractual Arrangements Among Our Group Entities.

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.

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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, August 15, 2010 and August 14, 2018, 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 VIE structures will be adopted or if adopted, what they would provide.

On March 22, 2018, the General Office of the State Council promulgated the Notice of the General Office of the State Council on Forwarding the Opinions of the China Securities Regulatory Commission on Launching Pilot Projects for the Domestic Issuance of Shares or Depositary Receipts by Innovative Enterprises, which became effective immediately, according to which, for the pilot enterprises that have a protocol control structure, the CSRC shall distinguish the different situations and prudently handle them in accordance with the law jointly with the relevant authorities. Although the PRC government s attitude towards the VIE structure is still conservative and prudent, it was the first time that the State Council and the CSRC have recognized the VIE structure in official documents.

On January 19, 2015, the PRC Ministry of Commerce, or the MOFCOM, published the first draft of the PRC Foreign Investment Law, or the First Draft FIL, on its official website for public review and comment. Among other things, the First Draft FIL expanded the definition of foreign investment and introduced 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 First Draft FIL included control through contractual arrangements within the definition of actual control. Under the First Draft FIL, VIEs would have been deemed as foreign-invested enterprises, if they were ultimately controlled by foreign investors, and would not be allowed, or would be subject to foreign investment restrictions and prohibitions.

On January 29, 2019, the National People s Congress published the second draft of the PRC Foreign Investment Law, or the FIL, which was voted and passed on March 15, 2019 and will come into effect on January 1, 2020. Compared with the First Draft FIL in 2015, the scope of foreign investment in the FIL is significantly narrower and limited to the establishment of foreign-invested enterprises by foreign investors in China by means of new set-up or merger/acquisitions. The FIL no longer includes control or own interests of domestic enterprises by contract, trust or other means within the scope of foreign investment, while still providing the catch-all clause to include any investments made by foreign investors in China through other means as provided by laws, administrative regulations or State Council provisions. Therefore, although the FIL does not clearly deem VIEs as foreign-invested enterprises, it is possible that future regulations or interpretations may provide otherwise, as a result of which, our business, financial condition and results of operations may be adversely affected.

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 applicable regulations. Our net income may be materially reduced if our affiliated Chinese entities tax liabilities increase.

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.B. 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.

We may be adversely affected by the complexity, uncertainties and changes in PRC regulation of Internet-related business and companies.

The PRC government extensively regulates the Internet industry, including foreign ownership of, and the licensing and permit requirements pertaining to, companies in the Internet industry. These Internet-related laws and regulations are relatively new and evolving, and their interpretation and enforcement involve significant uncertainties. As a result, in certain circumstances it may be difficult to determine what actions or omissions may be deemed to be in violation of applicable laws and regulations. Our failure to comply with applicable PRC Internet regulations could subject us to severe sanctions.

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.

The interpretation and application of existing PRC laws, regulations and policies and possible new laws, regulations or policies relating to the Internet industry have created substantial uncertainties regarding the legality of existing and future foreign investments in, and the businesses and activities of, Internet businesses in China. If new laws and regulations are promulgated, additional licenses may be required for our operations. If our operations do not comply with these new regulations at the time they become effective, or if we fail to obtain any licenses required under these new laws and regulations, we could be subject to penalties. 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.

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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.

Any administrative and court proceedings in China may be protracted, resulting in substantial costs and diversion of resources and management attention. Since PRC administrative and court authorities have significant discretion in interpreting and implementing statutory and contractual terms, it may be more difficult to evaluate the outcome of administrative and court proceedings and the level of legal protection we enjoy. These uncertainties may impede our ability to enforce the contracts we have entered into and could materially and adversely affect our business, financial condition and results of operations.

The discontinuation of preferential tax treatments currently available in the PRC could have a material and adverse effect on our financial condition and results of operations.

The PRC Enterprise Income Tax Law, or the EIT Law, which became effective on January 1, 2008 and was amended on February 24, 2017 and December 29, 2018, respectively, applies a uniform 25% enterprise income tax, or EIT, rate to both foreign-invested enterprises and domestic enterprises. Subject to certain factors described in the EIT Law and related regulations, an enterprise may benefit from a preferential tax rate of 15% under the EIT Law if it qualifies as a High and New Technology Enterprise, or HNTE.

In December 2009, our main operating subsidiary, Tech JV, was designated by relevant local authorities in Shanghai as a HNTE 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. In 2018, its preferential tax status was renewed and is valid through 2020. We cannot assure you that Tech JV will continue to qualify as a HNTE when it is subject to reevaluation in the future. 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.

Dividends we receive from our PRC subsidiaries are subject to PRC withholding tax.

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.

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. In April 2009, the PRC State Administration of Taxation, or the SAT, issued the Circular on Identification of China-Controlled Overseas-Registered Enterprises as Resident Enterprises on the Basis of Actual Management Organization, or Circular 82, which further provided 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.E. 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.

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If we are considered a PRC resident under the EIT Law, dividends payable to foreign investors and gains on the sale of our common shares or ADSs by our foreign investors may become subject to PRC taxation.

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 the 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 the 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 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.

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 provisions of Circular 698 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.

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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.

Certain PRC regulations may make it more difficult for us to pursue growth through acquisitions in China.

Certain PRC regulations and rules establish additional procedures and requirements for mergers and acquisitions in China. Under the PRC Anti-Monopoly Law, companies undertaking acquisitions relating to businesses in China must notify the anti-monopoly enforcement agency, in advance of any transaction where the parties revenues in the China market exceed certain thresholds and the buyer would obtain control of, or decisive influence over, the other party. Under the FIL, where a foreign investor acquires any domestic enterprise in the PRC or participates in the concentration of business operators by other means (i.e., obtaining control over or decisive influence on other business operators by means of merger, acquisition of equity interests or assets, or contracts, etc., as defined in the PRC Anti-Monopoly Law), it is subject to review on concentration of business operators pursuant to the PRC Anti-Monopoly Law. In addition, six PRC regulatory agencies, including the MOFCOM, the State-Owned Assets Supervision and Administration Commission, the SAT, the SAIC, the CSRC and the PRC State Administration of Foreign Exchange, or the SAFE, jointly adopted the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, or the M&A Rules, which became effective on September 8, 2006 and was amended on June 22, 2009. The M&A Rules require that the MOFCOM be notified in advance of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise, if (i) any important industry is concerned, (ii) such transaction involves factors that have or may have impact on the national economic security, or (iii) such transaction will lead to a change in control of a domestic enterprise which holds famous trademarks or PRC time-honored brands. Complying with the requirements of the relevant regulations to complete acquisitions could be time-consuming, and any required approval processes may delay or inhibit our ability to complete transactions, which could affect our ability to expand our business.

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 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.

Our business has benefitted from financial incentives granted by local governments. The elimination of these incentives or changes to local government policies would materially affect our results of operations.

Local governments in China have granted financial incentives from time to time to some of our PRC subsidiaries as part of their efforts to encourage and support the development of local businesses. We received approximately RMB97.1 million, RMB86.3 million and RMB173.8 million (US$25.3 million) in financial incentives from local governments in 2016, 2017 and 2018, respectively. The timing, amount and criteria of incentives are determined within the sole discretion of the local government authorities and cannot be expected or predicted before we actually receive any incentive. Local governments may decide to reduce or eliminate incentives or change their policies at any time, and we cannot assure you of the continued availability of these incentives. Any reduction or elimination of incentives would materially and adversely affect our results of operations.

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.

Fluctuations in exchange rates may have a material and adverse effect on our results of operations and the value of 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 China s political and economic conditions. The conversion of the Renminbi into foreign currencies, including the U.S. dollar, has been based on rates set by the People s Bank of China. In July 2005, the PRC government changed its decades-old policy of pegging the value of the Renminbi to the U.S. dollar, and the Renminbi appreciated by more than 20% against the U.S. dollar between July 2005 and July 2008. Between July 2008 and June 2010, this appreciation halted and the exchange rate between the Renminbi and the U.S. dollar remained within a narrow band. Since June 2010, the Renminbi has fluctuated against the U.S. dollar, at times significantly and unpredictably. It is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between the Renminbi and the U.S. dollar in the future.

Substantially all of our revenues and costs are denominated in the Renminbi. Any significant revaluation of the Renminbi may materially and adversely affect our cash flows, revenues, earnings and financial position, and the value of, and any dividends payable on, our ADSs in U.S. dollars. To the extent that we need to convert U.S. dollars into Renminbi for our operations, appreciation of the Renminbi against the U.S. dollar would have an adverse effect on the Renminbi amount we would receive from the conversion. Conversely, if we decide to convert our Renminbi into U.S. dollars for the purpose of making payments for dividends on our common shares or ADSs, for strategic acquisitions or investments, or for other business purposes, appreciation of the U.S. dollar against the Renminbi would have a negative effect on the U.S. dollar amount available to us. In addition, appreciation or depreciation in the value of the Renminbi relative to the U.S. dollar would affect our financial results reported, regardless of any underlying change in our business or results of operations, as the Renminbi is our reporting currency.

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.

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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.

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 subject to laws in the United States pursuant to which the PCAOB conducts regular inspections to assess their compliance with applicable professional standards. Our independent registered public accounting firm is located in, and organized under the laws of, the PRC, which is a jurisdiction where the PCAOB has been 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 PRC Ministry of Finance, or 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.

On December 7, 2018, the SEC and the PCAOB issued a joint statement highlighting continued challenges faced by the U.S. regulators in their oversight of financial statement audits of U.S.-listed companies with significant operations in China. However, it remains unclear what further actions, if any, the SEC and the PCAOB will take to address the problem.

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. Under the terms of the settlement, the underlying proceeding against the Big Four PRC-based accounting firms was deemed dismissed with prejudice four years after entry of the settlement. The four-year mark occurred on February 6, 2019. While we cannot predict if the SEC will further challenge the Big Four PRC-based accounting firms compliance with U.S. law in connection with U.S. regulatory requests for audit work papers or if the results of such a challenge would result in the SEC imposing penalties such as suspensions, 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.

Risks Related to Our Common Shares and Our ADSs

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, 2019, the following shareholders beneficially owned 36.3 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 12.9 million common shares, or approximately 20.7% of our outstanding common shares.

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.

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 results of operations;
- 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 online recruitment 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;
- approvals or revocations of operating licenses or permits in relation to our business;
- pending or potential litigation or regulatory investigations; and
- general economic or political conditions in China or elsewhere in the world.

In addition, the stock market in general, and the trading 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. 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.

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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.

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 amended and restated 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.

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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 conduct substantially all of our operations in China and most of our directors and executive officers reside outside the United States.

We are an exempted company incorporated under the laws of the Cayman Islands and conduct substantially all of our operations in China. The majority of our assets are located in China. In addition, many of our directors and executive officers reside outside the United States and a substantial portion of their assets are located outside the United States. As a result, it may be difficult for you to effect service of process within the United States or elsewhere outside the Cayman Islands and China on us or our directors or officers, including with respect to matters arising under U.S. federal securities laws or applicable state securities laws. It may also be difficult or impossible for you to bring an action against us or against our directors and officers in the Cayman Islands or in China in the event that you believe your rights as an ADS holder have been infringed under the securities laws of the United States or otherwise. Even if you are successful in bringing an action of this kind, the laws of the Cayman Islands and China may render you unable to enforce a judgment against our assets or the assets of our directors and officers. There is no statutory recognition in the Cayman Islands of judgments obtained in the United States, although the courts of the Cayman Islands will generally recognize and enforce a non-penal judgment of a foreign court of competent jurisdiction without retrial on the merits. Moreover, our PRC legal counsel has advised us that China does not have treaties with the United States or many other countries providing for the reciprocal recognition and enforcement of judgment of courts.

Our corporate affairs are governed by our amended and restated memorandum and articles of association, the Cayman Islands Companies Law (2018 Revision), 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, which provides persuasive, but not binding, authority in 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 provides significantly less protection to investors. 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.

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

We are a foreign private issuer within the meaning of the rules under the Exchange Act, and as such we are exempt from certain provisions applicable to U.S. domestic public companies.

Because we qualify as a foreign private issuer under the Exchange Act, we are exempt from certain provisions of the securities rules and regulations in the United States that are applicable to U.S. domestic issuers, including:

- the rules under the Exchange Act requiring the filing with the SEC of quarterly reports on Form 10-Q or current reports on Form 8-K;
- the sections of the Exchange Act regulating the solicitation of proxies, consents, or authorizations in respect of a security registered under the Exchange Act;
- the sections of the Exchange Act requiring insiders to file public reports of their stock ownership and trading activities and liability for insiders who profit from trades made in a short period of time; and
- the selective disclosure rules by issuers of material nonpublic information under Regulation FD.

We are required to file an annual report on Form 20-F within four months of the end of each fiscal year. In addition, we intend to publish our results on a quarterly basis as press releases, distributed pursuant to NASDAQ Stock Market rules and regulations. Press releases relating to financial results and material events will also be furnished to the SEC on Form 6-K. However, the information we are required to file with or furnish to the SEC will be less extensive and less timely compared to that required to be filed with the SEC by U.S. domestic issuers. As a result, you may not be afforded the same protections or information that would be made available to you were you investing in a U.S. domestic issuer.

We believe that we were not a passive foreign investment company, or a PFIC, for our taxable year ending on December 31, 2018, 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, 2018, 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.E.. Additional Information Taxation Certain United States Federal Income Tax Considerations Passive Foreign Investment Company Rules.

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 (2018 Revision). 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, 2018, 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.C. Information on the Company Organizational Structure.

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.

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. From 2014 to 2015, we purchased 1,698,243 ADSs, through open-market transactions for an aggregate consideration of approximately US$49 million, including transaction fees. We did not make any repurchase of our ADSs in the open market in 2016, 2017 and 2018.

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 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 and made several long-term, non-controlling investments totaling RMB97.3 million in companies that provide recruitment and human resource services. In 2018, we made several long-term investments totaling RMB156.8 million (US$22.8 million), which included companies that provide talent assessment, human resource consulting and business process outsourcing services as well as participation in investment funds that are focused on companies that primarily provide services in the education and training market in China, We have utilized our existing cash resources for payments related to these acquisitions and investments in 2016, 2017 and 2018. 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.

See Item 5.B. Operating and Financial Review and Prospects Liquidity and Capital Resources Capital Resources for a discussion of our capital expenditures.

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 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 principal website address is *www.51job.com*. The SEC maintains a website at *www.sec.gov* that contains reports, proxy and information statements, and other information regarding registrants that file electronically with the SEC using its EDGAR system.

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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 online recruitment services, we also provide other complementary human resource related services, consisting primarily of business process outsourcing campus recruitment, training, assessment 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 local offices in 37 cities in China 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:

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

We generate a significant majority of our revenues from our online recruitment services. Our online recruitment services business generated 65.2% of our revenues in 2016, 65.0% of our revenues in 2017 and 64.3% of our revenues in 2018. Other human resource related services generated 34.8% of our revenues in 2016, 35.0% of our revenues in 2017 and 35.7% of our revenues in 2018.

Online Recruitment Services

Our online recruitment services are delivered through several brands. Each website and its respective mobile application focuses 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.

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;

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- 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 138 million user accounts established since the launch of this website in 1999 and approximately 127 million resumés posted online as of December 31, 2018. 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. Yingjiesheng.com, or YJS, is 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 offline campus recruitment services further increase and strengthen our overall service effectiveness to employers.

www.51jingying.com. The website *www.51jingying.com*, or Jingying, 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.

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.

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The following table sets forth the estimated number of unique employers who used our online recruitment services for the periods indicated. In line with our strategic priority to focus more attention on higher potential employers, moderate new user additions and terminate coverage of certain customer accounts in 2018, we saw a decrease in the estimated number of unique employers who used our online recruitment services during the year ended December 31, 2018.

	For the year ended December 31,		
	2016	**2017**	**2018**
Estimated unique employers using online recruitment services*	460,811	519,257	485,008

* The estimated number of unique employers using online recruitment services reflects those employers currently assigned a unique identification number in our management information system and does not include employers utilizing Lagou.com, which we acquired in December 2017.

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

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, benefits and payroll processing as well as compliance services to adhere with local governmental employment regulations. While the market for business process outsourcing services in China is relatively new 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 their organizations become more complex, thereby increasing the need and demand for using third parties to perform human resource administrative functions. In providing our business process outsourcing services, we strive for close operational integration with our recruitment 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.

Campus Recruitment. We provide campus recruitment services to corporations seeking to recruit college and university students. We assist corporations with recruitment strategy, the selection of targeted schools, the scheduling of campus visits, and the marketing and promotion of their image to students. We also handle on-campus logistical arrangements and event management for our clients, including venue reservation, event design and decor, equipment rental, photography and videography.

Training. We conduct training seminars in such areas as 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.

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. Our talent assessment services, including a system of in-house developed, proprietary psychometric tests, help employers to identify ideal job candidates and better allocate talent resources in their organizations in China.

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.

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.

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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, such as career fairs and overseas events.

Seasonality

Our business experiences seasonal variations in recruitment demand and activities. See Item 5.A. Operating and Financial Review and Prospects Operating Results Factors Affecting Our Results of Operations for a discussion of seasonality in the human resource services market.

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.

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 platforms 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.D. 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, telecommunications networks in China and our technology platform.

Competition

We face significant competition in all of our business lines. See Item 3.D. 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.

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 related 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.

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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, 2018, we employed over 4,300 sales and account management representatives that identify and directly contact customers via the Internet, telephone and personal sales visits. We maintain local offices in 37 cities in China 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.

Cross-Marketing. We have established cross-marketing relationships between our platforms 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.

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We have registered trademarks, including , , *51job.com*, , and *eSearch*, with the Trademark Office of the SAIC in tl 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.B. 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.D. 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 PRC 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. Since November 2018, the State Council and the MOHRSS have issued some notices and regulations to pilot the establishment of wholly foreign owned human resource service agencies in certain locations in the PRC, such as the China (Shanghai) Pilot Free Trade Zone and Zhongguancun National Innovation Demonstration Zone in Beijing.

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;
- Special Administrative Measures (Negative List) for Foreign Investment Access (Edition 2018), effective on July 28, 2018; and
- Special Administrative Measures (Negative List) for Foreign Investment Access in Pilot Free Trade Zones (2018 Version), effective on July 30, 2018.

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 Internet app 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 service providers (e.g., Internet content providers providing app 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.D. Key Information Risk Factors Risks Related to Doing Business in China We may be adversely affected by the complexity, uncertainties and changes in PRC regulation of Internet-related business and companies.

General Regulation of Our Businesses

Advertising

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

- Advertising Law (Amended in 2018);
- 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), or the Human Resource Markets Regulations, jointly promulgated by the MOHRSS and the SAIC. Under the Human Resource Markets Regulations, 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.

On May 2, 2018, the State Council promulgated the Provisional Regulations on Human Resource Markets, or Provisional Regulations, which came into effect on October 1, 2018. The Provisional Regulations stipulate different requirements based on the specific businesses engaged in by commercial human resource service organizations: those engaging in employment agency activities shall obtain the human resource services license; those engaging in the collection and dissemination of human resource supply and demand information, the employment and entrepreneurship guidance, human resource management consulting, human resource evaluation, human resource training, and those undertaking outsourcing contracts of human resource services only need to complete filing formalities. The Provisional Regulations have made substantial changes to the employment agency licensing system set up by the Human Resource Markets Regulations.

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Value-Added Telecommunications Services

The delivery of content on our online platforms 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 SAMR. 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.

Online Commerce

The SAIC promulgated the Administrative Measure for Online Trading on January 26, 2014, which applies to all online commerce businesses in general and requires all online commerce operators to register with the SAIC or its local offices.

Under the PRC Electronic Commerce Law, which became effective on January 1, 2019, e-commerce operators shall abide by the relevant provisions of the PRC Advertising Law when transmitting advertisements to the consumer. With regard to products or services displayed in the order of keyword auction or keyword bidding, a clear mark AD shall be affixed to the search results containing such products or services.

There are no PRC laws that have national applicability to online commerce specifically relating to human resource services. However, local authorities may impose requirements on online business activities conducted within its jurisdiction, such as registration or filing requirements.

Mobile Applications

The Cyberspace Administration of China, or the CAC, promulgated the Administrative Provisions on Mobile Internet Application Information Services, or the Mobile Application Administrative Provisions, in June 2016, which became effective on August 1, 2016. Pursuant to the Mobile Application Administrative Provisions, a mobile Internet application refers to an app software that runs on mobile smart devices providing information services after being pre-installed, downloaded or embedded through other means. Mobile Internet app providers refer to the owners or operators of mobile Internet apps. Internet app stores refer to platforms which provide services related to online browsing, searching and downloading of app software and releasing of development tools and products through the Internet.

Under the Mobile Application Administrative Provisions, an Internet app program provider must verify a user s mobile phone number and other identity information under the principle of mandatory real name registration at the back-office end and voluntary real name display at the front-office end. An Internet app provider must not enable functions that can collect a user s geographical location information, access user s contact list, activate the camera or recorder of the user s mobile smart device or other functions irrelevant to its services, nor is it allowed to conduct bundle installations of irrelevant app programs, unless it has clearly indicated to the user and obtained the user s consent on such functions and app programs. In respect of an Internet app store service provider, the Mobile Application Administrative Provisions require that, among others, it must file a record with the local authority within 30 days after it rolls out the Internet app store service online. It must also examine the authenticity, security and legality of Internet app providers on its platform, establish a system to monitor app providers credit and file a record of such information with relevant governmental authorities. If an app provider violates the regulations, the Internet app store service provider must take measures to stop the violations, including giving a warning, suspension of release, withdrawal of the app from the platform, keeping a record of the incident and reporting the incident to the relevant governmental authorities.

In December 2016, the MIIT promulgated the Interim Measures on the Administration of Pre-Installation and Distribution of Applications for Mobile Smart Terminals, which came into effect on July 1, 2017. These measures aim to enhance the administration of mobile apps, and require, among others, that mobile phone manufacturers and Internet information service providers must ensure that a mobile app, as well as its ancillary resource files, configuration files and user data can be uninstalled by a user on a convenient basis, unless it is a basic function software, which refers to a software that supports the normal functioning of the hardware and operating system of a mobile smart device.

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On March 15, 2019, the SAMR and the CAC jointly promulgated the Announcement on the Implementation of App Security Certification, or the Implementation Announcement, according to which, the China Cyber Security Review Technology and Certification Center shall be responsible for the app security certification work, and app operators are encouraged to undergo such security certification voluntarily; search engines, app stores, etc. are encouraged to clearly mark and give priority to recommend the apps which have been certified. As the attachment to the Implementation Announcement, the Implementation Rules of App Security Certification have stipulated specific certification procedures, post-certification supervision and management of app security certification.

Labor and Social Insurance

Under the PRC Labor Law, effective in 1995 and its amendment which became effective on December 29, 2018, 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.

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 in 2011 and was amended in 2018. The PRC Social Insurance Law specified that the PRC establish 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.

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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.

Under the FIL, the state shall protect the intellectual property of foreign investors and foreign-invested enterprises as well as the legitimate rights and interests of holders of intellectual property rights and the relevant right holders; any infringement upon intellectual property rights will be held for legal liability according to PRC laws. Foreign investors may, according to applicable laws, freely remit into or out of the PRC, in Renminbi or any other foreign currency, their intellectual property royalties within the territory of the PRC.

Regulations Relating to Internet Content

The PRC government has promulgated measures relating to Internet content through various ministries and agencies, including the MIIT, the News Office of the State Council, the PRC Ministry of Culture and Tourism and the PRC State Administration of Press, Publication, Radio, Film and Television, or the SAPPRFT. In addition to various approval and license requirements, these measures specifically prohibit Internet activities that result in the dissemination of any content which is found to contain pornography, promote gambling or violence, instigate crimes, undermine public morality or the cultural traditions of the PRC or compromise state security or secrets. Internet content providers must monitor and control the information posted on their websites, and Internet information service providers that provide Internet information services with public opinion attributes or social mobilization capacity shall conduct security assessment on their own and be responsible for the assessment results. If any prohibited content is found, they must remove the content immediately, keep a record of it and report to the relevant authorities. If an Internet content provider violates these measures, the PRC government may impose fines and revoke any relevant business operation licenses.

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.

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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.

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 service operators and Internet information service 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 service operator or Internet information service provider may collect and use users personal information. When collecting and using users personal information, telecommunications service operators and Internet information service 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 service operators and Internet information service 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 and was amended in 2018, 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.

On January 25, 2019, the Announcement of Launching Special Crackdown Against Illegal Collection and Use of Personal Information by Apps, or the Announcement, was promulgated jointly by the CAC, the MIIT, the PRC Ministry of Public Security and the SAMR and became effective immediately. Under this Announcement, app operators shall strictly fulfill their obligations regulated in the PRC Cyber Security Law when collecting and using personal information. The relevant authorities will evaluate the privacy policies of and collection and use of personal information by the apps with a large number of users and those closely related to people s lives, and strengthen the regulation and punishment of the illegal collection and use of personal information. For the implementation of this Announcement, the relevant authorities have established the App Special Crackdown Working Group, or App Working Group. The App Working Group promulgated the Self-Assessment Guidelines for Apps Regarding the Illegal Collection of Personal Information on March 1, 2019, which provide nine self-assessment guidelines and standards for the collection and use of personal information by app operators from three aspects: (i) privacy policy text; (ii) behavior in the collection and use of personal information; and (iii) app operator s obligation to protect users rights.

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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 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.

We do not believe the activities we engage in on our websites and mobile applications 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 on Internet News Information Service

The CAC issued the Provisions for the Administration of Internet News Information Services, or Internet News Provision, which became effective on June 1, 2017 and replaced the original provisions promulgated in 2005.

Internet news information services shall include service of collecting, editing and publishing Internet news information, service of reposting and service of providing propagation platform. Under the Internet News Provision, Internet news service providers shall also include entities that are not established by the press but reproduce Internet news from other sources, provide electronic bulletin services on current and political events, and transmit such information to the public. The CAC shall be in charge of the supervision and administration of the Internet news information services throughout China.

If we release information that may be deemed by authorities as Internet news, we may be required to obtain an Internet news information service license. We do not believe that we are required to obtain an Internet news releasing license because the news posted on our websites and mobile applications are related to the recruitment and HR services industries which are not political in nature. However, if any of the Internet news posted on our websites and mobile applications is deemed by the government to be political in nature, related to macroeconomics, or otherwise requires such license based on the sole discretion of the government authority, we would need to apply for such license. If we are deemed to be in breach of the Internet News Provision or other relevant Internet news releasing regulations, the PRC regulatory authorities may suspend our information release activities and impose a fine. In serious cases, the PRC regulatory authorities may even suspend the Internet service or Internet access.

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Regulations on Broadcasting Audio/Video Programs through the Internet

In July 2004, the State Administration of Radio, Film and Television, or the SARFT, promulgated the Rules for the Administration of Broadcasting of Audio/Video Programs through the Internet and Other Information Networks, or the A/V Broadcasting Rules, which were replaced by Provisions on the Administration of Private Network and Targeted Communication Audio-Visual Program Services which took effect on June 1, 2016. For an entity that engages in content delivery, integrated broadcast control, transmission distribution and other private network and targeted communication to send audio-visual program service, an Internet audio/video program transmission license is required.

In April 2005, the State Council announced Several Decisions on Investment by Non-State-Owned Companies in Culture-Related Business in China. These decisions encourage and support non-state-owned companies to enter certain culture-related business in China, subject to restrictions and prohibitions for investment in audio/video broadcasting, website news and certain other businesses by non-state-owned companies. These decisions authorize the SARFT, the Ministry of Culture and the General Administration of Press and Publication to adopt detailed implementation rules according to these decisions.

In December 2007, the SARFT and the MIIT jointly issued the Rules for the Administration of Internet Audio and Video Program Services, or Circular 56, which came into effect as of January 31, 2008 and was amended in August 2015. Circular 56 reiterates the requirement set forth in the A/V Broadcasting Rules that online audio/video service providers must obtain an Internet audio/video program transmission license from the SARFT. Furthermore, Circular 56 requires all online audio/video service providers to be either wholly state-owned or state-controlled companies. According to relevant official answers to press questions published on the SARFT s website dated February 3, 2008, officials from the SARFT and the MIIT clarified that online audio/video service providers that already had been operating lawfully prior to the issuance of Circular 56 may re-register and continue to operate without becoming state-owned or controlled, provided that such providers have not engaged in any unlawful activities. This exemption will not be granted to online audio/video service providers established after Circular 56 was issued. These policies have been reflected in the Application Procedure for Audio/Video Program Transmission License. Failure to obtain the Internet audio/video program transmission license may subject an online audio/video service provider to various penalties, including fines of up to RMB30,000, seizure of related equipment and servers used primarily for such activities and even suspension of its online audio/video services.

In May 2016, the SAPPRFT issued the Circular on Relevant Issues Concerning Implementing the Approval Granting for Mobile Internet Audio and Video Program Services, or the Mobile Audio and Video Program Circular, which was amended in 2018. The Mobile Audio and Video Program Circular provides that mobile Internet audio/video program services are deemed a type of Internet audio/video program services. Entities approved to provide mobile Internet audio/video program services may use mobile WAP websites or mobile applications to provide audio/video program services, but the types of the programs operated by such entities must be within the permitted scope as provided in their online audio/video program transmission license and such mobile applications must be filed with the SAPPRFT.

On March 6, 2018, the SAPPRFT issued the Notice on Further Regulating the Dissemination Order of Online Audio-Visual Programs, under which, the activities of illegally extracting, cutting and re-editing audio-visual programs shall be resolutely banned, and websites are required to rigorously manage online audio-visual programs in terms of the legitimacy of copyright.

On January 9, 2019, the Specifications for the Administration of the Network Short Video Platform was promulgated by China Netcasting Services Association and became effective immediately, under which, the network short video platform shall obtain the permit for audio-video spreading programs through information network and conduct business strictly within the scope of the permit.

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.

Under the FIL, foreign investors may, according to applicable laws, freely remit into or out of the PRC, in Renminbi or any other foreign currency, their contributions, profits, capital gains, income from asset proposal, intellectual property royalties, lawfully acquired compensation, indemnity or liquidation income and so on within the territory of the PRC.

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 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.

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.D. 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.

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 and 2018.

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.

Regulations Relating to Mergers and Acquisitions of Domestic Enterprises by Foreign Investors

In August 2006, six PRC regulatory agencies jointly adopted the M&A Rules, which became effective in September 2006 and was further amended in June 2009. The M&A Rules established additional procedures and requirements that could make merger and acquisition activities by foreign investors more time-consuming and complex. These rules require, among other things, that the MOFCOM be notified in advance of any change-of-control transaction in which a foreign investor will take control of a PRC domestic enterprise or a foreign company with substantial PRC operations, if certain thresholds under the Provisions on Thresholds for Prior Notification of Concentrations of Undertakings issued by the State Council on August 3, 2008 are triggered.

Under the FIL, where a foreign investor acquires any domestic enterprise in the PRC or participates in the concentration of business operators by other means (i.e., obtaining control over or decisive influence on other business operators by means of merger, acquisition of equity interests or assets, or contracts, etc., as defined in the PRC Anti-Monopoly Law), it is subject to review on concentration of business operators pursuant to the PRC Anti-Monopoly Law.

Complying with these requirements could affect our ability to expand our business. See Item 3.D. Key Information Risk Factors Risks Related to Doing Business in China Certain PRC regulations may make it more difficult for us to pursue growth through acquisitions in China.

Regulations Relating to Taxation

For a discussion of applicable PRC tax regulations, see Item 5.A. Operating and Financial Review and Prospects Operating Results Net Revenues and Business Taxes and Income Taxation PRC.

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 three 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; and Beijing Zhiding Youyuan Management Consulting Co., Ltd., a 60% owned subsidiary which conducts human resource services. In addition, Tech JV owns two PRC subsidiaries which have no current operations: Shanghai Qianjin Advertising Co., Ltd., or AdCo, an 80% owned subsidiary; and Shanghai Wang Cai Advertising Co., Ltd., a subsidiary jointly owned by Tech JV and AdCo.

(5) Includes Beijing Lagou Network Technology Co., Ltd., a 60% owned PRC subsidiary which conducts online recruitment services. In addition, Run An directly and indirectly wholly owns three PRC subsidiaries which have no current operations: Ningbo Yijian Network Science and Technology Co., Ltd.; Shenzhen City Huiyuan Cultural Industry Communication Co., Ltd.; and Wanyi (Shanghai) Internet Information Service Co., Ltd.

(6) Includes Qianjin Zhong Cheng Technology (Wuhan) Co., Ltd., a wholly owned PRC subsidiary which conducts online 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.

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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.B. Major Shareholders and Related Party Transactions Related Party Transactions Contractual Arrangements Among Our Group Entities.

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.D. 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 of three floors in an office building, totaling approximately 4,845 square meters. In addition, we lease space for our network of sales offices and service locations in 37 cities across China, including Beijing, Chengdu, Guangzhou, Hangzhou, Nanjing, Shanghai, Shenzhen and Wuhan. As of the date of this annual report, we have leases for office space totaling approximately 40,700 square meters. We believe that we will be able to obtain adequate facilities to accommodate our expansion plans in the near future.

In March 2018, we completed the acquisition of office space in Shanghai to accommodate our growing business operations. The purchase price was RMB57.4 million (US$8.3 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.D. 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 provide online recruitment services and other complementary human resource related services, consisting primarily of business process outsourcing campus recruitment, training, assessment 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, 2018, our online recruitment services generated approximately 64% of our revenues with the remaining 36% 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. Since 2015, the growth rate of China s gross domestic product has been below 7% and was 6.6% in 2018, the slowest pace since 1990. 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 results of operations, 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 and service locations in 37 cities across China and cover over 150 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 online recruitment 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 online recruitment 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 829 million in 2018, 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 online recruitment services. We also provide other complementary human resource related services, consisting primarily of business process outsourcing, campus recruitment, training, assessment 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,		
	2016	**2017**	**2018**
Revenues:			
Online recruitment services	65.2%	65.0%	64.3%
Other human resource related revenues	34.8	35.0	35.7
Total revenues	100.0%	100.0%	100.0%

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

	2016 compared to 2015	**2017 compared to 2016**	**2018 compared to 2017**
Online recruitment services	14.1%	21.0%	29.9%
Other human resource related revenues	11.5	22.3	33.7
Total revenues	12.9%	21.4%	31.3%

Online Recruitment 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. We also provide online marketing services to employers, such as priority listings, keyword purchases, display advertising, and e-mail and text messaging campaigns, which enhance the placement of their job opportunities across our various recruitment platforms and enable them to target and attract the attention of certain job seekers. 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, installing our mobile applications on their devices 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 the growth and development of our online recruitment services has benefitted from the greater acceptance of the Internet as a recruitment medium in China as well as our effectiveness in increasing our engagement with employers to utilize these services through expanding our overall customer base and/or raising the average amount an employer spends on our services over time.

For the future, we expect the growth of our online recruitment services revenues will continue to be driven by a combination of 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.

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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. The estimated number of unique employers using our online recruitment services does not include employers utilizing Lagou.com, which we acquired in December 2017.

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

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 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, event management and administrative tasks. For our training services, we receive a registration fee per each participant who attends our seminars and workshops. For our professional assessment tools and tests, we charge a subscription fee based on the number of individuals evaluated or tests taken as well as the type of tests administered on behalf of employers. 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 purchasing our studies and reports on compensation and other human resource topics and for participating in our industry conferences and events. We expect to continue to expand and 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 online recruitment services over time.

The 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. In addition, changes in government regulations and enforcement policies in China, as well as changes in the behavior and attitude of employers regarding compliance to tax and labor laws, talent development and human resource management, may affect the growth of our other human resource related services.

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 value-added tax, or 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,		
	2016	**2017**	**2018**
Cost of services	(28.4)%	(26.8)%	(27.8)%
Total operating expenses	(45.4)%	(42.6)%	(41.4)%

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 up-selling and 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 2018 due to higher employee compensation expenses and additional costs related to the development of new services.

Operating Expenses

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

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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,		
	2016	2017	2018
Operating expenses:			
Sales and marketing	(33.5)%	(32.2)%	(32.0)%
General and administrative	(11.9)	(10.4)	(9.4)
Total operating expenses	(45.4)%	(42.6)%	(41.4)%

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.

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

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. No Cayman Islands stamp duty will be payable unless an instrument is executed in, or after execution, brought to or produced before a court in the Cayman Islands.

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 and December 2018, respectively), which applies a uniform 25% EIT rate to both foreign-invested enterprises and domestic enterprises effective from 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. In 2018, its preferential tax status was renewed and is valid through 2020. We cannot assure you that Tech JV will continue to qualify as a HNTE when it is subject to reevaluation in the future.

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, 2018, 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.D. 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 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.

We had deferred tax assets, net of valuation allowance, of RMB0.8 million, RMB12.9 million and RMB15.0 million (US$2.2 million) as of December 31, 2016, 2017 and 2018, respectively. We had deferred tax liabilities of RMB57.2 million, RMB121.3 million and RMB210.8 million (US$30.7 million) as of December 31, 2016, 2017 and 2018, respectively.

As of December 31, 2016, 2017 and 2018, we recognized aggregate valuation allowances of RMB2.4 million, RMB39.6 million and RMB43.9 million (US$6.4 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, 2016, 2017 and 2018, we did not record any interest and penalties associated with uncertain tax positions as there were no uncertain tax positions.

Revenue Recognition

On January 1, 2018, we adopted ASC 606 Revenue from Contracts with Customers, or ASC 606. Results for reporting periods beginning after January 1, 2018 are presented under ASC 606, while prior period amounts were not adjusted and reported under the accounting standards in effect for the periods presented.

According to ASC 606, revenue is recognized when control of the promised goods or services is transferred to customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services.

The following is a description of the accounting policy for our principal revenue streams.

Online Recruitment Services Revenues

We provide online recruitment services through several websites and their respective mobile applications.

We sell recruitment packages that provide a single service or combination of services, such as job postings, access to a searchable resumé database, advertising and online management tools, which assist employers with their hiring process. The subscription period of recruitment packages ranges from one month to one year, and the display period for online advertising ranges from one week to one year. Revenue is recognized when services are provided over the subscription or display period.

Other Human Resource Related Revenues

We provide other value-added human resource services, such as business process outsourcing, campus recruitment, training, assessment, placement and other services.

We assist employers with human resource administrative functions on an outsourced basis, which mainly consist of social insurance, benefits and payroll processing as well as regulatory compliance services. Employers can choose to utilize a single service or combination of services. The fees collected for providing these services is mainly based on a fixed fee per employee or transaction processed. The contract term for business process outsourcing services ranges from one to three years. Revenue is recognized when services are performed and the customer simultaneously receives and consumes the benefits from these services, generally on a monthly basis.

We provide campus recruitment services to employers. These services include planning, promoting and managing recruitment events on or near college campuses as well as a host of selection and screening services that enable employers to successfully recruit college students and graduates. Revenue is recognized when these events and the tasks in conjunction to these events as outlined in the contract with customers have been completed.

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We conduct training programs, workshops and physical activities related to a variety of business and management topics, such as leadership, communication skills and team building. Revenue is recognized when participants attend training events we organize. For professional assessment tests, revenue is recognized when tests are administered to job candidates and employees.

For placement services, revenue is recognized as the identification of prospective candidates to fill job positions as designated in the contract is completed and accepted by customers. For other services such as compensation benchmarking reports, revenue is recognized when services are performed and items are delivered.

For a contract involving multiple services, we allocate revenue based on the value of a service on a standalone basis which is determined utilizing our regular selling prices charged in unbundled arrangements. Cash received in advance of services being delivered are recognized as advance from customers.

See Note 2(k) to our consolidated financial statements included elsewhere in this annual report for further discussion of revenue recognition under ASC 606.

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 RMB86.1 million in 2016, RMB86.0 million in 2017 and RMB105.0 million (US$15.3 million) in 2018 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.

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.

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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.D. 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.B. 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 equity securities without readily determinable fair values, equity method investments and available-for-sale debt securities. Equity securities without readily determinable fair values are measured and recorded using a measurement alternative that measures the securities at cost less impairment, if any, plus or minus changes resulting from qualifying observable price changes. Prior to January 1, 2018, these securities were accounted for using the cost method of accounting, measured at cost less other-than-temporary impairment. No other-than-temporary impairment charge was incurred or qualifying observable price changes were noted in the year ended December 31, 2018. For investees over which we do have the ability to exercise significant influence, but do not have a controlling interest, we account for these investments under the equity method. Under the equity method, we initially record investments at cost and subsequently recognize proportionate share of each equity investee s change in fair value in the consolidated statements of operations and comprehensive income and accordingly adjust the carrying amount of the investment. Available-for-sale debt securities 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. We also evaluate equity method investments and available-for-sale debt securities for other-than-temporary impairment. No other-than-temporary impairment charge for our long-term investments was incurred in the years ended December 31, 2016, 2017 and 2018.

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.

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, 2016, 2017 and 2018. 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.

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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, 2016, 2017 and 2018.

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 RMB97.1 million, RMB86.3 million and RMB173.8 million (US$25.3 million) for the years ended December 31, 2016, 2017 and 2018, respectively. We cannot assure you if or when we will receive such government subsidies in the future. See Item 3.D. Key Information Risk Factors Risks Related to Doing Business in China Our business has benefitted from financial incentives granted by local governments.

Recent Accounting Pronouncements

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

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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:

	For the year ended December 31,					
	2016		2017		2018	
	RMB	%	RMB	%	RMB	%
	(in thousands, except percentages)					
Revenues:						
Online recruitment services	1,547,143	66.2	1,871,700	65.7	2,431,898	65.0
Other human resource related revenues	825,552	35.3	1,009,515	35.4	1,350,048	36.1
Total revenues	2,372,695	101.5	2,881,215	101.1	3,781,946	101.1
Less: Business tax and surcharges	(34,361)	(1.5)	(32,623)	(1.1)	(42,245)	(1.1)
Net revenues	2,338,334	100.0	2,848,592	100.0	3,739,701	100.0
Cost of services(1)	(663,001)	(28.4)	(763,440)	(26.8)	(1,038,766)	(27.8)
Gross profit	1,675,333	71.6	2,085,152	73.2	2,700,935	72.2
Operating expenses(1):						
Sales and marketing	(783,492)	(33.5)	(917,784)	(32.2)	(1,197,178)	(32.0)
General and administrative	(280,002)	(11.9)	(296,608)	(10.4)	(353,557)	(9.4)
Total operating expenses	(1,063,494)	(45.4)	(1,214,392)	(42.6)	(1,550,735)	(41.4)
Income from operations	611,839	26.2	870,760	30.6	1,150,200	30.8
Gain (Loss) from foreign currency translation	238	0.0	3,630	0.1	(112,353)	(3.0)
Interest and investment income, net	58,933	2.5	77,009	2.7	113,673	3.0
Change in fair value of convertible senior notes	(69,439)	(3.0)	(496,175)	(17.4)	99,079	2.7
Gain from sale of long-term investments					61,070	1.6
Other income, net	98,315	4.2	87,032	3.0	175,206	4.7
Income before income tax expense	699,886	29.9	542,256	19.0	1,486,875	39.8
Income tax expense	(134,699)	(5.7)	(169,493)	(5.9)	(242,434)	(6.5)
Net income	565,187	24.2	372,763	13.1	1,244,441	33.3
Net loss (income) attributable to non-controlling interests	791	0.0	(874)	(0.0)	7,878	0.2
Net income attributable to 51job, Inc.	565,978	24.2	371,889	13.1	1,252,319	33.5

(1) Share-based compensation:						
Included in cost of services	(14,080)	(0.6)	(14,029)	(0.5)	(16,316)	(0.4)
Included in operating expenses:						
Sales and marketing	(12,104)	(0.5)	(12,060)	(0.4)	(14,026)	(0.4)
General and administrative	(59,886)	(2.6)	(59,879)	(2.1)	(74,623)	(2.0)

2018 Compared to 2017

Total Revenues. Our total revenues increased 31.3% to RMB3,781.9 million (US$550.1 million) in 2018 from RMB2,881.2 million in 2017. 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 29.9% to RMB2,431.9 million (US$353.7 million) in 2018 from RMB1,871.7 million in 2017. The growth was driven by an increase in the average revenue per unique employer, which was partially offset by a decrease in the number of unique employers utilizing our online recruitment services. Our average revenue per unique employer increased 39.1% primarily due to successful up-selling efforts that resulted in the purchase of multiple and/or higher value online services as well as price increases for select like-for-like products when compared with 2017. In line with our strategic priority to focus more attention on higher potential employers, moderate new user additions and terminate coverage of certain customer accounts in 2018, we estimate that the number of unique employers decreased 6.6% to 485,008 in 2018 from 519,257 in 2017.

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- *Other Human Resource Related Revenues*. Our revenues from other human resource related services increased 33.7% to RMB1,350.0 million (US$196.4 million) in 2018 from RMB1,009.5 million in 2017. This growth was primarily due to increased customer usage of our business process outsourcing, campus recruitment, training, assessment and placement services.

Net Revenues. Our net revenues increased 31.3% to RMB3,739.7 million (US$543.9 million) in 2018 from RMB2,848.6 million in 2017. Government surcharges increased 29.5% to RMB42.2 million (US$6.1 million) in 2018 from RMB32.6 million in 2017 due to revenue growth.

Cost of Services. Our cost of services increased 36.1% to RMB1,038.8 million (US$151.1 million) in 2018 from RMB763.4 million in 2017. This increase was primarily due to higher employee compensation, more headcount and additional expenses related to the launch and rollout of new services. Our cost of services in 2018 also included share-based compensation expense of RMB16.3 million (US$2.4 million) compared with RMB14.0 million in 2017.

Gross Profit. As a result of the above factors, our gross profit increased 29.5% to RMB2,700.9 million (US$392.8 million) in 2018 from RMB2,085.2 million in 2017. Our gross profit margin, which is our gross profit as a percentage of net revenues, was 72.2% in 2018 compared with 73.2% in 2017.

Operating Expenses. Our total operating expenses increased 27.7% to RMB1,550.7 million (US$225.5 million) in 2018 from RMB1,214.4 million in 2017. 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 30.4% to RMB1,197.2 million (US$174.1 million) in 2018 from RMB917.8 million in 2017. This increase was primarily due to higher employee salaries, commissions and bonuses, the net addition of approximately 270 salespeople and greater spending on brand advertising, marketing activities and events commemorating our 20th anniversary in operations. Our advertising and promotion expenses increased 57.5% to RMB205.3 million (US$29.9 million) in 2018 from RMB130.4 million in 2017. Our sales and marketing expenses in 2018 included share-based compensation expense of RMB14.0 million (US$2.0 million) compared with RMB12.1 million in 2017.

- *General and Administrative Expenses.* Our general and administrative expenses increased 19.2% to RMB353.6 million (US$51.4 million) in 2018 from RMB296.6 million in 2017. This increase was mainly due to higher employee compensation and office expenses. Our general and administrative expenses in 2018 included share-based compensation expense of RMB74.6 million (US$10.9 million) compared with RMB59.9 million in 2017.

Income from Operations. As a result of the above factors, our income from operations increased 32.1% to RMB1,150.2 million (US$167.3 million) in 2018 from RMB870.8 million in 2017. Our operating margin, which is our income from operations as a percentage of net revenues, was 30.8% in 2018 compared with 30.6% in 2017.

Gain (Loss) from Foreign Currency Translation. We recognized a loss from foreign currency translation of RMB112.4 million (US$16.3 million) in 2018 compared with a gain of RMB3.6 million in 2017. Due to the change in exchange rate between the Renminbi and the U.S. dollar in 2018, we realized a loss of RMB156.3 million (US$22.7 million) on our U.S. dollar-denominated convertible senior notes issued in 2014, which was partially offset by a gain of RMB43.9 million (US$6.4 million) on our U.S. dollar cash deposits. For more information about China s foreign exchange policy, see Item 4.B. Information on the Company Business Overview Regulation Regulations Relating to Foreign Currency Exchange.

Interest and Investment Income, Net. Our interest and investment income increased 47.6% to RMB113.7 million (US$16.5 million) in 2018 from RMB77.0 million in 2017. The increase was mainly due to a higher balance and income earned on our interest bearing bank deposits, which was partially offset by lower interest expense associated with our U.S. dollar-denominated convertible senior notes of RMB37.2 million (US$5.4 million) in 2018 compared with RMB37.8 million in 2017 due to changes in the exchange rate of the Renminbi against the U.S. dollar in 2018.

Change in Fair Value of Convertible Senior Notes. We recorded a gain of RMB99.1 million (US$14.4 million) in 2018 compared with a loss of RMB496.2 million in 2017, which was 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.

Gain from Sale of Long-Term Investments. We recorded a gain of RMB61.1 million (US$8.9 million) in 2018 related to the sale of available-for-sale debt securities.

Other Income, Net. Other income increased 101.3% to RMB175.2 million (US$25.5 million) in 2018 compared to RMB87.0 million in 2017 primarily due to an increase in financial incentives received from local tax authorities, which totaled RMB173.8 million (US$25.3 million) in 2018 compared with RMB86.3 million in 2017.

Income Tax Expense. Our income tax expense increased 43.0% to RMB242.4 million (US$35.3 million) in 2018 compared with RMB169.5 million in 2017. Our effective tax rate decreased to 16.3% in 2018 compared with 31.3% in 2017 primarily due to non-tax deductible items, such as the change in the fair value of convertible senior notes, comprising a smaller portion of the income before income tax expense in 2018.

Net Income Attributable to 51job, Inc. As a result of the above factors, our net income increased 236.7% to RMB1,252.3 million (US$182.1 million) in 2018 from RMB371.9 million in 2017.

2017 Compared to 2016

Total Revenues. Our total revenues increased 21.4% to RMB2,881.2 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 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 multiple and/or higher value services by customers.

- *Other Human Resource Related Revenues*. Our revenues from other human resource related services increased 22.3% to RMB1,009.5 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 in 2017 from RMB2,338.3 million in 2016. Government surcharges were RMB32.6 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 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 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 in 2017 from RMB1,675.3 million in 2016. Our gross profit margin 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 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 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 in 2017 from RMB126.2 million in 2016. Our sales and marketing expenses in 2017 included share-based compensation expense of RMB12.1 million, relatively unchanged compared with 2016.

- *General and Administrative Expenses.* Our general and administrative expenses increased 5.9% to RMB296.6 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, 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 in 2017 from RMB611.8 million in 2016. Our operating margin 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 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 on our U.S. dollar-denominated convertible senior notes issued in 2014, which was largely offset by a loss of RMB82.3 million on our U.S. dollar cash deposits.

Interest and Investment Income, Net. Our interest and investment income increased 30.7% to RMB77.0 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 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 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.

Other Income, Net. Other income decreased 11.5% to RMB87.0 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 in 2017 compared with RMB97.1 million in 2016.

Income Tax Expense. Our income tax expense increased 25.8% to RMB169.5 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 in 2017 from RMB566.0 million in 2016.

Inflation

According to the National Bureau of Statistics of China, the annual average percent changes in the consumer price index in China for 2016, 2017 and 2018 were increases of 2.0%, 1.6% and 2.1%, respectively. The year-over-year percent changes in the consumer price index for February 2017, 2018 and 2019 were an increase of 0.8%, 2.9% and 1.5%, 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 2016 to 2018 has been principally affected by net cash generated from operating activities, our purchases of businesses, investments, property 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.

	For the year ended December 31,			
	2016 RMB	2017 RMB	2018 RMB	2018 US$
	(in thousands)			
Net cash provided by operating activities	1,074,207	1,441,563	1,792,942	260,773
Net cash used in investing activities	(489,328)	(1,434,256)	(2,280,197)	(331,641)
Net cash provided by financing activities	160,493	424,415	145,121	21,107
Effect of foreign exchange rate changes on cash and restricted cash	37,680	(60,460)	23,530	3,422
Net increase (decrease) in cash and restricted cash	783,052	371,262	(318,604)	(46,339)
Cash and restricted cash, beginning of year	1,138,411	1,921,463	2,292,725	333,463
Cash and restricted cash, end of year	1,921,463	2,292,725	1,974,121	287,124

Cash Flows from Operating Activities. Our net cash provided by operating activities in 2018 was RMB1,792.9 million (US$260.8 million) compared with RMB1,441.6 million in 2017. The increase was principally driven by significant growth in our revenues and net income, as adjusted for a net add-back of RMB179.7 million (US$26.1 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, gain from long-term investments and deferred tax expense; an increase in other payables and accruals of RMB275.9 million (US$40.1 million), primarily due to an increase in receipts from our customers that will be remitted to third parties; and an increase in advance from customers of RMB188.3 million (US$27.4 million), primarily due to sales growth of our online recruitment services which usually requires payment at the time of purchase. The increase in net cash provided by operating activities in 2018 was partially offset by an increase in accounts receivable of RMB54.9 million (US$8.0 million); an increase in prepayments and other current assets of RMB46.7 million (US$6.8 million), primarily due to an increase in payments we made on behalf of our customers to be reimbursed to us; and an increase of taxes payable of RMB45.5 million (US$6.6 million).

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Our net cash provided by operating activities in 2017 was RMB1,441.6 million compared with RMB1,074.2 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 in non-cash items, relating primarily to share-based compensation expenses, depreciation expenses, gain 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, 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 RMB183.5 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. The increase in net cash provided by operating activities in 2017 was partially offset by an increase in accounts receivable of RMB74.4 million, and an increase in prepayments and other current assets of RMB35.1 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 RMB2,280.2 million (US$331.6 million) in 2018 compared with RMB1,434.3 million in 2017. The increase was primarily due to greater purchases of short-term and long-term investments, property and intangible assets, which was partially offset by less activity in acquisitions and cash received from the sale of available-for-sale debt securities in 2018.

Our net cash used in investing activities was RMB1,434.3 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, as well as greater purchases of short-term investments and long-term investments in 2017.

Cash Flows from Financing Activities. Our net cash provided by financing activities was RMB145.1 million (US$21.1 million) in 2018, which principally consisted of proceeds from the exercise of stock options, compared with RMB424.4 million in 2017.

Our net cash provided by financing activities was RMB424.4 million in 2017, which principally consisted of proceeds from the exercise of stock options, compared with RMB160.5 million in 2016.

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, 2018, we had RMB8,840.0 million (US$1,285.7 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.

As of December 31, 2018, we had RMB1,725.2 million (US$250.9 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.B. Major Shareholders and Related Party Transactions Related Party Transactions Contractual Arrangements Among Our Group Entities.

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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 RMB47.3 million, RMB25.6 million and RMB170.7 million (US$24.8 million) in 2016, 2017 and 2018, respectively. These capital expenditures were primarily for the purchases of computers, servers, office equipment, furnishings, software and licenses as well as the purchases of office space from time to time. In 2018, we paid RMB57.4 million (US$8.3 million) for 1,615 square meters of office space in Shanghai to accommodate our growing business operations, and the purchase was funded from our existing cash resources. In 2018, we also entered into an agreement to acquire the intangible assets, including an online audio/video program transmission license, of an online training services company in China for RMB89.8 million (US$13.1 million). The purchase was funded from our existing cash resources, and a remaining balance of RMB7.4 million (US$1.1 million) will be paid in 2019. As of December 31, 2018, our primary capital commitment was RMB0.3 million (US$0.05 million) in connection with capital expenditures for office furnishings.

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

We employ a staff of approximately 800 website designers and software developers to design, update and create our websites, mobile applications and proprietary software. 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.B. 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, 2018 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.

F. Tabular Disclosure of Contractual Obligations

The following table sets forth our contractual obligations as of December 31, 2018:

	Payments due by period				
	Total RMB	Less than 1 year RMB	1-3 years RMB (in thousands)	3-5 years RMB	More than 5 years RMB
Convertible senior notes with principal and interest	1,204,654	1,204,654			
Operating lease obligations	165,922	67,542	64,151	33,406	823
Purchase obligations	7,722	7,122	600		
Total	1,378,298	1,279,318	64,751	33,406	823

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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 RMB50.9 million in 2016, RMB53.4 million in 2017 and RMB68.0 million (US$9.9 million) in 2018.

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.B. 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)	52	Chairman of the board and independent director
Rick Yan	56	Director, chief executive officer, president and secretary
Junichi Arai	53	Non-executive director
Li-Lan Cheng(1) (2)	54	Independent director
Eric He(1) (3)	59	Independent director
Kathleen Chien	49	Chief operating officer and acting chief financial officer
Jingwu Chen	51	Senior vice president
Tao Wang	56	Vice president

(1) Member of audit committee.

(2) Member of compensation committee.

(3) Member of nominating and corporate governance committee.

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 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.

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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 executive officer of Recruit Holdings Co., Ltd., a leading human resource and information services company in Japan that is listed on the Tokyo Stock Exchange. Mr. Arai is responsible for Recruit s capital market strategies in the finance department and corporate planning department. Prior to joining Recruit in November 2016, 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, or E-House, a real estate services company in China, since 2012 and served as its chief financial officer from 2006 to 2012. Mr. Cheng has been an executive director of E-House (China) Enterprise Holdings Limited, a real estate transaction services provider in China that is lis