

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)

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ **to** _____

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report

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

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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.

Yes No

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

Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically 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).

Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Emerging growth company

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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.

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

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

U.S. GAAP

International Financial Reporting Standards as issued
by the International Accounting Standards Board

Other

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

Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes No

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INTRODUCTION

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.

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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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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.

	2014 RMB	2015 RMB	For the year ended December 31,		2018 RMB	2018 US\$
			2016 RMB	2017 RMB		
(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

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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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	2014 RMB	2015 RMB	As of December 31,		2018 RMB	2018 US\$
			2016 RMB	2017 RMB		
(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:

	2014 RMB	2015 RMB	For the year ended December 31,		2018 RMB	2018 US\$
			2016 RMB	2017 RMB		
(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.

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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.

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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.

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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 a 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

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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.

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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.

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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.

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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.

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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.

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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.

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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.

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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 depository. However, the depository 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 depository may refuse to deliver, transfer or register transfers of ADSs generally when our books or the books of the depository are closed, or at any time if we or the depository 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:

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- 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:

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- 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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