51job, Inc.
Form 20-F
June 29, 2006

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 20-F

(Mark One)

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

OR

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

For the fiscal year ended December 31, 2005

OR

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

For the transition period from _____ to _____

OR

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

Date of event requiring this shell company report _____

Commission file number: 0-50841

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)

21st Floor, Wen Xin Plaza
755 Wei Hai Road
Shanghai 200041
People s Republic of China

(Address of principal executive offices)

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

None.

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

American Depositary Shares
(each representing two common shares, par value US$0.0001 per share)

(Title of Class)

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

None.

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report: 54,876,079 common shares, par value US$0.0001 per share.

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

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

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

o Large accelerated filer þ Accelerated filer o Non-accelerated filer

Indicate by check mark which financial statement item the registrant has elected to follow: o Item 17 þ Item 18

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

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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 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, 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, expect, intend, plan, an believe, estimate, predict, potential, continue or the negative of these terms or other comparable terminology. Th accuracy of these statements may be impacted by a number of business risks and uncertainties that could cause actual results to differ materially from those projected or anticipated, including the following risks:

- 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 and political changes in China;
- 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;
- fluctuations in general economic conditions; and
- other risks outlined in our filings with the Securities and Exchange Commission, including our registration statement on Form F-1, as amended.

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. All forward-looking statements contained in this annual report are qualified by reference to this cautionary statement.

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CERTAIN TERMS AND CONVENTIONS

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 two common shares;

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;

Nasdaq are to the Nasdaq National Market;

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 predecesso entities and subsidiaries, and, in 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., formerly known as Shanghai Qianjin Culture Communication Co., Ltd.;

AdCo Subsidiaries are to the subsidiaries of AdCo that conduct advertising businesses;

Qian Cheng are to Beijing Qian Cheng Si Jin Advertising Co., Ltd.;

RAL are to Shanghai Run An Lian Information Consultancy Co., Ltd.;

Run An are to Beijing Run An Information Consultancy Co., Ltd.;

Tech JV are to Qianjin Network Information Technology (Shanghai) Co., Ltd.;

Wang Cai AdCo are to Shanghai Wang Cai Advertising Co. Ltd., formerly known as Shanghai Jin Lian Advertising 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.

Unless otherwise indicated, our financial information presented in this annual report has been prepared in accordance with U.S. GAAP.

Solely for your convenience, this annual report contains translations of certain Renminbi amounts into U.S. dollar amounts at specified rates. All translations from Renminbi to U.S. dollars were made at the noon buying rate in The City of New York for cable transfers of Renminbi as certified for customs purposes by the Federal Reserve Bank of New York. Unless otherwise stated, the translations of Renminbi amounts into U.S. dollar amounts have been made at the noon buying rate in effect on December 30, 2005, which was RMB8.0702 to US$1.00. We make no representation

that the Renminbi or U.S. dollar amounts referred to in this annual report could have been or could be converted into U.S. dollars or Renminbi, as the case may be, at any particular rate or at all. See Item 3. Key Information Risk Factors Risks Related to the People s Republic of China Governmental control of currency conversion may affect the value of your investment and The fluctuation of the Renminbi may materially and adversely affect your investment for discussions of the effects of currency control and fluctuating exchange rates on the value of our ADSs. On June 26, 2006, the noon buying rate was RMB7.9995 to US$1.00.

We calculate the number of our print advertising pages by physically counting the number of paid advertising pages in each of our editions of *51job Weekly*, which we formerly translated into English as *Career Post Weekly*. In calculating the number of paid advertising pages, we make adjustments to take into account differing page sizes and pages with mixed advertising and non-advertising content. This is a manual process that is subject to error, including errors in judgment as to the appropriate adjustments to be made.

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We define a unique employer in our online recruitment business as a customer that purchases our online recruitment services during a specified period. We make adjustments for multiple purchases by the same customer within a city to avoid double counting. Each employer is assigned a unique identification number in our management information system. Affiliates and branches of a given employer may, under certain circumstances, be counted as separate unique employers. Our calculation of the number of unique employers is subject to misidentification and other forms of error, including errors in judgment as to appropriate adjustments to be made to the data.

We cannot assure you that our methodology, page counting, employer identification, calculations and analyses are accurate, or that they yield results that are comparable between periods or give a correct approximation of the actual revenues we generate per page or actual numbers of customers, as the case may be.

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PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not Applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not Applicable.

ITEM 3. KEY INFORMATION

A. Selected Financial Data

The following table presents the selected consolidated financial information for our business. You should read the following information in conjunction with Item 5. Operating and Financial Review and Prospects. The selected consolidated statement of operations data for the years ended December 31, 2003, 2004 and 2005, and the selected consolidated balance sheet data as of December 31, 2004 and 2005, are derived from our audited consolidated financial statements, which are included in this annual report beginning on page F-1, prepared in accordance with U.S. GAAP and are qualified by reference to these consolidated financial statements and related notes. The selected consolidated statement of operations data for the year ended December 31, 2002 and the selected consolidated balance sheet data as of December 31, 2002 and 2003 have been derived from our audited consolidated financial statements, which are not included in this annual report. The selected consolidated statement of operations data for the year ended December 31, 2001 and the selected consolidated balance sheet data as of December 31, 2001 are derived from our unaudited financial statements prepared in accordance with U.S. GAAP. The historical results presented below do not necessarily indicate results expected for any future period.

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	For the year ended December 31,					
	2001 RMB	2002 RMB	2003 RMB	2004 RMB	2005 RMB	2005 US$[1]
Selected Consolidated Statement of Operations Data:						
Revenues:						
Print advertising	90,940,220	116,989,356	182,606,297	300,651,791	356,284,649	44,148,181
Online recruitment services	22,586,591	28,938,327	76,960,121	111,508,533	159,494,922	19,763,441
Executive search	9,126,842	9,726,300	15,748,331	24,907,914	26,306,740	3,259,738
Other human resource related revenues	5,305,068	9,895,734	18,019,611	42,875,597	53,507,789	6,630,293
Total revenues	127,958,721	165,549,717	293,334,360	479,943,835	595,594,100	73,801,653
Net revenues	121,970,723	158,039,700	280,118,941	456,119,882	562,026,220	69,642,168
Cost of services	(84,208,642)	(92,220,940)	(151,477,142)	(224,606,635)	(269,328,384)	(33,373,198)
Gross profit	37,762,081	65,818,760	128,641,799	231,513,247	292,697,836	36,268,970
Operating expenses:						
Sales and marketing	(18,503,675)	(24,356,157)	(38,619,523)	(67,271,096)	(113,656,714)	(14,083,507)
General and administrative	(33,732,311)	(30,382,850)	(38,135,612)	(55,175,493)	(88,978,985)	(11,025,623)
Share-based compensation share option[2]			(13,482,546)	(18,678,238)	(13,073,480)	(1,619,970)
Share-based compensation founder shares[3]	(8,808,931)	(8,808,931)	(4,622,466)			
Total operating expenses	(61,044,917)	(63,547,938)	(94,860,147)	(141,124,827)	(215,709,179)	(26,729,100)
Income (loss) from operations	(23,282,836)	2,270,822	33,781,652	90,388,420	76,988,657	9,539,870
Income (loss) before income tax	(22,957,650)	2,686,608	35,792,274	95,201,216	91,367,337	11,321,570

provision						
Income tax benefit (expense)		1,259,194	(3,192,011)	(34,058,184)	(29,945,033)	(3,710,569)
Net income (loss)	(22,957,650)	3,945,802	32,600,263	61,143,032	61,422,304	7,611,001
Earnings (loss) per share:						
Basic	(1.72)	0.09	0.83	1.32	1.10	0.14
Diluted[4]	(1.72)	0.07	0.75	1.26	1.07	0.13
Earnings (loss) per ADS:[5]						
Basic	(3.44)	0.18	1.65	2.65	2.21	0.27
Diluted[4]	(3.44)	0.15	1.50	2.52	2.15	0.27
Other Financial Information:						
Aggregate share-based compensation expense[6]	(8,808,931)	(8,808,931)	(18,701,563)	(20,489,734)	(14,553,322)	(1,803,341)

	As of December 31,					
	2001 RMB	**2002 RMB**	**2003 RMB**	**2004 RMB**	**2005 RMB**	**2005 US$[1]**
Selected Consolidated Balance Sheet Data:						
Assets:						
Cash	30,339,579	68,637,760	115,084,572	848,292,672	830,633,550	102,926,018
Total current assets	39,661,081	79,635,683	145,573,376	893,647,186	892,544,201	110,597,531
Total non-current assets	20,509,537	24,025,881	39,830,903	43,735,155	70,875,359	8,782,356
Total assets	60,170,618	103,661,564	185,404,279	937,382,341	963,419,560	119,379,887
Liabilities:						
Total current liabilities	19,806,795	26,025,436	56,096,191	85,564,019	109,540,097	13,573,405
Total non-current liabilities	849,621	32,080	23,533			
Total liabilities	20,656,416	26,057,516	56,119,724	85,564,019	109,540,097	13,573,405
Total shareholders equity	39,514,202	77,604,048	129,284,555	851,818,322	853,879,463	105,806,482
Total liabilities and shareholders equity	60,170,618	103,661,564	185,404,279	937,382,341	963,419,560	119,379,887

(1)

Translations from Renminbi to U.S. dollars were made at the noon buying rate in The City of New York for cable transfers of Renminbi as certified for customs purposes by the Federal Reserve Bank of New York. The translations of Renminbi amounts into U.S. dollar amounts have been made at the noon buying rate in effect on December 30, 2005, which was RMB8.0702 to US$1.00.

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(2) In 2003, RMB0.4 million of this portion of our share-based compensation expense for share options was attributable to sales and marketing expenses and RMB13.1 million was attributable to our general and administrative expenses. In 2004, RMB1.8 million of this portion of our share-based compensation expense was attributable to sales and marketing expenses and RMB16.9 million was attributable to general and administrative expenses. In 2005, RMB1.4 million (US$0.2 million) of this portion of our share-based compensation expense was attributable to sales and marketing expenses and RMB11.6 million (US$1.4 million) was attributable to general and administrative expenses.

(3) All share-based compensation founder shares is attributable to general and administrative expenses.

(4) Diluted earnings (loss) per share is calculated by dividing net income (loss) attributable to holders of common shares as adjusted for the effect of dilutive common shares, if any, by the sum of (1) the weighted average number of common shares outstanding and (2) the weighted average number of common equivalent shares, which consist of common shares from the conversion of Series A preference shares and common shares issuable upon the exercise of outstanding share options as calculated under the treasury stock method. In the case of diluted earnings (loss) per ADS, the data are adjusted to reflect the ratio of two common shares to one ADS.

(5) Each ADS represents two common shares.

(6) Aggregate share-based compensation expense includes share-based compensation expense attributable to cost of services and operating expenses. We have recognized share-based compensation in connection with our historical grant of options to employees and certain directors, and the historical issuance of restricted common shares to our founders and one of our directors. We recognized an aggregate of RMB35.2 million in deferred share-based compensation in 2000 in connection with the acquisition by 51job, Inc. of all of the operating assets of our various operating entities, whereby 51job, Inc. became the holding company of our corporate group and entered into a purchase agreement with each of our founders to issue to each founder restricted common shares. These shares were placed in escrow and were subject to repurchase by us between 2000 and 2003 at a price equal to, at our option, either US$0.0001 per share or the fair market value of such shares, in the event that such founder s employment with us terminated. We amortized all of this deferred share-based compensation as an expense from 2000 through 2003. All such shares have subsequently been released from escrow and we will not recognize additional share-based compensation expense with respect to these issuances. In addition, we recognized an aggregate of RMB76.9 million in immediate or deferred share-based compensation in 2003 and 2004 in connection with the grant of options to employees and directors, the sale of common shares to one of our directors at a price below fair market value, and the extension of the exercise period of options held by certain terminated employees. This resulted in additional share-based compensation expense of RMB14.1 million in 2003, RMB20.5 million in 2004 and RMB14.6 million (US$1.8 million) in 2005.

In our consolidated financial statements, portions of our share-based compensation expense are allocated separately to our cost of services and operating expenses. Since we evaluate our performance, make determinations regarding the expansion of our operations, allocate resources among our operations and determine the compensation of employees and management based on our financial results before the overall effect of our aggregate share-based compensation expense, we have separately disclosed our aggregate share-based compensation expense for each of the periods presented. We recorded a substantial amount of our historical share-based compensation expense in connection with our repurchase arrangement with respect to the common shares issued to our founders. We believe that disclosure of our aggregate share-based compensation expense allows investors to better understand the primary financial measures that we use to manage our business. In addition, separate disclosure of our aggregate share-based compensation expense provides a useful approximation of our taxable income for purposes of determining PRC enterprise income tax, or EIT, which is calculated based on our income prior to any deduction for share-based compensation expense.

Exchange Rate Information

We publish our financial statements in Renminbi. This annual report contains translations of Renminbi amounts into U.S. dollars at specified rates solely for the convenience of the reader. Unless otherwise noted, all translations from Renminbi to U.S. dollars were made at the noon buying rate in The City of New York for cable transfers of Renminbi per U.S. dollar as certified for customs purposes by the Federal Reserve Bank of New York as of December 30, 2005, which was RMB8.0702 to US$1.00. The prevailing rate on June 26, 2006 was RMB7.9995 to US$1.00. We make no representation that the Renminbi or U.S. dollar amounts referred to in this annual report could have been or could be converted into U.S. dollars or Renminbi, as the case may be, at any particular rate, the rates stated below, or at all. The Chinese government imposes control over its foreign currency reserves in part through direct regulation of the conversion of Renminbi into foreign exchange and through restrictions on foreign trade.

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The following tables set forth information regarding the noon buying rates in The City of New York for cable transfers of Renminbi per U.S. dollar as certified for customs purposes by the Federal Reserve Bank of New York for the periods indicated.

	Renminbi per U.S. dollar			
Fiscal year ended December 31,	**Average[(1)]**	**High**	**Low**	**Period-end**
2001	8.2770	8.2786	8.2676	8.2766
2002	8.2770	8.2800	8.2669	8.2800
2003	8.2772	8.2800	8.2765	8.2767
2004	8.2768	8.2774	8.2764	8.2765
2005	8.1826	8.2765	8.0702	8.0702

	Renminbi per U.S. dollar		
Month	**High**	**Low**	**Period-end**
December 2005	8.0808	8.0702	8.0702
January 2006	8.0702	8.0596	8.0608
February 2006	8.0616	8.0415	8.0415
March 2006	8.0505	8.0167	8.0167
April 2006	8.0248	8.0040	8.0165
May 2006	8.0300	8.0005	8.0215
June 2006 (through June 26, 2006)	8.0225	7.9963	7.9995

(1) The average of the daily noon buying rates on the last business day of each month during the year.

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, including intense competition in several of our markets, we may lose market share and our results of operations may be materially and adversely affected.

We face significant competition in our *51job Weekly* and *www.51job.com* businesses as well as in our executive search and other human resource businesses. *51job Weekly* currently faces intense competition in many of our largest markets. Competitors of *51job Weekly* primarily consist of local newspaper publishers and specialized recruitment advertising publications. In addition, *51job Weekly* faces competition from online job search websites and other online businesses seeking to expand into print recruitment advertising.

Our online recruitment services face competition from other dedicated job search websites such as *ChinaHR.com*, *Cjol.com* and *Zhaopin.com*, as well as from local job search websites and to a lesser extent, from national Internet portals in China, such as *NetEase.com*, *Sina.com*, *Sohu.com* and *Tom.com*. In 2005, it was reported that business collaborations had been formed between dedicated job search websites and national Internet portals with a partnership between *ChinaHR.com* and *Sina.com* and one between *Zhaopin.com* and *Sohu.com*. In addition, many executive search firms and other competitors currently engaged in print advertising have started to internally develop or acquire online capabilities.

Our executive search and other human resource related businesses 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 advertising.

Many of our competitors or potential competitors have long operating histories, 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 businesses. 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 recruitment advertising industry and other human resource industries in which we operate. We may face greater competition from Internet portals, newspapers, dedicated recruitment advertising websites and publications, and other human resource services providers who may enter the market for any or all of our services. Our businesses are characterized by relatively low start-up and fixed costs, modest capital requirements, short start-up lead times and an absence of significant proprietary technology that would prevent or significantly inhibit the entry of competitors. As a result, potential market entrants, both in China and from abroad, face relatively low barriers to entry to all of our businesses and in all of our markets. In addition, we believe that there are relatively low existing penetration rates in our markets, and that competitors could acquire significant numbers of clients and establish significant market share within a relatively short period. Furthermore, the newspaper and print media industry in China is highly regulated at present which may have the effect of limiting competition and keeping prices, including print advertising prices, at higher levels. Any deregulation of this industry may result in increased competition and a material decrease in advertising rates, including prices we charge for our print advertising services. Increased competition could result in loss of market share and revenues, and have a material adverse effect on our business, financial condition and results of operations.

If we are unable to achieve or maintain economies of scale with respect to our recruitment advertising businesses, our results of operations from these businesses may be materially and adversely affected.

We incur fixed costs such as printing, distribution, direct marketing, advertising, management, staff, office, infrastructure and utilities in each of our geographic markets in connection with operating our print advertising business. In addition, we incur fixed costs relating to website maintenance, design and operation in our online businesses. Our ability to realize our desired margins in our recruitment advertising businesses depends largely on our success in posting a high volume of print and online recruitment advertisements to generate sufficient revenues to offset associated fixed costs. Further, we need to reach and maintain a critical mass of recruitment advertisements in order for *51job Weekly* and *www.51job.com* to build and maintain acceptance among employers and job seekers as attractive vehicles for posting and seeking jobs.

In some of our markets, *51job Weekly* has not achieved the necessary economies of scale and these operations have not achieved profitability despite our having operated in these markets for a significant period of time. We believe that this is due primarily to significant competition from rival print advertising publications. We may be unable to achieve and maintain sufficient economies of scale in any or all of our geographic markets in connection with our recruitment advertising businesses. Any failure to do so could materially and adversely affect our results of operations from these businesses.

A slowdown or other adverse developments in the PRC economy may materially and adversely affect our customers, demand for our services and our business.

Substantially all of our operations are conducted in China and substantially all of our revenues are generated from providing recruitment advertising and search services for PRC businesses or divisions of firms operating in China. Although the PRC economy has grown significantly in recent years, we cannot assure you that such growth will continue. Print advertising, online recruitment services, executive search and our other human resource related businesses are all relatively new industries in China, and we do not know with any degree of certainty how sensitive we are to a slowdown in economic growth or other adverse changes in the PRC economy. In response to adverse economic developments, employers might hire fewer permanent employees, engage in hiring freezes, lay off employees, or reduce spending on print advertising, online recruitment services and executive search services. Employers may decide to rely more heavily on traditional recruitment methods such as referrals and job fairs, and utilize more in-house resources to conduct training and perform other human resource functions, or otherwise modify their behavior in ways that may have a significant negative impact on our business. As a result, a slowdown in overall economic growth, an economic downturn or recession or other adverse economic developments in China may

materially reduce the demand for our services and materially and adversely affect our business.

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

The use of advertising services to recruit employees is relatively new in China. Due to significant control and regulation by the national and local governments, the private sector recruiting process in China continues to be largely characterized by the use of personal referrals and large job fairs. We believe that the use of advertising by employers and job seekers remains relatively low. As a result, we face considerable challenges in promoting greater use of advertising, which involves, among other things, significant changes in the way that employers disseminate information about jobs, the way that prospective employees search and apply for jobs, and the way in which hiring decisions are made. We cannot assure you that recruitment advertising will achieve broader acceptance in China. Any significant failure of advertising to gain acceptance among employers and job seekers may substantially limit our ability to expand our recruitment advertising businesses.

If the Internet, and online advertising in particular, does not achieve broad acceptance in China as a medium for recruitment, our online recruitment services business may be adversely affected.

We generate a significant portion of our revenues from online recruitment services, which are targeted toward employers and job seekers who use the Internet. As part of our online recruitment services, we offer general online advertising on our website, which is an important element in our ability to sell online recruitment advertisements to employers and which generates a material portion of our revenues. China has only recently begun to develop the Internet as a commercial medium and has a relatively low Internet penetration rate compared to most developed countries. Our future results of operations from online recruitment services will depend substantially upon an increase in Internet penetration and an increase in acceptance and use of the Internet for the distribution of services and for the facilitation of commerce in China. In addition, unless they are resolved, telecommunication capacity constraints may impede further development of the Internet to the extent that users experience delays, transmission errors and other difficulties. Any negative perceptions as to the effectiveness of online recruitment services, or online advertising generally, or any significant failure of the Internet to gain acceptance as a medium for recruitment may adversely affect our online recruitment services business and our ability to further integrate our online and print recruitment advertising businesses.

The markets for executive search services and business process outsourcing are still in the development stage in China and we may be unable to expand these businesses.

Many employers in China are not familiar with the executive search model or may not accept the value of a targeted, professional search. Many employers may be unwilling to pay a commission of up to 30% of a candidate s annual compensation. Similarly, the market for the third party outsourcing of business processes is also still developing in China. Companies may not be willing to use third parties for significant administrative functions and may instead choose to continue to perform such operations in-house. If these services do not gain wider acceptance in China, we may be unable to expand these businesses.

We are dependent on local newspaper contractors in each of our geographic markets to publish and distribute 51job Weekly.

In the PRC, entities engaged in publishing activities are required by the government to have a publishing license. We do not have any publishing licenses and we are, and will continue to be, dependent on contractual arrangements with local newspapers in each of our geographic markets in order to publish and distribute *51job Weekly*. Our arrangements with our local newspaper contractors require them to print, publish and distribute *51job Weekly* as an insert in their newspaper, and in some cases to contribute marketing support. The successful execution of our business plan is highly dependent on establishing and maintaining relationships with newspapers in all of our existing markets as well as the new markets in which we intend to offer recruitment advertising services.

The term of our agreements with local newspaper contractors is generally two years, and six of these agreements will expire in 2006. In addition, certain of these agreements are subject to early termination by either party on various grounds. We cannot assure you that our local newspaper contractors will conduct their activities in full compliance with applicable laws and regulations governing the publishing, distribution and sale of newspapers. In addition, we cannot assure you that:

- our local newspaper contractors will fulfill their obligations under our agreements;

the agreements will be renewed on terms acceptable to us or at all;

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- our current contractors will not, upon termination of our agreements, seek to compete directly against us or establish relationships with one or more of our competitors; or

- in the event that we wish to do so or it is necessary to do so, we will be able to locate and enter into an agreement with a suitable alternative local newspaper on a timely basis or at all.

In addition, we may experience lower levels of readership and circulation if we lose the marketing support of a local newspaper contractor. Any adverse developments involving our local newspaper contractors could significantly disrupt or impair the publication, promotion and distribution of *51job Weekly*, which in turn could damage our *51job Weekly* brand name and materially and adversely affect our recruitment advertising business and our results of operations.

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

Our online businesses 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 rely on affiliates of China Telecommunications Corporation, or China Telecom, to provide us with bandwidth and server custody service for our services. 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 China Telecom s fixed telecommunications networks, or if China Telecom or its affiliates otherwise fail to provide such services. In addition, we have no control over the costs of the services provided by China Telecom or its affiliates. If China Telecom or its affiliates fail to provide these services, we would be required to seek other providers, and there is no assurance that we will be able to find alternative providers willing or able to provide high quality services and there is no assurance that such providers will not charge us higher prices for their services. If the prices that we are required to pay for Internet services rise significantly, our results of operations could be adversely affected.

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

If we fail to generate a high volume of recruitment advertisements, maintain our relationships with local newspaper contractors, successfully promote and develop the perception of *www.51job.com* as a destination site, 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. 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 *www.51job.com* website, from *51job Weekly* 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 website. 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, and may divert significant management and staff resources from our business operations, and yield limited and uncertain results. Misappropriation of our content, trademarks and other intellectual property could divert significant business to our competitors, damage our brand name and reputation, and require us to initiate litigation that could be expensive and require us to 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. We rely heavily on his management skills, his expertise

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in consumer products, marketing and technology, and his relationships with many of our clients and local contractors. We do not maintain key man life insurance on any of our senior management or key personnel, other than Mr. Yan and Kathleen Chien, our chief financial officer. The loss of the services of one or more of our senior executives or key personnel, Mr. Yan in particular, may have a material adverse effect on our business, financial condition and results of operations. Competition for senior management and key personnel is intense, and the pool of suitable candidates is very limited, and we may not be able to retain the services of our senior executives or key personnel, or attract and retain senior executives or key personnel in the future.

In addition, if Mr. Yan, any other members of our senior management or any of our other key personnel joins a competitor or forms a competing company, we may not be able to replace them easily and we may lose customers, business partners, key professionals and staff members. Each of our senior executives and key personnel 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 or key personnel 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.

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

We have experienced rapid expansion since we commenced operations in 1998 and we intend to continue to expand in size and increase the number of services we provide. We have established 11 new offices from the beginning of 2003 to the date of this annual report. Our anticipated future growth will place significant demands on our management and operations. Our success in managing this growth will depend to a significant degree on the ability of our executive officers and other members of senior management to operate effectively both independently and as a group, and on our ability to improve and develop our financial and management information systems, controls and procedures. In addition, we will have to successfully adapt our existing systems and introduce new systems, expand, train and manage our workforce, and improve and expand our sales and marketing capabilities. Mismanagement of any of our services in our new or existing markets or the deterioration of the quality of our services could significantly damage our brand name and reputation, adversely affecting our ability to expand our client base.

As a one-stop human resource services provider, we will be required to provide high quality executive search and other human resource related services. As we are currently in the process of developing many of these businesses, we may encounter initial difficulties in ensuring the high quality of our services. In particular, we may be unable to provide our *eSearch* clients with acceptable candidates, we may provide clients with candidates whom they subsequently perceive as poor performers, and/or we may provide clients with candidates whom they subsequently fail to retain. With respect to our business process outsourcing service, we may be unable to establish a substantial nationwide capability, accurately monitor ongoing changes in PRC laws and regulations, acquire, develop and use up-to-date business and management technology and software, including sophisticated computer and technology systems that could require significant capital expenditures, and maintain the integrity and security of our systems. If we are unable to provide high quality services, if material mistakes occur, or if we are unable to price these services properly, our brand name and reputation could be damaged and we could incur legal liability to our clients and their employees.

The management of our business involves the collection by our employees and agents of cash payments from our customers, which constitute a significant portion of our total revenues. As a result, we are exposed to theft, embezzlement and other criminal and fraudulent activity by our employees, our agents and third parties. If we are unable to successfully detect and prevent such activity, our results of operations and financial condition may be materially and adversely affected.

Our limited operating history may not serve as an adequate basis to judge our future prospects and results of operations.

We began operations in 1998. Our limited operating history may not provide a meaningful basis on which to evaluate our business. Although our revenues have grown rapidly since inception, we incurred net losses prior to 2002. We cannot assure you that we will maintain our profitability or that we will not incur net losses in the future. We expect that our operating expenses will increase as we expand. Any significant failure to realize anticipated revenue growth could result in significant operating losses. We will continue to encounter risks and difficulties

frequently experienced by companies at a similar stage of development, 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;

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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 and political changes in China;

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

maintain adequate control of our expenses;

adequately and efficiently operate, maintain, upgrade and develop our website and the other systems and equipment we utilize in providing our services;

attract, retain and motivate qualified personnel;

maintain our current, and develop new, contractual arrangements with local newspapers and other important operational relationships; and

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

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

We rely on our print advertising business to provide a significant majority of our revenues and any adverse development in this business could materially and adversely affect our overall results of operations.

We generate a significant majority of our revenues from *51job Weekly*, which generated approximately 62.3% of our revenues in 2003, 62.7% of our revenues in 2004 and 59.8% of our revenues in 2005. While we have experienced significant growth in our *51job Weekly* business in recent years, online advertisement may cause print media such as *51job Weekly* to become less desirable as a form of advertising. To the extent this occurs and if we are not able to generate sufficient revenues from our online recruitment services to offset any loss of revenues from our print advertisement business, our overall results of operations could be materially and adversely affected.

Our recruitment advertising business is subject to weekly fluctuations which hamper our ability to predict when revenue will ultimately be recognized, if at all.

Due to the nature of recruitment advertising, we are not able to predict future revenue streams with any degree of certainty. More specifically, the majority of our revenues is derived from print advertising and we do not recognize advertising revenue until an advertisement is actually printed. Orders for print advertisements are generally placed week-to-week and advertisers may cancel or postpone their print advertisements within days of publication. Delays or cancellations by advertisers hamper our ability to predict when revenue will ultimately be recognized, if at all. Such uncertainty makes it difficult for us to accurately forecast 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.

Due to seasonal variations in demand for human resource services, we experience significant 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.

Significant fluctuations in our revenue streams, particularly during the peak hiring periods around the Chinese New Year holidays and the beginning of May and October, affect our ability to predict quarterly results. During these peak periods, demand for recruitment advertising and other human resource related services may or may not rise significantly depending on the needs of employers as well as their perceptions of the job market. In addition, the dates of the Chinese New Year holidays vary from year to year. We have also experienced a trend of lower fourth quarter revenues as compared to revenues from the immediately preceding third quarter in recent years. As a result of these factors, our revenues may vary from quarter to quarter and quarterly results may not be comparable to the corresponding quarters of prior years. Such uncertainty makes it difficult for us to predict revenues for a particular

quarter. Therefore, actual results may differ significantly from our targets or estimated quarterly results, which could cause the price of our ADSs to fall.

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

We may decide to expand, in part, by acquiring certain complementary businesses in the future. The success of any material acquisition will depend upon several factors, including:

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

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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 management resources. There is a possibility that we will not be successful in identifying and negotiating acquisitions on terms favorable to us. In addition, we cannot be certain that any acquisition, if completed, will be successfully integrated into our existing operations. If we are unable to effectively integrate an acquired business, our business, financial condition and results of operations may be materially and adversely affected. In addition, if we use our equity securities as consideration for acquisitions, we may dilute the value of your common shares or ADSs. We have not engaged in any material acquisitions.

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

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

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.

In April 2006, we formed a business alliance with Recruit Co., Ltd., or Recruit, a privately held human resource services company in Japan, to collaborate on the development of our human resource products and services in China. Under the terms of our business alliance agreement, we have also established an internal corporate planning group with Recruit to explore potential business opportunities outside of the human resource services industry in China. We lack experience and expertise in operating businesses outside of the human resource services industry. If we choose to begin any such business, we cannot assure you that our efforts will be successful. We cannot assure you that we will be able to deliver new products or services outside of the human resource services industry on a commercially viable basis or in a timely manner, or at all. If any of our efforts to begin businesses outside of the human resource services industry are not successful, our financial condition and results of operations may be materially and adversely affected.

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

PRC laws and regulations 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, 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. If we are deemed to be in violation of such regulations, we may be subject to penalties including confiscation of the illegal revenues, levying of fines and suspension or revocation of our business license or advertising license, any of which may materially and adversely affect our business.

We are subject to potential legal liability from both employers and job seekers with respect to our executive search businesses and other human resource related 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 candidates alleging the failure of our business process outsourcing services to comply with laws or regulations relating to

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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, candidates or third parties.

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 infringement of patents, trademarks or copyrights, 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 resources, 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 expect that the likelihood of such claims may increase, particularly in our online businesses, as the number of competitors in our markets grows and as related patents and trademarks are registered or copyrights are obtained by such competitors.

We rely heavily on our information systems, and if our access to technology supporting our information systems is impaired or interrupted, or if we fail to further develop our technology, our operations may be seriously disrupted.

Our success depends in large part upon our ability to store, retrieve, process and manage substantial amounts of information, including our client and candidate databases. To achieve our strategic objectives and to remain competitive, we must continue to develop and enhance our information systems. This may require the acquisition of equipment and software and the development, either internally or through independent consultants, of new proprietary software. Our inability to design, develop, implement and utilize, in a cost-effective manner, information systems that provide the capabilities necessary for us to compete effectively, or any interruption or loss of our information processing capabilities, for any reason, could materially disrupt our operations.

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, the introduction of new business models, changes in customer needs and behavior, and evolving industry standards. These developments may make our existing online recruitment services obsolete or less competitive. In order to respond to such 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.

Computer viruses and hacking may cause delays or interruptions on our systems and may reduce use of our services and damage our reputation and brand names.

Computer viruses and hacking 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 website through the use of denial of service or similar attacks, and other material adverse effects on our operations. We may incur significant costs to protect our systems and equipment against the threat of, and to repair any damage caused by, computer viruses and hacking. Moreover, if a computer virus or hacking affects our systems and is highly publicized, our reputation and brand names could be materially damaged and usage of our services may decrease.

Our business could be adversely affected if our software contains bugs.

Our online systems, including the *www.51job.com* website, and our other software applications, products and systems could contain undetected errors or bugs that could adversely affect their performance. Additionally, we regularly update and enhance our website and our other online systems and introduce new versions of our software

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products and applications. The occurrence of errors in any of these may cause us to lose market share, injure our reputation and brand names, and materially and adversely affect our business.

We are controlled by a small number of our existing shareholders and our board of directors has the power to discourage a change of control.

As of April 30, 2006, six shareholders beneficially owned approximately 72.7% of our outstanding common shares, including common shares underlying options outstanding.

These shareholders are:

Rick Yan, our chief executive officer and a director, who beneficially owned approximately 25.5% of our outstanding common shares, including common share underlying options outstanding;

entities affiliated with DCM Doll Capital Management, or DCM, which owned approximately 16.7%, and which is affiliated with David K. Chao, one of our directors;

Recruit, which owned approximately 14.5%;

Michael Lei Feng, one of our executive officers, who owned approximately 7.6%;

Norman Lui, one of our executive officers, who owned approximately 5.3%; and

Kathleen Chien, one of our executive officers, who owned approximately 3.1%.

While these shareholders have advised us that they do not consider themselves to be a group as defined under the U.S. Securities Exchange Act of 1934, as amended, or the Exchange Act, individually these shareholders 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 persons could violate their non-competition 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.

In April 2006, entities affiliated with DCM, Rick Yan, Michael Lei Feng and Norman Lui, and Kathleen Chien entered into a share purchase agreement with Recruit. Under the terms and conditions of the share purchase agreement, Recruit completed a purchase of 8,452,918 common shares, which represented approximately 15% of our outstanding common shares as of December 31, 2005, from these shareholders in April 2006. The share purchase agreement also provides for an option that would allow Recruit to purchase up to an additional 14,862,313 common shares from these shareholders over a three-year period beginning April 2006 and result in Recruit owning approximately 40% of our fully diluted common shares outstanding as of December 31, 2005. In addition, under the share purchase agreement, each of these selling shareholders has agreed that it will use its commercially reasonable best efforts in cooperating with Recruit to have a representative of Recruit nominated to stand for election to our board of directors and that it will vote all of its shares in favor of the election of such nominee to our board of directors at any annual or extraordinary general meetings of our members at which such nominee may stand for election for the duration of the agreement.

In addition, our board of directors has the authority, without further action by our shareholders, to issue common and preferred shares of up to 20% by par value of all issued shares and to fix the powers and rights of these shares, including dividend rights, conversion rights, voting rights, terms of redemption and liquidation preferences, any or all of which may be greater than the rights associated with our common shares. These provisions could have the effect of depriving you of an opportunity to sell your ADSs at a premium over prevailing market prices by discouraging third parties from seeking to obtain control of us in a tender offer or similar transaction.

When the preferential tax treatment elected by some of the AdCo Subsidiaries and other subsidiaries expire, we will incur higher tax rates for these entities which could adversely affect our overall results of operations

Under current rules, newly organized PRC entities conducting advertising businesses are entitled to elect to receive a tax exemption for their first two years of operation and may carry forward tax losses accumulated in those years, if any, to future periods. A number of our AdCo Subsidiaries have elected to receive these two-year tax exemptions. Upon the expiration of these tax exemptions, these AdCo Subsidiaries will be taxed at the full statutory tax rate, currently 33%. Starting in 2004, tax exemptions granted to several of our AdCo Subsidiaries began to expire which resulted in our higher effective tax rates in 2004 and 2005 compared to prior years. However, a number of our AdCo Subsidiaries and other

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subsidiaries continue to receive tax exemptions which are due to expire in 2006 and 2007, and as our business expands, we may establish new entities from time to time which, depending on applicable tax laws, may be entitled to certain tax incentives, including these tax exemptions. As these tax exemptions expire, the effective tax rate of our PRC subsidiaries and our consolidated effective tax rate will increase, which could adversely and materially affect our net income.

Our earnings have been and will continue to be adversely affected by the change in our accounting policies with respect to the expensing of stock options.

Prior to January 1, 2006, we accounted for share-based compensation transactions, such as stock option grants, using the intrinsic value method (based on the discount to fair market value on the date of grant) as prescribed by Accounting Principles Board, or APB, Opinion No. 25, Accounting for Stock Issued to Employees. On December 16, 2004, the Financial Accounting Standards Board, or FASB, issued Statement of Financial Accounting Standards No. 123R (revised 2004), Share-Based Payment, or SFAS No. 123R, which requires that such transactions be accounted for using a fair value based method and recognized as expenses in our consolidated statement of operations, effective as of the start of annual periods commencing after June 15, 2005, the effective date. Under SFAS No. 123R, we can select from three transition methods: (1) the modified prospective method, where the expenses related to unvested but still outstanding options as calculated under the original SFAS No. 123, Accounting for Stock-Based Compensation, or SFAS No. 123, be charged to expense without any change in previously calculated measurement; (2) a variation of the modified prospective method, where in addition to (1), we restate for prior interim periods using prior SFAS No. 123 pro forma disclosure amounts; and (3) the modified retrospective method, where all prior period financial statements are retroactively restated based on pro forma disclosures as calculated under SFAS No. 123.

Under SFAS No. 123R, we are required to expense the fair value of our stock option grants effective January 1, 2006 and have selected the modified prospective method as the transitional method. This change in accounting policy with respect to the treatment of employee stock option grants increased our share-based compensation expense in our consolidated statement of operations in the first quarter of 2006 and we expect the implementation of SFAS No. 123R may adversely affect our earnings in the future.

Failure to achieve and maintain effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act of 2002 could have a material adverse effect on our business, results of operations and the market price of our ADSs.

We are subject to reporting obligations under the U.S. securities laws. We will be required by the U.S. Securities and Exchange Commission as directed by Section 404 of the Sarbanes-Oxley Act of 2002, or Sarbanes-Oxley Act, to include a report by our management on our internal control over financial reporting in our annual reports on Form 20-F that contains an assessment by our principal executive officer and principal financial officer of the effectiveness of our internal control over financial reporting. In addition, our independent auditors must attest to and report on their assessment of the effectiveness of our internal control over financial reporting. These requirements will first apply to our annual report on Form 20-F for the fiscal year ending December 31, 2006.

Our principal executive officer and principal financial officer may not conclude that our internal controls are effective. Moreover, even if they conclude that our internal controls over our financial reporting are effective, our independent auditors may disagree. If our independent auditors are not satisfied with our internal controls over financial reporting or the level at which our internal controls over financial reporting are documented, designed, operated or reviewed, or if the independent auditors interpret the requirements, rules or regulations different from us, then it may decline to attest to our principal executive officer and principal financial officer s assessment or may issue an adverse opinion. Any of these possible outcomes could result in an adverse reaction in the financial marketplace due to a loss of investor confidence in the reliability of our consolidated financial statements, which ultimately could have a material adverse effect on the market price of our ADSs. We also may need to incur significant costs and use significant management and other resources in an effort to comply with Section 404 of the Sarbanes-Oxley Act and other requirements.

Moreover, internal controls over financial reporting may not prevent or detect misstatements because of their inherent limitations, including the possibility of human error, the circumvention or overriding of controls, or fraud. Therefore, even effective internal controls over financial reporting can provide only reasonable assurance with respect

to the preparation and fair presentation of financial statements. In the past, our independent auditors have identified several areas of our internal controls that require improvement, and we are in the process of implementing changes to strengthen our internal controls. These measures may not be sufficient to address the areas that require improvement or ensure that our internal controls are effective. If we fail to maintain the adequacy of our internal controls over financial reporting,

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including any failure to implement required new or improved controls, or if we experience difficulties in their implementation, our business and operating results could be harmed, we could fail to meet our reporting obligations, and there could be a material adverse effect on the market price of our ADSs.

We have no business insurance coverage.

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

We are vulnerable to natural disasters and other calamities.

All of our servers are currently hosted in Shanghai. 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 fire, floods, typhoons, earthquakes, power loss, telecommunications failures, break-ins, war, 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. Any such event could adversely affect our ability to provide our services to users. See Item 4. Information on the Company Business Overview Technology.

We may become a passive foreign investment company, which could result in adverse U.S. tax consequences to U.S. investors.

We may be a passive foreign investment company for U.S. federal income tax purposes for any year. Such classification could result in adverse U.S. tax consequences to U.S. investors. For example, if we are a passive foreign investment company for any year, our U.S. investors may be subject to increased tax liabilities under U.S. tax laws and regulations and may be subject to additional reporting requirements. The determination of whether we are a passive foreign investment company will be made on an annual basis and will depend on the composition of our income and assets, including goodwill. The calculation of goodwill will be based, in part, on the market value of our ADSs from time to time, which may be volatile. In general, we will be classified as a passive foreign investment company for any taxable year in which either (1) at least 75% of our gross income is passive income or (2) at least 50% of the value (determined on the basis of a quarterly average) of our assets is attributable to assets that produce or are held for the production of passive income. For purposes of these tests, cash, including working capital, and investments are considered assets that produce or are held for the production of passive income. If our retained cash or investments and any other passive assets comprised at least 50% of the value of our assets, we could be a passive foreign investment company. Our determination of whether we are a passive foreign investment company is not binding on the Internal Revenue Service. We cannot assure you that we will not be a passive foreign investment company for the current or any future taxable year. If we are a passive foreign investment company in any year that a U.S. investor holds shares or ADSs, we generally will continue to be treated as a passive foreign investment company for that investor in all succeeding years. We urge U.S. investors to consult their own tax advisors concerning the availability and making of a mark-to-market election. See Item 10. Additional Information Taxation United States Federal Income Taxation Passive foreign investment company rules.

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

We are a holding company and do not have any assets or conduct any business operations other than our holding of the equity interests in, directly and indirectly:

Qian Cheng Wu You Network Information Technology (Beijing) Co., Ltd., or WFOE, a wholly foreign owned enterprise in China;

Qianjin Network Information Technology (Shanghai) Co., Ltd., or Tech JV; and

Shanghai Qianjin Advertising Co., Ltd., or AdCo, and its subsidiaries.

As a result of our holding company structure, we rely entirely 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. PRC regulations currently permit payment of dividends only out of accumulated profits as determined in accordance with

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PRC accounting standards and regulations. Our subsidiaries and affiliated entities in the PRC are also required to set aside a portion of their after-tax profits according to PRC accounting standards and regulations to fund certain reserve funds that are not distributable as cash dividends. The PRC government also imposes controls on the convertibility of Renminbi into foreign currencies and, in certain cases, the remittance of currency out of the PRC. We may also experience difficulties in completing the administrative procedures necessary to obtain and remit foreign currency. See Item 4. Information on the Company Business Overview Regulation Regulation of Foreign Currency Exchange and 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 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 regulates 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 was subsequently relaxed in December 2005 and foreign persons are now permitted to own 100% of advertising entities. In addition, until November 2003, there were no PRC laws or regulations explicitly prohibiting or limiting foreign ownership in entities providing human resource related services. Since November 2003, foreign ownership in entities providing human resource related services has been limited to 49%.

Prior to our restructuring, 51net, our BVI subsidiary and a foreign entity, owned 99% of Tech JV, which in turn owned, and continues to own, 80% of AdCo. AdCo owned, and continues to own, 90% of the principal AdCo Subsidiaries. During this period, Tech JV, AdCo and the AdCo Subsidiaries conducted a portion of our advertising and human resource services businesses. We have been advised by Jun He Law Offices, our PRC counsel, that the foreign ownership percentage of Tech JV, AdCo and the AdCo Subsidiaries prior to our restructuring was above the maximum foreign ownership permitted for an entity conducting advertising operations. In addition, we have been advised by our PRC counsel that, prior to our restructuring, the foreign ownership percentage of Tech JV was above the maximum foreign ownership permitted for an entity conducting human resource operations. In May 2004, we restructured our operations to comply with the foregoing PRC laws and regulations governing foreign ownership in entities conducting advertising and human resource related services. In connection with our restructuring, we informed relevant PRC governmental authorities that, historically, our foreign ownership percentage of Tech JV, AdCo and the AdCo Subsidiaries was not in compliance with limitations on foreign ownership of entities conducting advertising and human resources operations. However, we have not received any waiver from the PRC government with respect to our past non-compliance with foreign ownership laws limitations.

There remains uncertainty regarding whether foreign owned PRC entities, such as AdCo, are required to obtain special governmental approval in order to establish subsidiaries in the PRC or otherwise invest in PRC entities. Following the formation of the AdCo Subsidiaries, in connection with our restructuring we made inquiries with relevant PRC governmental authorities as to whether AdCo was required to obtain such approval before establishing the AdCo Subsidiaries. We have been unable to obtain any governmental ruling or advice on this matter. As a result, it is uncertain whether special governmental approval, which we did not obtain, was necessary for the establishment by AdCo of the AdCo Subsidiaries.

The PRC government may determine that our ownership structure is or was inconsistent with or insufficient for the proper operation of our businesses, or that our business licenses or other approvals are or were not properly issued or not sufficient. For a discussion of the limitations on foreign ownership governing our businesses, see Item 4. Information on the Company Business Overview Regulation Limitations on Foreign Ownership of Our Businesses. Furthermore, if new governmental regulations arise in the future, the AdCo Subsidiaries may be subject to new requirements and approvals.

If we or any of our subsidiaries or affiliated entities were found to be or to have been in violation of PRC laws or regulations governing foreign ownership of advertising or human resource services 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;

restricting or prohibiting our use of proceeds from our initial public offering and any future offerings 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 our agreements with an affiliated entity to provide human resource related services and to act as an Internet content provider, and we rely on agreements with an affiliated entity and its shareholders to receive all of the beneficial interest of this entity.

Current PRC laws and regulations limit foreign investment in entities providing human resource related services and in entities operating as Internet content providers. We currently provide technical, consulting and human resource related services in conjunction with our affiliated entity, RAL, which is wholly owned by Michael Lei Feng and Tao Wang, two of our executive officers. RAL holds a license to provide human resource related services and we rely on RAL to provide human resource related services to our clients under a contractual arrangement between RAL and our majority owned subsidiary Tech JV. Similarly, RAL holds a license to operate as an Internet content provider. While we provide all of our online recruitment services through Tech JV, we rely on RAL to provide certain Internet content provider services to support Tech JV s online recruitment services through a contractual arrangement with RAL. We have entered into agreements with RAL s shareholders which enable us to effectively control RAL.

Tech JV, AdCo and the AdCo Subsidiaries recognize substantially all of our revenues. The minority interests in Tech JV, AdCo and the AdCo Subsidiaries, which are direct or indirect subsidiaries of Tech JV, are held by Qian Cheng, which is wholly owned by Michael Lei Feng and Tao Wang. Through agreements with Qian Cheng and its shareholders, we have the substantial ability to control, bear all the economic risks of, and receive all the economic rewards from, Qian Cheng. As a result, we consolidate all of its interests for U.S. GAAP reporting purposes.

As we rely on these agreements with RAL and Qian Cheng to enable us to provide certain critical services to our clients as well as to receive all the economic benefits of Qian Cheng, 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 result in a significant expenditure of resources. If we are unable to restructure our operations to provide those services through a different entity, we may experience significant disruptions in our ability to provide online recruitment services or human resource related services to our customers. In addition, if we are unable to consolidate the minority interests in Tech JV, AdCo and the AdCo Subsidiaries, our results of operations would reflect Qian Cheng s minority interest in these entities which, if not otherwise consolidated, would result in a significant reduction in our reported net income. For a description of our contractual arrangements with these entities, see Item 4. Information on the Company Organizational Structure.

If our affiliated entity RAL is found to be operating in jurisdictions outside of Shanghai without a business license, we could be subject to sanctions and our revenues could be adversely affected.

RAL s existing human resource services license is limited to Shanghai. In 2005, revenues from human resource related services provided to customers outside Shanghai accounted for approximately 2% of our total revenues. It is possible that government authorities in jurisdictions outside Shanghai where certain of RAL s customers are located may assert that RAL is providing human resource related services in such jurisdictions without a necessary license and is required to obtain a human resource services license in such jurisdictions. As a result, RAL could be required to cease providing human resource services to customers in such locations which could result in a reduction in human resource related revenues. In addition, RAL may be subject to sanctions in the form of forfeiture of profits, fines, or both.

Our contractual arrangements with RAL and Qian Cheng may not be as effective in providing operational control as direct ownership of these businesses.

Because the percentage of foreign ownership in human resource and Internet content businesses in China is limited under PRC laws and regulations, we depend substantially on RAL, in which we have no direct ownership interest, and

its contractual arrangements with us to provide those services. Similarly, we rely on our contractual arrangements with Qian Cheng, in which we have no direct ownership interest, to realize all of the economic rewards from Qian Cheng s minority interests in Tech JV, AdCo and the AdCo Subsidiaries. Our contractual arrangements with RAL, Qian Cheng and their

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respective shareholders may not be as effective as direct ownership in providing control over their operations. RAL may fail to perform its contractual obligations required for us to operate our business, such as keeping in good standing under its business licenses. Qian Cheng and its shareholders may refuse to make payments or otherwise refuse to perform their contractual obligations necessary for us to realize the economic rewards relating to Qian Cheng s minority interests in Tech JV, AdCo and the AdCo Subsidiaries. In addition, the contractual arrangements which provide us with the substantial ability to control these entities may be unenforceable and the shareholders of these entities may refuse to renew these contractual arrangements. In any such event, we will have to rely on the PRC legal system to enforce our rights. In many cases, the laws and regulations governing the enforcement and performance of contractual arrangements are significantly more limited than in the United States and many other countries and may afford us little or no effective protection. If we are unable to enforce our rights, we may be unable to operate our human resource and Internet content businesses through RAL or receive all of the economic rewards from Qian Cheng. As a result, we may be required to restructure our operations which would likely entail a significant expenditure of resources. We cannot assure you that any such restructuring would be effective or would not result in similar or other difficulties. For a description of these contractual arrangements, see Item 4. Information on the Company Organizational Structure.

If we or any of our subsidiaries or affiliated entities were found to be in violation of 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;

restricting or prohibiting our use of proceeds from our initial public offering and any future offerings 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.

The PRC laws and regulations governing our current 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 advertising, human resource services and Internet content industries. These laws and regulations are relatively new and 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. In addition, the PRC authorities retain broad discretion in dealing with violations of laws and regulations, including levying fines, revoking business licenses and requiring actions necessary for compliance. In particular, 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. We cannot assure you that any such restructuring would be effective or would not result in similar or other difficulties. We

may be subject to sanctions, including fines, and could be required to restructure our operations. As a result of these substantial uncertainties, we cannot assure you that we will not be found in violation of any current or future PRC laws or 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;

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restricting or prohibiting our use of proceeds from our initial public offering and any future offerings 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.

Risks Related to the People s Republic of China

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

The PRC economy differs from the economies of most developed countries in many respects, including with respect to 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 in the past 20 years, growth has been uneven, both geographically and among various sectors of the economy. The PRC government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures benefit the overall PRC economy, but may also have a negative effect on us. For example, our financial condition and results of operations may be adversely affected by government control over capital investments or changes in tax regulations that are applicable to us.

The PRC economy has been transitioning from a planned economy to a more market-oriented economy. Although in recent years the PRC government has implemented measures emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of sound corporate governance in business enterprises, a substantial portion of the productive assets in China is still owned by the PRC government. The continued control of these assets and other aspects of the national economy by the PRC government could materially and adversely affect our business. For example, the PRC government could determine to limit the extent to which government controlled entities may use private sector businesses such as ours to service their human resource requirements. The PRC government could also determine to develop and support government owned or controlled human resource enterprises in direct competition with us. In addition, the PRC government continues to play a significant role in regulating industry development by imposing industrial policies. It also exercises significant control over PRC economic growth through the allocation of resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. Efforts by the PRC government to slow the pace of growth in the Chinese economy could result in reduced job growth and recruitment activity, which in turn could reduce demand for our recruitment advertising services. In addition, the PRC government could determine to more closely regulate the advertising, Internet content delivery or human resource industries, which could impose additional regulatory costs and burdens on us.

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

of PRC laws and regulations, we could be subject to sanctions.

The interpretation and application of existing PRC laws and regulations, the stated positions of the main governing authority, the PRC Ministry of Information Industry, and the possibility of new laws or regulations being adopted, have created significant uncertainty regarding the legality of existing and future foreign investments in, and the businesses and activities of, companies with Internet operations, including those of our company. In particular, the PRC Ministry of Information Industry has stated that the activities of Internet content providers, or entities providing delivery of Internet

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content, are subject to regulation by various PRC government authorities, depending on the specific activities conducted by the Internet content provider. We cannot be certain that the commercial Internet content provider license issued by the local Shanghai Municipal Telecommunications Bureau and held by RAL will satisfy these requirements. For example, we may be required to obtain an inter-provincial Internet content provider license in order to operate online businesses in multiple provinces, autonomous regions and centrally administered municipalities. In addition, PRC government regulation of the telecommunications and Internet industries is burdensome and may become even more so. New regulations could increase our costs of doing business and prevent us from efficiently delivering our services. We have been informed that the PRC Ministry of Information Industry is in the process of preparing a draft of a national telecommunications law to provide a uniform regulatory framework for the telecommunications industry. We do not know the nature or scope of these new laws and regulations and we cannot predict whether they will have a positive or negative effect on any or all aspects of our business. Our failure to comply with applicable PRC Internet regulations could subject us to severe sanctions.

The continued growth of the Chinese Internet market depends on the establishment of an adequate telecommunications infrastructure.

Although private sector Internet service providers currently exist in China, almost all access to the Internet is maintained through ChinaNet, which is owned by China Telecom under the administrative control and regulatory supervision of the PRC Ministry of Information Industry. 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 this infrastructure and China Telecom to provide data communications capacity, primarily through local telecommunications lines. We cannot assure you that this infrastructure will be developed. We have no access to alternative networks or services, on a timely basis or if at all, in the event of disruptions, failures or other problems with China s Internet infrastructure or telecommunications networks. The Internet infrastructure in China may not support the demands associated with continued growth in Internet usage.

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. However, the PRC has not developed a fully integrated legal system and the array of new laws and regulations may not be sufficient to cover all aspects of economic activities in the PRC. In particular, because these laws and regulations are relatively new, and because of the limited volume of published decisions and their non-binding nature, the interpretation and enforcement of these laws and regulations involve uncertainties. In addition, published government policies and internal rules may have retroactive effects and, in some cases, the policies and rules are not published at all. As a result, we may be unaware of our violation of these policies and rules until some time later. Our contractual arrangements with our affiliated entities are governed by the laws of the PRC. The enforcement of these contracts and the interpretation of the laws governing these relationships is subject to uncertainty. See Risks Related to Our Corporate Structure The PRC laws and regulations governing our current business operations and contractual arrangements are uncertain, and if we are found to be in violation, we could be subject to sanctions.

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

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

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

The PRC government imposes controls on the convertibility of Renminbi into foreign currencies and, in certain cases, the remittance of currency out of China. 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

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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 PRC State Administration of Foreign Exchange by complying with certain procedural requirements. However, approval from appropriate governmental authorities is required where Renminbi is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of bank loans denominated in foreign currencies. The PRC government may also at its discretion restrict access in the future to foreign currencies for current account transactions. If the foreign exchange control system prevents us from obtaining sufficient foreign currency to satisfy our currency demands, we may not be able to pay dividends in foreign currencies to our shareholders, including holders of our ADSs.

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

The value of the Renminbi against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in the PRC s political and economic conditions. On July 21, 2005, the PRC government changed its policy of pegging the value of the Renminbi to the U.S. dollar. Under the new policy, the Renminbi is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy resulted in an approximately 2.5% appreciation in the value of the Renminbi against the U.S. dollar as of December 31, 2005, which resulted in a loss from foreign currency translation of RMB11.3 million (US$1.4 million) for us in 2005. While the international reaction to the Renminbi revaluation has generally been positive, there remains significant international pressure on the PRC government to adopt an even more flexible currency policy, which could result in further and more significant revaluations of the Renminbi. As a portion of our assets are denominated in U.S. dollars, any future upward revaluations of the Renminbi may result in charges to our income statement and reductions in the value of these U.S. dollar denominated assets when translated into Renminbi.

In addition, as we rely entirely on dividends, royalty payments and other fees paid to us in Renminbi by our subsidiaries and affiliated entities in the PRC, any significant downward revaluation of the Renminbi may materially and adversely affect our cash flows, revenues and financial condition, and the value of, and any dividends payable on, our ADSs in foreign currency terms. Conversely, if we decide to convert our Renminbi into U.S. dollars for the purpose of making payments for dividends on our common shares or for other business purposes and the U.S. dollar appreciates against the Renminbi, the U.S. dollar equivalent of the Renminbi we convert would be reduced. For further information on our foreign exchange risks and certain exchange rates, see Item 3. Key Information Selected Financial Data Exchange Rate Information and Item 11. Quantitative and Qualitative Disclosures about Market Risk Foreign exchange risk.

We face risks related to health epidemics and other outbreaks.

Our business could be adversely affected by the effects of avian flu, Severe Acute Respiratory Syndrome, or SARS, or another epidemic or outbreak on the economic and business climate. In 2005, there have been reports on the occurrences of avian flu in various parts of China, including confirmed human cases. Restrictions on travel resulting from any prolonged recurrence of avian flu, SARS or another epidemic or outbreak could adversely affect our ability to market and service new and existing customers throughout China. Our business operations could be disrupted if one of our employees is suspected of having avian flu, SARS, or another health epidemic, which would require that a certain number of our employees be quarantined and/or our offices be disinfected. In addition, our results of operations could be adversely affected to the extent that avian flu, SARS or another outbreak harms the Chinese economy in general. We have not adopted any written preventive measures or contingency plans to combat any future outbreak of avian flu, SARS or any other epidemic.

Recent regulations relating to offshore investment activities by PRC residents may increase the administrative burden we face and create regulatory uncertainties that may limit our ability to acquire PRC companies.

As part of our growth strategy, we may decide to expand, in part, by acquiring certain complementary businesses in the future, including companies incorporated in the PRC. In 2005, the PRC State Administration of Foreign Exchange, or SAFE, issued various regulations that will require approvals from, and registrations with, PRC

government authorities in connection with direct or indirect offshore investment activities by PRC residents and PRC corporate entities. A SAFE regulation, effective from November 1, 2005, retroactively requires registration of direct or indirect investments previously made by PRC residents in offshore companies before March 31, 2006. In the event that a PRC shareholder

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with a direct or indirect stake in an offshore parent company fails to make the required registration, the failure would subject such PRC shareholder to personal liability and may also limit such offshore parent company s ability to contribute additional capital into its PRC subsidiaries or its PRC subsidiaries ability to distribute dividends to the offshore parent, or otherwise adversely affect its business.

Current regulations are still uncertain and unclear. It is possible that the relevant government authorities may promulgate new legislation to interpret, amend or implement these regulations in various ways. As a result, we cannot assure you that we or the owners of any target PRC business we may acquire, as the case may be, will be able to complete the necessary approval, filings and registrations for a proposed acquisition. This may restrict our ability to implement our acquisition strategy and adversely affect our operations. For more information about SAFE regulations, see Item 10. Additional Information Exchange Controls.

Risks Related to Our ADSs

The market price for our ADSs may be volatile.

The market prices of the securities of companies with Internet related and online businesses have been extremely volatile and may be subject to wide fluctuations in response to factors including the following:

actual or anticipated fluctuations in our quarterly operating results;

changes or revisions by us to previously released operating and financial targets;

announcements of new services by us or our competitors;

changes in financial estimates or recommendations by securities analysts;

conditions in our industry, which is the market for recruitment advertising services and other human resource related services in China;

announcements by us or our competitors of significant acquisitions, strategic partnerships, joint ventures or capital commitments;

additions or departures of key personnel;

release of transfer restrictions on our outstanding common shares or ADSs or sales of additional common shares or ADSs; and

pending or potential litigation or regulatory investigations.

In addition, the securities market has from time to time experienced significant price and volume fluctuations that are not related to the operating performance of particular companies. These market fluctuations may also materially and adversely affect the market price of our ADSs. The price of our ADSs has experienced significant volatility since our initial public offering and we expect the price and volume volatility with respect to our ADSs to continue in the future.

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

If our shareholders sell, or are perceived as intending to sell, substantial amounts of our common shares or ADSs, including those issued upon the exercise of outstanding options, in the public market, the market price of our ADSs could fall. Such sales, or perceived potential sales, also might make it more difficult for us to sell equity or equity related securities in the future at a time and price that we deem appropriate. Common shares held by our existing shareholders and our affiliates may also be sold in the public market in the future under, and subject to the restrictions contained in, Rule 144 under the U.S. Securities Act of 1933, as amended, or the Securities Act. In addition, see Item 6. Directors, Senior Management and Employees Compensation Stock-Based Compensation Plans for a description of outstanding options to purchase our common shares.

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

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

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

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

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

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

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

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

You may face difficulties in protecting your interests, and your ability to protect your rights through the U.S. federal courts may be limited, because we are incorporated under Cayman Islands law.

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

Our corporate affairs are governed by our memorandum and articles of association, the Cayman Islands Companies Law (2004 Revision) 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 responsibilities of our directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as

from English common law, the decisions of whose courts are of persuasive authority, but are not binding on a court in the Cayman Islands. The rights of our shareholders and the fiduciary responsibilities 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,

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the Cayman Islands has a less developed body of securities laws as compared to the United States, and some states, such as Delaware, have more fully developed and judicially interpreted bodies of corporate law. In addition, Cayman Islands companies may not have standing to initiate a shareholder derivative action in a federal court of the United States.

The Cayman Islands courts are also unlikely:

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

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

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

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

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

We commenced our business in 1998. Since our inception, we have conducted substantially all of our operations in China. 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 (2004 Revision). Subsequently, 51job, Inc. acquired 51net.com Inc., or 51net, a British Virgin Islands company, and other subsidiaries to become the holding company of our corporate group. We operate as a foreign investment enterprise in China through our wholly owned subsidiaries, 51net, which is the registered owner of some of our trademarks and our domain name, 51net Beijing, which is a Cayman Islands company, and 51net HR, which is a dormant entity incorporated in the Cayman Islands, as well as our affiliated Chinese entities, including:

Shanghai Qianjin Advertising Co., Ltd. (whose name we changed from Shanghai Qianjin Culture Communications Co., Ltd. in November 2005), or AdCo, and AdCo s fifteen branch offices, seven majority owned subsidiaries and one jointly owned subsidiary with Tech JV, or, collectively, the AdCo Subsidiaries. AdCo and the AdCo Subsidiaries hold licenses and permits to conduct advertising businesses;

Shanghai Run An Lian Information Consultancy Co., Ltd., or RAL, which holds human resource related services and Internet content provision licenses;

Qianjin Network Information Technology (Shanghai) Co., Ltd., or Tech JV, which is allowed to conduct online advertising and holds a human resource related services license;

Qian Cheng Wu You Network Information Technology (Beijing) Co., Ltd., or WFOE, which is wholly owned by 51net Beijing and owns certain of our trademarks and registered copyrights;

Beijing Qian Cheng Si Jin Advertising Co., Ltd., or Qian Cheng, which is our joint venture partner in Tech JV;

Beijing Run An Information Consultancy Co., Ltd., or Run An, which holds a minority interest in Qian Cheng;

Shanghai Wang Cai Advertising Co., Ltd. (whose name we changed from Shanghai Jin Lian Advertising Co., Ltd. in July 2005), or Wang Cai AdCo, which is jointly owned by AdCo and TechJV and a AdCo Subsidiary that holds licenses to conduct advertising businesses;

Wuhan Mei Hao Qian Cheng Advertising Co., Ltd., or Wuhan AdCo, which holds a minority interest in Tech JV and our AdCo Subsidiary in the city of Wuhan that conducts advertising businesses; and

Wang Jin Information Technology (Shanghai) Co., Ltd., which is wholly owned by 51net and has no current operations.

In May 2004, we engaged in a restructuring to comply with current PRC foreign ownership limitation. Since 2002, substantially all of our business and operations have been conducted through Tech JV and its branches, AdCo and the AdCo Subsidiaries. For a discussion on our group structure and the contractual arrangements among our entities, see Item 4. Information on the Company Organizational Structure.

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We completed the initial public offering of 6,037,500 American depositary shares, each representing two of our common shares, par value US$0.0001 per share, on October 4, 2004. On September 29, 2004, the trading of our ADSs on the Nasdaq National Market, or Nasdaq, under the symbol JOBS, commenced.

In April 2006, we formed a business alliance with Recruit, a privately held human resource services company in Japan, to collaborate on the development of our human resource products and services in China. Under the terms of our business alliance agreement, we have also established an internal corporate planning group with Recruit to explore potential business opportunities outside of the human resource services industry in China although to date we have not begun to offer any such products.

Our principal executive offices are located at 21st Floor, Wen Xin Plaza, 755 Wei Hai Road, Shanghai 200041, People s Republic of China. Our telephone number at this address is +(86-21) 3201-4888. Our agent for service of process in the United States is National Registered Agents, Inc., located at 875 Avenue of the Americas, Suite 501, New York, New York 10001.

Our principal capital expenditures for 2003 and 2004 consisted of purchases of computers, network equipment, software and other intellectual property rights for a total of approximately RMB9.6 million and RMB13.8 million, respectively. Our principal capital expenditures for 2005 were approximately RMB54.4 million (US$6.7 million) and included installment payments toward the purchase of a new office complex and purchases of office equipment and software. In October 2005, we signed a letter of intent to purchase a new office complex in Zhangjiang High Technology Park in Shanghai for approximately RMB114 million (US$14.1 million).

Our capital expenditure plans for 2006 have not yet been fixed, but we completed the purchase of the new office complex in Zhangjiang Technology Park in April 2006 and intend to purchase computers, technology-related equipment and software. Regarding the new office complex, we expect to incur additional expenses associated with renovations, relocation and other related items. We plan to move our national technology and online service center as well as our principal executive offices to the new premises in late 2006. In addition, in March 2006, we signed a letter of intent to purchase our current principal executive offices at 21st Floor, Wen Xin Plaza, 755 Wei Hai Road, which we expect will become our Shanghai sales office, for an aggregate consideration of RMB27 million (US$3.3 million). Capital expenditures in 2006 have been, and are expected to continue to be, funded through operating cash flows and through our existing capital resources.

B. Business Overview

We believe that we are a leading provider of integrated human resource services in China, with a strong focus on recruitment related services. Our recruitment related services are delivered in both print and online formats, and we closely integrate these two services to allow us to reach a wide and diverse audience. Critical aspects in providing our services include the Internet, web-based applications and human resource software.

We believe that we are the only significant nationwide provider of integrated print and online recruitment advertising services in China. We believe that our integrated advertising services allow us to attract a broad base of advertisers and job seekers and provide us with a platform from which we can market our other human resource related services. In addition to recruitment advertising services, we also provide executive search and other complementary human resource related services for large and small employers.

Our goal is to be a one-stop solution to human resource departments by providing recruitment and other human resource related services to employers.

Although we provide services to both employers and job seekers, we derive substantially all of our revenues from employers. We receive a majority of our revenues in the form of fees from employers for placing job advertisements on *51job Weekly* and *www.51job.com*. We also receive fees from employers for access to our *www.51job.com* resumé database, use of *eHire* and in connection with *eSearch* and other human resource related services.

Our Product and Services

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

recruitment related services, including print advertising, online recruitment and executive search services; and

other human resource related services, such as training and business process outsourcing.

Our recruitment related services consist of our integrated print advertising and online recruitment services as well as our executive search services. We generate the substantial majority of our revenues from these businesses. Our print advertising business generated 62.3% of our revenues in 2003, 62.7% of our revenues in 2004 and 59.8% of our revenues

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in 2005. Our online recruitment services business generated 26.2% of our revenues in 2003, 23.2% of our revenues in 2004 and 26.8% of our revenues in 2005. Our executive search business generated 5.4% of our revenues in 2003, 5.2% of our revenues in 2004 and 4.4% of our revenues in 2005.

We offer a number of other value-added human resource services in areas such as training and business process outsourcing. Other human resource related services generated 6.1% of our revenues in 2003, 8.9% of our revenues in 2004 and 9.0% of our revenues in 2005.

Recruitment related services

Print advertising *51job Weekly. 51job Weekly*, which we formerly translated into English as *Career Post Weekly*, is a city-specific recruitment advertising publication which is published once a week and is distributed as an insert in local newspapers and/or on a stand-alone basis. As of March 31, 2006, *51job Weekly* was published in 24 major cities in China. We established operations in the cities of Changchun in February 2005, Suzhou in June 2005, Fuzhou in July 2005, Zhengzhou in September 2005 and Tianjin in January 2006.

The 24 cities where *51job Weekly* is published and our newspaper contractor in each city as of March 31, 2006 are as follows:

City	Newspaper contractor[1]	City	Newspaper contractor[1]
Beijing	*China Trade News*	Kunming	*Chuncheng Evening News*
Changchun	*City Evening News*	Nanjing	*Modern Express*
Changsha	*Sanxiang Metropolitan News*	Ningbo	*Modern Golden News*
Chengdu	*Hua Xi Metropolitan News*	Qingdao	*Qingdao Financial Times*
Chongqing[2]	*Human Resource News*	Shanghai	*China Trade News*
Guangzhou	*Guangzhou Youth Daily*	Shenyang	*Friendly Times*
Dalian	*Dalian Evening News*	Shenzhen	*Nan Fang Metropolitan News*
Fuzhou	*Straits Talent News*	Suzhou	*Modern Express*
Hangzhou	*News Information Daily*	Tianjin	*Metro Express*
Harbin	*Harbin Lifestyle Daily*	Wuhan	*News Information Daily*
Hefei	*Hefei Evening News*	Xian	*China Merchant News*
Jinan	*Jinan Times*	Zhengzhou	*Youth Herald*

(1) English translations of the Chinese names.

(2) In February 2006, we changed our newspaper contractor in Chongqing from *Chongqing Business Daily*.

51job Weekly is not published in Hong Kong.

A different version of *51job Weekly* is published in each of our markets, with each version containing city-specific recruitment advertisements. We closely coordinate *51job Weekly* with our *www.51job.com* online recruitment website and post substantially all of the recruitment advertisements appearing in *51job Weekly* on *www.51job.com* as well. *51job Weekly* contains recruitment advertisements for the full range of job categories that are available on our website, including sections for professional, middle management and technical personnel. Advertisements placed in *51job Weekly* are primarily in Chinese language.

Employers use *51job Weekly* both as a recruitment tool and as an advertising and publicity medium to promote their brand name and corporate awareness among job seekers. *51job Weekly* recruitment advertisements come in a variety of formats, from large, multi-color advertisements using graphics and corporate trademarks, often placed by international and large domestic companies, to simple text job announcements, typically posted by smaller, local businesses. *51job Weekly* is divided into a number of separate sections, with certain sections targeted at higher income and more educated job seekers containing large, colorful advertisements on glossy, high quality paper. Other sections contain simpler text-only advertisements targeted at middle and lower income job seekers.

In China, entities engaged in publishing activities are required by the government to have a publishing license. Since we do not have any publishing licenses, we have established a relationship with a local newspaper in each market where *51job Weekly* is produced. These newspapers provide us with printing and publishing services on a contractual basis, generally for a term of two years. These newspapers also generally provide us with distribution and marketing support in our local markets, although we sometimes undertake marketing independently. *51job Weekly* is distributed as an insert in our contractor s newspaper in an effort to increase our circulation and help us establish our brand name. As an

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insert in these newspapers, *51job Weekly* is sold at newsstands, kiosks, convenience stores, supermarkets and other venues. We provide vendors with marketing materials such as posters, display racks and other promotional items. We also circulate *51job Weekly* independently through our direct marketing campaigns. Our direct marketing includes offering free copies of *51job Weekly* at self-help kiosks at job fairs, in the lobbies of major office buildings, at post offices, on university campuses and in other public areas where the public circulation of newspapers is permitted. We have entered into exclusive marketing arrangements to offer free copies of *51job Weekly* in subway stations in Beijing, Guangzhou and Shanghai and in light rail stations in Chongqing.

We may change our newspaper contractor in a city when we are able to obtain more favorable terms or higher quality service from a different newspaper contractor. From inception, we have changed our newspaper contractor a total of eight times across the 24 cities in which we had a contract with local newspapers as of March 31, 2006. See Item 3. Key Information Risk Factors Risk Related to Our Business We are dependent on local newspaper contractors in each of our geographic markets to publish and distribute *51job Weekly*.

The advertising fees that we charge depend on a variety of factors, including the size, placement, format, and use of color and graphics in the advertisement, the length of time the advertisement is to appear, and the market in which the advertisement is placed. As we grow in our existing markets and expand into new cities, we increase our client base and the number of advertising pages that we produce. Our print advertising revenues are primarily affected by the number of print advertising pages and the fees that we charge. Pricing for specific products can vary significantly from city to city.

Our print advertising business is characterized by seasonal variations, particularly during the peak hiring periods around the Chinese New Year holidays and the beginning of May and October. As a result, our print advertising revenues may fluctuate significantly from quarter to quarter depending on customer demand and needs. See Item 3. Key Information Risk Factors Risk Related to Our Business Due to seasonal variations in demand for human resource services, we experience significant 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.

The following table sets forth the estimated number of print advertising pages we generated and the cities where *51job Weekly* was published for the periods and as of the dates indicated.

	2003	**2004**	**2005**
Estimated number of print advertising pages[(1)]	4,635	9,001	11,884
Number of cities where *51job Weekly* was published[(2)]	16	19	23

(1) For the years ended December 31, 2003, 2004 and 2005.

(2) As of December 31, 2003, 2004 and 2005.

Increases in our estimated number of print advertising pages generally reflect our geographic expansion as well as further penetration of existing markets. However, there is no direct correlation between the growth in the number of cities in which we operate and in the overall number of our print advertising pages.

Online recruitment services www.51job.com. We established our online recruitment website, *www.51job.com*, in 1999. *www.51job.com* provides online recruitment advertisements in both Chinese and English on a city-by-city basis and covers many different job categories ranging from professional and middle management positions to clerical, industrial and hourly jobs. We regularly maintain and update our *www.51job.com* with job search, training and general career management content.

We believe that *www.51job.com* is one of the largest dedicated national recruitment websites in China in terms of the number of recruitment advertisements. We also believe that *www.51job.com* is among the largest in terms of the number of registered job user accounts and posted job seeker resumés, with approximately 13 million user accounts established since the launch of our website in 1999 and more than 8 million resumés posted online as of March 31, 2006. We believe that *www.51job.com* is perceived as a destination site by job seekers because of its large volume of advertisements and the job search, training and general career management and advisory content available on the website.

We believe that *www.51job.com* provides employers with a cost-effective means of reaching their target audience. As our website contains nationwide recruitment advertisements, employers can access a large pool of potential candidates from a wide geographic area. Certain employers post advertisements solely online when they consider the demographics of their target audience to favor the use of the Internet for recruitment advertising. As a result, *www.51job.com* includes a higher number of technology related positions than *51job Weekly* as well as recruitment

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advertisements targeted at younger job seekers that are more likely to use the Internet. We generally update the advertisements on our website several times each hour, which allows employers to receive responses more rapidly than is generally possible using print advertisements. Employers also use our website as a marketing tool, placing advertising banners, trademarks, logos, website hyperlinks and other devices to promote their image for a fee that varies depending on the size and graphics in their presentation. We believe that certain employers view this image promotion as a significant means of attracting online job seekers to their recruitment advertisements on our website. As a result, we believe that our ability to offer these devices is an important element in our ability to attract online recruitment advertising business, which generates a material portion of our revenues. However, in the event of any adverse change in the actual or perceived effectiveness of online image promotion, or online advertising in general, our online recruitment advertising business may be adversely affected. See Item 3. Key Information Risk Factors Risks Related to Our Business If the Internet, and online advertising in particular, does not achieve broad acceptance in China as a medium for recruitment, our online recruitment services business may be adversely affected.

Employers can use our *eHire* web-based platform to search our job candidate database and download resumés for a fee. In addition, *eHire* contains other tools that enable employers to manage, organize and streamline the recruitment and hiring process. We also offer website design as an additional value-added service and marketing tool for corporate customers. 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. These client sites, together with our *www.51job.com* website, are hosted by China Telecom.

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

	For the year ended December 31,		
	2003	**2004**	**2005**
Estimated unique employers using online recruitment services	25,880	39,317	56,599

www.51job.com provides job seekers with online tools to search for job opportunities and allows them to:

search and review all current recruitment advertisements;

receive e-mails of advertisements matching the job seeker s profile and preferences;

submit resumés directly to prospective employers to apply for a desired position;

organize and track job related information and applications; and

obtain information about upcoming job fairs and career development and other job related information.

We provide job seekers access to *www.51job.com* free of charge.

We closely coordinate *51job Weekly* with our *www.51job.com* online recruitment website, and we post substantially all of the recruitment advertisements appearing in *51job Weekly* on *www.51job.com* as well. We place a basic description of a *51job Weekly* recruitment advertisement on our website as a complimentary service to our customers. This practice also allows us to introduce our online recruitment website to customers who have only purchased print recruitment advertising to increase potential cross-selling opportunities.

Executive search eSearch. To meet employers recruitment needs, we supplement our recruitment advertising service with our *eSearch* executive search services. We conduct searches principally for employers seeking to fill mid-level professional, managerial and junior executive positions. We generally charge corporate clients a total assignment fee of approximately 30% of the candidate s annual compensation, including a minimum upfront retainer. We maintain a team of specialized executive search consultants whom we dedicate exclusively to providing this service, while working closely with our recruitment and other sales staff to cross-sell our products and develop client relationships. Substantially all of our executive search assignments are engaged locally in China.

We believe that as companies expand and need to hire qualified and more experienced professional and managerial personnel, including those who are not active job seekers, demand for executive search services market may increase.

We believe that we are well positioned in this market as we may attract employers that have used our *www.51job.com* website or *51job Weekly* but are first-time executive search users. In addition, our search consultants can access our extensive online candidate resumé database which other search firms are restricted from using.

Other human resource related services

We conduct training seminars in business management, leadership, sales and marketing, human resource,

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negotiation skills, financial planning and analysis, public administration, manufacturing, secretarial and other skills. We provide our seminars to the general public and on a customized, in-house basis for corporate clients. In addition, we provide outdoor-based training exercises and programs for corporate clients to promote personal development, team building and communication. We believe that our training services build our brand awareness as a leading provider of integrated human resource services.

We perform business process outsourcing services by managing human resource administrative functions for employers on an outsourced basis. Currently, we provide business process outsourcing services to a limited number of corporate clients with respect to social insurance and welfare payment processing, tracking compliance with local governmental employment regulations and payroll processing. We continue to build our outsourcing capability and expertise.

We seek to develop business process outsourcing services as part of our strategy to become a one-stop solution to our clients. While the market for these services in China is still limited compared to developed economies like the United States, we expect to further expand and develop these services as the market for these services in China grows. We believe that there is significant future potential for these services as more companies in China become accustomed to using third parties to perform human resource administrative functions.

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

We provide our monthly human resource trade magazine called *Human Capital* to clients on a subscription or complimentary basis. This magazine, which has been produced since August 2002, is targeted principally at corporate human resource personnel and contains articles, commentary, interviews and reports on human capital management topics.

We provide general and customized salary survey studies with analysis on compensation and benefits packages across various cities, industries and positions. Human resource departments utilize our information to understand the market for compensation levels and to determine compensation and benefits packages for employees and candidates.

We have developed a proprietary assessment system to assist human resource departments in evaluating capabilities and dispositions of job candidates and existing employees, in aiding employee placement and in allocating employee resources. We have also developed a human resource management software that allows employers to track attendance, payroll, vacation and other employee related information.

Technology

We design and update our website and develop our proprietary software entirely in-house. Our website is hosted by China Telecom, China s principal telecommunications and Internet service provider. We own the copyrights, software, trademarks and other intellectual property with respect to the design and content of our website, other than the advertisements and trademarks provided by our advertisers.

We employ a large staff of website designers and technicians to update and enhance our website as well as to design, build and provide assistance to customers that are creating their own recruitment website. We update the advertisements on our website from our central offices in Shanghai. We also have technicians in Beijing, Guangzhou and Shenzhen to service key accounts and to supplement our central operations in the event of an emergency. New recruitment advertisements provided to us by employers who have purchased and registered online accounts generally appear on our website within several hours. Complimentary online postings for advertisements in *51job Weekly* generally appear on *www.51job.com* within one to two days.

From time to time we experience slower Internet service from our Internet service provider as a result of technical difficulties associated with high traffic volumes, computer viruses, the proliferation of spam e-mail traffic and other difficulties that generally affect Internet traffic. To date, we have not been subject to significant targeted disruptions or hacking and we believe that difficulties we have experienced relating to the speed of the Internet service and web-hosting provided by China Telecom are consistent with the difficulties that affect Internet service in China generally. To date, our website has not gone off-line or been shut down for any significant period of time. We do not believe that our business has been materially disrupted or negatively affected by technical difficulties with respect to

our website. However, we cannot assure you that our business will not face material disruptions or damage from spam, viruses, hacking or other technical difficulties. See Item 3. Key Information Risk Factors Risks Related to Our

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Business Computer viruses and hacking may cause delays or interruptions on our systems and may reduce use of our services and damage our reputation and brand names; We are vulnerable to natural disasters and other calamities; and We are dependent on our Internet service provider, and we are vulnerable to failures of the Internet, fixed line telecommunications networks in China and our technology platform.

Competition

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

Print advertising

51job Weekly is published in 24 cities across China as of March 31, 2006 and our core markets include Beijing, Guangzhou, Shanghai and Shenzhen. We face intense competition within all of our markets. Our competitors typically consist of one or more large local newspapers that include a help-wanted circular as a section. Our competitors in our core markets include *Beijing Youth Daily*, *Guangzhou Daily*, *Shanghai Talent Market* and *Shenzhen Special Zone Daily*.

Online recruitment services

We experience intense competition in our online recruitment services businesses from dedicated online recruitment websites and, to a lesser extent, from national Internet portals in China. With the exception of *Zhaopin.com* which has begun print advertising operations in a few cities in China, we are not aware of any other online competitor that also operates a significant print advertising business. We view our principal existing online competitors to be *ChinaHR.com*, *Cjol.com* and *Zhaopin.com*, which are primarily dedicated online recruitment websites.

None of the well established nationwide Internet portals, including *NetEase.com*, *Sina.com*, *Sohu.com* and *Tom.com*, are dedicated providers of recruitment advertising or other human resource products, and each offers a wide variety of other online services. However, any or all of our online or print competitors may decide to allocate significant additional resources to providing recruitment advertising or other human resource services. For example, following Monster Worldwide s acquisition of a 40% stake in *ChinaHR.com* for US$50 million in February 2005, *ChinaHR.com* has been purported in recent media reports to be significantly increasing its sales and marketing efforts in China. In 2005, it was also reported that a business collaboration had been formed between *ChinaHR.com* and *Sina.com* and one between *Zhaopin.com* and *Sohu.com*. As a result of such events, we could encounter significantly increased competition in some or all of our markets.

Other services

We believe that the competition for our other human resource related services, especially for executive search and training services, is largely fragmented and localized. The main competitors in our market for executive search services in China include entities such as Bó-Lè Associates, Ltd., Horton International, Hudson Highland Group, which is a spin-off from Monster Worldwide, and Sterling, each of which provides executive search services on a nationwide basis.

Customers

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

Sales and Marketing

Our sales and marketing strategy is focused on promoting our brand names and further establishing our reputation as an integrated provider of high quality human resource services. Through direct marketing, event marketing, mass media advertising, online marketing, cross-marketing and media promotions, we target three key groups:

- employers with hiring needs;
- job seekers; and
- human resource departments with actual or potential outsourcing needs.

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Direct marketing. We target employers principally through direct marketing. As of December 31, 2005, we employed over 1,200 sales and account management representatives across our cities that identify and contact potential customers directly via telephone, personal sales visits, the Internet and the mail. We train our sales staff to cross-sell all of our services and to design comprehensive packages of human resource services for potential clients to meet their specific requirements. We believe that direct marketing has been highly effective in attracting new customers. In addition, we believe that, by providing significant contact with potential clients, direct marketing enables us to understand the current and evolving needs of our existing and prospective customers and helps us develop new services and products.

Event marketing. We organize customer events such as recruiting workshops and product information seminars as well as networking social events to provide our sales team an opportunity to interact with employers and better understand their needs. To attract potential job seekers, we provide complimentary copies of *51job Weekly* at job fairs, at office buildings, in subway stations in select cities and in other public and commercial areas. We believe that offering complimentary copies of *51job Weekly* to job seekers is also a highly effective means to cross-promote our *www.51job.com* website.

Mass media advertising. We use traditional mass media advertising on a selective basis to increase our visibility and profile. We advertise using various media, including television, radio, and outdoor advertising on billboards, bus stops and buses. In addition, we advertise on print media such as newspapers, magazines and industry publications and telephone directories.

Online marketing. We use Internet advertising, including banners, keyword and hyperlink purchases and paid listings, to promote our brand names. We also conduct online promotion campaigns such as prize drawings and giveaways with the goal of attracting traffic to our website and enhancing the loyalty of job seekers.

Cross-marketing. We cross-market our brand names, services and products in *51job Weekly*, on *www.51job.com* and in *Human Capital*. We also establish cross-marketing relationships with a variety of partners. We believe that we also benefit from recommendations and referrals by our large existing base of *51job Weekly* and jobs seekers and employers who have used *www.51job.com*.

Media promotions. We produce studies on job market trends that are regularly featured and published in magazines, in newspapers and online. We believe this exposure heightens our profile among both employers and job seekers, and attracts interest and generates sales inquiries for our services.

Intellectual Property and Proprietary Rights

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

We have registered trademarks with the Trademark Office of the PRC State Administration for Industry and Commerce, including , , *51job.com*, , *eHire*, and *eSearch*. In addition, our wholly owned British Virgin Islands subsidiary 51net has registered our trademarks , *51job.com* and with the Patents Registry, Intellectual Property Department of the Hong Kong Special Administrative Region. 51net is also the registered owner of our trademarks and *51job.com* with the Intellectual Property Bureau of the Taiwan Ministry of Economy.

All of our trademarks and the *www.51job.com* domain name are owned or registered in the PRC by 51net and WFOE. Under a trademark license agreement between 51net, as licensor, and RAL, as licensee, RAL has the right to use certain trademarks in the PRC, with no right of assignment or sublicense. Under a domain name license agreement between 51net, as licensor, and RAL, as licensee, RAL has the right to use the *www.51job.com* domain name in connection with the operation of our website. See Item 4. Information on the Company Organizational Structure.

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

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Regulation

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

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

Limitations on Foreign Ownership of Our Businesses

Advertising companies

The principal regulations governing foreign ownership of advertising companies in China include:

Foreign Investment Industry Guide Catalogue (2004); and

Regulations on Administration of Foreign Investment in Advertising Enterprises (2004).

Starting December 10, 2005, foreign investors, individually or in the aggregate, are permitted to own 100% of the equity interest in an advertising company in the PRC.

Human resource services companies

The principal regulation governing ownership in human resource services companies in China is the Interim Regulations on the Administration of Sino-foreign Equity Joint Venture as Human Resource Agencies (2003), jointly promulgated by the PRC Ministry of Personnel, the PRC Ministry of Commerce and the PRC State Administration for Industry and Commerce. Under this regulation, the percentage of foreign ownership in the equity interest of a foreign invested human resource services company cannot be less than 25% or more than 49%. Investors from Hong Kong and Macau can have up to 70% ownership in a foreign invested human resource services company pursuant to the special arrangements between China and Hong Kong and Macau, respectively.

Internet content providers

In the PRC, entities that coordinate with Internet service providers (such as telecommunications companies) to effect the online placement of content provided by either themselves or third parties are defined as Internet content providers and require a special license. An entity may provide online services to customers, including selling recruitment advertising and other online services, without being required to have an Internet content provider license. However, the act of coordinating with the Internet service provider to effect the placement of such content requires an Internet content provider license.

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

Administrative Rules for Foreign Investments in Telecommunications Enterprises (2001); and

Foreign Investment Industry Guidance Catalogue (2004).

Under these regulations, foreign investors, individually or in the aggregate, are prohibited from owning more than 50% of a PRC entity that provides value-added telecommunications services, which include the service of providing Internet content.

Recent changes in regulation

In accordance with its commitments made in connection with the PRC s entry into the World Trade Organization, or WTO, the PRC government has reduced the limitations on foreign investment in advertising businesses in China. Beginning in December 2005, advertising agencies may be wholly owned by foreign entities. Investors from Hong Kong and Macau can have up to 70% ownership in a foreign invested human resource services company pursuant to the special arrangements between China and Hong Kong and Macau, respectively. There are no laws or regulations setting forth any schedule for future relaxation of limitations in the human resource and Internet content businesses.

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General Regulation of Our Businesses

Advertising

The PRC State Administration for Industry and Commerce is responsible for regulating advertising activities in the PRC. The principal regulations governing advertising (including online advertising) in China include:

Advertising Law (1994);

Administration of Advertising Regulations (1987); and

Measures for the Administration of Advertising Business Licenses (2005).

An entity providing advertising services must obtain an approval from the PRC State Administration for Industry and Commerce or one of its local offices.

Human resource

Human resource services firms in China are mainly regulated by the PRC Ministry of Personnel. The principal regulation applicable to human resource services firms is the Regulations on Administration of Human Resource Markets (2001, as amended in 2005), jointly promulgated by the PRC Ministry of Personnel and the PRC State Administration for Industry and Commerce. Under this regulation, any entity providing human resource services in China must obtain a human resource services license from the local Administration of Personnel at the provincial level. Each of these Administrations may adopt rules, with some degrees of variation among provinces, to regulate human resource services operations conducted within the province.

Internet content services and online commerce

The delivery of content on our website is subject to PRC laws and regulations applicable to telecommunications and Internet service providers. We are also within the regulatory jurisdiction of various governmental bodies, including the PRC Ministry of Information Industry and the PRC State Administration for Industry and Commerce. The principal regulations applicable to telecommunications and Internet service providers include:

Telecommunications Regulations (2000);

The Administrative Measures for Telecommunications Business Operating Licenses (2001); and

The Internet Information Services Administrative Measures (2000).

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

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

Regulations Relating to Our Intellectual Property Rights

China has adopted comprehensive legislation governing intellectual property rights, including trademarks, patents and copyrights. China has adhered to the main international conventions on intellectual property rights and has become a member of the Agreement on Trade Related Aspects of Intellectual Property Rights upon its accession to the WTO in December 2001.

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

Registered trademarks are protected under the Trademark Law adopted in 1982 and revised in 2001. Trademarks can be registered with the Trademark Office of the PRC State Administration for Industry and Commerce for renewable ten-year periods. Trademark license agreements are required to be filed with the Trademark Office of the PRC State Administration for Industry and Commerce for the record.

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Domain name disputes are governed by the Measures of China Internet Network Information Center for Resolving Disputes Regarding Domain Names promulgated by the Chinese Internet Network Infrastructure Center, or CNNIC, on February 14, 2006 and effective on March 17, 2006, under which CNNIC can authorize domain name dispute resolution institutions to decide disputes.

Regulations Relating to Internet Privacy

The Constitution of the PRC provides that PRC law protects the freedom and privacy of communications of citizens and that infringement of such rights is not permitted. While PRC laws do not prohibit Internet content providers from collecting personal information of their users, in recent years, the relevant government authorities have enacted legislation on the use of the Internet that recognizes the protection of personal information from unauthorized disclosure. Under the Regulation on Internet Information Service, Internet information service providers are prohibited from producing, copying, publishing or distributing information that is humiliating or slanderous to others or that trespasses the lawful rights and interests of others. Depending on the nature of their violation, Internet content providers that violate this provision may face criminal charges or be sanctioned by security authorities. In addition, they may be ordered to temporarily suspend their service, or their licenses may be revoked. While PRC laws do not prohibit Internet content providers from collecting personal information of their users, under the Administration Regulation on the Internet BBS Service, Internet content providers that provide electronic messaging services must keep users personal information confidential and must not disclose such personal information to any third party without the consent of the users, unless the law requires such disclosure. The regulations further authorize the relevant telecommunications authorities to order Internet content providers to rectify an unauthorized disclosure. Internet content providers could be subject to legal liability if the unauthorized disclosure causes damages or losses to the users. To comply with these regulations, we provide subscribers to our website with a range of confidentiality options. They may choose to authorize us to disclose their personal information to third parties, or to instruct us to keep this information strictly confidential. Our systems are designed to maintain information received from these subscribers in accordance with their instructions.

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

Regulation of Foreign Currency Exchange and Dividend Distribution

Foreign currency exchange

The principal regulation governing foreign currency exchange in the PRC is the Foreign Currency Administration Rules (1996), as amended. Under these rules, Renminbi is freely convertible for payments of current account items, such as trade and service related foreign exchange transactions and dividend payments, but not for expenses of capital, such as direct investment, loan or investment in securities, outside the PRC unless the prior approval of the State Administration for Foreign Exchange of the PRC is obtained.

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

Dividend distribution

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

Wholly Foreign Owned Enterprise Law (1986), as amended;

Wholly Foreign Owned Enterprise Law Implementing Rules (1990), as amended;

Sino-foreign Equity Joint Venture Enterprise Law (1979), as amended; and

Sino-foreign Equity Joint Venture Enterprise Law Implementing Rules (1983), as amended.

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

C. Organizational Structure

Prior to the formation of our company, due to PRC restrictions on the foreign ownership of advertising businesses, our businesses were principally operated by two PRC entities, Beijing Run An Information Consultancy Co., Ltd., or Run An, and Beijing Qian Cheng Si Jin Advertising Co., Ltd., or Qian Cheng. Run An and Qian Cheng were formed in 1997 and 1999, respectively, and both are controlled and owned by Michael Lei Feng and Tao Wang, two PRC citizens who serve as our executive officers. Run An s original market research and insurance agency businesses, unrelated to our current operations, were discontinued in 1999. Run An began providing executive search services in 2000. Qian Cheng was established by Michael Lei Feng and Run An to provide advertising services.

In January 2000, Qianjin Network Information Technology (Shanghai) Co., Ltd., or Tech JV, was formed as a joint venture between Qian Cheng and 51net.com Inc., or 51net, a British Virgin Islands company established by Rick Yan and Norman Lui. Subsequently, Tech JV established a majority owned subsidiary, Shanghai Qianjin Advertising Co., Ltd. (whose name we changed from Shanghai Qianjin Culture Communications Co., Ltd. in November 2005), or AdCo, with Qian Cheng as the sole minority shareholder. AdCo in turn established several majority owned subsidiaries with Qian Cheng as the sole minority shareholder and a jointly owned entity with Tech JV called Shanghai Wang Cai Advertising Co., Ltd. (whose name we changed from Shanghai Jin Lian Advertising Co., Ltd. in July 2005), or Wang Cai AdCo, which we refer to collectively as the AdCo Subsidiaries. Prior to our May 2004 restructuring discussed below, 51net owned 99% of the equity interest in Tech JV. After Tech JV and its branches, AdCo and the AdCo Subsidiaries obtained the necessary business licenses, the business and operations of Run An and Qian Cheng were transferred to Tech JV and its branches, AdCo and the AdCo Subsidiaries over a period of time. This transfer was effected through the transfer of customers, employees and operations to these entities and did not involve a formal sale of assets or equity. Since 2002, substantially all of our business and operations have been conducted through Tech JV and its branches, AdCo and the AdCo Subsidiaries.

On March 24, 2000, our company was incorporated as an exempted limited liability company in the Cayman Islands by our founders, Rick Yan, Michael Lei Feng, Norman Lui and Kathleen Chien. An exempted company under Cayman Islands law is a company that carries on its business mainly outside the Cayman Islands and is exempt from certain requirements of the Companies Law of the Cayman Islands. Subsequently, we acquired 51net and became the holding company of our corporate group. We also formed a wholly owned subsidiary in the Cayman Islands, 51net Beijing, and a wholly owned subsidiary in the PRC, Qian Cheng Wu You Network Information Technology (Beijing) Co., Ltd., or WFOE, to hold some of our intellectual property rights and generally facilitate our operations through network and software related technical support services. 51net Beijing holds all of the equity interest in WFOE.

Our relationships with Run An and Qian Cheng, our affiliated entities, have been governed by a series of agreements. As a result of these agreements, under which we have borne all of the economic risks and received all of the economic rewards in these affiliated entities, the historical financial results of these entities have been consolidated in our financial statements as variable interest entities under FASB Interpretation No. 46, Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51, or FIN 46.

Each of the material entities in our group, including our material affiliated entities that we use to operate our businesses and in which we hold no equity interest, is described below under Description of the Material Group Entities.

Our May 2004 Restructuring and Arrangements with Affiliated Entities

The PRC government regulates foreign ownership in entities that provide 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 limitation was relaxed to permit foreign ownership of up to 70% of a PRC advertising entity, and starting in December 2005, foreign investors are permitted to own 100% of a PRC advertising entity. In addition, until November 2003, there were no PRC laws or regulations explicitly prohibiting or limiting foreign ownership in entities providing human resource related services. Since November 2003, foreign ownership in entities providing human resource related services has been limited to 49%. Tech JV obtained an online

advertising license in May 2000 and a license to conduct human resource related services in September 2002. In addition, AdCo, an 80% owned subsidiary of Tech JV, obtained an advertising license in June 2001 and various AdCo branches and subsidiaries

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received additional advertising licenses as we expanded into new cities. Tech JV and its branches, AdCo and the AdCo Subsidiaries obtained these licenses in accordance with what we believe to be prescribed procedures under then applicable PRC regulations. Over a period of time, beginning when Tech JV and its branches, AdCo and the AdCo Subsidiaries acquired these licenses, we transferred the business and operations conducted by our affiliated entities to Tech JV and its branches, AdCo and the AdCo Subsidiaries. From 2002, Tech JV and its branches, AdCo and the AdCo Subsidiaries have conducted substantially all of our advertising and human resource related businesses.

In May 2004, we engaged in a restructuring which, among other things, reduced our effective interest in Tech JV to 69.7%. In addition, Michael Lei Feng and Tao Wang formed Shanghai Run An Lian Information Consultancy Co., Ltd., or RAL, an affiliated entity in which we hold no equity interest. As part of our restructuring, RAL entered into a series of agreements with us that permit us to consolidate all of its financial results under FIN 46. As a result, we consolidate RAL and continue to consolidate Qian Cheng and Run An under our new structure.

Our services are currently provided through the following group entities:

online recruitment services are provided by Tech JV, which does not act as an Internet content provider;

print advertising services are provided by AdCo and the AdCo Subsidiaries, which are all direct and indirect majority owned PRC subsidiaries of Tech JV;

human resource related services are provided by RAL, which holds a license to provide human resource related services; and

Internet content provider services are provided by RAL through a contractual arrangement with Tech JV; RAL holds a license to act as an Internet content provider and operates our *www.51job.com* website.

For a description of the distinction between an entity that provides online services and an Internet content provider, see Item 4. Information on the Company Business Overview Regulation Limitations on Foreign Ownership of Our Businesses Internet content providers.

We no longer provide services together with Run An or Qian Cheng.

Tech JV and its branches, AdCo and the AdCo Subsidiaries recognize substantially all of our revenues and receive substantially all of the cash payments from our clients. Under the terms of our contractual arrangements with Qian Cheng, WFOE receives all of the economic rewards and bears all of the economic risks of Qian Cheng s minority interest in Tech JV, AdCo and the AdCo Subsidiaries.

We have been advised by Jun He Law Offices, our PRC counsel, that the foreign ownership percentage of Tech JV, AdCo and the AdCo Subsidiaries prior to our restructuring was above the maximum foreign ownership permitted for entities conducting advertising and human resource operations at that time. For a description of the risks associated with our past ownership structure, please see Item 3. Key Information Risk Factors 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.

In addition, there remains uncertainty regarding whether foreign owned PRC entities, such as AdCo, are required to obtain special governmental approval in order to establish subsidiaries in the PRC or otherwise invest in PRC entities. Following the formation of the AdCo Subsidiaries, in connection with our restructuring we made inquiries with relevant PRC governmental authorities as to whether AdCo was required to obtain such approval before establishing the AdCo Subsidiaries. We have been unable to obtain any governmental ruling or advice on this matter. As a result, it is uncertain whether special governmental approval, which we did not obtain, was necessary for the establishment by AdCo of the AdCo Subsidiaries.

We intend to continue to evaluate from time to time the PRC regulatory environment with respect to the foreign ownership of, and foreign participation in, advertising businesses, human resource related services and Internet content provider services, and plan to continue to streamline our ownership structure and operations as and when permitted by PRC laws and regulations.

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Group Ownership Structure

The chart below sets forth our current ownership structure.[1]

(1) Does not include 51net HR, a dormant entity incorporated in the Cayman Islands and wholly owned by 51job, Inc. and Wang Jin Information Technology (Shanghai) Co., Ltd., a wholly owned subsidiary of 51net established in the PRC with no current operations.

(2) Includes the subsidiaries and branches of AdCo that conduct advertising businesses and Shanghai Cheng An Human Resources Co., Ltd., which provides outsourcing services.

(3) Excludes Wuhan AdCo and Wang Cai AdCo, which are set out separately in the chart.

Our subsidiary, 51net, directly holds 51% of the outstanding shares of Tech JV, Qian Cheng directly holds 1% of the outstanding shares of Tech JV, and our AdCo Subsidiary located in the city of Wuhan, Wuhan Mei Hao Qian

Cheng Advertising Co., Ltd., or Wuhan AdCo, directly holds the remaining 48% of the outstanding shares of Tech JV. As a result of 51net s indirect majority ownership of Wuhan AdCo and Qian Cheng s direct minority ownership of Wuhan AdCo, 51net is deemed to effectively hold 69.7% of the equity interest in Tech JV and Qian Cheng is deemed to effectively hold 30.3% of the equity interest in Tech JV.

Qian Cheng, Run An and RAL are each owned by Michael Lei Feng and Tao Wang, each an executive officer of our company and a PRC citizen. Qian Cheng is 87% owned by Michael Lei Feng and 13% owned by Run An. Run An and RAL are each 80% owned by Michael Lei Feng and 20% owned by Tao Wang. As a result of their ownership interest in Run An, Michael Lei Feng and Tao Wang effectively holds 97% and 3%, respectively, of the equity interest in Qian Cheng.

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Description of the Material Group Entities

51net

51net is an intermediate-level holding company that is the registered owner of some of our trademarks and our domain name and holds direct and indirect equity interests in several of our PRC subsidiaries. Our wholly owned subsidiary 51net is an international business company incorporated in the British Virgin Islands. Specifically, 51net owns the trademarks , , *51job.com* and under certain categories specified by relevant PRC trademark regulations, and the domain name *www.51job.com*. All of these trademarks have been registered with the Trademark Office of the PRC State Administration for Industry and Commerce and are protected under the PRC Trademark Law adopted in 1982 and revised in 2001. For a description of PRC regulations relating to intellectual property rights, see Item 4. Information on the Company Business Overview Regulation Regulations Relating to Our Intellectual Property Rights.

Tech JV

We provide online recruitment services through Tech JV. Tech JV was initially established as an equity joint venture between 51net and Qian Cheng. Immediately before our May 2004 restructuring, 51net held 99% of the equity interest in Tech JV and Qian Cheng held the remaining 1%. As part of our restructuring, 51net transferred 48% of its equity interest in Tech JV to Wuhan AdCo. Since 51net indirectly holds a majority equity interest in Wuhan AdCo, and Qian Cheng directly and indirectly holds a minority interest in Wuhan AdCo, 51net holds 69.7% of the effective equity interest and Qian Cheng holds 30.3% of the effective equity interest in Tech JV. Because 51net is a British Virgin Islands company, Tech JV is deemed a foreign invested enterprise and its business activities are subject to the PRC regulatory limitations on foreign ownership as discussed in Item 4. Information on the Company Business Overview Regulation Limitations on Foreign Ownership of Our Businesses. Tech JV has obtained a permit to conduct online advertising from the PRC State Administration for Industry and Commerce. The scope of its business license also includes software development, multimedia and network system design and information technology.

Qian Cheng

Qian Cheng is our joint venture partner in Tech JV and holds a 30.3% effective equity interest in Tech JV. Qian Cheng is an affiliated entity in which we hold no equity interest. Qian Cheng was established by, and is wholly owned directly and indirectly by, two of our executive officers, Michael Lei Feng and Tao Wang, both of whom are PRC citizens. Qian Cheng holds a license issued by the Beijing Municipal Administration for Industry and Commerce to provide advertising services, including designing, producing and publishing advertisements for Chinese and multinational companies in China and contracting for advertising projects.

RAL

We provide human resource related and Internet content provider services through RAL. RAL operates our *www.51job.com* website. RAL is a PRC limited liability company and is an affiliated entity in which we hold no equity interest. RAL was established by, and since its inception has been wholly owned by, Michael Lei Feng and Tao Wang. RAL holds a permit issued by the Shanghai Bureau of Personnel, which allows it to provide certain human resource related services. RAL has also obtained a permit from the Shanghai Municipal Telecommunications Bureau, which allows it to provide Internet content provider services applicable to our businesses.

AdCo and the AdCo Subsidiaries

We provide print advertising services through Shanghai Qianjin Advertising Co., Ltd., or AdCo, and AdCo s fifteen branch offices, seven majority owned subsidiaries and one jointly owned subsidiary with Tech JV, or the AdCo Subsidiaries, located in different cities and provinces in China. AdCo is a PRC equity joint venture company. Tech JV and Qian Cheng own 80% and 20%, respectively, of the equity interest in AdCo. AdCo and the AdCo Subsidiaries have obtained permits from the local Administrations for Industry and Commerce in the cities where they operate, which allow them to conduct advertising business, including the designing and production of advertisements and the contracting of domestic advertising projects.

WFOE

We provide advertising related technical and consulting services to Qian Cheng and software and web related technical and consulting services to RAL through WFOE, our wholly owned PRC subsidiary. WFOE is registered in the

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PRC with the relevant regulatory authorities as a wholly foreign owned enterprise. WFOE owns certain of our trademarks and registered copyrights and its principal business is network and software related technical support services.

Contractual Arrangements Among Our Group Entities

The relationships and economic arrangements among our group entities are governed by a series of agreements. As part of our May 2004 restructuring, we amended or terminated certain existing agreements and entered into certain additional agreements. The material agreements which currently govern the relationships and economic arrangements among our group entities are illustrated in the following chart and described in greater detail below.

Contractual arrangements with RAL

RAL technical and consulting service agreement. The technical and consulting service agreement between RAL and WFOE provides that WFOE has the exclusive right to provide software and web related technical and consulting services to RAL. RAL will pay service fees to WFOE based on the extent and nature of the services provided by WFOE, as set forth in invoices issued by WFOE to RAL from time to time. The agreement has a term of ten years and may be extended with the consent of the parties. This agreement is not subject to early termination, other than by WFOE solely upon a default by RAL. RAL has no early termination rights with respect to this agreement.

RAL equity pledge agreement. As security for RAL s obligations under the technical and consulting service agreement, the shareholders of RAL have pledged all of their equity interest in RAL to WFOE under an equity pledge agreement. Upon the occurrence of certain defaults by RAL as defined in the RAL equity pledge agreement, including any default by RAL in respect of any provisions of the RAL technical and consulting service agreement, WFOE, as pledgee, will be entitled to certain rights, including the right to sell the pledged equity interest. The shareholders of RAL have agreed that they will not dispose of the pledged equity interest or take any actions that will prejudice WFOE s interest under the RAL equity pledge agreement. The pledge cannot be released until the discharge of all of RAL s obligations under the RAL technical and consulting service agreement. The parties have further agreed that WFOE has the right to approve the appointment of directors and to recommend candidates to the board for positions of the general manager and senior executives of RAL. The board may only choose from the candidates so recommended by WFOE. In addition, during the ten-year term of the agreement, WFOE has the option to purchase the equity interest in RAL to the maximum extent permitted under PRC laws. Upon the expiration of the term, if and to the extent the option has not been exercised, WFOE is obligated to purchase the equity interest in RAL to the extent permitted under PRC laws. In the case of an option held by a foreign entity, PRC law requires that the exercise price of the option be determined at the time of exercise by reference to the appraised value of the underlying equity interest. The exercise price determined by the parties may not be significantly lower than this appraised value and must also be approved by relevant PRC regulatory

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authorities. To comply with these regulations, the parties to the RAL equity pledge agreement have agreed that the exercise price of the equity interest in RAL shall be the lowest price permitted by PRC law.

Tech JV and RAL cooperation agreement. Tech JV and RAL have entered into a cooperation agreement under which RAL agrees to provide human resource related services to Tech JV s customers and post human resource related information on its website *www.51job.com*, and Tech JV agrees to pay RAL an amount equal to the direct operating costs incurred by RAL, plus a 5% margin, subject to a total payment cap of RMB1,000,000 per quarter. In addition, Tech JV agrees to provide technical support to RAL in connection with its provision of human resource related services and the development, construction and maintenance of RAL s website. The cooperation agreement has a term of ten years and may be extended with the consent of the parties.

Domain name license agreement. 51net has entered into a domain name license agreement with RAL under which 51net has granted to RAL the right to use the *www.51job.com* domain name in the PRC in connection with RAL s operation of its website. RAL is not permitted to assign its right under this agreement to any third party. The license fee to be paid under the domain name license agreement will be agreed to by both parties. The domain name license agreement has a term of two years and is renewable upon the written consent of 51net.

Contractual arrangements with Qian Cheng

Qian Cheng technical and consulting service agreement. WFOE and Qian Cheng have entered into a technical and consulting services agreement under which WFOE has the exclusive right to provide advertising related technical and consulting services to Qian Cheng. Qian Cheng will pay service fees to WFOE based on the extent and nature of the services provided by WFOE, as set forth in invoices issued by WFOE to Qian Cheng from time to time. The Qian Cheng technical and consulting service agreement has a term of ten years and may be extended with the consent of the parties. This agreement is not subject to early termination, other than by WFOE solely upon a default by Qian Cheng. Qian Cheng has no early termination rights with respect to this agreement.

Qian Cheng equity pledge agreement. As security for Qian Cheng s obligations under the technical and consulting service agreement, the shareholders of Qian Cheng have pledged all of their equity interest in Qian Cheng to WFOE under an equity pledge agreement. Upon the occurrence of certain defaults by Qian Cheng as defined in the Qian Cheng equity pledge agreement, including any default by Qian Cheng in respect of any provisions of the Qian Cheng technical and consulting service agreement, WFOE, as pledgee, will be entitled to certain rights, including the right to sell the pledged equity interest. The shareholders of Qian Cheng have agreed that they will not dispose of the pledged equity interest or take any actions that will prejudice WFOE s interest under the Qian Cheng equity pledge agreement. The pledge cannot be released until the discharge of all of Qian Cheng s obligations under the Qian Cheng technical and consulting service agreement. The parties have further agreed that WFOE has the right to approve the appointment of directors and to recommend candidates to the board for positions of the general manager and senior executives of Qian Cheng. The board may only choose from the candidates so recommended by WFOE. In addition, during the ten-year term of the agreement, WFOE has the option to purchase the equity interest in Qian Cheng to the maximum extent permitted under PRC laws. Upon the expiration of the term, if and to the extent the option has not been exercised, WFOE is obligated to purchase the equity interest in Qian Cheng to the extent permitted under PRC laws. In all cases, the purchase price shall be the lowest price permitted under PRC laws.

Call option agreement. 51net has entered into a call option agreement with Qian Cheng dated as of August 1, 2002, and supplemented and amended as of May 3, 2004, under which 51net or its designee is granted an irrevocable option to purchase all of Qian Cheng s equity interest in Tech JV and AdCo for RMB1.2 million or, if such purchase price is not permissible under the applicable PRC laws, the lowest price permitted under then applicable PRC laws. In addition, Qian Cheng granted 51net an irrevocable option to purchase any and all of its equity interests in the AdCo Subsidiaries, including, without limitation, Wuhan AdCo, at the lowest price permitted under PRC laws. The call option agreement has a term of ten years, which may be extended upon written consent of the parties.

Each of the above agreements, except the call option agreement, is dated as of May 3, 2004.

In the opinion of Jun He Law Offices, our PRC legal counsel:

- our current ownership structure is in compliance with existing PRC laws and regulations;

the agreements among our subsidiaries, affiliated entities and their respective shareholders are valid and binding, and are enforceable under, and will not result in any violation of, existing PRC laws or regulations; and

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our current business operations as described in this annual report are not in violation of existing PRC laws, rules and regulations.

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

D. Property, Plants and Equipment

Our executive offices as well as our principal customer service, sales, marketing and development facilities are currently located at Wen Xin Plaza, 755 Wei Hai Road, Shanghai 200041, People s Republic of China. We also lease space for our network of sales offices in Beijing, Changchun, Changsha, Chengdu, Chongqing, Dalian, Dongguan, Fuzhou, Guangzhou, Hangzhou, Harbin, Hefei, Jinan, Kunming, Nanjing, Ningbo, Qingdao, Shanghai, Shenyang, Shenzhen, Suzhou, Tianjin, Wuhan, Xian, Zhengzhou and Hong Kong. As of the date of this annual report, we have leases for office space totaling approximately 23,360 square meters. We believe that we will be able to obtain adequate facilities, principally through the leasing of appropriate properties, to accommodate our expansion plans in the near future.

In March 2006, we signed a letter of intent to purchase our current principal executive offices at 21st Floor, Wen Xin Plaza, 755 Wei Hai Road, which we expect will become our Shanghai sales office, for an aggregate consideration of RMB27 million (US$3.3 million). We have not made any cash payments toward this purchase as of May 31, 2006. We expect to fund this purchase through operating cash flows and through our existing capital resources.

In April 2006, we completed the purchase a new office complex of approximately 12,600 square meters in Zhangjiang High Technology Park in Shanghai s New Pudong Area. The purchase price for the new premises is approximately RMB114 million (US$14.1 million), of which we have paid RMB108 million (US$13.4 million) as of May 31, 2006. We also expect to incur additional expenses associated with renovations, relocation and other related items. Expenditures related to the new office complex are expected to be funded by through operating cash flows and through our existing capital resources. We plan to move our national technology and online service center as well as our principal executive offices to the new office complex and expect to begin occupying the new premises in late 2006.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion of our financial condition and results of operations is based upon and should be read in conjunction with our consolidated financial statements and their related notes included elsewhere in this annual report on Form 20-F.

A. Overview

We believe that we are a leading provider of integrated human resource services in China. Increases in revenues from our recruitment related businesses have been the primary driver of our financial results. We receive a majority of our revenues in the form of fees from employers for placing job advertisements on *51job Weekly* and *www.51job.com*. We also receive fees from employers for access to our *www.51job.com* resumé database, use of *eHire* and in connection with *eSearch* and other human resource related services. The increases in our revenues reflect greater penetration in our existing markets as well as expansion into new markets across China. In addition, our net income has increased each year since we became profitable in 2002 on a full-year basis. The increases in net income in 2003 and 2004 reflect both our revenue growth as well as the reduction as a percentage of net revenues of our cost of services and operating expenses driven by improved economies of scale and operational efficiencies. Net income was relatively unchanged from 2004 to 2005 as our revenue growth was offset by an increase in operating expenses.

Revenues

Our total revenues in 2005 were RMB595.6 million (US$73.8 million), a 24.1% increase from RMB479.9 million in 2004. The substantial majority of our revenues come from employers who purchase our *51job Weekly* and

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www.51job.com recruitment services. The revenue growth we have achieved in our recruitment advertising services have been principally characterized by expansion of these businesses in existing cities as well as our entry into new cities. We believe that our revenue growth will continue to be driven by further development and liberalization of the Chinese economy and other macroeconomic factors such as the growing number of companies, increasing competition amongst companies for skilled and experienced workers, and significant growth in job openings in China. We believe these factors should lead to increased use and growing acceptance of recruitment advertising and other human resource services by employers in China. In addition, we believe that an increasingly skilled, educated and urbanized workforce in China will drive the demand for and usage of our services.

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

	For the year ended December 31,		
	2003	**2004**	**2005**
Revenues:			
Print advertising	62.3%	62.7%	59.8%
Online recruitment services	26.2	23.2	26.8
Executive search	5.4	5.2	4.4
Other human resource related services	6.1	8.9	9.0
Total revenues	100.0%	100.0%	100.0%

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

	2003 compared to 2002	**2004 compared to 2003**	**2005 compared to 2004**
Print advertising	56.1%	64.6%	18.5%
Online recruitment services	165.9	44.9	43.0
Executive search	61.9	58.2	5.6
Other human resource related services	82.1	137.9	24.8
Total revenues	77.2%	63.6%	24.1%

Recruitment related revenues

Our recruitment related revenues are comprised of fees from employers for our *51job Weekly* print advertising business, our *www.51job.com* online recruitment services and our *eSearch* executive search services. Because a large portion of our costs associated with providing our recruitment related services are fixed, we believe these services present a significant potential for economies of scale and improvement in our profitability as we increase our volume of advertisements and services and the prices that we charge. We expect that we will continue to earn the substantial majority of our revenues and profits from our recruitment related services in the future.

Print advertising revenues. Our print advertising revenues are generated from fees that we charge employers for placing recruitment and related advertisements in editions of *51job Weekly* across our markets in China. We do not receive revenues from the sale of *51job Weekly* at distribution locations such as newsstands, kiosks and post offices. Employers sign print advertising contracts with us for single or multiple advertisements in one or more markets. These contracts as well as the time between the signing of a contract and the publishing of an advertisement in *51job Weekly* are generally short-term in nature.

Our advertising fees vary and depend on a number of factors including the size, placement, format and use of color and graphics in the advertisement, the length of time the advertisement is to appear and the market in which the advertisement is placed. As we have increased penetration in our existing markets and expanded into new cities, our client base and the number of print advertising pages have grown. Our print advertising revenues are primarily

affected by the number of print advertising pages and the fees that we charge.

We expect that future growth of our print advertising business will be primarily driven by a combination of increases in the volume of our print advertising pages and in average revenue per page. Our print advertising prices vary considerably between individual markets due to differences in local competitive environments, purchasing power and other conditions. Historically, the print advertising businesses in our individual markets have not been subject to significant or prolonged price competition. While the prices we charge for print advertising in each city have been

generally stable or have moderately increased, we have from time to time initiated or discontinued special promotions or sales campaigns in certain cities which may impact the overall average revenues per page. In addition, our overall average revenues per page are affected to some extent by differences in relative growth rates in individual markets, with growth in higher priced markets tending to increase our overall average revenues per page and growth in lower priced markets tending to reduce the overall average.

We calculate the number of our print advertising pages by physically counting the number of paid advertising pages in each of our editions of *51job Weekly*. In calculating the number of paid advertising pages, we make adjustments to take into account differing page sizes and pages with mixed advertising and non-advertising content. This is a manual process that is subject to error, including errors in judgment as to the appropriate adjustments to be made. We cannot assure you that our methodology, page counting, calculations and analyses are accurate, or that they yield results that are comparable between periods or give a correct approximation of the actual revenues we generate per page.

As our customers usually place orders for print advertisements on a week-to-week basis, our print advertising business is subject to weekly fluctuations. We do not recognize advertising revenue until an advertisement is actually printed in *51job Weekly*. As a result, delays or cancellations by advertisers hamper our ability to predict revenue for future periods and makes it difficult for us to accurately forecast revenues with any degree of certainty. See Item 3. Key Information Risk Factors Risks Related to Our Business Our recruitment advertising business is subject to weekly fluctuations which hamper our ability to predict when revenue will ultimately be recognized, if at all.

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

Online recruitment services revenues. Our online recruitment services revenues are generated from fees we charge employers for placing recruitment and related advertisements on our *www.51job.com* website and for accessing our *eHire* web-based online resumé and recruitment management platform. We also generate online revenues for website design and hosting services that we provide to businesses that wish to create their own dedicated recruitment website. We do not charge job seekers for using *www.51job.com*.

We believe that the increase of our online recruitment services revenues have been characterized by increased acceptance of online advertising as a recruitment medium in China and our effectiveness in penetrating the growing online recruitment services market. In addition, we believe that, by offering online advertising in connection with our print advertising service, we are able to attract print advertising customers to our online recruitment services, as well as new customers seeking the broader coverage offered by our integration of these two channels.

The growth of our online recruitment services revenues has been primarily driven by a higher number of unique employers using these services rather than an increase in average revenue per unique employer. Average revenue per unique employer has been principally affected by offsetting factors. New customers tend to use basic, lower priced online recruitment services and significant increases in these customers generally result in higher aggregate online recruitment services revenues but lower average revenue per unique employer. We may also choose to offer introductory or promotional packages at reduced prices from time to time which will also lead to a reduction in average revenue per unique employer. Offsetting these factors that lower our average revenue per unique employer is our ability to retain customers and migrate them over time to higher-priced products. In addition, as more customers become increasingly familiar and comfortable with our online platform, our ability to sell them a package of multiple online recruitment services increases our average revenue per unique employer. Our ability to retain customers and migrate them to higher priced products or multiple purchases may be adversely affected by, among other things, difficulties we may encounter in developing or launching higher priced services as well as offerings of similar services by competitors.

We define a unique employer as a customer that purchases our online recruitment services during a specified period. We make adjustments for multiple purchases by the same customer within a city to avoid double counting. Each employer is assigned a unique identification number in our management information system. Affiliates and branches of a given employer may, under certain circumstances, be counted as separate unique employers. Our calculation of the number of unique employers is subject to misidentification and other forms of error, including errors in judgment as to appropriate adjustments to be made to the data. We cannot assure you that our methodology,

employer identification, calculations and analyses are accurate, or that they yield results that are comparable between periods or give a correct approximation of actual numbers of customers.

As with *51job Weekly*, we generally require that all advertising fees be paid in advance of posting an advertisement on our website, although we may offer credit terms to select clients on a case-by-case basis.

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Executive search revenues. Our *eSearch* executive search revenues are generated from fees and commissions paid by employers. We generally charge a total assignment fee of approximately 30% of the candidate s annual compensation, including a minimum upfront retainer. We offer executive search services to employers as a part of our one-stop solution strategy and although we believe that we have been able to develop this business through sales and marketing efforts, we do not expect that this business will contribute significantly to our revenues in the foreseeable future. In addition, our ability to expand this business will depend on further acceptance of executive search by employers in China as an effective recruitment tool. As a result, as our recruitment advertising businesses expand, we expect that our executive search service revenues may continue to decline as a percentage of our overall revenues.

Other human resource related revenues

Revenues from our other human resource related services are principally generated from fees paid for attending our training seminars and industry conferences, for contracting our business processing outsourcing services and for using our assessment services, our salary survey studies and *eHR* software product. We expect to continue to develop additional human resource related services and products for our corporate clients. While revenues from other human resource related services currently represent less than 10% of our total revenues, we believe that these products and services complement our one-stop human resource solution strategy and raise our brand awareness as an industry innovator and thought leader.

Growth of our other human resource related services will be dependent on our ability to successfully develop, introduce and increase adoption of these types of products and services in China s rapidly evolving human resource services market. We believe the increase in other human resource related revenues has been primarily driven by growing customer acceptance of these products and services as well as our sales and marketing efforts. In addition, we believe that our expansion of training and business process outsourcing services to new customers and additional cities have contributed to the growth of this segment. As we believe these newer services and the overall human resource industry in China are in the early stages of development, we believe there may be significant market potential in the future but we are unable to quantify the size at this time.

Net revenues and business taxes

Our net revenues reflect a PRC business tax of 5% and other related surcharges which are levied on our revenues, after certain deductible expenses, generated from services we provide in China. A portion of the business taxes that we had previously paid was refunded in 2003, 2004 and 2005 as a result of local government financial incentives. These refunds are recognized as other income in our statement of operations. We cannot assure you that we will continue to receive such financial incentives in the future.

Costs

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

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

	For the year ended December 31,		
	2003	**2004**	**2005**
Cost of services	(54.1%)	(49.2%)	(47.9%)
Total operating expenses	(33.9%)	(30.9%)	(38.4%)

Our cost of services has declined as a percentage of our net revenues from 2003 to 2005. We believe this has been a result of increased economies of scale in our recruitment related services, particularly our print advertising and online recruitment services businesses, and of improved operating efficiencies. As we have expanded our operations and enlarged our infrastructure and service platforms, we believe that we have been able to attract new corporate clients and to increase sales opportunities with existing customers across our various markets. This has allowed us to achieve greater economies of scale as our revenues have increased faster than our customer service costs. In addition, expansion of our online recruitment services business requires limited additional fixed costs and the significant revenue growth of this business has contributed to our overall improved operating efficiency. We believe that our

online recruitment services business will achieve higher profit margins than our other recruitment related businesses in the longer term.

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We believe that our operating expenses declined as a percentage of our net revenues in 2003 and 2004 as a result of improved operating efficiencies primarily due to increased productivity of our infrastructure and staff. In 2005, we believe that operating expenses increased as a percentage of our net revenues due to expansion of our sales force, higher marketing expenses and greater general administrative expenses following our becoming a public company in September 2004. As we aim to decrease our cost of services and total operating expenses as a percentage of our net revenues, we continue to identify areas in our businesses that will allow us to benefit from economies of scale and operating efficiencies. However, significant uncertainties may impact out ability to lower these costs and expenses and we cannot assure you that we will be able to decrease these costs as a percentage of our net revenues.

Cost of services

Our cost of services primarily includes printing related expenses, employee compensation and depreciation. The majority of our costs of services are printing related costs, which principally consist of printing, publishing and distribution expenses that we pay to our newspaper contractors. Our printing related costs are characterized by both fixed and variable components. These costs also have tended not to increase or decrease proportionately to increases or decreases in our print advertising revenues and as a result, we have been able to grow our print advertising businesses while incurring lower printing related costs relative to our print advertising revenues. We aim to lower our printing related costs and continuously seek opportunities to secure more favorable terms with newspaper contractors. In addition, as we have grown our online recruitment services, we have been able to leverage our existing infrastructure, allowing us to incur limited additional costs relative to the higher revenues we have generated. The majority of our employee, depreciation and other costs of services are largely shared across our various business lines.

Operating expenses

Our operating expenses include sales and marketing expenses, general and administrative expenses, and share-based compensation.

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

		For the year ended December 31,		
		2003	**2004**	**2005**
Operating expenses:				
Sales and marketing		(13.8%)	(14.7%)	(20.2%)
General and administrative		(13.6)	(12.1)	(15.8)
Share-based compensation	share options	(4.8)	(4.1)	(2.4)
Share-based compensation	founder shares	(1.7)		
Total operating expenses		(33.9%)	(30.9%)	(38.4%)

Our sales and marketing expenses primarily include employee compensation for our sales and marketing staff, advertising and promotion expenses, and expenses for our management and staff related to our new market expansion as well as existing operations. The sales and marketing strategies we employ in each city to promote our brand and services depends on a number of factors such as local competitive conditions and the cost, popularity and effectiveness of various media formats. In addition, we receive marketing support for *51job Weekly* from many of our newspaper contractors. However, since we record all costs associated with our relationships with our newspaper contractors under cost of services, our sales and marketing expenses do not reflect costs incurred in connection with this marketing support.

Our general and administrative expenses primarily include rent and property management fees, employee compensation, administrative office expenses, professional services fees and depreciation. General and administrative expenses increased from 2003 to 2005 due to our expansion into new markets, the introduction of new services and the overall expansion of our businesses. In addition, following the completion of our initial public offering in October 2004, we have incurred additional general and administrative expenses due to the various additional legal, accounting and other requirements applicable to operating as a public company listed in the United States. Although we have purchased directors and officers liability insurance, we also expect to incur significant legal expenses in

defending class action lawsuits filed against us. See Item 8. Financial Information Consolidated Statements and Other Financial Information Legal Proceedings. However, we aim to lower our general and administrative expenses as a percentage of net revenues but due to significant uncertainties, we cannot assure you we will be able to do so.

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Income Taxation

We file separate income tax returns because we and our affiliated entities are incorporated in different jurisdictions.

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

Under the current laws of the British Virgin Islands, we are exempt from income tax on foreign derived income. In addition, there are no withholding taxes in the British Virgin Islands.

In accordance with Income Tax Law of China for Enterprises with Foreign Investment and Foreign Enterprises, foreign-invested enterprises that are incorporated in China are generally subject to enterprise income tax, or EIT, at a rate of 33%. As opposed to our business taxes which is based on our total revenues and which is discussed above in Revenues Net revenues and business taxes, EIT is a separate tax based on our taxable income. Under current rules, newly organized PRC entities conducting advertising businesses are entitled to elect a tax exemption for their first two years of operation and may carry forward tax losses incurred, if any, during this two-year period to future periods. A number of our AdCo Subsidiaries have elected to receive the two-year tax exemption treatment. The majority of these exemptions expired in 2004 and 2005, and others will expire in 2006 and 2007. Upon the expiration of their tax exemptions with the exception of AdCo s subsidiary in Shenzhen and Wang Cai AdCo s subsidiaries in Shanghai and Shenzhen, each of which have obtained a preferential tax rate of 15%, the other AdCo Subsidiaries will be taxed at the statutory tax rate, currently 33%. These expirations of the tax exemptions caused our effective tax rate to increase significantly in 2004. In addition, so long as we continue to recognize share-based compensation expense in future periods, our effective tax rate may exceed the statutory tax rate as a result of such expense, since share-based compensation is not deductible for PRC tax purposes. The amount of income tax payable by our PRC subsidiaries in the future will depend on various factors, including, among other things, the results of operations and taxable income of, and the statutory tax rate applicable to, each of the subsidiaries, and our effective tax rate depends in part on the extent of each of our subsidiaries relative contribution to our consolidated taxable income. As our business expands, we may establish new entities from time to time which, depending on applicable law, may be entitled to certain tax incentives, including tax exemptions. We intend to continue to explore opportunities to take advantage of available tax incentives. In addition, some of our PRC subsidiaries and affiliated entities have accumulated tax loss carryforwards that have not previously been recognized as deferred tax assets because there was significant uncertainty as to whether we would be able to realize the benefit from those loss carryforwards. To the extent permitted by PRC tax rules, we may undertake further reorganizations or transactions among our subsidiaries and affiliated entities or with third parties to utilize some or all of these tax loss carryforwards before they expire, or qualify for additional tax benefits.

Our foreign-invested Chinese subsidiary, Tech JV, has been granted a preferential 30% EIT rate with no expiration date.

Critical Accounting Policies

We prepare financial statements in conformity with U.S. GAAP, which requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities on the date of the financial statements, and the reported amounts of revenues and expenses during the financial reporting period. We continually evaluate these estimates and assumptions based on the most recently available information, our own historical experience and various other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Since the use of estimates is an integral component of the financial reporting process, actual results could differ from those estimates. Some of our accounting policies require higher degrees of judgment than others in their application. We consider the policies discussed below to be critical to an understanding of our financial statements as their application assists management in making their business decisions.

We operate and manage our various businesses as a single segment. In addition, since our revenues are primarily generated from customers in the PRC, we do not account for our results of operations on a geographical or other basis. Since many of our management and staff provide services with respect to many or all of our businesses, and since our infrastructure and operations are designed to facilitate all of our businesses as an integrated unit, we are unable to allocate costs among our various businesses or present our financial results in terms of multiple business segments.

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Income taxes

We account for income taxes under the provisions of Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes, or SFAS No. 109. Under SFAS No. 109, income taxes are accounted for under the asset and liability method. Deferred taxes are determined based upon differences between the financial reporting and tax bases of assets and liabilities at currently enacted statutory tax rates for the years in which the differences are expected to reverse. The effect on deferred taxes of a change in tax rates is recognized in income in the period of change.

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

We had deferred tax assets of RMB4.6 million as of December 31, 2003, RMB7.8 million as of December 31, 2004 and RMB6.3 million (US$0.8 million) as of December 31, 2005.

As of December 31, 2003, 2004 and 2005, we recognized aggregate valuation allowances of RMB7.8 million, RMB7.1 million and RMB5.8 million (US$0.7 million), respectively. As a result of our current expectations as to our ability to generate taxable income, we currently do not expect to provide significant further valuation allowances with respect to our net deferred tax assets. In the event that unexpected developments prevent us from realizing some or all of our deferred tax assets, we will be required to take a charge against our net income for the period in which such events occur.

Share-based compensation

Prior to January 1, 2006, we accounted for share-based compensation arrangements under Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, or APB No. 25, and complied with the disclosure provisions of SFAS No. 123, Accounting for Stock-Based Compensation, or SFAS No. 123. In general, compensation cost under APB No. 25 was recognized based on the difference, if any, between the estimated fair value or market value of our common shares and the amount an employee was required to pay to acquire the shares, as determined on the date the option was granted. Compensation cost, if any, was recorded in shareholders equity as additional paid-in capital with an offsetting entry recorded to deferred share-based compensation. Deferred share-based compensation was amortized and charged to expense based on the vesting terms of the underlying options.

When estimating the fair value of our common shares on the grant date, we reviewed both internal and external sources of information. As a private company before the completion of our initial public offering in October 2004, the sources we used to determine the fair value of the underlying shares at the date of measurement were subjective in nature and were based on, among other factors:

our financial condition as of the date of grant;

our financial and operating prospects at that time;

comparable market indicators; and

an independent third party analysis of the historical value of our underlying common shares.

We recognized an aggregate of RMB35.2 million in deferred share-based compensation in 2000 in connection with our issuance of restricted common shares to each of our founders in that year. As these shares were placed in escrow and were subject to repurchase by us between 2000 and 2003 in the event of termination of employment by our founders, we considered this arrangement to constitute share-based compensation to be accounted for in accordance with APB No. 25, and accordingly, we amortized all of this deferred share-based compensation as an expense over this period. This resulted in share-based compensation expense related to these issuances of RMB8.8 million in 2001, RMB8.8 million in 2002 and RMB4.6 million in 2003. All such shares have subsequently been released from escrow and we will not recognize additional share-based compensation expense with respect to these issuances.

In addition, we recognized share-based compensation in connection with the grant of options to employees and directors, the sale of common shares to one of our directors at a price below fair market value, and the extension of the exercise period of options held by certain terminated employees. This resulted in additional share-based compensation expense of RMB14.1 million in 2003, RMB20.5 million in 2004 and RMB14.6 million (US$1.8 million) in 2005.

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In December 2004, the FASB issued Statement of Financial Accounting Standards No. 123R (revised 2004), Share-Based Payment, or SFAS No. 123R, that requires companies to expense the value of employee stock options and similar awards. Under SFAS No. 123R, share-based compensation will be (1) measured at fair value on the awards grant date, based on the estimated number of awards that are expected to vest and (2) required as awards vest. Under SFAS No. 123R, we could select from three transition methods: (1) the modified prospective method, where the expenses related to unvested but still outstanding options as calculated under the original SFAS No. 123 be charged to expense without any change in previously calculated measurement; (2) a variation of the modified prospective method, where in addition to (1), we restate for prior interim periods using prior SFAS No. 123 pro forma disclosure amounts; and (3) the modified retrospective method, where all prior period financial statements are retroactively restated based on pro forma disclosures as calculated under SFAS No. 123.

We have adopted SFAS No. 123R effective from January 1, 2006 and selected the modified prospective method as the transitional method. Consequently, our share-based compensation expense relating to the unvested portion of the outstanding grants is recognized based on the fair value of the options as determined under SFAS No. 123 as disclosed in note 2(m) to our consolidated financial statements included elsewhere in this annual report. New options to be issued after the effective date are recognized based on the provisions of SFAS No. 123R. The adoption of SFAS No. 123R increased our share-based compensation expense in our consolidated statement of operations in the first quarter of 2006 and we expect the implementation of SFAS No. 123R may adversely affect our earnings in the future.

Basis for consolidation and our relationships with our affiliated variable interest entities

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

Historically, certain of our operations were conducted by two affiliated entities, Run An and Qian Cheng, in which we have not held any equity interest. These entities were, and continue to be, wholly owned, directly and indirectly, by two of our executive officers. We entered into contractual arrangements with these two entities under which we bore all of their economic risk and received all of their economic rewards. In our consolidated financial statements, we have consolidated all of the interests of Run An and Qian Cheng under FASB Interpretation No. 46, Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51, or FIN 46.

FIN 46 requires a variable interest entity to be consolidated by the primary beneficiary of such entity. An entity is considered to be a variable interest entity if certain conditions are present, including where the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. Under various agreements with Run An and Qian Cheng, we were considered the primary beneficiary of Run An and Qian Cheng, and all of their interests have been consolidated in our financial statements. In addition, as a result of our consolidation of Qian Cheng, its minority interests in Tech JV and its subsidiaries have been consolidated in our financial statements. All significant transactions and balances between us, our subsidiaries, Run An and Qian Cheng have been eliminated upon consolidation.

In connection with our restructuring in May 2004, we terminated or modified the agreements referred to above and entered into new agreements with these entities and RAL, a new entity formed by two of our executive officers. We bear all of the economic risks and receive all of the economic rewards of these entities under these agreements. Consequently, we have consolidated the interests of RAL and continue to consolidate the interests of Run An and Qian Cheng under FIN 46. In the opinion of Jun He Law Offices, our PRC legal counsel, these contractual arrangements and our current business operations are not in violation of existing PRC laws, rules and regulations. There are, however, substantial uncertainties regarding the interpretation and application of PRC laws and regulations, including but not limited to the laws and regulations governing our business or the enforcement and performance of our contractual arrangements in the event of the imposition of statutory liens, death, bankruptcy and criminal proceedings. Accordingly, we cannot assure you that PRC regulatory authorities will not take a view contrary to the opinion of our PRC legal counsel. See Item 3. Key Information Risk Factors 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 and Risks Related to the People s Republic of China The PRC legal system has inherent uncertainties that could materially and adversely affect us.

We do not believe that our restructuring has had an impact on our financial statements or how our results are reported in the future. For additional information with respect to our relationships with RAL, Run An and Qian Cheng, see Item 4. Information on the Company Organizational Structure.

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Allowances for doubtful accounts

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

Long-lived assets

Our accounting for long-lived assets, including property and equipment, is described in note 2(g) to our consolidated financial statements included elsewhere in this annual report. The recorded value of long-lived assets is affected by a number of management estimates, including estimated useful lives, residual values and impairment charges. We assess impairment for long-lived assets whenever the net book value for these assets is more than the estimated future cash flows attributable to them. During each of the years ended December 31, 2003, 2004 and 2005, we did not record any impairment charges. If different judgments or estimates had been utilized, material differences could have resulted in the amount and timing of the impairment charge and the related depreciation and amortization charges.

Results of Operations

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

	For the year ended December 31,					
	2003		2004		2005	
	RMB	%	RMB	%	RMB	%
Revenues:						
Print advertising	182,606,297	65.2	300,651,791	65.9	356,284,649	63.4
Online recruitment services	76,960,121	27.5	111,508,533	24.4	159,494,922	28.4
Executive search	15,748,331	5.6	24,907,914	5.5	26,306,740	4.7
Other human resource related revenues	18,019,611	6.4	42,875,597	9.4	53,507,789	9.5
Total revenues	293,334,360	104.7	479,943,835	105.2	595,594,100	106.0
Less: Business and related tax	(13,215,419)	(4.7)	(23,823,953)	(5.2)	(33,567,880)	(6.0)
Net revenues	280,118,941	100.0	456,119,882	100.0	562,026,220	100.0
Cost of services	(151,477,142)	(54.1)	(224,606,635)	(49.2)	(269,328,384)	(47.9)
Gross profit	128,641,799	45.9	231,513,247	50.8	292,697,836	52.1
Operating expenses:						
Sales and marketing	(38,619,523)	(13.8)	(67,271,096)	(14.7)	(113,656,714)	(20.2)
General and administrative	(38,135,612)	(13.6)	(55,175,493)	(12.1)	(88,978,985)	(15.8)
Share-based compensation share option	(13,482,546)	(4.8)	(18,678,238)	(4.1)	(13,073,480)	(2.4)
Share-based compensation founder shares	(4,622,466)	(1.7)				

Total operating expenses	(94,860,147)	(33.9)	(141,124,827)	(30.9)	(215,709,179)	(38.4)
Income from operations	33,781,652	12.1	90,388,420	19.8	76,988,657	13.7
Loss from foreign currency translation	(3,456)	(0.0)	(2,158)	(0.0)	(11,320,194)	(2.0)
Interest and investment income	930,288	0.3	2,846,422	0.6	20,385,151	3.6
Other income	1,083,790	0.4	1,968,532	0.4	5,313,723	1.0
Income before income tax provision	35,792,274	12.8	95,201,216	20.9	91,367,337	16.3
Income tax expense	(3,192,011)	(1.1)	(34,058,184)	(7.5)	(29,945,033)	(5.4)
Net income	32,600,263	11.7	61,143,032	13.4	61,422,304	10.9
Other Financial Information:						
Aggregate share-based compensation expense[(1)]	(18,701,563)	(6.7)	(20,489,734)	(4.5)	(14,553,321)	(2.6)

(1) Aggregate share-based compensation expense includes share-based compensation expense attributable to cost of services and operating expenses.

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2005 compared to 2004

Total revenues. Our total revenues increased 24.1% to RMB595.6 million (US$73.8 million) in 2005 from RMB479.9 million in 2004. This increase was primarily driven by growth in our print advertising revenues and our online recruitment services revenues. We derived our total revenues from:

Print advertising. Our print advertising revenues increased 18.5% to RMB356.3 million (US$44.1 million) in 2005 from RMB300.7 million in 2004. This increase was primarily due to a higher number of recruitment advertisements placed in our editions of *51job Weekly* as we entered into four new markets in 2005 and increased our penetration of our existing markets. We estimate that the number of print advertising pages increased 32.0% to 11,884 in 2005 from 9,001 in 2004. The increase in revenues from higher advertisement volumes was partially offset by a decline in our overall average revenue per page. Our overall average revenue per page declined principally as a result of an increase in revenue contribution from certain markets in which local prices were lower than our average. Although the prices that we charged for our print advertising in each city remained generally stable or moderately increased, we may adjust our sales policy on promotions and discounts in our cities from time to time.

Online recruitment services. Our online recruitment services revenues increased 43.0% to RMB159.5 million (US$19.8 million) in 2005 from RMB111.5 million in 2004. This increase was mainly attributable to substantial growth in the number of unique employers using our online recruitment services. We estimate that the number of unique employers increased 44.0% to 56,599 in 2005 from 39,317 in 2004. This growth primarily consisted of an increase in employers placing recruitment advertisements on *www.51job.com* and, to a lesser extent, reflected an increase in the use of our *eHire* web-based online resumé and recruitment management platform. Our average revenue per unique employer in 2005 was relatively unchanged from the level in 2004. We believe that the increase in new online customers, who generally purchase basic, lower priced recruitment advertisements which drive a decline in our average revenue per unique employer was primarily offset by the greater number of customers purchasing multiple online recruitment services and the migration of customers to higher priced products, both factors which would increase our average revenue per unique employer.

Executive search. Our executive search revenues increased 5.6% to RMB26.3 million (US$3.3 million) in 2005 from RMB24.9 million in 2004, primarily as a result of greater sales efforts.

Other human resource related revenues. Our revenues from other human resource related services increased 24.8% to RMB53.5 million (US$6.6 million) in 2005 from RMB42.9 million in 2004. This increase was primarily attributable to an increase in training revenues as we conducted a greater number of seminars and courses. In addition, we believe the increase reflected growing customer acceptance of new services, particularly our business process outsourcing services. In November 2004, we discontinued the sale of stationery and offices supplies to our business customers which contributed revenues of RMB2.2 million (US$0.3 million) in 2005 and RMB12.7 million in 2004.

Net revenues. Our net revenues increased 23.2% to RMB562.0 million (US$69.6 million) in 2005 from RMB456.1 million in 2004. Our net revenues reflected our total revenues less the amounts paid as business taxes of RMB33.6 million (US$4.2 million) in 2005 and RMB23.8 million in 2004.

Cost of services. Our cost of services increased 19.9% to RMB269.3 million (US$33.4 million) in 2005 from RMB224.6 million in 2004. The majority of this increase was a result of higher printing related expenses associated with the expansion of *51job Weekly* into four new cities in 2005 as well as greater page volumes in existing markets. In addition, our employee compensation expense increased principally as a result of new staff additions to support our growing operations. Our cost of services in 2005 also included share-based compensation expense of approximately RMB1.5 million (US$0.2 million), a decrease from RMB1.8 million in 2004. Our cost of services declined as a percentage of revenues as we benefited from increasing economies of scale and operating efficiencies in our businesses.

Gross profit. As a result of the above factors, our gross profit increased 26.4% to RMB292.7 million (US$36.3 million) in 2005 from RMB231.5 million in 2004. Our gross profit margin, which is equal to our gross profit divided by our net revenues, was 52.1% in 2005 compared to 50.8% in 2004.

Operating expenses. Our total operating expenses increased 52.9% to RMB215.7 million (US$26.7 million) in 2005 from RMB141.1 million in 2004. The increase in our operating expenses was primarily due to an increase in sales and marketing expenses as well as general and administrative expenses, which was partially offset by a decrease in share-based compensation expense. Our operating expenses consisted of:

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Sales and marketing expenses. Our sales and marketing expenses increased 69.0% to RMB113.7 million (US$14.1 million) in 2005 from RMB67.3 million in 2004. This increase was due to the expansion of our sales and marketing staff, increases in commissions paid to sales personnel, increases in advertising and promotional expenses, and the addition of four new sales offices in Changchun, Suzhou, Fuzhou and Zhengzhou in 2005. We calculate the commissions paid to sales personnel based on a percentage of total revenues generated by the employee. In addition, we pay bonuses to account executives for achieving and exceeding certain sales targets. Our advertising and promotion expenses in 2005 increased 72.7% to RMB21.4 million (US$2.6 million) from RMB12.4 million in 2004 due to a greater number of promotional events and other activities principally in connection with our expansion into new markets, and also in connection with a national television advertising campaign we conducted in early 2005.

General and administrative expenses. Our general and administrative expenses increased 61.3% to RMB89.0 million (US$11.0 million) in 2005 from RMB55.2 million in 2004. This increase was primarily due to greater costs incurred in connection with operating as a public company, higher professional services expenses, and costs associated with the opening of four new offices opened in 2005, including rent, the hiring of new personnel and the purchase of office equipment. Contributing also to the increase was compensation to additional office staff and depreciation and amortization.

Share-based compensation. Our share-based compensation expense included in operating expenses decreased 30.0% to RMB13.1 million (US$1.6 million) in 2005 from RMB18.7 million in 2004. We did not recognize any additional deferred share-based compensation in 2005. Upon adoption of SFAS No. 123R effective January 1, 2006, we expect to incur higher share-based compensation expense.

Loss from foreign currency translation. We recognized a loss of RMB11.3 million (US$1.4 million) from foreign currency translation in 2005 as a result of a change in PRC foreign exchange policy and a revaluation of the Renminbi in July 2005. For more information about China s foreign exchange policy, see Item 10. Additional Information Exchange Controls.

Interest and investment income. Our interest and investment income increased 616% to RMB20.4 million (US$2.5 million) in 2005 from RMB2.8 million in 2004 due to higher average balances in our interest bearing bank deposits and higher interest rates.

Income tax expense. We recorded an income tax expense of RMB29.9 million (US$3.7 million) in 2005 compared to RMB34.1 million in 2004.

Net income. As a result of the above factors, our net income increased 0.5% to RMB61.4 million (US$7.6 million) in 2005 from RMB61.1 million in 2004.

2004 compared to 2003

Total revenues. Our total revenues increased 63.6% to RMB479.9 million in 2004 from RMB293.3 million in 2003. This increase was primarily due to the growth in our print advertising revenues and our online recruitment services revenues. We derived our total revenues from:

Print advertising. Our print advertising revenues increased 64.6% to RMB300.7 million in 2004 from RMB182.6 million in 2003. This increase was primarily due to significant growth in recruitment advertisements placed in our editions of *51job Weekly*, which reflected the revenue contribution of the three new markets we entered in 2004, and our increased penetration of our existing markets through greater direct sales and marketing efforts. As a result, our estimated number of print advertising pages increased 94.2% to 9,001 in 2004 from 4,635 in 2003. The increase in revenues was largely driven by the increase in the number of print advertising pages, which was partially offset by a decline in our overall average revenue per page. Our overall average revenue per page declined primarily due to an increase in revenue contribution from some of our markets that generally have lower local prices for recruitment advertisement compared to those which we realize on average in our other markets and additional revenue contribution from three new, lower priced markets.

Online recruitment services. Our online recruitment services revenues increased 44.9% to RMB111.5 million in 2004 from RMB77.0 million in 2003. This increase was primarily attributable to significant growth in the number of unique employers using our online recruitment services, partially offset by a decrease in our average revenue per unique employer. We estimate that the number of unique employers using our online recruitment services increased 51.9% to 39,317 in 2004 from 25,880 in 2003, primarily as a result of increased

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sales and marketing efforts promoting our *www.51job.com* website and online recruitment services. We estimate that our average revenue per unique employer decreased primarily as a result of price reductions in 2004 for certain online products, generally in the form of discounted introductory and promotional online recruitment services packages, as well as a significant increase in the number of first-time online customers, who generally purchase basic, lower priced recruitment advertisements.

Executive search. Our executive search revenues increased 58.2% to RMB24.9 million in 2004 from RMB15.7 million in 2003, primarily as a result of greater sales and marketing efforts and also, we believe an increased acceptance by employers of executive search as a recruitment tool.

Other human resource related revenues. Our revenues from other human resource related services increased 138% to RMB42.9 million in 2004 from RMB18.0 million in 2003. This increase was primarily driven by growth in training revenues due to an increase in the number of seminars and human resource conferences we conducted in 2004. In addition, revenues in 2004 reflected the contribution of new services we introduced in mid-2003, including our *eHR* human resource management software and business process outsourcing services, which gained increasing customer acceptance in 2004. In November 2004, we discontinued the sale of stationery and offices supplies to our business customers which contributed revenues of RMB12.7 million in 2004 and RMB2.2 million in 2003.

Net revenues. Our net revenues increased 62.8% to RMB456.1 million in 2004 from RMB280.1 million in 2003. Our net revenues reflected our total revenues less the amounts paid as business taxes of RMB23.8 million in 2004 and RMB13.2 million in 2003.

Cost of services. Our cost of services increased 48.3% to RMB224.6 million in 2004 from RMB151.5 million in 2003. The majority of this increase was represented by printing related expenses associated with the expansion of *51job Weekly*. In addition, our employee compensation expense increased primarily due to the hiring of additional staff to support our growing operations. Our cost of services in 2004 also included an increase in share-based compensation expense to approximately RMB1.8 million from RMB0.6 million in 2003.

Gross profit. As a result of the above factors, our gross profit increased 80.0% to RMB231.5 million in 2004 from RMB128.6 million in 2003. Our gross profit margin was 50.8% in 2004 compared to 45.9% in 2003.

Operating expenses. Our total operating expenses increased 48.8% to RMB141.1 million in 2004 from RMB94.9 million in 2003. The increase in our operating expenses was primarily due to an increase in sales and marketing expenses as well as general and administrative expenses. Our operating expenses consisted of:

Sales and marketing expenses. Our sales and marketing expenses increased 74.2% to RMB67.3 million in 2004 from RMB38.6 million in 2003. This increase was due to the hiring of additional sales and marketing personnel, commissions to sales personnel, increased spending on advertising and promotional campaigns, and the addition of three new offices in Changsha, Hefei and Ningbo in 2004. Our advertising and promotion expenses in 2004 increased 75.2% to RMB12.4 million from RMB7.1 million in 2003 as we increased our use of direct marketing, event marketing and other forms of promotion principally in connection with our expansion into new markets.

General and administrative expenses. Our general and administrative expenses increased 44.7% to RMB55.2 million in 2004 from RMB38.1 million in 2003. This increase was primarily due to costs incurred in connection with the operation of the three new offices opened in 2004. In addition, the increase reflected compensation to additional office staff, professional services expenses, and depreciation and amortization.

Share-based compensation. Our share-based compensation expense included in operating expenses increased 3.2% to RMB18.7 million in 2004 from RMB18.1 million in 2003. This increase was due to our recognition of RMB6.6 million of additional deferred share-based

compensation in 2004, principally as a result of the sale of common shares to one of our directors at a price below fair market value, which was partially offset by the full amortization of the deferred share-based compensation that we recognized in connection with our issuance of common shares to our founders in 2000. For further discussion with respect to our share-based compensation, see Critical Accounting Policies Share-based compensation.

Interest and investment income. Our interest and investment income increased 206% to RMB2.8 million in 2004 from RMB0.9 million in 2003 due to higher cash balances of outstanding bank deposits.

Income tax expense. We recorded an income tax expense of RMB34.1 million in 2004 compared to RMB3.2 million in 2003. Both our income tax expense and effective tax rate increased significantly in 2004. These increases were

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primarily the result of an overall increase in taxable income we recognized in the period and the expiration of tax exemptions with respect to certain subsidiaries of AdCo. In addition, share-based compensation expense is not deductible for purposes of calculating PRC enterprise income tax, causing our effective income tax rate in 2004 to exceed our statutory enterprise income tax rate of 33%.

Net income. As a result of the above factors, our net income increased 87.6% to RMB61.1 million in 2004 from RMB32.6 million in 2003.

Unaudited Quarterly Results of Operations

We have presented our unaudited quarterly results of operations for the four fiscal quarters of 2005. You should read the following table in conjunction with the consolidated financial statements and related notes contained elsewhere in this annual report. We have prepared the unaudited information on the same basis as our audited consolidated financial statements. This information reflects all adjustments, consisting only of normal recurring adjustments, which are in the opinion of our management necessary for fair presentation of our results of operations for the quarters presented. Because the recruitment advertising and human resource industries in China are new and rapidly evolving, and because our business is also relatively new, operating results for any quarter are not necessarily indicative of results for any future quarters or for a full year.

The following table presents our unaudited quarterly results of operations for 2005:

	For the three months ended,			
	March 31, 2005 RMB	**June 30, 2005 RMB**	**September 30, 2005 RMB**	**December 31, 2005 RMB**
Revenues:				
Print advertising	93,690,402	90,502,452	93,099,031	78,992,763
Online recruitment services	31,805,222	38,864,411	44,443,053	44,382,236
Executive search	6,938,222	7,054,774	6,326,391	5,987,354
Other human resource related revenues	10,256,021	10,998,124	16,883,951	15,369,692
Total revenues	142,689,867	147,419,761	160,752,426	144,732,045
Net revenues	134,437,804	139,164,212	151,589,980	136,834,223
Cost of services	(69,005,139)	(69,249,300)	(68,736,494)	(62,337,450)
Gross profit	65,432,665	69,914,912	82,853,486	74,496,773
Operating expenses:				
Sales and marketing	(31,703,792)	(26,978,660)	(27,570,088)	(27,404,175)
General and administrative	(22,358,405)	(21,207,581)	(22,198,570)	(23,214,429)
Share-based compensation share option	(3,290,803)	(3,349,954)	(3,237,445)	(3,195,278)
Total operating expenses	(57,353,000)	(51,536,195)	(53,006,103)	(53,813,882)
Income from operations	8,079,665	18,378,717	29,847,383	20,682,891
Income before income tax provision	13,375,127	23,173,658	24,940,902	29,877,650
Income tax expense	(4,199,835)	(7,281,976)	(7,910,392)	(10,552,830)
Net income	9,175,292	15,891,682	17,030,510	19,324,820

Other Financial Information:				
Aggregate share-based compensation expense[1]	(3,671,596)	(3,759,343)	(3,597,976)	(3,524,406)

(1) Aggregate share-based compensation expense includes share-based compensation expense attributable to cost of services and operating expenses.

B. Liquidity and Capital Resources

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

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Liquidity

Our liquidity has been principally affected by our significant increases in net cash from operating activities and from our initial public offering in 2004, our repurchases of ADSs in the open market, and our purchases of property, equipment and software.

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

	For the year ended December 31,			
	2003	2004	2005	2005
	RMB	RMB	RMB	US$
Net cash provided by operating activities	65,966,668	105,812,412	122,025,929	15,120,558
Net cash used in investing activities	(20,343,047)	(13,804,765)	(54,391,335)	(6,739,775)
Net cash provided by (used in) financing activities	746,227	640,964,309	(74,097,969)	(9,181,677)
Net increase (decrease) in cash	46,446,812	733,208,100	(17,659,122)	(2,188,189)

Cash flows from operating activities. Our increase in net cash provided by operating activities from 2003 to 2004 was primarily the result of an increase in net income. The substantial majority of this increase was due to growth in our print advertising revenues and our online recruitment services revenues. Our increase in net cash provided by operating activities in 2004 also reflected an adjustment for share-based compensation of RMB20.5 million for share-based compensation expense and RMB24.6 million in taxes payable. Our net cash provided by operating activities in 2005 increased to RMB122.0 million (US$15.1 million) from RMB105.8 million in 2004. The increase was primarily attributable to an increase in advance from customers and salary and employee related accrual, which were partially offset by a decrease in taxes payable.

Cash flows from investing activities. Our net cash used in investing activities from 2003 to 2005 reflected purchases of property, equipment, software and other intellectual property rights in these years in connection with the general growth of our businesses and the opening of new offices. We established three new offices in 2003, three new offices in 2004 and four new offices in 2005. In 2003, our net cash used in investing activities reflected our investment of RMB10.7 million of our excess cash in an interest bearing bank deposit. Our net cash used in investing activities in 2004 included RMB635.5 million of cash proceeds from our initial public offering in interest bearing bank deposits. In 2005, we made installment payments totaling RMB22.8 million (US$2.8 million) toward our purchase of an office complex in Zhangjiang High Technology Park.

Cash flows from financing activities. Our net cash from financing activities has been primarily affected by our initial public offering in 2004. Our net cash provided by financing activities in 2003 consisted of proceeds from the exercise of stock options by certain directors and executive officers. In 2004, our net cash provided by financing activities consisted of net proceeds of RMB635.5 million from the sale of 6,037,500 ADSs in our initial public offering and RMB5.5 million proceeds from the exercise of warrants to purchase Series A preference shares by one of our principal shareholders and from the exercise of options by certain directors and officers. In 2005, our net cash used in financing activities consisted of our repurchase of 686,438 ADSs in the open market for an aggregate consideration of RMB75.6 million (US$9.4 million), which was partially offset by the exercise of options by employees and certain directors and officers.

Capital resources

We have financed our operations primarily through cash flows from operations as well as equity investments by certain of our founders and current shareholders. To date, we have not financed our operations through significant borrowings, and as of December 31, 2005, we had no material debt obligations outstanding to unrelated parties.

Our external financing has consisted primarily of the proceeds from our initial public offering and the sale of our Series A preference shares and warrants to purchase Series A preference shares. In October 2004, we raised net proceeds of RMB635.5 million from the sale of 6,037,500 ADSs in our initial public offering. From June 2000 to January 2002, we sold an aggregate of 13,678,466 Series A preference shares for aggregate net proceeds of approximately US$14.0 million (RMB116.4 million), including a warrant to purchase 10,000 Series A preference

shares which was exercised in May 2001. We also issued warrants to purchase 380,000 Series A preference shares which were exercised in March 2004. All of the warrants have been exercised and all Series A preference shares were converted into an aggregate of 14,058,466 of our common shares upon the completion of our initial public offering in 2004. Our operations from inception through 2000 were financed primarily by equity and debt financing from our chief executive officer and director, Rick Yan, as well as equity financing by our other three founders.

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Our operations are conducted primarily through Tech JV and its subsidiaries. As a result, our ability to finance our operations and any debt that we, or our subsidiaries, may incur is dependent, in part, upon the flow of dividends from, and the payment of royalties and other fees by, our subsidiaries. The payment of dividends in China is subject to restrictions. PRC regulations currently permit payment of dividends only out of accumulated profits as determined in accordance with PRC accounting standards and regulations. Our subsidiaries and affiliated entities in the PRC are also required to set aside a portion of their after-tax profits according to PRC accounting standards and regulations to fund certain reserve funds that are not distributable as cash dividends. Through certain contractual arrangements, we are able to require Qian Cheng to pay us any cash it receives as dividends or other distributions with respect to its minority shareholding in Tech JV and its subsidiaries. Our ability to obtain cash or other assets under these contracts depends on their effectiveness and enforceability. For a description of these agreements and our PRC counsel s opinion as to their enforceability, see Item 4. Information on the Company Organizational Structure. If we or any of our subsidiaries are unable to receive all of the revenues from our operations through these contractual arrangements or dividends, we may be unable to effectively finance our operations.

In March 2006, we signed a letter of intent to purchase our current principal executive offices at 21st floor, Wen Xin Plaza, 755 Wei Hai Road, which we expect to become our Shanghai sales office, for an aggregate consideration of RMB27 million (US$3.3 million). In addition, in April 2006, we completed the purchase of a new office complex in Zhangjiang High Technology Park in Shanghai s New Pudong Area for approximately RMB114 million (US$14.1 million). For a discussion of our capital expenditures, see Item 4. Information on the Company History and Development of the Company.

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

C. Research and Development

We employ a large staff of website designers and software developers to design and update our website and create our proprietary software. We did not incur material expenditures with respect to our research and development activities in any of the three years ended December 31, 2003, 2004 or 2005. For more information on our technology operations, see Item 4 Information on the Company Business Overview Technology.

D. Trend Information

Other than as disclosed elsewhere in this annual report, we are not aware of any trends, uncertainties, demands, commitments or events for the period from January 1, 2003 to December 31, 2005 that are reasonably likely to have a material effect on our net revenues, income, profitability, liquidity or capital resources, or that caused the disclosed financial information to be not necessarily indicative of future operating results or financial conditions.

E. Off-Balance Sheet Arrangements

Other than our operating leases commitments, we do not have any outstanding derivative financial instruments, off-balance sheet guarantees, interest rate swap transactions or foreign currency forward contracts. We do not engage in trading activities involving non-exchange traded contracts.

F. Contractual Obligations

We have entered into non-cancelable agreements with initial or remaining terms in excess of one year for the publication of *51job Weekly*, the lease of office premises, and the lease of office equipment. Our contractual cash obligations consist largely of obligations under property lease agreements for office premises. Payments made under operating leases, net of any incentive discounts that we receive from the leasing company, are charged to our income statement on a straight-line basis over the lease periods.

We have also a capital commitment for the purchase of office space and leasehold improvement associated with a letter of intent we executed for the purchase of an office complex in Zhangjiang High Technology Park.

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The following table sets forth our future minimum payments with respect to non-cancelable agreements as of December 31, 2005:

	Operating Lease Commitment			Capital Commitment		
	Publication fees RMB	Office premises RMB	Other RMB	Office complex RMB	Leasehold improvement RMB	Total RMB
Less than one year	53,958,833	23,452,882	140,005	90,982,370	68,182	168,602,272
1-3 years	43,784,942	10,500,551	151,264			54,436,757
3-5 years	1,865,850	6,370,410				8,236,260
More than 5 years						
Total	99,609,625	40,323,843	291,269	90,982,370	68,182	231,275,289

Our publication fees and office lease agreements are generally for a term of two years. We expect to renew substantially all of these agreements as they expire, although we cannot predict the terms and conditions of such renewals.

Rental expenses incurred under operating leases were RMB10.5 million in 2003, RMB13.9 million in 2004 and RMB28.7 million (US$3.6 million) in 2005.

WFOE, our wholly owned PRC subsidiary, entered into equity pledge agreements with the shareholders of Qian Cheng and RAL, respectively. Under each of these equity pledge agreements, WFOE has an option, exercisable during a term of ten years, to purchase the equity interests in each of Qian Cheng and RAL, respectively, when and if, and at the lowest price, permitted by PRC law. At the end of the term, if and to the extent these options have not been exercised, WFOE is obligated to purchase the maximum amount of the equity interest in Qian Cheng and RAL, respectively, as permitted by applicable PRC law. For a detailed description of these equity pledge agreements, see Item 4. Information on the Company Organizational Structure Contractual Arrangements Among Our Group Entities.

We do not have material contractual obligations in currencies other than Renminbi.

Recent Accounting Pronouncements

In December 2004, the FASB issued SFAS No. 123 (revised 2004), Share-Based Payment, or SFAS No. 123R, which replaced SFAS No. 123 and superseded APB No. 25. SFAS No. 123R requires the measurement of all employee share-based payments to employees, including grants of employee stock options, using a fair-value-based method and the recording of such expense in the consolidated statements of operations. The pro forma disclosures previously permitted under SFAS No. 123 no longer will be an alternative to financial statement recognition. In March 2005, the SEC issued Staff Accounting Bulletin No. 107 regarding the SEC s interpretation of SFAS No. 123R and the valuation of share-based payments for public companies.

We adopted SFAS No. 123R and related FASB Staff Positions starting January 1, 2006 and have recognized stock-based compensation expense using the modified prospective method, which requires that compensation expense be recorded for all unvested stock options upon adoption of SFAS No. 123R. We have applied the Black-Scholes valuation model in determining the fair value of share-based payments to employees, and are recognizing compensation expense on a straight-line basis over the requisite service period. The adoption of SFAS No. 123R increased our share-based compensation expense in our consolidated statement of operations in the first quarter of 2006 and we expect the implementation of SFAS No. 123R may adversely affect our earnings in the future.

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections, or SFAS No. 154, which replaces APB Opinion No. 20, Accounting Changes, and SFAS No. 3, Reporting Accounting Changes in Interim Financial Statements. SFAS No. 154 provides guidance on the accounting for and reporting of accounting changes and error corrections. It establishes retrospective application as the required method for reporting a change in

accounting principle and the reporting of a correction of an error. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. We do not expect that the adoption of SFAS No. 154 will have a material effect on our financial statements.

In June 2005, the FASB ratified the Emerging Issues Task Forces Issue No. 05-06, Determining the Amortization Period for Leasehold Improvements, or EITF No. 05-06. EITF No. 05-06 provides that the amortization period used for leasehold improvements acquired in a business combination or purchased after the inception of a lease be the shorter of (a) the useful life of the assets or (b) a term that includes required lease periods and renewals that are reasonably assured

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upon the acquisition or the purchase. The provisions of EITF No. 05-06 should be applied to leasehold improvements (within the scope of this issue) that are purchased or acquired in reporting periods beginning after June 29, 2005. We do not expect that the adoption of EITF No. 05-06 will have a material effect on our financial statements.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. Directors and Senior Management

Effective May 30, 2006, Charles E. Phillips, Jr., an independent director and member of our compensation committee and nominating and corporate governance committee, resigned from our board of directors for personal reasons.

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

Name	Age	Position / Title
Donald L. Lucas[1] [2]	76	Chairman of the board and independent director
Rick Yan	43	Director, chief executive officer, president and secretary
David K. Chao[1] [2]	39	Independent director
Shan Li[1] [3]	42	Independent director
Kathleen Chien	36	Chief financial officer and senior vice president
Michael Lei Feng	37	Senior vice president
Norman Lui	35	Vice president
Tao Wang	43	Vice president
David Weimin Jin	36	Vice president
Jones Haijun Yu	33	Vice president

(1) Member of audit committee.

(2) Member of compensation committee.

(3) Member of nominating and corporate governance committee.

There are no family relationships among any of the directors or executive officers of our company.

The business address of each of our directors and executive officers listed below is 21st Floor, Wen Xin Plaza, 755 Wei Hai Road, Shanghai 200041, People s Republic of China.

Biographical Information

Donald L. Lucas is the chairman of the board of directors of our company. Mr. Lucas became an independent director of our company in February 2004. Mr. Lucas received his Bachelor of Arts degree from Stanford University and his Master of Business Administration degree from the Stanford Graduate School of Business. In 1960, Mr. Lucas began a seven-year participation, including acting as both a general partner and a limited partner with Draper, Gaither & Anderson, the first venture capital firm organized on the West Coast in the United States. Since 1967, Mr. Lucas has been actively engaged in venture capital activities as a private individual. Mr. Lucas currently serves as a board member of Cadence Design Systems, Inc., DexCom, Inc., Oracle Corporation and Vimicro International Corporation. He also serves as a director for several privately held companies. Mr. Lucas is the former chairman of the board of the Stanford Institute for Economic Policy and Research and a Trustee of the University of Santa Clara.

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

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David K. Chao is a director of our company. Mr. Chao has been a director of our company since 2000. Mr. Chao received his Bachelor of Arts degree in Economics and East Asian Studies (Anthropology) with high honors from Brown University and his Master of Business Administration degree from Stanford University. Mr. Chao is a Co-founder and Managing General Partner of DCM Doll Capital Management, a venture capital firm based in the Silicon Valley. Prior to joining DCM, Mr. Chao was a founding executive of one of the largest mobile virtual network operators in Japan. He also worked as a management consultant at McKinsey & Company in San Francisco. Prior to that, Mr. Chao worked in marketing and product management at Apple Computer and was one of the account executives for Recruit. Mr. Chao serves on the boards of directors of numerous DCM portfolio companies. He is a Management Board member of the Stanford Graduate School of Business Board of Trustees and a member of The Thacher School Board of Trustees. He also serves on the board of directors of Legend Capital and the board of advisors for Red Herring.

Shan Li is a director of our company. Mr. Li became an independent director of our company in February 2004. Mr. Li holds a Bachelor of Science degree in Management Information Systems from Qinghua University, a Master s degree in Economics from the University of California at Davis and a Ph.D. in Economics from the Massachusetts Institute of Technology. Mr. Li is a founding partner of San Shan Limited, a private equity firm. Mr. Li is a veteran of the banking industry, having held various executive positions with Bank of China International Holdings, Goldman Sachs, Lehman Brothers, Credit Suisse First Boston and China Development Bank.

Kathleen Chien is chief financial officer and a senior vice president of our company. Ms. Chien joined our company in 1999. Ms. Chien received her Bachelor of Science degree in Economics from the Massachusetts Institute of Technology and her Master of Business Administration degree from the Haas School of Business at the University of California, Berkeley. Prior to joining our company, Ms. Chien worked in the financial services and management consulting industries, including three years with Bain & Company in Hong Kong and two years with Capital Securities Corp., a leading investment bank in Taiwan. During her tenure at Bain & Company, Ms. Chien was a consultant to a number of companies on strategic and marketing issues, including entry into the Chinese market and achieving cost and operational efficiencies. While at Capital Securities Corp., Ms. Chien completed a number of equity and equity-linked transactions, including the first ever Swiss-franc convertible bond issuance out of Taiwan, enabling client companies to raise significant capital from the European and U.S. investment community.

Michael Lei Feng is a senior vice president of our company. Mr. Feng has been with our company since its inception. Mr. Feng received his Bachelor of Arts and Bachelor of Science degrees in Law from China Foreign Affairs College. Prior to joining our company, Mr. Feng worked at Bain & Company in Beijing for three years and at the Ministry of Foreign Affairs in China for one year. During his tenure at Bain & Company, Mr. Feng was a consultant to companies in a number of industries and advised them on their China strategies.

Norman Lui is a vice president of our company. Mr. Lui has been with our company since its inception. Mr. Lui received his Bachelor of Science degree in Electrical Engineering with distinction from Cornell University. Prior to joining our company, Mr. Lui was with Bain & Company for five years, working in the Hong Kong, Beijing and San Francisco offices. During his five-year tenure at Bain & Company, Mr. Lui was a consultant to companies in the consumer products and telecommunications industries with respect to their sales, marketing and operating strategies.

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

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

Jones Haijun Yu is a vice president of our company. Mr. Yu joined our company in 1998. He received a Bachelor of Science degree in Biochemistry from Wuhan University and in Business Management from Beijing Jiaotong University. Prior to joining our company, Mr. Yu worked as a technician with Guangzhou Zengcheng Biochemical Engineering Company for one year.

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B. Compensation

Compensation of Directors and Executive Officers

In April 2004, we approved an annual director s fee of US$15,000 for each director. In addition, our directors receive a fee of US$2,000 for each board meeting attended in person and US$1,000 for each committee meeting attended in person, or US$1,000 for each board meeting attended by conference call and US$500 for each committee meeting attended by conference call. Our directors are also reimbursed for reasonable travel expenses incurred in attending board meetings in person. There are no arrangements between us and our directors providing for special benefits upon our directors termination of service. For the year ended December 31, 2005, the aggregate cash compensation to our directors as a group was approximately US$119,000 (RMB960,000). In 2005, we granted options to acquire 40,000 common shares at fair market value to one of our independent directors.

For the year ended December 31, 2005, the aggregate cash compensation to our executive officers as a group was approximately RMB3.9 million (US$0.5 million). We granted options to acquire an aggregate of 408,000 common shares to our executive officers in 2005.

Directors and Officers Liability Insurance

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

Employment Agreements

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

Stock-Based Compensation Plans

In 2000, our board of directors and shareholders adopted our 2000 stock option plan. Under this plan, our directors, officers and other employees and consultants are eligible to acquire common shares under options. At the time of adoption, 4,010,666 common shares were reserved for issuance under the plan. In February 2004, our board of directors and shareholders approved an increase in the number of authorized shares reserved under the plan of 1,519,912 common shares, increasing the total number of authorized shares reserved under the plan to 5,530,578 common shares. The plan has a term of ten years but may be terminated earlier by our board of directors.

Stock options granted under the 2000 stock option plan may be incentive stock options, or ISOs, which are intended to qualify for favorable U.S. federal income tax treatment under the provisions of Section 422 of the U.S. Internal Revenue Code of 1986, as amended, or non-qualified stock options, or NSOs, which do not so qualify.

The compensation committee of our board of directors administers the plan. Subject to the provisions of the plan and, in the case of a committee, the specific duties delegated by the board of directors to such committee, and subject to the approval of any relevant authorities, the board of directors or the committee so appointed has the authority in its discretion to determine, among other things, the fair market value of the common shares, select optionees, determine the number of common shares to be covered by each award granted under the plan, and the terms and conditions of any options or stock purchase rights granted under the plan.

Stock options granted under the plan become exercisable at a rate of not less than 20% per year over five years from the date of the option grant. In the event of the termination of service of an optionee, the unvested portion of a stock option is forfeited and the vested portion terminates within the period of time as specified in the option agreement and, in the absence of a specified time in the option agreement, within twelve months following the

optionee s termination in the case of the optionee s disability or death, and three months following the optionee s termination in all other cases.

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In the event of a merger of our company, each outstanding stock option may be assumed or an equivalent option or right may be substituted by the successor corporation. In the event the successor corporation refuses to assume or substitute for the stock option, the outstanding stock options will automatically vest and become exercisable for a period of 15 days, after which the stock options will terminate.

The following table summarizes the options granted to our directors, executive officers and other employees under our 2000 stock option plan during the periods indicated.

	Common shares underlying options granted	Exercise price US$	Date of grant	Date of expiration
Granted in 2003				
Kathleen Chien	200,000	0.15	April 1, 2003	March 31, 2009
	460,882	0.50	December 15, 2003	December 14, 2009
David Weimin Jin	65,000	0.15	April 1, 2003	March 31, 2009
Other employees	250,900	0.15	April 1, 2003	March 31, 2009
	5,000	0.15	September 1, 2003	August 31, 2009
	364,450	0.50	December 15, 2003	December 14, 2009
	1,346,232			
Granted in 2004				
Donald L. Lucas	92,176	1.00	February 17, 2004	February 16, 2010
	138,264*	1.00	February 28, 2004	Not applicable
Shan Li	92,176	1.00	February 28, 2004	February 27, 2010
Charles E. Phillips, Jr.	92,176	3.25	May 20, 2004	May 19, 2010
Other employees	53,400	1.00	February 28, 2004	February 27, 2010
	468,192			
Granted in 2005				
Rick Yan	160,800	8.695	April 22, 2005	April 21, 2011
David K. Chao	40,000	7.00	July 25, 2005	July 24, 2011
Kathleen Chien	81,600	8.695	April 22, 2005	April 21, 2011
Michael Lei Feng	50,400	8.695	April 22, 2005	April 21, 2011
Norman Lui	21,600	8.695	April 22, 2005	April 21, 2011
Tao Wang	21,600	8.695	April 22, 2005	April 21, 2011
David Weimin Jin	40,800	8.695	April 22, 2005	April 21, 2011
Jones Haijun Yu	31,200	8.695	April 22, 2005	April 21, 2011
Other employees	271,200	8.695	April 22, 2005	April 21, 2011
	30,000	6.25	November 6, 2005	November 10, 2011
	749,200			

* These relate to sales of common shares,

from those authorized under the stock option plan, below fair market value.

C. Board Practices

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

Board Committees

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

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Audit committee

Our audit committee reports to the board of directors regarding the appointment of our independent public accountants, the scope and results of our annual audits, compliance with our accounting and financial policies and management s procedures and policies relating to the adequacy of our internal accounting controls. Our audit committee charter requires its members to satisfy applicable Nasdaq corporate governance rules on independence. Since May 2004, the members of our audit committee have been Donald L. Lucas, who acts as the chairman of our audit committee, David K. Chao and Shan Li. Our board of directors has determined that all of our audit committee members are independent directors within the meaning of Nasdaq Marketplace Rule 4200(a)(15) and meet the criteria for independence set forth in Section 10A(m)(3)(B)(i) of the Exchange Act.

Our audit committee will be responsible for, among other things:

- the appointment, evaluation, compensation, oversight and termination of the work of our independent auditor (including resolution of disagreements between management and the independent auditor regarding financial reporting);
- ensuring that it receives from our independent auditor a formal written statement attesting to the auditor s independence and describing all relationships between the auditor and us;
- pre-approving any audit and non-audit services, including tax services, to be provided by our independent auditor in accordance with Nasdaq rules;
- reviewing our annual audited financial statements and quarterly financial statements with management and our independent auditor;
- reviewing with our independent auditor all critical accounting policies and practices to be used by us in preparing our financial statements, all alternative treatments of financial information within U.S. GAAP, and other material communications between our independent auditor and management;
- reviewing our policies with respect to risk assessment and risk management;
- reviewing, with management and counsel, any legal matters that may have a material impact on us and any material reports or inquiries from regulatory or governmental agencies; and
- establishing procedures for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls, auditing matters or potential violations of law, and the confidential, anonymous submission by our employees of concerns regarding questionable accounting or auditing matters or potential violations of law.

Nominating and corporate governance committee

Our nominating and corporate governance committee assists the board of directors in identifying individuals qualified to become members of our board of directors and in determining the composition of the board and its committees. Our board of directors has determined that the member of our nominating and corporate governance committee is an independent director within the meaning of Nasdaq Marketplace Rule 4200(a)(15) and meets the criteria for independence set forth in Section 10A(m)(3)(B)(i) of the Exchange Act. The current member of our nominating and corporate governance committee is Shan Li, who acts as the chairman of the committee.

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

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

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

identifying and recommending to the board the names of directors to serve as members of the audit committee and the compensation committee, as well as the nominating and corporate governance committee itself;

advising the board periodically with respect to significant developments in the law and practice of corporate governance as well as our compliance with applicable laws and regulations, and making recommendations to the board on all matters of corporate governance and on any corrective action to be taken;

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

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reviewing and approving policies and procedures with respect to proposed transactions between us and our related parties, and approving in advance all such related-party transactions; and

monitoring compliance with our code of business conduct and ethics, including reviewing the adequacy and effectiveness of our procedures to ensure proper compliance.

Compensation committee

Our compensation committee assists the board in reviewing and approving the compensation structure of our directors and executive officers, including all forms of compensation to be provided to our directors and executive officers. In addition, the compensation committee reviews stock compensation arrangements for all of our other employees. Members of the compensation committee are not prohibited from direct involvement in determining their own compensation. Our chief executive officer may not be present at any committee meeting during which his or her compensation is deliberated. The current members of our compensation committee are David K. Chao, who acts as the chairman of the committee, and Donald L. Lucas. Our board of directors has determined that all members of our compensation committee are independent directors within the meaning of Nasdaq Marketplace Rule 4200(a)(15) and meet the criteria for independence set forth in Section 10A(m)(3)(B)(i) of the Exchange Act.

Our compensation committee will be responsible for, among other things:

approving and overseeing the total compensation package for our executives;

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

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

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

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

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

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

Duties of Directors

Under Cayman Islands law, our directors have a duty to act honestly, in good faith and with a view to our best interests. Our directors also have a duty to exercise the skills they actually possess and the care and diligence that a reasonably prudent person would exercise in comparable circumstances. In fulfilling their duty of care to us, our directors must ensure compliance with our memorandum and articles of association. A shareholder has the right to seek damages if a duty owed by our directors is breached.

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

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

declaring dividends and distributions;

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

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

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

Interested Transactions

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

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Remuneration and Borrowing

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

Qualification

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

Terms of Directors and Executive Officers

At each annual general meeting of the shareholders of our company, all of our directors at such time are required to retire from office and are eligible for re-election. All of these directors will retain office until the close of such general meeting. Our next annual general meeting is currently scheduled for July 28, 2006.

Limitation on Liability and Other Indemnification Matters

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

Under our fifth amended and restated memorandum and articles of association adopted on April 26, 2004, we may indemnify our directors, officers, employees and agents against expenses (including attorneys fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such persons in connection with actions, suits or proceedings to which they are party or are threatened to be made a party by reason of their acting as our directors, officers, employees or agents. To be entitled to indemnification, these persons must have acted in good faith and in the best interest or not opposed to the interest of our company and must not have acted in a manner willfully or grossly negligent, and, with respect to any criminal action, they must have had no reasonable cause to believe their conduct was unlawful. Our fifth amended and restated memorandum and articles of association also provides for indemnification of such person in the case of a suit initiated by our company or in the right of our company. Such indemnification covers expenses (including attorneys fees) actually and reasonably incurred in connection with the defense or settlement of such suit. There are good faith and other similar conduct requirements for such indemnification rights as those imposed on other types of suits described above. However, if such persons are successful in the merits of the actions, suits or proceedings described above, including suits initiated by or in the right of our company, then they may be indemnified for actual and reasonable expenses without having to meet the conduct requirements.

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

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D. Employees

We had 1,481 employees, 2,333 employees and 2,986 employees as of December 31, 2003, 2004 and 2005, respectively. The following table sets forth the number of our employees categorized by function as of December 31, 2005.

Sales and account management	1,258
Marketing and merchandising	620
Technology and online operations	322
Customer service and production	365
Search and training consultants	163
General and administrative	258
Total	2,986*

* Includes 675 temporary, part-time and contract employees.

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

E. Share Ownership

There are no different voting rights among our shareholders. We are not aware of any arrangement that may, at a subsequent date, result in a change of control of our company. For information regarding the share ownership of our directors and officers, see Item 7. Major Shareholders and Related Party Transactions Major Shareholders.

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ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. Major Shareholders

The following table sets forth information with respect to the beneficial ownership of our common shares as of April 30, 2006:

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

Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and includes voting or investment power a person has with respect to the common shares. A person is also deemed to be a beneficial owner of any securities of which that person has a right to acquire beneficial ownership within 60 days. Percentage of beneficial ownership is based on 58,244,681 common shares outstanding, including common shares underlying options outstanding as of April 30, 2006.

	Common shares beneficially owned	
	Number	**%**
Directors and executive officers:		
Rick Yan	14,842,818	25.5
David K. Chao[1]	10,155,396	17.4
Michael Lei Feng	4,410,660	7.6
Norman Lui	3,064,403	5.3
Kathleen Chien[2]	1,819,750	3.1
Tao Wang	573,900	1.0
Donald L. Lucas	201,157	*
Shan Li	71,693	*
David Weimin Jin	59,565	*
Jones Haijun Yu	44,100	*
All directors and executive officers as a group	35,243,442	60.5
Principal shareholders:		
Rick Yan	14,842,818	25.5
Entities affiliated with DCM Doll Capital Management[3]	9,754,329	16.7
Recruit Co., Ltd.[4]	8,462,916	14.5
FMR Corp.[5]	5,864,000	10.1
Michael Lei Feng	4,410,660	7.6
Norman Lui	3,064,403	5.3

(1) Includes 3,201,171 common shares owned by DCM III, L.P., 84,817 common shares owned by DCM III-A, L.P., 156,406 common shares owned by DCM Affiliates Fund III, L.P.,

5,169,293 common shares owned by Doll Technology Investment Fund II, L.P., 287,020 common shares owned by DCM Network Fund, L.P., 530,892 common shares owned by DCM Internet Fund, L.P., and 324,730 Common shares owned by Doll Technology Affiliates Fund II, L.P. The respective general partners of these entities are DCM Investment Management III, L.L.C. and Doll Technology Investment Management II, L.L.C. and share voting and investment power with respect to shares held by each of the limited partnerships. The managing members of DCM Investment Management III, L.L.C. are David K. Chao, Dixon R. Doll, Peter Moran and Robert Theis; the managing members of Doll Technology Investment Management II, L.L.C. are David K. Chao and Dixon R. Doll.

Each managing member disclaims beneficial ownership of shares held by the limited partnerships, except to the extent of their respective pecuniary interests therein. Also includes 401,067 common shares owned by David K. Chao.

(2) Includes 237,867 common shares acquired through early exercise of options. The exercise price paid by Ms. Chien to us was recognized as a liability and the shares acquired upon exercise were not considered issued for accounting purposes until vested.

(3) Name and number of shares owned by each entity affiliated with DCM are described in Note (1) above.

(4) In April 2006, entities affiliated with DCM, Rick Yan, Michael Lei Feng, and Norman Lui, and Kathleen Chien entered into a share purchase agreement with

Recruit.

(5) Based on their Schedule 13F-HR filing with the Securities and Exchange Commission for the period ended March 31, 2006.

* Less than 1%.

As of April 30, 2006, 12,043,456 of our common shares including common shares underlying options outstanding, representing 20.7% of our outstanding shares, were held by a total of 17 holders of record with addresses in the United

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States. As of the same date, 8,960,362 of our ADSs, representing 17,920,724 common shares, or 30.8% of our outstanding shares, were held by a total of two registered holders of record with addresses in the United States. Since certain of these common shares and ADSs were held by brokers or other nominees, the number of record holders in the U.S. may not be representative of the number of beneficial holders or their country of residence.

In April 2006, entities affiliated with DCM, Rick Yan, Michael Lei Feng and Norman Lui, and Kathleen Chien entered into a share purchase agreement with Recruit. Under the terms and conditions of the share purchase agreement, Recruit completed a purchase of 8,452,918 common shares, which represented approximately 15% of our outstanding common shares as of December 31, 2005, from these shareholders in April 2006. The share purchase agreement also provides for an option that would allow Recruit to purchase up to an additional 14,862,313 common shares from these shareholders over a three-year period beginning in April 2006 and result in Recruit owing approximately 40% of our fully diluted common shares outstanding as of December 31, 2005. In addition, under the share purchase agreement, each of these selling shareholders has agreed that it will use its commercially reasonable best efforts in cooperating with Recruit to have a representative of Recruit nominated to stand for election to our board of directors and that it will vote all of its shares in favor of the election of such nominee to our board of directors at any annual or extraordinary general meetings of our members at which such nominee may stand for election for the duration of the agreement. Recruit has agreed not to sell or otherwise transfer an interest in any of the shares it has purchased under the agreement for one year following the date of such purchase.

B. Related Party Transactions

Stock Option Grants

We have granted options to purchase common shares in our company to certain of our employees, directors and officers under our 2000 stock option plan. As of December 31, 2005, there were outstanding options to purchase an aggregate of 2,557,974 common shares in our company. For a description of our 2000 stock option plan and these option grants, see Item 6. Directors, Senior Management and Employees Compensation Stock-Based Compensation Plans.

Loans and Advances

In 2000, Rick Yan, a director and chief executive officer of our company, made a loan to us in the principal amount of RMB3,476,214 for working capital purposes. In 2003, we recorded an additional loan from Mr. Yan in the principal amount of RMB887,550 for working capital purposes. These loans were unsecured, non-interest bearing and had no definite maturity. These loans were paid in full in 2004.

In 2003, we recorded RMB333,882 as loans made to us to account for the exercise price of certain options exercised by Kathleen Chien, our chief financial officer, and David K. Chao, one of our directors. Because the shares underlying the exercised options were not vested at the time of the exercise, the exercise price paid by Ms. Chien and Mr. Chao to us was recognized as a liability, and the exercised shares were not considered issued for accounting purposes. This liability item will be re-characterized as share capital upon vesting of the shares. The amount attributable to Ms. Chien in connection with this item was RMB248,301. The amount attributable to Mr. Chao in connection with this item was RMB85,582.

In 2004, we recorded RMB1,907,276 as loans made to us to account for the exercise price of certain options by Kathleen Chien. Because the shares underlying the exercised options were not vested at the time of exercise, the exercise price paid by Ms. Chien to us was recognized as a liability, and the shares were not considered issued for accounting purposes. This liability item will be re-characterized as share capital upon vesting of the shares.

In 2005, Michael Lei Feng, an executive of our company, made an advance to us in the principal amount of RMB500,000 in connection with increasing the registered capital of one of our variable interest entities. This advance was repaid in full as of March 31, 2006.

Business Alliance with Recruit

In April 2006, we formed a business alliance with Recruit, a privately held human resource services company in Japan, to collaborate on the development of our human resource products and services in China. Under the terms of our business alliance agreement, we have also established an internal corporate planning group with Recruit to explore potential business opportunities outside of the human resource services industry in China although to date we have not begun to offer any such products.

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In a separate transaction in April 2006, entities affiliated with DCM, Rick Yan, Michael Lei Feng and Norman Lui, and Kathleen Chien entered into a share purchase agreement with Recruit. Under the terms and conditions of the share purchase agreement, Recruit completed a purchase of 8,452,918 common shares from these shareholders in April 2006. The share purchase agreement also provides for an option that would allow Recruit to purchase up to an additional 14,862,313 common shares from these selling shareholders. As of April 30, 2006, Recruit owned 8,462,916 common shares of our company.

Transactions Among Our Subsidiaries and Affiliated Entities

For a description of transactions among our subsidiaries and affiliated entities, see Item 4. Information on the Company Organizational Structure Contractual Arrangements Among Our Group Entities.

C. Interests of Experts and Counsel

Not Applicable.

ITEM 8. FINANCIAL INFORMATION

A. Consolidated Statements and Other Financial Information

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

Legal Proceedings

Beginning in January 2005, several complaints were filed against us, and certain of our senior executive officers and directors, in the United States District Court for the Southern District of New York, following our announcement of anticipated financial results for the fourth quarter of 2004. The complaints seek unspecified damages on alleged violations of federal securities laws during the period from November 4, 2004 to January 14, 2005. The complaints allege violations of the federal securities laws through the issuance of false or misleading statements during the class period covered, including improperly recognizing third quarter advertising revenue and issuing misleading guidance on our fourth quarter results. In connection with these actions, we have engaged U.S. counsel to represent the defendants. On July 26, 2005, the Court consolidated the cases and appointed a lead plaintiff. On October 13, 2005, we and all defendants moved to dismiss the complaint. The motion to dismiss remains pending before the Court. We will continue to take all appropriate action in response to these lawsuits. We cannot predict the outcome of the case at this time and no provision has been made with respect to these lawsuits.

From time to time, we undertake legal action against entities that misappropriate the content of our *www.51job.com* website, including recruitment advertisements and the design of our website, our brands and trademarks, materials from our training courses and other proprietary intellectual property. Our intellectual property is subject to theft and other unauthorized use, and our ability to protect our intellectual property is limited. In addition, we may in the future be subject to claims that we have infringed the intellectual property rights of others. See Item 3. Key Information Risk Factors Risks Related to Our Business We may be exposed to infringement or misappropriation claims by third parties, which, if successful, could cause us to pay significant damage awards.

Dividend Policy

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

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

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B. Significant Changes

We have not experienced any significant changes since the date of our audited consolidated financial statements included in this annual report.

ITEM 9. THE OFFER AND LISTING

A. Offer and Listing Details

Our ADSs, each representing two of our common shares, have been trading on the Nasdaq National Market since September 29, 2004. Our ADSs are traded under the symbol JOBS.

The following table provides the high and low trading prices for our ADSs on the Nasdaq National Market for (1) the years ended December 31, 2004 and 2005, (2) each of the six most recent fiscal quarters and (3) each of the most recent six months.

	Sales price	
	High US$	**Low US$**
Annual highs and lows		
2004[(1)]	55.55	18.61
2005	53.50	9.71
Quarterly highs and lows		
Fourth quarter 2004	55.55	20.35
First quarter 2005	53.50	14.90
Second quarter 2005	21.22	12.21
Third quarter 2005	15.91	12.25
Fourth quarter 2005	15.60	9.71
First quarter 2006	19.49	14.40
Monthly highs and lows		
December 2005	15.60	13.16
January 2006	18.90	14.60
February 2006	19.49	15.90
March 2006	16.50	14.40
April 2006	25.60	15.50
May 2006	31.90	23.54
June 2006 (through June 26, 2006)	28.50	18.75

(1) Our ADSs commenced trading on September 29, 2004.

B. Plan of Distribution

Not Applicable.

C. Markets

Our ADSs, each representing two of our common shares, have been trading on the Nasdaq National Market since September 29, 2004 under the symbol JOBS.

D. Selling Shareholders

Not Applicable.

E. Dilution

Not Applicable.

F. Expenses of the Issue

Not Applicable.

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ITEM 10. ADDITIONAL INFORMATION

A. Share Capital

Not Applicable.

B. Memorandum and Articles of Association

We incorporate by reference into this annual report the description of our amended and restated memorandum and articles of association contained in our F-1 registration statement (File No. 333-117194) filed with the Commission on September 29, 2004. Our shareholders adopted our amended and restated memorandum and articles of association at an extraordinary shareholder meeting on April 26, 2004.

C. Material Contracts

Except for the agreement discussed below, we have not entered into any material contracts other than in the ordinary course of business and other than those described in Item 4. Information on the Company or elsewhere in this annual report on Form 20-F.

In April 2006, we formed a business alliance with Recruit, a privately held human resource services company in Japan, to collaborate on the development of our human resource products and services in China. Under the terms of our business alliance agreement, we have also established an internal corporate planning group with Recruit to explore potential business opportunities outside of the human resource services industry in China although to date we have not begun to offer any such products.

D. Exchange Controls

China s government imposes control over the convertibility of Renminbi into foreign currencies. Under the current unified floating exchange rate system, the People s Bank of China publishes a daily exchange rate for Renminbi, or the PBOC Exchange Rate, based on the previous day s dealings in the inter-bank foreign exchange market. Financial institutions authorized to deal in foreign currency may enter into foreign exchange transactions at exchange rates within an authorized range above or below the PBOC Exchange Rate according to market conditions.

Under the Foreign Exchange Control Regulations issued by the State Council on January 29, 1996 and effective as of April 1, 1996 (and amended on January 14, 1997) and the Administration of Settlement, Sale and Payment of Foreign Exchange Regulations which came into effect on July 1, 1996 regarding foreign exchange control, or the Regulations, conversion of Renminbi into foreign exchange by foreign investment enterprises for current account items, including the distribution of dividends to foreign investors of foreign investment enterprises and payments for licensing fees or services, is permissible. Foreign investment enterprises are permitted to remit foreign exchange from their foreign exchange bank account in China on the basis of, inter alia, the terms of the relevant joint venture contracts and the board resolutions declaring the distribution of the dividend and payment of profits. Conversion of Renminbi into foreign currencies and remittance of foreign currencies for capital account items, including direct investment, loans, security investment, is still subject to the approval of the State Administration of Foreign Exchange, or SAFE, in each such transaction. On January 14, 1997, the State Council amended the Foreign Exchange Control Regulations to provide, among other things, that the State shall not impose restrictions on recurring international payments and transfers.

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

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

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E. Taxation

Cayman Islands Taxation

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciation and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to our company levied by the Government of the Cayman Islands except for stamp duties that may be applicable on instruments executed in, or after execution brought within the jurisdiction of, the Cayman Islands. The Cayman Islands are not party to any double taxation treaties. There are no exchange control regulations or currency restrictions in the Cayman Islands.

United States Federal Income Taxation

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

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

dealers in securities or currencies;

financial institutions;

real estate investment trusts;

insurance companies;

tax-exempt organizations;

persons holding ADSs or common shares as part of a hedging, integrated or conversion transaction, constructive sale or straddle;

traders in securities that have elected the mark to market method of accounting;

persons liable for the alternative minimum tax;

a partnership or other pass-through entity for United Stated federal income tax purposes;

persons who own more than 10% of our voting shares; or

persons whose functional currency is not the U.S. dollar.

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

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

A U.S. Holder is a beneficial owner of ADSs or common shares that is a U.S. person. A U.S. person is a person who is, for U.S. federal income tax purposes:

an individual citizen or resident of the United States;

a corporation or other entity taxable as a corporation created or organized in or under the laws of the United States, any state thereof, or the District of Columbia;

an estate the income of which is subject to U.S. federal income taxation, regardless of its source; or

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

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

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ADSs

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

Distributions on ADSs or common shares

Subject to the discussion under Passive foreign investment company rules below, the gross amount of the distributions on the ADSs or common shares will be taxable to a U.S. Holder as dividends to the extent of our current or accumulated earnings and profits, as determined under U.S. federal income tax principles. Such income will be includable in a U.S. Holder s gross income as ordinary income on the day actually or constructively received by a U.S. Holder, in the case of common shares, or by the depositary, in the case of ADSs. Subject to certain limitations, dividends paid to non-corporate U.S. Holders, including individuals, will be eligible for a reduced rate of taxation if we are deemed to be a qualified foreign corporation for U.S. federal income tax purposes. A qualified foreign corporation includes:

a foreign corporation that is eligible for the benefits of a comprehensive income tax treaty with the United States that includes an exchange of information program; and

a foreign corporation if its stock with respect to which a dividend is paid or its ADSs backed by such stock are readily tradable on an established securities market within the United States,

but does not include an otherwise qualified corporation that is a passive foreign investment company. We believe that we will be a qualified foreign corporation for so long as (1) we are not a passive foreign investment company and (2) the ADSs are listed on the Nasdaq National Market or a national securities exchange in the United States, and thus are considered to be readily tradable on an established securities market. However, our status as a qualified foreign corporation may change.

Dividends paid on the ADSs or common shares will be treated as income from sources outside the United States generally will constitute passive income for U.S. foreign tax credit limitation purposes.

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

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

Sale, exchange or other disposition of ADSs or common shares

Subject to the discussion under Passive foreign investment company rules below, upon the sale, exchange or other disposition of ADSs or common shares, a U.S. Holder generally will recognize capital gain or loss equal to the difference between the amount realized upon the sale, exchange or other disposition and the adjusted tax basis of the U.S. Holder in the ADSs or common shares. A U.S. Holder s tax basis in an ADS or a common share will be, in general, the price it paid for that ADS or common share. The capital gain or loss generally will be long-term capital gain or loss if, at the time of sale, exchange or other disposition, the U.S. Holder has held the ADS or common share for more than one year. Net long-term capital gains of non-corporate U.S. Holders, including individuals, are eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations. Any gain or loss that a U.S. Holder recognizes generally will be treated as gain or loss from sources within the United States for U.S. foreign tax credit limitation purposes.

Passive foreign investment company rules

We believe that we were not a passive foreign investment company for 2005 and based on the projected composition of our income and valuation of our assets, we do not expect to be a passive foreign investment company for 2006. In addition, we do not expect to become one in the future, although this may change. The determination of whether we are a passive foreign investment company will be made on an annual basis and will depend on the composition of our income and assets, including goodwill. The calculation of goodwill will be based, in part, on the market value of our

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ADSs from time to time, which may be volatile. For a discussion of the risks related to the possible tax effects should we be considered a passive foreign investment company, see Item 3. Key Information Risk Factors Risks Related to Our Business We may become a passive foreign investment company, which could result in adverse U.S. tax consequences to U.S. investors.

In general, we will be deemed to be a passive foreign investment company for any taxable year in which either (1) at least 75% of our gross income is passive income or (2) at least 50% of the value (determined on the basis of a quarterly average) of our assets is attributable to assets that produce or are held for the production of passive income. For this purpose, passive income generally includes dividends, interest, royalties, rents (other than rents and royalties derived in the active conduct of a trade or business and not derived from a related person), annuities and gains from assets that produce passive income. If we own at least 25% by value of the equity shares of another corporation, we will be treated for purposes of the passive foreign investment company tests as owning a proportionate share of the assets of the other corporation, and as receiving directly a proportionate share of the other corporation s income.

If we are a passive foreign investment company for any taxable year during which a U.S. Holder has an equity interest in our company, unless the U.S. Holder makes a mark-to-market election or a qualified electing fund election, as discussed below, such U.S. Holder will be subject to the following special tax rules.

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

In certain circumstances, instead of being subject to the excess distribution rules discussed above, a U.S. Holder may make an election to include gain on the ADSs or common shares of a passive foreign investment company as ordinary income under a mark-to-market method, provided that the ADSs or equity shares are regularly traded on a qualified exchange. Under current law, the mark-to-market election is only available for ADSs or common shares that are regularly traded within the meaning of U.S. Treasury regulations on certain designated U.S. exchanges and foreign exchanges that meet trading, listing, financial disclosure and other requirements to be treated as a qualified exchange under applicable U.S. Treasury regulations. The Nasdaq National Market is a qualified exchange.

If a U.S. Holder makes an effective mark-to-market election, the U.S. Holder will include each year as ordinary income, rather than capital gain, the excess, if any, of the fair market value of the U.S. Holder s ADSs or common shares at the end of the taxable year over such U.S. Holder s adjusted basis in the ADSs or common shares, and will be permitted an ordinary loss in respect of the excess, if any, of the adjusted basis of these ADSs or common shares over their fair market value at the end of the taxable year, but only to the extent of the net amount previously included in income as a result of the mark-to-market election. A U.S. Holder s basis in the ADSs or common shares will be adjusted to reflect any such income or loss amounts. Any gain or loss on the sale of the ADSs or common shares will be ordinary income or loss, except that this loss will be ordinary loss only to the extent of the previously included net mark-to-market gain.

Instead of being subject to the excess distribution rules discussed above, a U.S. holder of shares in a passive foreign investment company alternatively may elect to have the company treated as a qualified electing fund, provided that the company provides certain information to make such an election effective. This option will not be available to U.S. Holders because we do not intend to provide such information to U.S. Holders.

If a U.S. Holder owns ADSs or common shares during any year that we are a passive foreign investment company, the U.S. Holder must file Internal Revenue Service Form 8621.

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

Information reporting and backup withholding

In general, unless a U.S. Holder belongs to a category of certain exempt recipients (such as corporations), information reporting requirements will apply to distributions on ADSs or common shares made within the United States

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and to the proceeds of sales of ADSs or common shares that are effected through the U.S. office of a broker or the non-U.S. office of a broker that has certain connections with the United States. Backup withholding may apply to these payments if a U.S. Holder fails to provide a correct taxpayer identification number or certification of exempt status, fails to report in full dividend and interest income or, in certain circumstances, fails to comply with applicable certification requirements.

Any amounts withheld under the backup withholding rules will be allowed as a refund or a credit against a U.S. Holder s U.S. federal income tax, provided the U.S. Holder furnishes the required information to the Internal Revenue Service in a timely manner.

Enforceability of Civil Liabilities

We are an exempted limited liability company incorporated under the laws of the Cayman Islands. We are incorporated in the Cayman Islands because of certain benefits associated with being a Cayman Islands corporation, such as political and economic stability, an effective judicial system, a favorable tax system, the absence of exchange control or currency restrictions and the availability of professional and support services. However, the Cayman Islands has a less developed body of securities laws as compared to the United States and provides protections for investors to a significantly lesser extent. In addition, Cayman Islands companies may not have standing to sue before the federal courts of the United States.

A substantial majority of our assets are located outside the United States. In addition, a majority of our directors and officers are nationals and/or residents of countries other than the United States, and all or a substantial portion of our or such persons assets are located outside the United States. As a result, it may be difficult for investors to effect service of process within the United States upon us or such persons or to enforce against them or against us, judgments obtained in United States courts, including judgments predicated upon the civil liability provisions of the securities laws of the United States or any state thereof.

We have appointed National Registered Agents, Inc. at 875 Avenue of the Americas, Suite 501, New York, New York 10001, as our agent to receive service of process with respect to any action brought against us in the United States District Court for the Southern District of New York under the federal securities laws of the United States or of any State of the United States or any action brought against us in the Supreme Court of the State of New York in the County of New York under the securities laws of the State of New York.

Maples and Calder, our counsel as to Cayman Islands law and Jun He Law Offices, our counsel as to PRC law, have advised us that there is uncertainty as to whether the courts of the Cayman Islands and the PRC, respectively, would (1) recognize or enforce judgments of United States courts obtained against us or our directors or officers predicated upon the civil liability provisions of the securities laws of the United States or any state thereof, or (2) entertain original actions brought in each respective jurisdiction, against us or our directors or officers predicated upon the securities laws of the United States or any state thereof.

Maples and Calder has further advised us that a final and conclusive judgment in federal or state courts of the United States under which a sum of money is payable, other than a sum payable in respect of taxes, fines, penalties or similar charges, may be subject to enforcement proceedings as a debt in the Courts of the Cayman Islands under the common law doctrine of obligation.

Jun He Law Offices has advised us further that the recognition and enforcement of foreign judgments are provided for under the PRC Civil Procedure Law. PRC courts may recognize and enforce foreign judgments in accordance with the requirements of the PRC Civil Procedure Law based either on treaties between the PRC and the country where the judgment is made or in reciprocity between jurisdictions.

F. Dividends and Paying Agents

Not Applicable.

G. Statements by Experts

Not Applicable.

H. Documents on Display

We have previously filed with the Commission our registration statement on Form F-1 and prospectus under the Securities Act of 1933, as amended, with respect to our ADSs.

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We are subject to the periodic reporting and other informational requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Under the Exchange Act, we are required to file reports and other information with the Securities and Exchange Commission. Specifically, we are required to file annually a Form 20-F no later than six months after the close of each fiscal year, which is December 31. Copies of reports and other information, when so filed, may be inspected without charge and may be obtained at prescribed rates at the public reference facilities maintained by the Securities and Exchange Commission at Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549. You can request copies of these documents upon payment of a duplicating fee, by writing to the SEC. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference rooms. The SEC also maintains a website at *www.sec.gov* that contains reports, proxy and information statements, and other information regarding registrants that make electronic filings with the SEC using its EDGAR system. As a foreign private issuer, we are exempt from the rules under the Exchange Act prescribing the furnishing and content of quarterly reports and proxy statements, and officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act.

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

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

I. Subsidiary Information

Not Applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest rate risk

Our exposure to interest rate risk for changes in interest rates relates primarily to the interest income generated by excess cash deposited in banks. As of December 31, 2005, we had cash and cash equivalents of RMB830.6 million (US$102.9 million). Cash and cash equivalents consist of cash on hand and in banks.

The carrying amounts of cash and cash equivalents, accounts receivable and other receivables represent our principal exposure to credit risk in relation to our financial assets. As of December 31, 2005, approximately 30% of our cash and cash equivalents were held in uninsured accounts at major financial institutions located in the United States and the remainder in uninsured accounts located in China and Hong Kong that we believe are of acceptable credit quality. We have not used any derivative financial instruments to hedge interest rate risk. We have not been exposed nor do we anticipate being exposed to material risks due to changes in interest rates, although our future interest income may fluctuate in line with changes in interest rates. The risk associated with fluctuating interest rates is principally confined to our cash deposits in banks, and, therefore, our exposure to interest rate risk is minimal.

Foreign exchange risk

Substantially all of our revenue generating operations are transacted in the Renminbi, which is not fully convertible into foreign currencies, and a significant portion of our liabilities are denominated in Renminbi. As a result, the conversion of our revenues is subject to PRC regulatory restrictions on currency conversion and we are exposed to risks posed by fluctuations in the foreign exchange market. The value of the Renminbi against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in the PRC s political and economic conditions. On July 21, 2005, the PRC government changed its policy of pegging the value of the Renminbi to the U.S. dollar. Under the new policy, the Renminbi is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy initially resulted in an approximately 2.5% appreciation in the value of the Renminbi against the U.S. dollar as of December 31, 2005, which resulted in a loss from foreign currency translation of RMB11.3 million (US$1.4 million) for us in 2005. As a portion of our assets are denominated in U.S. dollars, future upward revaluations of the Renminbi could result in charges to our income statement and reductions in the value of these assets. In addition, as we rely entirely on dividends, royalty payments and other fees paid to us in Renminbi by our subsidiaries and affiliated entities in the PRC, future downward revaluations of the Renminbi may materially and adversely affect our cash flows, revenues and financial condition, and the value of, and any dividends payable on, our ADSs in foreign currency terms.

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We have not used any forward contracts or currency borrowings to hedge our exposure to foreign currency risk.

See Item 3. Key Information Risk Factors Risks Related to the People s Republic of China The fluctuation of the Renminbi may materially and adversely affect your investment.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not Applicable.

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PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

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

Use of Proceeds

The following information regarding the use of proceeds relates to the registration statement on Form F-1 (File No. 333-117194) for our initial public offering and sale of 6,037,500 American depositary shares, or ADSs, each representing two of our common shares, for an aggregate offering price of US$84,525,000. Our registration statement was declared effective by the Commission on September 28, 2004.

We received net proceeds of approximately US$76.8 million from our initial public offering (after deducting underwriting discounts and other expenses related to the offering). We have utilized a portion of the net proceeds from our initial public offering to fund capital expenditures and our repurchases of ADSs in the open market. The remaining net proceeds are currently held in interest bearing bank deposits. None of the net proceeds from the initial public offering were paid, directly or indirectly, to any of our directors or officers of our company or their associates, persons owning 10% or more of our equity securities or our affiliates.

Morgan Stanley & Co. International Limited, UBS Securities LLC, Piper Jaffray & Co. and CLSA Limited were the underwriters for our initial public offering.

ITEM 15. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this annual report, our principal executive officer and principal financial officer have evaluated the effectiveness of our disclosure controls and procedures, as that term is defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Based on this evaluation, they have concluded that, as of the end of the period covered by this annual report, our disclosure controls and procedures were effective in ensuring that the material information required to be disclosed by us in the report that we file and furnish under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the Securities and Exchange Commission s rules and regulations.

However, in the course of its audit of our 2005 financial statements, our independent auditors have identified several areas of our internal controls relating to financial reporting matters that require improvement, including risk management, personnel and process supervision, formal documentation of internal controls and processes, and improvement of controls and access to computer systems and servers. We are committed to taking appropriate steps to make these improvements as soon as practicable. In addition, we are in the process of implementing modifications to our internal controls to comply with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002. Our board of directors and the audit committee have been advised of these matters and are monitoring our progress to make the required improvements.

Changes in Internal Controls

There were no significant changes in our internal controls over financial reporting or in other factors during the period that has materially affected, or is likely to materially affect, these controls other than the steps we have taken to remedy the material weakness in internal control over financial reporting previously reported in our annual report on Form 20-F for the fiscal year ended December 31, 2004. As described in that report, in January 2005 we discovered a clerical error related to certain accounting processes in which manual adjustments duplicated automated entries, which we concluded was the result of a material weakness in internal control. Following this discovery, we increased the level of supervision over accounting processes, reinforced existing controls and improved interdepartmental communications and documentation.

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ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Our board of directors has concluded that Mr. Donald L. Lucas, an independent director, meets the criteria for an audit committee financial expert as established by the U.S. Securities and Exchange Commission. See Item 6. Directors, Senior Management and Employees Board Practices.

ITEM 16B. CODE OF ETHICS

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

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Audit Fees

PricewaterhouseCoopers Zhong Tian CPAs Ltd. Co., or PwC, were our independent auditors for the years ended December 31, 2004 and 2005. Audit fees relate to aggregate fees billed for professional services rendered by PwC for the audit of our annual financial statements and the review of our quarterly financial results. We paid PwC audit fees of RMB3,790,040 in 2004 and RMB3,080,932 (US$381,766) in 2005.

Audit Related Fees

Audit-related fees are aggregate fees billed for assurance and related services rendered by PwC that were reasonably related to the performance of the audit or review of our financial statements and are not reported under the caption Audit Fees above. In 2004, we paid RMB2,470,262 in audit-related fees to PwC for review work in connection with registration documents. We did not pay any audit related fees to PwC in 2005.

Tax Fees

In 2004, we paid RMB9,960 (US$1,203) to PwC for tax advice services. We did not pay any tax fees to PwC in 2005.

All Other Fees

We did not purchase any other services from PwC in 2004 or 2005.

Pre-Approved Policies and Procedures

Our audit committee pre-approves audit engagement terms and fees prior to the commencement of any audit work, other than that which may be necessary for the independent auditors to prepare the proposed audit approach, scope and fee estimates. The independent auditors annually submit to us a written proposal that details all audit and audit related services. Audit fees are fixed and contained in the proposal, and the audit committee reviews the nature and dollar value of services to be provided under such proposal. Any revisions to such proposal after the engagement has begun are reviewed and pre-approved by the audit committee.

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

We are in compliance with applicable listing standards for the audit committee of our board of directors.

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

The following table sets forth certain information related to purchases made by us of our ADSs in 2005:

Period	Total number of ADSs purchased	Average price paid per share		Approximate dollar value of ADSs that may yet be purchased under the program	
		US$	RMB[(1)]	US$	RMB[(1)]
January 2005					
February 2005					
March 2005					
April 2005					
May 2005					
June 2005					
July 2005					
August 2005	201,905	14.00	112.98	22,173,000	178,941,000
September 2005	30,000	14.21	114.68	21,746,000	175,495,000
October 2005				21,746,000	175,495,000
November 2005	280,500	13.24	106.85	18,032,000	145,522,000
December 2005	174,033	13.62	109.92	15,661,000	126,387,000

(1) Translations from U.S. dollars to Renminbi were made at the noon buying rate in The City of New York for cable transfers of Renminbi as certified for customs purposes by the Federal Reserve Bank of New York. The translations of U.S. dollar amounts into Renminbi amounts have been made at the noon buying rate in effect on December 30, 2005, which was US$1.00 to

RMB8.0702.

All ADSs purchased in 2005 were under a stock repurchase program which was approved by our shareholders in May 2005. Under the program, we are authorized to purchase up to US$25 million worth of outstanding ADSs. The program expired on May 26, 2006.

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PART III

ITEM 17. FINANCIAL STATEMENTS

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

ITEM 18. FINANCIAL STATEMENTS

The consolidated financial statements for 51job, Inc. and its subsidiaries are included at the end of this annual report.

ITEM 19. EXHIBIT INDEX

Exhibits	Description
1.1	Amended and Restated Memorandum and Articles of Association. (Incorporated by reference to Exhibit 3.1 from our Registration Statement on Form F-1 (File No. 333-117194) filed with the Securities and Exchange Commission on July 7, 2004)
2.1	Specimen of Share Certificate. (Incorporated by reference to Exhibit 4.1 from our Registration Statement on Form F-1 (File No. 333-117194) filed with the Securities and Exchange Commission on July 7, 2004)
2.2	Specimen of American Depositary Receipt. (Incorporated by reference to Exhibit 4.2 from our Registration Statement on Form F-1 (File No. 333-117194) filed with the Securities and Exchange Commission on August 2, 2004)
2.3	Form of Deposit Agreement among 51job, Inc., JPMorgan Chase Bank, as Depositary, and Holders and Beneficial Holders from time to time of American Depositary Shares evidenced by American Depositary Receipts issued thereunder, including the form of American Depositary Receipt. (Incorporated by reference to the Registration Statement on Form F-6 (File No. 333-117254) filed with the Securities and Exchange Commission with respect to American Depositary Shares representing common shares on July 9, 2004)
4.1	2000 Stock Option Plan. (Incorporated by reference to Exhibit 10.1 from our Registration Statement on Form F-1 (File No. 333-117194) filed with the Securities and Exchange Commission on July 7, 2004)
4.2	Form of Employment, Confidential Information and Invention Assignment Agreement. (Incorporated by reference to Exhibit 10.2 from our Registration Statement on Form F-1 (File No. 333-117194) filed with the Securities and Exchange Commission on July 7, 2004)
4.3	Form of Indemnification Agreement. (Incorporated by reference to Exhibit 10.3 from our Registration Statement on Form F-1 (File No. 333-117194) filed with the Securities and Exchange Commission on July 7, 2004)
4.4*	Lease Agreements between Shanghai Qianjin Culture Communication Co., Ltd. (name changed to Shanghai Qianjin Advertising Co., Ltd. in November 2005) and (1) Shanghai Wailao Property Management Service Co., Ltd. (dated as of November 21, 2003); and (2) Shanghai Xiesheng Industry Co., Ltd. (dated as of June 3, 2003)
4.5*	Lease Agreement dated as of March 11, 2005, as amended as of July 2005, between Shanghai Qianjin Culture Communication Co., Ltd. (name changed to Shanghai Qianjin Advertising Co., Ltd. in November 2005) and Zhang Ling

4.6*	Lease Agreements dated as of February 21, 2005 between Qianjin Network Information Technology (Shanghai) Co., Ltd. and Shanghai Golden Union Real Estate Management Co., Ltd.
4.7*	Summary of the Shanghai Commercial Building Advance Sale Contracts dated as of December 31, 2005 between Shanghai Zhangjiang Ji Cheng Dian Lu Industrial Area Development Co., Ltd. and entities of 51job, Inc.
4.8	Form of Investor Rights Agreement. (Incorporated by reference to Exhibit 10.5 from our Registration Statement on Form F-1 (File No. 333-117194) filed with the Securities and Exchange Commission on July 7, 2004)

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Exhibits	Description
4.9	Technical and Consulting Service Agreement dated as of May 3, 2004, as amended as of July 2, 2004, between Shanghai Run An Lian Information Consultancy Co., Ltd. and Qian Cheng Wu You Network Information Technology (Beijing) Co., Ltd. (Incorporated by reference to Exhibit 10.7 from our Registration Statement on Form F-1 (File No. 333-117194) filed with the Securities and Exchange Commission on July 7, 2004)
4.10	Technical and Consulting Service Agreement dated as of May 3, 2004, as amended as of July 2, 2004, between Beijing Qian Cheng Si Jin Advertising Co., Ltd. and Qian Cheng Wu You Network Information Technology (Beijing) Co., Ltd. (Incorporated by reference to Exhibit 10.8 from our Registration Statement on Form F-1 (File No. 333-117194) filed with the Securities and Exchange Commission on July 7, 2004)
4.11	Equity Pledge Agreement dated as of May 3, 2004 among Michael Lei Feng, Tao Wang and Qian Cheng Wu You Network Information Technology (Beijing) Co., Ltd. (Incorporated by reference to Exhibit 10.9 from our Registration Statement on Form F-1 (File No. 333-117194) filed with the Securities and Exchange Commission on July 7, 2004)
4.12	Equity Pledge Agreement dated as of May 3, 2004 among Michael Lei Feng, Beijing Run An Information Consultancy Co., Ltd. and Qian Cheng Wu You Network Information Technology (Beijing) Co., Ltd. (Incorporated by reference to Exhibit 10.10 from our Registration Statement on Form F-1 (File No. 333-117194) filed with the Securities and Exchange Commission on July 7, 2004)
4.13	Cooperation Agreement dated as of May 3, 2004 between Shanghai Run An Lian Information Consultancy Co., Ltd. and Qianjin Network Information Technology (Shanghai) Co., Ltd. (Incorporated by reference to Exhibit 10.11 from our Registration Statement on Form F-1 (File No. 333-117194) filed with the Securities and Exchange Commission on July 7, 2004)
4.14*	Amendment Notice to the Cooperation Agreement dated as of April 1, 2006 between Shanghai Run An Lian Information Consultancy Co., Ltd. and Qianjin Network Information Technology (Shanghai) Co., Ltd.
4.15	Domain Name License Agreement dated as of May 3, 2004 between Shanghai Run An Lian Information Consultancy Co., Ltd. and 51net.com Inc. (Incorporated by reference to Exhibit 10.12 from our Registration Statement on Form F-1 (File No. 333-117194) filed with the Securities and Exchange Commission on July 7, 2004)
4.16	Call Option Agreement dated as of August 1, 2002, as supplemented and amended as of May 3, 2004, between Beijing Qian Cheng Si Jin Advertising Co., Ltd. and 51net.com Inc. (Incorporated by reference to Exhibit 10.13 from our Registration Statement on Form F-1 (File No. 333-117194) filed with the Securities and Exchange Commission on July 7, 2004)
4.17	Share Transfer Agreement dated as of April 5, 2004 among Wuhan Mei Hao Qian Cheng Advertising Co., Ltd., 51net.com Inc. and Beijing Qian Cheng Si Jin Advertising Co., Ltd. (Incorporated by reference to Exhibit 10.14 from our Registration Statement on Form F-1 (File No. 333-117194) filed with the Securities and Exchange Commission on July 7, 2004)

4.18*	Business Alliance Agreement dated as of April 5, 2006 between 51job, Inc. and Recruit Co., Ltd.
8.1*	List of subsidiaries of 51job, Inc.
11.1	Code of Business Conduct and Ethics. (Incorporated by reference to Exhibit 10.6 from our Registration Statement on Form F-1 (File No. 333-117194) filed with the Securities and Exchange Commission on July 7, 2004)
12.1*	CEO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
12.2*	CFO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
13.1*	CEO Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
13.2*	CFO Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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

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SIGNATURES

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

51job, Inc.

By: /s/ Rick Yan

Name: Rick Yan
Title: President and Chief Executive Officer

Date: June 29, 2006

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51JOB, INC.
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF
51JOB, INC.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations and comprehensive income, of changes in shareholders equity and of cash flows expressed in Renminbi present fairly, in all material respects, the financial position of 51job, Inc. (the Company) and its subsidiaries as of December 31, 2004 and 2005, and the results of their operations and their cash flows for each of the three years ended December 31, 2005 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the related Financial Statement Schedule I presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These consolidated financial statements and Financial Statement Schedule I are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements and Financial Statement Schedule I based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers Zhong Tian CPAs Ltd. Co.
Shanghai, People s Republic of China
June 26, 2006

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51JOB, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2003, 2004 AND 2005

	Note	2003	2004	2005	2005
		RMB	RMB	RMB	US$ (Note 2(c))
Revenues:					
Print advertising		182,606,297	300,651,791	356,284,649	44,148,181
Online recruitment services		76,960,121	111,508,533	159,494,922	19,763,441
Executive search		15,748,331	24,907,914	26,306,740	3,259,738
Other human resource related revenues		18,019,611	42,875,597	53,507,789	6,630,293
Total revenues		293,334,360	479,943,835	595,594,100	73,801,653
Less: Business and related taxes		(13,215,419)	(23,823,953)	(33,567,880)	(4,159,485)
Net revenues		280,118,941	456,119,882	562,026,220	69,642,168
Cost of services		(151,477,142)	(224,606,635)	(269,328,384)	(33,373,198)
Gross profit		128,641,799	231,513,247	292,697,836	36,268,970
Operating expenses:					
Sales and marketing		(38,619,523)	(67,271,096)	(113,656,714)	(14,083,507)
General and administrative		(38,135,612)	(55,175,493)	(88,978,985)	(11,025,623)
Share-based compensation share option (1)		(13,482,546)	(18,678,238)	(13,073,480)	(1,619,970)
Share-based compensation founder shares (2)		(4,622,466)			
Total operating expenses		(94,860,147)	(141,124,827)	(215,709,179)	(26,729,100)
Income from operations		33,781,652	90,388,420	76,988,657	9,539,870
Loss from foreign currency translation		(3,456)	(2,158)	(11,320,194)	(1,402,715)
Interest and investment income		930,288	2,846,422	20,385,151	2,525,978
Other income		1,083,790	1,968,532	5,313,723	658,437
Income before provision for income tax		35,792,274	95,201,216	91,367,337	11,321,570
Income tax expense	8	(3,192,011)	(34,058,184)	(29,945,033)	(3,710,569)
Net income for the year		32,600,263	61,143,032	61,422,304	7,611,001

Amount allocated to participating preference shareholders	14	(10,615,466)	(13,986,417)		
Income attributable for common shareholders		21,984,797	47,156,615	61,422,304	7,611,001
Other comprehensive income:					
Currency translation adjustments		76,964	236,144	387,496	48,016
Unrealized loss for investment		(279,532)	(299,451)	(204,011)	(25,280)
Comprehensive income		32,397,695	61,079,725	61,605,789	7,633,737
Earnings per share:	14				
Basic		0.83	1.32	1.10	0.14
Diluted		0.75	1.26	1.07	0.13
Earnings per ADS (3) Basic		1.65	2.65	2.21	0.27
Diluted		1.50	2.52	2.15	0.27
Weighted average number of shares outstanding:					
Basic		26,594,228	35,593,374	55,607,716	55,607,716
Diluted		29,323,325	37,483,019	57,254,454	57,254,454
(1) Share-based compensation share options:					
Included in cost of services		596,551	1,811,496	1,479,841	183,371
Included in operating expenses					
Sales and marketing		423,221	1,757,722	1,438,083	178,197
General and administrative		13,059,325	16,920,516	11,635,397	1,441,773

(2) All share-based compensation founder shares is a component of general and administrative expense.

(3) Each ADS represents two common shares.

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

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51JOB, INC.
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2004 AND 2005

	Note	2004 RMB	2005 RMB	2005 US$ (Note 2(c))
ASSETS				
Current assets:				
Cash		848,292,672	830,633,550	102,926,018
Short-term investments	2(f)		10,554,529	1,307,840
Accounts receivable (net of allowance for doubtful accounts of RMB3,689,222 and RMB2,860,275 as of December 31, 2004 and 2005, respectively)	3	23,252,468	22,222,865	2,753,694
Prepayments and other current assets	4	14,675,948	23,265,437	2,882,882
Deferred tax assets, current	8	7,426,098	5,867,820	727,097
Total current assets		893,647,186	892,544,201	110,597,531
Investments	2(f)	10,495,490		
Property and equipment	5	22,534,875	32,357,875	4,009,551
Intangible assets	6	6,126,749	11,380,835	1,410,230
Other long-term assets		4,201,919	26,724,335	3,311,484
Deferred tax assets, non-current	8	376,122	412,314	51,091
Total non-current assets		43,735,155	70,875,359	8,782,356
Total assets		937,382,341	963,419,560	119,379,887
LIABILITIES AND SHAREHOLDERS EQUITY				
Current liabilities:				
Accounts payable		9,820,033	7,358,046	911,755
Due to related parties	13	1,577,873	1,505,515	186,552
Salary and employee related accrual		11,698,665	19,339,789	2,396,445
Taxes payable		30,586,768	23,201,967	2,875,017
Advance from customers		17,777,757	40,619,516	5,033,273
Other payables and accruals	7	13,933,686	17,515,264	2,170,363
Deferred tax liabilities, current	8	169,237		
Total current liabilities		85,564,019	109,540,097	13,573,405

Total liabilities		85,564,019	109,540,097	13,573,405
Commitments and contingencies	15			
Shareholders equity:				
Common shares (US$0.0001 par value; 500,000,000 shares authorized, 55,616,679 and 54,876,079 shares issued and outstanding as of December 31, 2004 and 2005, respectively)	9	46,044	45,451	5,632
Additional paid-in capital		869,125,807	848,423,068	105,130,365
Deferred share-based compensation	11	(40,154,027)	(23,141,471)	(2,867,521)
Statutory reserves		16,756,461	3,680,707	456,086
Other comprehensive loss		(501,659)	(318,174)	(39,426)
Retained earnings		6,545,696	25,189,882	3,121,346
Total shareholders equity		851,818,322	853,879,463	105,806,482
Total liabilities and shareholders equity		937,382,341	963,419,560	119,379,887

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

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51JOB, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2003, 2004 AND 2005

mon shares ber ares	Par value RMB	Series A Preference Shares Number of shares	Par value RMB	Additional paid-in capital common shares RMB	Additional paid-in capital preference shares RMB	Deferred share-based compensation founder shares RMB	Deferred share-based compensation common shares RMB	Statutory reserves RMB	Other comprehensive income RMB	Re ear Accu de
,781	23,427	13,678,466	11,332	36,504,160	116,364,516	(4,622,466)		871,270	(235,783)	(71,
						4,622,466				
				60,417,377			(46,338,280)			
,334	389			580,860						
								8,599,128		(8,
									(202,568)	32,
,115	23,816	13,678,466	11,332	97,502,397	116,364,516		(46,338,280)	9,470,398	(438,351)	(47,
,098	588			2,190,264						
		380,000	314		3,276,142					
,466	11,646	(14,058,466)	(11,646)	119,640,658	(119,640,658)					
,000	9,994			635,487,007						
				14,305,481			6,184,253			

				7,286,063		(7,
					(63,308)	61,
6,679	46,044	869,125,807	(40,154,027)	16,756,461	(501,659)	6,
2,276	510	1,545,518				
		(2,459,235)	17,012,556			
				(13,075,754)		13,
2,876)	(1,103)	(19,789,022)				(55,
					183,485	61,
6,079	45,451	848,423,068	(23,141,471)	3,680,707	(318,174)	25,
6,079	5,632	105,130,365	(2,867,521)	456,086	(39,426)	3,

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

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51JOB, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2003, 2004 AND 2005

	Note	2003 RMB	2004 RMB	2005 RMB	2005 US$ (Note 2(c))
Cash flows from operating activities:					
Net income for the year		32,600,263	61,143,032	61,422,304	7,611,001
Adjustments for:					
Share-based compensation		18,701,563	20,489,734	14,553,321	1,803,341
Depreciation		4,677,763	7,235,708	13,070,492	1,619,600
Amortization of intangible assets		3,230,360	3,383,828	3,234,693	400,819
Loss due to disposal of fixed assets			85,717	259,064	32,101
Loss from foreign currency translation				11,320,193	1,402,715
(Increase) Decrease in accounts receivable		(12,441,388)	(5,833,220)	1,029,603	127,581
Increase in prepayments and other current assets		(4,882,969)	(6,018,815)	(8,589,489)	(1,064,346)
(Increase) Decrease in deferred tax assets		(2,344,088)	(3,238,432)	1,522,086	188,606
Increase (Decrease) in accounts payable		3,599,055	(1,320,004)	(2,461,987)	(305,071)
Increase (Decrease) in due to related parties		2,275,186	(4,926,900)	(72,358)	(8,966)
Increase in salary and employee related accrual		869,958	2,234,180	7,641,124	946,832
Increase (Decrease) in deferred tax liabilities		2,305,435	(2,168,278)	(169,237)	(20,971)
Increase (Decrease) in taxes payable		3,725,353	24,550,704	(7,384,801)	(915,070)
Increase in advance from customers		10,652,869	329,926	22,841,759	2,830,383
Increase in other payables and accruals		3,720,404	10,428,733	3,581,578	443,803
(Increase) Decrease in other long-term assets		(723,096)	(563,501)	227,584	28,200
Net cash provided by operating activities		65,966,668	105,812,412	122,025,929	15,120,558
Cash flows from investing activities:					
Purchase of property and equipment		(8,839,759)	(12,006,783)	(45,902,556)	(5,687,908)

Purchase of intangible assets	(770,947)	(1,797,982)	(8,488,779)	(1,051,867)
Purchase of investments	(10,732,341)			
Net cash used in investing activities	(20,343,047)	(13,804,765)	(54,391,335)	(6,739,775)
Cash flows from financing activities:				
Proceeds from issuance of Series A Preference Shares, net of issuance cost		3,276,456		
Proceeds from initial public offering, net of issuance cost paid		635,497,001		
Repurchase of common shares			(75,643,997)	(9,373,249)
Proceeds from the exercise of options	746,227	2,190,852	1,546,028	191,572
Net cash provided by (used in) financing activities	746,227	640,964,309	(74,097,969)	(9,181,677)
Effect of foreign exchange rate changes on cash	76,964	236,144	(11,195,747)	(1,387,295)
Net increase (decrease) in cash	46,446,812	733,208,100	(17,659,122)	(2,188,189)
Cash, beginning of year	68,637,760	115,084,572	848,292,672	105,114,207
Cash, end of year	115,084,572	848,292,672	830,633,550	102,926,018
Supplemental disclosure of cash flow information:				
Cash paid during the years for:				
Income taxes	1,900,000	14,703,548	41,598,483	5,154,579
Interest expenses				
Supplemental disclosure of non-cash investing activities:				
Accrual related to purchase of property, equipment and software	2,748,970	(4,577,286)		
Conversion of Series A Preference Shares to common shares		119,652,304		
Accrual related to IPO costs		2,053,164	(2,053,164)	(254,413)

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

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51JOB, INC.
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1. ORGANIZATION AND NATURE OF OPERATIONS

The accompanying consolidated financial statements include the financial statements of 51job, Inc. (the Company), its subsidiaries, which principally consist of 51net Beijing, 51net.com Inc. (51net), Qianjin Network Information Technology (Shanghai) Co., Ltd. (Tech JV), Shanghai Qianjin Advertising Co., Ltd. (AdCo), Shanghai Wang Cai Advertising Co., Ltd. (Wang Cai AdCo) and Qian Cheng Wu You Network Information Technology (Beijing) Co. Ltd. (WFOE), and certain variable interest entity subsidiaries (VIE subsidiaries), which consist of Beijing Run An Information Consultancy Co., Ltd. (Run An), Beijing Qian Cheng Si Jin Advertising Co., Ltd., (Qian Cheng) and Shanghai Run An Lian Information Consultancy Co., Ltd. (RAL). The Company, its subsidiaries, and VIE subsidiaries are hereinafter collectively referred to as the Group.

The Company changed its name from 51net.com Cayman Islands Inc. to 51job, Inc. effective from April 26, 2004. AdCo changed its name from Shanghai Qianjin Culture Communications Co., Ltd. to Shanghai Qianjin Advertising Co., Ltd. in November 2005. Wang Cai AdCo changed its name from Shanghai Jin Lian Advertising Co., Ltd. in July 2005.

The Group is an integrated human resource services provider in the People s Republic of China (the PRC) and is principally engaged in recruitment related advertising services, including the production of a city-specific publication of advertisement listings as newspaper inserts and Internet recruitment services. The Group also provides executive search services and other human resource related services.

Under relevant PRC laws and regulations, companies conducting businesses as stated in the preceding paragraph require various licenses, including the advertisement license, HR services license and the license for Internet content provision (ICP) from relevant government authorities.

The Company was incorporated in the Cayman Islands on March 24, 2000 and accordingly is considered as a foreign person under PRC law. As of December 31, 2003, the Company owned a 99% and a 79.2% equity interest in Tech JV and AdCo, respectively. The remaining equity interest in these entities was owned by Qian Cheng and Run An, the Company s VIE subsidiaries. As PRC regulations limited foreign ownership of companies that provide human resource related services, Internet content provision and advertising services, the Group was dependent on certain licenses held by its VIE subsidiaries and conducted a small portion of its human resource related operations through Run An and Qian Cheng. The Company did not have any equity ownership interest in either of these entities. After Tech JV obtained the necessary business licenses, the business and operations of Run An and Qian Cheng were transferred to Tech JV and its branches, AdCo and AdCo s subsidiaries over a period of time. Since 2002, substantially all of the Company s operations have been conducted through Tech JV and its branches, AdCo and AdCo s subsidiaries. Additionally, Run An and Qian Cheng held certain equity interest in the Company s subsidiaries. Under a series of technical and consulting services agreements and undertaking by those equity owners, the Company bore all of the risk and rewards of Run An and Qian Cheng, and RAL, a VIE subsidiary which was formed in April 2004 (Note 2(b)). Accordingly, for all periods presented, the Company, or its subsidiaries, as the case may be, was considered the primary beneficiary of the VIE subsidiaries and their results are consolidated in the Company s financial statements. No other party shares in any of the economic risk or rewards of the Company s subsidiaries and VIE subsidiaries; therefore, no minority interest is reflected on the Company s financial statements.

In March 2004, the PRC government amended its limitation on foreign ownership of advertising companies and permitted foreign equity ownership up to 70% of a PRC advertising entity. Accordingly, the Company undertook a restructuring in May 2004 (the Restructuring) and 51net, a foreign entity, has transferred 48% of its equity interest in Tech JV to a subsidiary of AdCo, which is also an indirect subsidiary of 51net. As a result, 51net effectively holds 69.7% of the equity interest in Tech JV and Qian Cheng effectively holds the remaining 30.3% equity interest. After the Restructuring, Tech JV can legally hold the necessary licenses to provide advertising services in the PRC. Additionally, as part of the Restructuring, certain of the agreements with and undertakings by the VIE subsidiaries were amended to enhance the Company s ability to control the VIE subsidiaries (Note 2(b)). Starting December 2005,

the PRC government permits 100% foreign ownership of a PRC advertising entity.

In October 2004, the Company completed an initial public offering of American Depositary Shares (ADSs). ADSs of the Company are traded on the Nasdaq National Market under the symbol JOBS in the United States.

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2. PRINCIPAL ACCOUNTING POLICIES

(a) Basis of presentation

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

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the balance sheet dates and the reported amounts of revenues and expenses during the reported years. Actual results may materially differ from those estimates.

(b) Basis of consolidation

The consolidated financial statements include the financial statements of the Company, its subsidiaries, and VIE subsidiaries. All significant transactions and balances between the Company, its subsidiaries and VIE subsidiaries have been eliminated upon consolidation.

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

The Group has adopted Financial Accounting Standards Board (FASB) Interpretation No. 46, Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51, (FIN 46) for all periods presented. FIN 46 requires VIEs to be consolidated by the primary beneficiary of the entity. An entity is considered to be a VIE if certain conditions are present, such as if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties.

As of December 31, 2004 and 2005 and for all years presented, the Group is the primary beneficiary of three VIEs, Run An, Qian Cheng and RAL, which were established in January 1997, February 1999 and April 2004, respectively. Run An and Qian Cheng were in existence prior to the establishment of the Company and are considered predecessors of the Group. The Group does not have any ownership interest in the VIE subsidiaries but has control of such entities through certain agreements and undertakings as described below. As a result of the Group s consolidation of Run An, Qian Cheng and RAL for all periods presented, 100% of the interest of Tech JV and AdCo are included in the consolidated financial statements.

Run An holds ICP and HR service licenses and also engages in provision of training services. Two senior executives of the Company hold 80% and 20% of the equity interest in Run An, respectively. As of December 31, 2005, the registered capital of Run An was RMB1,000,000, which was fully paid by the principal founder of the Company, and its accumulated loss was RMB4,046,181.

Qian Cheng holds an advertisement license necessary for recruitment advertising services. A senior executive officer of the Company and Run An hold 87% and 13% of the equity interest in Qian Cheng, respectively. As of December 31, 2005, the registered capital of Qian Cheng was RMB1,500,000, which was fully paid by the principal founder and a senior executive of the Company, and its accumulated loss was RMB11,007,358.

RAL holds a permit issued by the Shanghai human resources bureau which allows it to conduct human resource related business including the collection and launch of, and consulting services related to human resource supply and demand information (online human resource intermediary service). RAL also obtained a permit from the Shanghai municipal telecommunications administration bureau that allows it to provide Internet information services that do not relate to news, publishing, education, healthcare, medicine and medical appliances. RAL conducts the Group s other HR related services and operates as an Internet content provider. Two senior executives of the Company hold 80% and 20% of the equity interest in RAL, respectively. As of December 31, 2005, the registered capital of RAL was RMB1,000,000, which was fully paid by the senior executives of the Company, and its accumulated loss was

RMB492,714.

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As part of the Restructuring (Note 1), the Group entered into and amended various agreements as related to its VIE subsidiaries. While the substance of the previous agreements with the VIE subsidiaries remain unchanged, the agreements and arrangements were amended in connection with the Restructuring to (i) enhance the Company s ability to control the VIE subsidiaries and (ii) ensure the agreements are legally enforceable in the PRC court of law. Accordingly, the Restructuring did not change the Company s accounting of its VIE subsidiaries. The key provisions of the agreements with the Company or its subsidiaries and the VIE subsidiaries or its shareholders are as follows:

Technical and Consulting Service Agreements. WFOE has entered into technical and consulting service agreements with Run An, Qian Cheng and RAL, respectively, under which WFOE has the exclusive right, subject to certain exceptions, to provide technical services to Run An, Qian Cheng and RAL for service fees. The technical and consulting service agreements have a term of ten years and can only be terminated by WFOE during the term. Such term is renewable upon the expiration of the agreement.

Pledge and Control Agreements. As security for Run An, Qian Cheng and RAL s obligations under the technical and consulting service agreements, the shareholders of Run An, Qian Cheng and RAL have pledged all of their equity interest in Run An, Qian Cheng and RAL to WFOE. According to the pledge agreement, WFOE has the right to sell the pledged equity. Additionally, the shareholders of Run An, Qian Cheng and RAL have agreed that they will not dispose of the pledged equity or take any actions that will prejudice WFOE s interest under the equity pledge agreements. They have further agreed that they will obtain WFOE s consent regarding material decisions concerning the operation of Run An, Qian Cheng and RAL, including the distribution of profits, the incurrence of debt and the appointment of directors. Additionally, WFOE has the right to recommend candidates to the board for the positions of general manager and senior executives of Run An, Qian Cheng and RAL. Under such pledges, WFOE is obliged to purchase any and all of the equity interest in Run An, Qian Cheng and RAL from their shareholders, if permitted by the PRC laws. The pledges cannot be released until the discharge of all of Run An, Qian Cheng and RAL s obligations under the respective technical and consulting service agreement.

(c) Foreign currencies

The Group s functional currency is the Renminbi (RMB). Transactions denominated in currencies other than RMB are translated into RMB at the exchange rates quoted by the People s Bank of China prevailing at the dates of the transactions. Gains and losses resulting from foreign currency transactions are included in the consolidated statements of operations and comprehensive income. Monetary assets and liabilities denominated in foreign currencies are translated into RMB using the applicable exchange rates quoted by the People s Bank of China at the balance sheet dates. All such exchange gains and losses are included in the statements of operations and comprehensive income. The exchange differences for translation of group companies balances where RMB is not their functional currency are included in cumulative translation adjustments, which is a separate component of shareholders equity on the consolidated financial statements.

The unaudited United States dollar (US$) amounts disclosed in the accompanying financial statements are presented solely for the convenience of the readers. Translations of amounts from RMB into United States dollars for the convenience of the reader were calculated at the noon buying rate of US$1.00 = RMB8.0702 on December 30, 2005 in The City of New York for cable transfers of RMB as certified for customs purposes by the Federal Reserve Bank of New York. No representation is made that the RMB amounts could have been, or could be, converted into US$ at that rate on December 30, 2005, or at any other certain rate.

(d) Cash

Cash represents cash on hand and demand deposits placed with banks or other financial institutions. Included in the cash balance as of December 31, 2004 and 2005 are amounts denominated in United States dollars totaling US$79,267,318 and US$31,040,000, respectively (equivalent to approximately RMB656,055,958 and RMB250,499,008, respectively). The Group receives substantially all of its revenues in RMB, which currently is neither a freely convertible currency nor can it be freely remitted out of China. However, there are no restrictions in

the use of the cash and cash equivalents in the PRC as the cash and cash equivalents are not restricted funds and are not classified as restricted cash.

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(e) Accounts receivable

Accounts receivable is presented net of allowance for doubtful accounts. The Company provides specific provisions for bad debts when facts and circumstances indicate that the receivable is unlikely to be collected. If the financial condition of its customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

(f) Investments

As of December 31, 2004 and 2005, investments consist of a fixed-maturity instrument issued by Hong Kong and Shanghai Banking Corporation Limited. The fixed-maturity instrument is negotiable, bears interest at 1.35% per annum and will mature on June 19, 2006. The financial instrument is redeemable by the Group at its discretion. Investments are recorded at fair value as available-for-sale securities in accordance with Statement of Financial Accounting Standards (SFAS) No. 115, Investment Securities.

(g) Property and equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is calculated on a straight-line basis to allocate the cost of the assets to their estimated residual value over the following estimated useful lives:

	Estimated useful lives
Leasehold improvements	Lesser of the lease period or the estimated useful life
Computer equipment	5 years
Furniture and fixtures	5 years
Motor vehicles	5 years

(h) Intangible assets

Intangible assets include purchased computer software, licenses and internally developed software and are amortized on a straight-line basis over their estimated useful lives, which range from three to ten years.

The Group recognizes costs to develop software products to be marketed or sold in accordance with SFAS No. 86, Accounting for Costs of Computer Software to be Sold, Leased or Otherwise Marketed. Costs incurred for the development of software products prior to the establishment of technological feasibility are expensed when incurred and are included in product development expense. Once the software product has reached technological feasibility, all subsequent product development costs are capitalized until that product is available for marketing. Technological feasibility is evaluated on a product-by-product basis.

The Group recognizes website and internally used software development costs in accordance with Statement of Position (SOP) No. 98 1, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use, and Emerging Issues Task Force (EITF) No. 00-02, Accounting for Website Development Cost, where applicable. As such, the Group expenses all costs that are incurred in connection with the planning and implementation phases of development and costs that are associated with repair or maintenance of the existing websites and software. Costs incurred in the development phase are capitalized and amortized over the estimated product life.

(i) Impairment of long-lived assets

The Group has adopted SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, (SFAS No. 144) which addresses the financial accounting and reporting for the recognition and measurement of impairment losses for long-lived assets. In accordance with SFAS No. 144, long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that carrying amount of an asset may not be recoverable. The Group may recognize impairment of long-lived assets in the event the net book value of such assets exceeds the future undiscounted cash flows attributable to these assets. No impairment of long-lived assets was recognized for all years presented.

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(j) Revenue recognition

Print advertising

The Group provides recruitment advertising services through a weekly newspaper which is distributed in various cities of the PRC. Arrangements for recruitment advertisement on the weekly newspaper are generally short-term in nature. Fees for these types of print recruitment advertising services are recognized as revenue when collectibility is reasonably assured and upon the publication of the advertisements. Cash received in advance of services are recognized as advances from customers.

Online recruitment services

The Group provides online recruitment advertising and other technical services through its *www.51job.com* website. The average display period of online recruitment services normally ranges from one week to one year. Fees for its online recruitment advertisement and other technical services are recognized as revenue ratably over the display period of the contract or when services are provided and when collectibility is reasonably assured in accordance with Staff Accounting Bulletin (SAB) No. 104. Cash received in advance of services are recognized as advances from customers.

Executive search

The Group provides executive search services. Revenue is recognized when recruitment services are substantially rendered and collectibility is reasonably assured, less an allowance for individuals placed but not expected to meet the probation period. The allowance for search placement is based on historical activities of search placement that do not complete the contingency period. This contingency period varies on a contract by contract basis but is typically 90 days. The Group has not had significant search placements that do not complete the contingency period. Cash received in advance of services are recognized as advances from customers.

Other human resource related revenues

The Group also provides other value-added human resource products. Additionally, the Group sold stationery and office supplies to its business customers. Revenue is recognized when services are rendered or products are sold. In November 2004, the Group discontinued its stationery and office supplies business. Revenue from selling of related products was RMB2,206,536, RMB12,679,995 and RMB2,188,714 during the years ended December 31, 2003, 2004 and 2005, respectively.

Business and related taxes

The Company s subsidiaries and its VIE subsidiaries are subject to business taxes and related surcharges on the revenues earned for services provided in the PRC. The applicable rate of business taxes is 5% after certain deductible expenses. In the accompanying statements of operations and comprehensive income, business taxes and related surcharges for revenues earned are deducted from gross revenues to arrive at net revenues.

(k) Cost of services

Cost of services consist primarily of printing and publishing expenses, payroll compensation and related employee costs, and other expenses incurred by the Group which are directly attributable to the rendering of the Group s recruitment advertising and other human resource services.

(l) Sales and marketing

Sales and marketing costs comprised primarily of the Group s sales and marketing personnel payroll compensation and related employee costs and advertising and promotion expenses. Advertising and promotion expenses generally represent the cost of promotions to create or stimulate a positive image of the Group or a desire for the Group s services. Advertising and promotion expenses totaled approximately RMB7,062,232, RMB12,372,664 and RMB21,367,227 during the years ended December 31, 2003, 2004 and 2005, respectively, are charged to the statements of operations and comprehensive income when incurred.

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(m) Share-based compensation

The Group accounts for share-based compensation arrangements with employees in accordance with Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, (APB No. 25) and complies with the disclosure provisions of SFAS No. 123, Accounting for Stock-Based Compensation (SFAS No. 123), and SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure. In general, compensation cost under APB No. 25 is recognized based on the difference, if any, between the estimated fair value of the Company s common shares and the amount an employee is required to pay to acquire the common shares, as determined on the measurement date. Compensation cost, if any, is recorded in shareholders equity as additional paid-in capital with an offsetting entry recorded to deferred share-based compensation. Deferred share-based compensation is amortized and charged to expense based on the vesting terms of the underlying options or share-based compensation arrangement.

If the compensation cost for the Group s share-based compensation plans for employees had been determined based on the estimated fair value on the measurement dates for the share option awards and Founder Share escrow arrangements (Note 11) as prescribed by SFAS No. 123, the Company s net income attributable to common shareholders and earnings per share would have resulted in the pro forma amounts for the years ended December 31, 2003, 2004 and 2005 as disclosed below:

	2003 RMB	**2004 RMB**	**2005 RMB**
Net income as reported	32,600,263	61,143,032	61,422,304
Add: Share-based compensation expense under APB No. 25	18,701,563	20,489,734	14,553,321
Less: Share-based compensation expense under SFAS No. 123	(19,184,475)	(20,980,215)	(21,557,770)
Pro forma net income	32,117,351	60,652,551	54,417,855
Basic earnings per share:			
As reported	0.83	1.32	1.10
Pro forma	0.81	1.31	0.98
Basic earnings per ADS:			
As reported	1.65	2.65	2.21
Pro forma	1.63	2.63	1.96
Diluted earnings per share:			
As reported	0.75	1.26	1.07
Pro forma	0.74	1.25	0.95
Diluted earnings per ADS:			

As reported	1.50	2.52	2.15
Pro forma	1.48	2.50	1.90

The effects of applying SFAS No. 123 methodologies in this pro forma disclosure are not indicative of future earnings or earnings per share. Additional share option awards in future years are expected.

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The Company calculated the fair value of share options to employees on the date of grant based on the minimum value method as allowed under SFAS No. 123 for non-public entities prior to the Company s initial public offering. Upon completion of the Company s initial public offering in October 2004, the Company adopted the Black-Scholes pricing method to calculate fair value of options. For the years ended December 31, 2003, 2004 and 2005, the fair value of options granted was estimated with the following assumptions:

	2003	2004	2005
Risk-free interest rate	2.65%	2.65%	3.87%-4.53%
Expected life (years)	6	6	4
Expected dividend yield	0%	0%	0%
Volatility	0%	0%	90%-100%
Weighted average of fair value of options at grant date	RMB37.59	RMB42.46	RMB44.42

(n) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases, net of any incentives received by the Group from the leasing company, are charged to the statements of operations and comprehensive income on a straight-line basis over the lease periods.

(o) Taxation

Deferred income taxes are provided using the balance sheet liability method. Under this method, deferred income taxes are recognized for the differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities by applying enacted statutory rates applicable to future years in which the differences are expected to reverse. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is provided to reduce the amount of deferred tax assets if it is considered more likely than not that some portion of, or all of, the deferred tax assets will not be realized.

(p) Statutory reserves

All subsidiaries and VIE subsidiaries incorporated in the PRC, except for Tech JV which is majority owned by 51net, a BVI company, are required on an annual basis to make an appropriation of retained earnings as statutory common reserve fund equal to 10% of after-tax profit, calculated in accordance with PRC accounting standards and regulations. Appropriations are classified in the consolidated balance sheet as statutory common reserve fund, and are recorded beginning in the first period in which after-tax profits exceed all prior year accumulated losses. Once the total statutory common reserve fund reaches 50% of the registered capital of the respective companies, further appropriations are discretionary. The statutory common reserve fund can be used to increase the registered capital and eliminate future losses of the respective companies. The Group s statutory common reserve fund is not distributable to shareholders except in the event of a liquidation. During the years ended December 31, 2003, 2004 and 2005, the Group made total appropriations to their statutory common reserve fund of RMB5,732,752, RMB4,857,375 and RMB770,608, respectively. During the year ended December 31, 2005, the Group also made a discretionary reversal of RMB9,487,777 from the common statutory reserve fund to retained earnings.

In addition, the above subsidiaries are required on an annual basis to set aside at least 5% of after-tax profit, calculated in accordance with PRC accounting standards and regulations, to the statutory common welfare fund, which can be used for staff welfare of the Group. The Group s subsidiaries made total appropriations of RMB2,866,376, RMB2,428,688 and RMB385,304 during the years ended December 31, 2003, 2004 and 2005, respectively. During the year ended December 31, 2005, the Group also made a discretionary reversal of RMB4,743,889 from the statutory common welfare fund to retained earnings.

Tech JV is required on an annual basis to make appropriations of retained earnings, calculated in accordance with PRC accounting standards and regulations, to non-distributable statutory reserves, comprising of enterprise statutory reserve, employees bonus and welfare fund and enterprise expansion fund. The percentages of the appropriation are

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determined by the Board of Directors of Tech JV. During the years ended December 31, 2003, 2004 and 2005, Tech JV did not make any appropriations to these statutory reserves.

Appropriations to the statutory common reserve fund and the statutory common welfare fund are accounted for as a transfer from retained earnings or accumulated deficit to the statutory reserves.

There are no legal requirements in the PRC to fund these reserves by transfer of cash to any restricted accounts, and the Group does not do so. These reserves are not distributable as cash dividends.

(q) Dividend

Dividends are recognized when declared. PRC regulations currently permit payment of dividends only out of accumulated profits as determined in accordance with PRC accounting standards and regulations. Additionally, the Company s PRC subsidiaries and VIE subsidiaries can only distribute dividends after they have met the PRC requirements for appropriation to statutory reserves (Note 2(p)). Aggregate net assets of the Company s PRC subsidiaries not distributable in the form of dividends to the parent as a result of the aforesaid PRC regulations were RMB409 million as of December 31, 2005. However, the PRC subsidiaries may transfer such net assets to the Company by other means, including through royalty and trademark license agreements or certain other contractual agreements, at the discretion of the Company without third party consent.

(r) Earnings per share

In accordance with SFAS No. 128, Computation of Earnings Per Share, and EITF Issue 03-06, Participating Securities and the Two-Class Method under FASB Statement No. 128, basic earnings per share is computed by dividing net income attributable to common shareholders by the weighted average number of unrestricted common shares outstanding during the period using the two-class method. Under the two class method, net income is allocated between common shares and other participating securities based on their participating rights. The Company s Series A Preference Shares (Note 10) are participating securities. Diluted earnings per share is calculated by dividing net income attributable to common shareholders as adjusted for the effect of dilutive common equivalent shares, if any, by the weighted average number of common and dilutive common equivalent shares outstanding during the period. Common equivalent shares consist of the common shares issuable upon the conversion of the convertible preference shares (using the if-converted method), common shares issuable upon the exercise of outstanding share options (using the treasury stock method) and certain common shares held in escrow (Note 11) (using the treasury stock method).

(s) Segment reporting

The Group operates and manages its business as a single segment. As the Group primarily generates its revenues from customers in the PRC, no geographical segments are presented.

(t) Recent accounting pronouncements

In December 2004, the FASB issued SFAS No. 123 (revised 2004), Share-Based Payment (SFAS No. 123R), which replaced SFAS No. 123 and superseded APB No. 25. SFAS No. 123R requires the measurement of all employee share-based payments to employees, including grants of employee stock options, using a fair-value-based method and the recording of such expense in the consolidated statements of operations. The pro forma disclosures previously permitted under SFAS No. 123 no longer will be an alternative to financial statement recognition. In March 2005, the SEC issued Staff Accounting Bulletin No. 107 regarding the SEC s interpretation of SFAS No. 123R and the valuation of share-based payments for public companies.

The Company adopted SFAS No. 123R and related FASB Staff Positions starting January 1, 2006 and have recognized stock-based compensation expense using the modified prospective method, which requires that compensation expense be recorded for all unvested stock options upon adoption of SFAS No. 123R. The Company has applied the Black-Scholes valuation model in determining the fair value of share-based payments to employees, and is recognizing compensation expense on a straight-line basis over the requisite service period. The adoption of SFAS No. 123R increased the Company s share-based compensation expense in its consolidated statement of operations in the first quarter of 2006. The Company expects the implementation of SFAS No. 123R may adversely

affect its earnings in the future.

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In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections, (SFAS No. 154) which replaces APB Opinion No. 20, Accounting Changes, and SFAS No. 3, Reporting Accounting Changes in Interim Financial Statements. SFAS No. 154 provides guidance on the accounting for and reporting of accounting changes and error corrections. It establishes retrospective application as the required method for reporting a change in accounting principle and the reporting of a correction of an error. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Company does not expect that the adoption of SFAS No. 154 will have a material effect on its financial statements.

In June 2005, the FASB ratified EITF Issue No. 05-06, Determining the Amortization Period for Leasehold Improvements. (EITF No. 05-06) EITF No. 05-06 provides that the amortization period used for leasehold improvements acquired in a business combination or purchased after the inception of a lease be the shorter of (a) the useful life of the assets or (b) a term that includes required lease periods and renewals that are reasonably assured upon the acquisition or the purchase. The provisions of EITF No. 05-06 should be applied to leasehold improvements (within the scope of this issue) that are purchased or acquired in reporting periods beginning after June 29, 2005. The Company does not expect that the adoption of EITF No. 05-06 will have a material effect on its financial statements.

3. ACCOUNTS RECEIVABLE

The Group s accounts receivable balances, net of allowance for doubtful accounts, were RMB23,252,468 and RMB22,222,865 as of December 31, 2004 and 2005, respectively.

The movement of allowance for doubtful accounts is analyzed as follows:

	2004 RMB	2005 RMB
Balance at beginning of the period	1,318,528	3,689,222
Additions	2,370,694	5,799,717
Write-offs		(6,628,664)
Balance at end of period	3,689,222	2,860,275

4. PREPAYMENTS AND OTHER CURRENT ASSETS

	2004 RMB	2005 RMB
Rental and other deposits	1,331,839	4,333,790
Prepayments for rental and other expenses	6,229,135	6,315,403
Employee advances	868,497	1,507,761
Payments made on behalf of customers	189,449	
Prepaid insurance premium	1,171,646	1,704,902
Merchandise stationery	2,507,726	
Subsidy income receivable		4,660,000
Interest income receivable		2,829,274
Others	2,377,656	1,914,307
Total	14,675,948	23,265,437

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5. PROPERTY AND EQUIPMENT

	2004 RMB	2005 RMB
Leasehold improvements	7,091,521	13,085,141
Computer equipment	26,758,707	36,185,945
Furniture and fixtures	3,942,323	9,896,664
Motor vehicles	3,646,016	3,886,016
Less: accumulated depreciation	(18,903,692)	(30,695,891)
Net book value	22,534,875	32,357,875

6. INTANGIBLE ASSETS

	2004 RMB	2005 RMB
Computer equipment software	10,798,362	15,952,849
Acquired training licenses	3,049,274	6,571,253
Internally developed software	1,568,808	1,568,808
Less: accumulated amortization	(9,289,695)	(12,712,075)
Net book value	6,126,749	11,380,835

7. OTHER PAYABLES AND ACCRUALS

	2004 RMB	2005 RMB
Professional service fees	6,469,433	4,796,706
Office expenses	2,585,186	1,327,095
Deposit from customers	3,713,147	3,053,967
Travelling expenses	103,190	24,420
Payables to employees related to proceeds from share option exercises		6,872,776
Others	1,062,730	1,440,300
Total	13,933,686	17,515,264

8. TAXATION

Cayman Islands

Under the current laws of Cayman Islands, the Company and its subsidiaries that are incorporated in Cayman Islands are not subject to tax on income or capital gain. In addition, upon payments of dividends by those companies to their shareholders, no Cayman Islands withholding tax will be imposed.

British Virgin Islands

Under the current laws of British Virgin Islands, the Company s subsidiary that is incorporated in British Virgin Islands is not subject to tax on income or capital gain. In addition, upon payments of dividends by that company to its shareholders, no British Virgin Islands withholding tax will be imposed.

Hong Kong

The Company s subsidiary that is incorporated in Hong Kong is subject to Hong Kong profits tax at a rate of 17.5% on its assessable profit.

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China

The Company s subsidiaries that are incorporated in the PRC are subject to Enterprise Income Tax (EIT) on the taxable income as reported in their respective statutory financial statements adjusted in accordance with the Enterprise Income Tax Law and the Income Tax Law of the People s Republic of China Concerning Foreign Investment Enterprises and Foreign Enterprises (collectively, the PRC Income Tax Laws), respectively. Under the PRC Income Tax Laws, these companies are subject to EIT at a statutory rate of 33% except for the following entities: Tech JV, which is subject to EIT at a rate of 30%; AdCo Shenzhen Branch, which is subject to EIT at a rate of 15%; and Wang Cai AdCo s branches in Shanghai and Shenzhen, which are subject to EIT at a rate of 15%. In addition, some of AdCo s branches and subsidiaries are granted by the local tax authorities a right to elect a two-year EIT exemption on their taxable income, commencing from their establishment. Total tax benefit recognized as a result of the tax exemption was RMB16,127,096, RMB2,318,116 and RMB6,073,010 for the years ended December 31, 2003, 2004 and 2005, respectively.

Composition of income tax expense

The current and deferred portion of income tax expense included in the consolidated statement of operations for the years ended December 31, 2003, 2004 and 2005 are as follows:

	2003 RMB	2004 RMB	2005 RMB
Current income tax expenses	3,230,664	39,464,894	28,592,183
Deferred tax	(38,653)	(5,406,710)	1,352,850
Income tax expense	3,192,011	34,058,184	29,945,033

Reconciliation of the differences between statutory tax rate and the effective tax rate

Reconciliation between the statutory EIT rate in the PRC and the Group s effective tax rate for the years ended December 31, 2003, 2004 and 2005 are as follows:

	2003	2004	2005
EIT statutory rate	33%	33%	33%
Effect of tax holiday for certain subsidiaries	(45%)	(3%)	(6%)
Difference in EIT rates of certain subsidiaries	(1%)	(1%)	(3%)
Non-deductibility of expenses incurred outside the PRC	18%	8%	6%
Other permanent differences	(1%)		4%
Provision of valuation allowance	5%		
Reversal of valuation allowance		(1%)	(1%)
Effective EIT rate of the Group	9%	36%	33%

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Significant components of deferred tax assets and liabilities as of December 31, 2004 and 2005 are as follows:

	2004 RMB	2005 RMB
Deductible temporary differences related to revenue	5,955,432	
Deductible temporary differences related to accrued expenses	656,674	1,711,457
Deductible temporary differences related to advertising expenses		1,984,085
Deductible temporary differences related to provision for doubtful debts and slow moving merchandise	1,490,856	2,996,098
Total current deferred tax assets	8,102,962	6,691,640
Less: Valuation allowance	(676,864)	(823,820)
Net current deferred tax assets	7,426,098	5,867,820
Tax loss carryforwards	6,387,134	4,970,167
Deductible temporary differences related to amortization	376,122	412,314
Total non-current deferred tax assets	6,763,256	5,382,481
Less: Valuation allowance	(6,387,134)	(4,970,167)
Net non-current deferred tax assets	376,122	412,314
Total deferred tax assets	7,802,220	6,280,134
Taxable temporary differences related to accrued expenses	(169,237)	
Total current deferred tax liabilities	(169,237)	
Total deferred tax liabilities	(169,237)	

As of December 31, 2004 and 2005, valuation allowances were provided on the deferred tax assets to the extent that management believed it was more likely than not that such deferred tax assets would not have been realized in the foreseeable future. Valuation allowances were provided because it was more likely than not that the Group will not be able to utilize certain tax loss carry forwards generated by certain subsidiaries or VIE subsidiaries. As those entities continue to generate tax losses and tax planning strategies are not available to utilize those tax losses in other group companies, management believes it is more likely than not that such losses will not be utilized before they expire. However, certain valuation allowance was reversed in 2004 and 2005 when the Group generated sufficient taxable income to utilize the deferred tax assets. If events occur in the future that prevent the Group from realizing some or all of its deferred tax assets, an adjustment to the valuation allowances will be recognized when such events occur. In the PRC, tax loss carry forwards generally expire after five years.

The following represents a roll-forward of the valuation allowance for each of the years:

	2004	2005

	RMB	RMB
Balance at beginning of the period	7,802,306	7,063,998
Additions	1,723,945	1,782,902
Reversals	(2,462,253)	(3,052,913)
Balance at end of period	7,063,998	5,793,987

9. INITIAL PUBLIC OFFERING

In October 2004, the Company completed an initial public offering of 6,037,500 American Depositary Shares (ADSs), including an over-allotment option to the underwriters to purchase an additional 787,500 ADS, at US$14.00 per ADS. Each ADS represents two common shares which have par value of US$0.0001 per share. Net proceeds of approximately RMB635.5 million were credited to the Company s common shares and additional paid-in capital.

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10. SERIES A PREFERENCE SHARES

In June 2000 and October 2001, the Company entered into certain Series A Preference Shares Purchase Agreements, in which (i) the Company authorized 15,000,000 of the Company s Series A Preference Shares (Series A Preference Shares), and (ii) the Company agreed to sell and the investors agreed to purchase 13,668,466 Series A Preference Shares, subject to closing and subscription, at an issuance price of US$1.0417 per share.

In 2001, the Company issued to Recruit Company Limited (Recruit) a warrant to purchase 10,000 Series A Preference Shares at exercise price of US$1.0417 in connection with obtaining access to an online recruiting application developed by Recruit. The warrant was exercised immediately and Recruit became a registered holder of 10,000 Series A Preference Shares as of May 2001.

In August 2002, in connection with share repurchase from an executive officer the principal Series A Preference shareholder received a warrant to purchase an additional 380,000 Series A Preference Shares at an exercise price of US$1.0417 per share for no consideration. The fair value of the warrants, RMB1,233,659, as determined based on the Black-Scholes option pricing model, was deducted from 2002 net income as a deemed dividend to arrive at net income attributable to common shareholders for earnings per share calculation. The warrant was exercised in March 2004.

The holders of the Series A Preference Shares were entitled to receive, out of any funds legally available therefore, when and as declared by the board of directors, dividends at a rate of eight percent (8%) per annum. No dividends would be paid on the common shares of the Company until all declared dividends on the preference shares were paid, and no dividend would be paid on any common shares unless a dividend was paid with respect to each outstanding Series A Preference Share equal to or greater than the amount of such dividend that would be payable on all common shares into which such Series A Preference Share could then be converted. Such dividend rights were not cumulative and no right to such dividend accrued unless declared by the board of directors.

Each holder of Series A Preference Shares was entitled to convert such preference shares at any time, without the payment of any additional consideration, into common shares at an initial conversion price of US$1.0417 (each Series A Preference Share was convertible into one common share). The conversion price would be adjusted, in the event the Company was to issue any common shares, or shares that were convertible into common shares, except for certain cases, including issuances of employees share options, less than the conversion price in effect on the date immediately prior to such issue.

Each Series A Preference Share would be automatically converted into common shares at the then effective conversion price upon the closing of a qualified initial public offering.

On October 4, 2004, 14,058,466 issued Series A Preference Shares were converted on a 1:1 basis to the Company s common shares of US$0.0001 each upon the completion of the Company s initial public offering (Note 9).

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11. SHARE-BASED COMPENSATION

In April 2000, the Company issued a total of 28,399,021 common shares to the four founders of the Group, at the price of US$0.0001 per share (Founder Shares). At the time of the issuance, these common shares were placed into escrow with the chief executive officer and president of the Company as escrow agent, and were subject to repurchase by the Company, at the Company s discretion, upon the termination of employment of the applicable founders at a repurchase price of US$0.0001 or the estimated fair value of the common shares on the date of repurchase, as determined by the Company. During each of the subsequent years, certain percentage of the total number of common shares so purchased by each founder was released from the repurchase option and the escrow as follows:

Shares issued	Vesting
17,316,000	25% released from escrow on October 1, 2000 and one forty eighth released from escrow at the end of each calendar month after October 2000.
6,307,021	26.9% released from escrow on April 28, 2000 and one forty eighth released from escrow at the end of each calendar month after April 2000.
3,696,000	31.25% released from escrow on April 28, 2000 and one forty eighth released from escrow at the end of each calendar month after April 2000.
1,080,000	25% released from escrow on October 1, 2000 and one forty eighth released from escrow at the end of each calendar month after October 2000.
28,399,021	Balance at end of period

As of December 31, 2003, all common shares so purchased by the founders had been released from the repurchase option and the escrow.

The placement of the Founder Shares in escrow is recognized as a separate share-based compensatory arrangement between the Company and the founders. Upon the issuance of the Founder Shares, the Company recognized total deferred compensation of RMB35,235,724 based on the estimated fair value of the common shares on the date of issuance. Such deferred compensation is recognized over the period in which the shares are subject to repurchase by the Company. Total compensation expense of RMB4,622,466, nil and nil was recognized for the years ended December 31, 2003, 2004 and 2005, respectively.

On September 1, 2000, the Company adopted a share option plan (2000 Option Plan) which provides for the issuance of up to 4,010,666 common shares. The total number of common shares reserved under the plan was increased to 5,530,578 in February 2004. Under the share option plan, the directors may, at their discretion, issue share options to purchase the Company s common shares to any senior executives, directors, employees or consultants of the Group. These share options can be exercised within six years from the date of grant.

The following table summarizes the Company s share options under the 2000 Option Plan:

	2003	2004	2005
Outstanding at beginning of years	2,317,102	2,919,728	2,520,444
Granted	1,346,232	468,192	749,200
Exercised	(467,334)	(711,097)	(632,276)
Forfeited	(276,272)	(156,379)	(79,394)
Outstanding at end of years	2,919,728	2,520,444	2,557,974
Vested and exercisable at end of years	1,384,964	1,426,086	1,212,153

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The following is additional information relating to employee options outstanding as of December 31, 2005:

	Outstanding			Exercisable		
Exercise prices	Number of shares	Weighted-average exercise price	Weighted average remaining contractual life (years)	Number of shares	Weighted-average exercise price	Weighted average remaining contractual life (years)
US$0.15	1,112,556	US$ 0.15	1.37	994,130	US$ 0.15	1.15
US$0.50	424,756	US$ 0.50	3.96	78,725	US$ 0.50	3.96
US$1.00	179,286	US$ 1.00	4.15	90,650	US$ 1.00	4.15
US$3.25	92,176	US$ 3.25	4.38	48,648	US$ 3.25	4.38
US$6.00	30,000	US$ 6.00	5.86		US$ 6.00	5.86
US$7.00	40,000	US$ 7.00	5.56		US$ 7.00	5.56
US$8.695	679,200	US$8.695	5.31		US$8.695	5.31
	2,557,974			1,212,153		

In connection with share options granted under the 2000 Option Plan during the years ended December 31, 2003, 2004 and 2005, the Company recognized deferred share-based compensation totaling RMB60,417,377, RMB14,305,481 and nil, respectively, which is being amortized over the vesting period.

In 2003, the Company extended the exercise period for certain employees who were terminated during the year. The modification to increase the life of the option results in a new measurement date and an incremental share based compensation expense of RMB9,899,198 recognized for the year ended December 31, 2003.

In February 2004, the Company sold 138,264 common shares to a director at a price of US$1.00 per share, which is below the then estimated fair market value of the common shares. This transaction resulted in the recognition of share-based compensation expense of RMB5,699,236 for the year ended December 31, 2004.

Compensation expense for share options granted under the 2000 Option Plan recognized during the years ended December 31, 2003, 2004 and 2005, totaling RMB14,079,097, RMB20,489,734 and RMB14,553,321, respectively.

12. EMPLOYEE BENEFITS

The full-time employees of the Company s subsidiaries and VIE subsidiaries that are incorporated in the PRC are entitled to staff welfare benefits including medical care, welfare subsidies, unemployment insurance and pension benefits. These companies are required to accrue for these benefits based on certain percentages of the employees salaries in accordance with the relevant regulations, and make contributions to the state-sponsored pension and medical plans out of the amounts accrued for medical and pension benefits. The total amounts charged to the statements of operations and comprehensive income for such employee benefits amounted to RMB11,733,119, RMB17,377,621 and RMB27,669,108 for the years ended December 31, 2003, 2004 and 2005, respectively. The PRC government is responsible for the medical benefits and ultimate pension liability to these employees.

13. RELATED PARTY TRANSACTIONS

Balances with related parties for the periods indicated are as follows:

	2004 RMB	2005 RMB

Due to related parties:		
Principal shareholders		500,000
Advances for share options exercised	1,577,873	1,005,515
	1,577,873	1,505,515

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The amounts and due to principal shareholders as of December 31, 2005 mainly arose from an advance from a principal shareholder in connection with increasing the registered capital of a VIE subsidiary. This amount is unsecured, non-interest bearing and has no definite terms.

The amount of advance for share options exercise arose from the exercise of options by the Company s directors and executive officers. During the periods presented, certain directors and executive officers of the Company made payments to exercise certain unvested options. In connection with the early exercises, the Company has a call option to repurchase the shares that are not yet vested if the employee s service terminates prior to the option s vesting at the original exercise price. The early exercise of the options was not considered a substantial exercise for accounting purposes on the date of exercise, and the cash paid for the exercise price is recognized as a liability and such common shares are not considered issued. When the options are vested and the call option expires, the shares are considered issued and cash paid for the exercise is transferred to shareholders equity.

14. EARNINGS PER SHARE

Basic earnings per share and diluted earnings per share have been calculated for the years ended December 31, 2003, 2004 and 2005 as follows:

	2003 RMB	2004 RMB	2005 RMB
Numerator:			
Net income	32,600,263	61,143,032	61,422,304
Amount allocated to participating preference shareholders	(10,615,466)	(13,986,417)	
Numerator for basic earnings per share	21,984,797	47,156,615	61,422,304
Effect of dilutive securities			
Numerator for diluted earnings per share	21,984,797	47,156,615	61,422,304
Denominator:			
Denominator for basic earnings per share weighted-average common shares outstanding	26,594,228	35,593,374	55,607,716
Effect of Series A Preference Shares	*	*	
Effect of unvested Founder Shares	1,734,040		
Effect of dilutive share options	731,890	1,889,645	1,646,738
Effect of dilutive warrants	263,167		
Denominator for diluted earnings per share	29,323,325	37,483,019	57,254,454
Basic earnings per share	0.83	1.32	1.10
Diluted earnings per share	0.75	1.26	1.07

* These potentially dilutive securities were not included in the calculation of dilutive earnings (loss) per share because of their anti-dilutive effect.

Net income, after deducting deemed dividends to holders of preference shares, has been allocated to the common share and preference share based on their respective rights to share in dividends.

In April 2000, the Company issued 28,399,021 Founder Shares (Note 11) which are subject to repurchase by the Company at its discretion, upon the termination of employment of the applicable founders. Accordingly, for calculating basic earnings per share, the shares held in escrow are not included in the denominator for basic earnings per share.

Potentially dilutive securities included Series A Preference Shares, unvested Founder Shares, warrants and share options granted to employees.

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15. COMMITMENTS AND CONTINGENCIES

Operating lease commitments

The Group has entered into non-cancelable agreements with initial or remaining terms in excess of one year for the publication of *51job Weekly*, the rental of office premises and for the lease of computer and other equipment. Future minimum payments with respect to these agreements as of December 31, 2005 are as follows:

	Publication fees RMB	Office premises RMB	Others RMB	Total RMB
2006	53,958,833	23,452,882	140,005	77,551,720
2007	39,886,771	5,843,097	80,116	45,809,984
2008	3,898,171	4,657,454	71,148	8,626,773
2009	1,865,850	6,370,410		8,236,260
	99,609,625	40,323,843	291,269	140,224,737

Rental expenses for the years ended December 31, 2003, 2004 and 2005 are RMB10,456,277, RMB13,905,812 and RMB28,702,735, respectively.

Capital commitments

As of December 31, 2005, capital commitments for purchase of an office complex and leasehold improvements amounted to RMB91,050,552.

Contingencies

There are uncertainties regarding the legal basis of the Company s ability to operate the Internet content service. Although the PRC has implemented a wide range of market-oriented economic reforms, the telecommunication, information and media industries as well as certain sectors of the HR service industries remain highly regulated. Not only are restrictions currently in place, but also regulations are unclear regarding in what specific segments of these industries companies with foreign investors, including the Company, may operate. Therefore, the Company might be required to limit the scope of its operations in the PRC, and this could have an adverse effect on the Company s financial position, results of operations and cash flows.

Tech JV obtained an advertising license in May 2000, when Tech JV was a 98% foreign owned entity, and a license to conduct human resource services in September 2002, when Tech JV was a 99% foreign owned entity. During the period from the date Tech JV acquired these licenses to the date of the Restructuring (Note 1), Tech JV and its licensed PRC subsidiaries conducted all of the advertising and human resource related services. Following the acquisition of these licenses and commencing these operations, the PRC government enacted laws limiting foreign ownership in entities conducting advertising and human resource related services.

The PRC government has not published an official ruling with respect to the status of foreign ownership arrangements that were established prior to the enactment of these limitations and which may be above these limitations. Prior to the Restructuring, the ownership percentage of Tech JV was above the maximum foreign ownership permitted for an entity conducting advertising and human resource operations. In addition, there is uncertainty regarding the regulation of PRC subsidiaries in which subsidiaries of foreign owned PRC entities invest, such as the subsidiaries of AdCo which are engaged in advertising or trade businesses. The PRC government may determine that the Group s ownership structure was inconsistent with or insufficient for the proper operation of the Group s businesses, or that the Group s business licenses or other approvals were not properly issued or not sufficient.

In the opinion of management, the likelihood of loss in respect of the Group s current or past ownership structure is remote.

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Beginning in January 2005, several complaints were filed in the United States District Court for the Southern District of New York against the Company and certain of its senior executive officers and directors. The complaints seek unspecified damages on alleged violations of federal securities laws during the period from November 4, 2004 to January 14, 2005. In connection with these actions, the Company has engaged U.S. counsel to represent the defendants. On July 26, 2005, the Court consolidated the cases and appointed a lead plaintiff. On October 13, 2005, the Company and all defendants moved to dismiss the complaint. The motion to dismiss remains pending before the Court. The Company cannot predict the outcome of the case at this time and no provision has been made with respect to these lawsuits.

16. FINANCIAL INSTRUMENTS

Financial instruments of the Group primarily comprise investments, accounts receivable, accounts payable, due to related parties, other payables and advance from customers. As of December 31, 2004 and 2005, their carrying values approximate their estimated fair values.

17. CERTAIN RISKS AND CONCENTRATION

Financial instruments that potentially subject the Group to significant concentrations of credit risk consist primarily of cash and accounts receivable. As of December 31, 2004 and 2005, substantially all of the Group s cash was held in major financial institutions located in the United States, the PRC and Hong Kong which management believes are of high credit quality. Accounts receivable are typically unsecured and denominated in RMB, and are derived from revenues earned from operations arising in the PRC.

The Group s sales and purchase and expense transactions are generally denominated in RMB and a significant portion of the Group s liabilities are denominated in RMB. RMB is not freely convertible into foreign currencies. In the PRC, foreign exchange transactions are required by law to be transacted only by authorized financial institutions at exchange rates set by the Bank of China. Remittances in currencies other than RMB by the Group in the PRC must be processed through the Bank of China or other PRC foreign exchange regulatory bodies and requires certain supporting documentation in order to effect the remittance.

No individual customer accounted for more than 10% of net revenues during the years ended December 31, 2003, 2004 and 2005. No individual customer accounted for more than 10% of accounts receivable as of December 31, 2004 and 2005.

18. SUBSEQUENT EVENTS

In March 2006, the Company signed a letter of intent to purchase its current principal executive offices at 21st Floor, Wen Xin Plaza, 755 Wei Hai Road for approximately RMB27 million. The Company plans to utilize this location as its Shanghai sales office following the Company s move of its principal executive offices to a new office complex in Zhangjiang High Technology Park.

In April 2006, the Company completed its purchase of a new office complex in Zhangjiang High Technology Park in Shanghai s New Pudong Area. This office complex is intended to become the Company s new principal executive offices. The Company signed a letter of intent to purchase this complex in October 2005 for RMB114 million.

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ADDITIONAL INFORMATION FINANCIAL STATEMENT SCHEDULE I
51JOB, INC.
CONDENSED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2003, 2004 AND 2005

	Note	2003 RMB	2004 RMB	2005 RMB	2005 US$ (Note 4)
Net revenues					
Cost of services					
Gross profit					
Total operating expenses		(19,085,436)	(24,270,500)	(20,818,339)	(2,579,656)
Loss from operations		(19,085,436)	(24,270,500)	(20,818,339)	(2,579,656)
Equity in profit of subsidiary companies, net	1	51,682,719	83,415,592	79,223,274	9,816,767
Other income		2,980	1,997,940	3,017,369	373,890
Income before provision for income tax		32,600,263	61,143,032	61,422,304	7,611,001
Income tax expense					
Net income for the year		32,600,263	61,143,032	61,422,304	7,611,001

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ADDITIONAL INFORMATION FINANCIAL STATEMENT SCHEDULE I
51JOB, INC.
CONDENSED BALANCE SHEETS AS OF DECEMBER 31, 2004 AND 2005

	Note	2004 RMB	2005 RMB	2005 US$ (Note 4)
ASSETS				
Current assets:				
Cash		648,576,639	247,940,580	30,722,978
Receivables due from related parties	2	837,728	838,808	103,939
Prepayments and other current assets		1,598,045	1,931,937	239,391
Total current assets		651,012,412	250,711,325	31,066,308
Long term receivables due from related parties	2	39,508,874	362,450,068	44,912,154
Investment in subsidiaries	1	165,799,867	251,535,177	31,168,394
Total assets		856,321,153	864,696,570	107,146,856
LIABILITIES AND SHAREHOLDERS EQUITY				
Current liabilities:				
Due to related parties	2	1,577,873	2,014,535	249,626
Other payables and accruals		2,924,958	8,802,572	1,090,748
Total current liabilities		4,502,831	10,817,107	1,340,374
Total liabilities		4,502,831	10,817,107	1,340,374
Shareholders equity:				
Common shares (US$0.0001 par value; 500,000,000 shares authorized, 55,616,679 and 54,876,079 shares issued and outstanding as of December 31, 2004 and 2005, respectively)		46,044	45,451	5,632
Additional paid-in capital		869,125,807	848,423,068	105,130,365
Deferred share-based compensation		(40,154,027)	(23,141,471)	(2,867,521)
Other comprehensive loss		(501,659)	(318,174)	(39,426)
Retained earnings		23,302,157	28,870,589	3,577,432
Total shareholders equity		851,818,322	853,879,463	105,806,482

Total liabilities and shareholders equity	856,321,153	864,696,570	107,146,856

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ADDITIONAL INFORMATION FINANCIAL STATEMENT SCHEDULE I
51JOB, INC.
CONDENSED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2003, 2004 AND 2005

	Note	2003 RMB	2004 RMB	2005 RMB	2005 US$ (Note 4)
Net cash provided by (used in) operating activities		(375,103)	(891,852)	7,598,852	941,594
Net cash provided by (used in) investing activities			7,420,016	(322,941,195)	(40,016,504)
Net cash provided by (used in) financing activities		746,227	640,964,309	(74,097,969)	(9,181,677)
Effect of foreign exchange rate changes on cash		76,964	236,144	(11,195,747)	(1,387,296)
Net increase (decrease) in cash		448,088	647,728,617	(400,636,059)	(49,643,883)
Cash, beginning of year		399,934	848,022	648,576,639	80,366,861
Cash, end of year		848,022	648,576,639	247,940,580	30,722,978

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ADDITIONAL INFORMATION FINANCIAL STATEMENT SCHEDULE I
51JOB, INC.
NOTES TO THE CONDENSED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2003, 2004 AND 2005
(Amounts expressed in RMB unless otherwise stated)

1. BASIS OF PRESENTATION

The condensed financial statements of 51job, Inc. (the Company) have been prepared in accordance with accounting principles generally accepted in the United States of America except for accounting of the Company s subsidiaries and certain footnote disclosures as described below.

The Company is generally a holding company of certain subsidiaries and variable interest entities (collectively Subsidiaries). The Company records it investment in its Subsidiaries under the equity method of accounting as prescribed in Accounting Principles Board (APB) Opinion No. 18, The Equity Method of Accounting for Investments in Common Stock. Such investment is presented on the balance sheet as Investment in subsidiaries and 100% of the Subsidiaries profit or loss as Equity in profit of subsidiary companies, net on the statement of operations.

The Subsidiaries did not pay any dividend to the Company for the periods presented.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. The footnote disclosures contain supplemental information relating to the operations of the Company and, as such, these statements should be read in conjunction with the notes to the consolidated financial statements of the Company.

2. RELATED PARTY BALANCES

Balances with related parties for the periods indicated are as follows:

	2004 RMB	2005 RMB
Receivables due from related parties:		
51net HR	828,929	822,577
51net Beijing	1,021	16,231
Qianjin Network Information Technology (Shanghai) Co., Ltd.	7,778	
	837,728	838,808
Long term receivables due from related parties:		
51net.com Inc.	39,508,874	362,450,068
	40,346,602	363,288,876
Due to related parties:		
Qianjin Network Information Technology (Shanghai) Co., Ltd.		73,519
Shanghai Qianjin Advertising Co., Ltd.		935,501
Advances for share options exercised	1,577,873	1,005,515
	1,577,873	2,014,535

The amounts due from 51net.com Inc. relate to cash payments made by the Company to 51net.com Inc. for investment in the Company s PRC entities. The amounts are unsecured, non-interest bearing and have no definite terms.

3. COMMITMENTS

The Company does not have any significant commitments or long term obligations as of any of the periods presented.

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ADDITIONAL INFORMATION FINANCIAL STATEMENT SCHEDULE I
51JOB, INC.
NOTES TO THE CONDENSED FINANCIAL STATEMENTS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2003, 2004 AND 2005
(Amounts expressed in RMB unless otherwise stated)

4. FOREIGN CURRENCIES

The unaudited United States dollar (US$) amounts disclosed in the financial statement are presented solely for the convenience of the readers. Translations of amounts from RMB into United States dollars for the convenience of the reader were calculated at the noon buying rate of US$1.00 = RMB8.0702 on December 30, 2005 in The City of New York for cable transfers of RMB as certified for customs purposes by the Federal Reserve Bank of New York. No representation is made that the RMB amounts could have been, or could be, converted into US$ at that rate on December 30, 2005, or at any other certain rate.