51JOB, INC.
Form 20-F
June 27, 2008

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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, 2007

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)
Building 3
No. 1387, Zhang Dong Road
Shanghai 201203
People s Republic of China
(Address of principal executive offices)
Rick Yan
Telephone: +(86-21) 6160-1888
Facsimile: +(86-21) 6879-6233
Building 3
No. 1387, Zhang Dong Road
Shanghai 201203
People s Republic of China
(Name, telephone, email and/or facsimile number and address of company contact person)

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

(Title of Each Class)	(Name of Each Exchange on Which Registered)
American Depositary Shares, each representing two common shares, par value US$0.0001 per share	The NASDAQ Stock Market LLC (The NASDAQ Global Select Market)

Securities registered or to be registered pursuant to Section 12(g) of the Act:
None.
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: 56,519,471 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 transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. o Yes 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 basis of accounting the registrant has used to prepare the financial statements included in this filing:

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

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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INTRODUCTION

Unless otherwise indicated, references in this annual report to:

ADRs are to the American depositary receipts that evidence our ADSs;

ADSs are to our American depositary shares, each of which represents 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 Global Select 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 predecess 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.;

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.;

Wang Ju are to Shanghai Wang Ju Human Resource Consulting Co., Ltd.;

WFOE are to Qian Cheng Wu You Network Information Technology (Beijing) Co., Ltd.; and

Wuhan AdCo are to Wuhan Mei Hao Qian Cheng Advertising Co., Ltd.

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

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 31, 2007, which was RMB7.2946 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, 2008, the noon buying rate was RMB6.8630 to US$1.00.

This annual report on Form 20-F includes our audited consolidated statements of operations data for the years ended December 31, 2005, 2006 and 2007, and audited consolidated balance sheet data as of December 31, 2006 and 2007.

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FORWARD-LOOKING STATEMENTS

This annual report on Form 20-F contains statements of a forward-looking nature. These statements are made within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, 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, anticipate, believe, estimate, predict, potential, contin these terms or other comparable terminology. The 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 as well as stock market volatilities;
- changes in our management team and other key personnel;
- introduction by our competitors of new or enhanced products and services;
- price competition in the market for the various human resource services that we provide in China;
- seasonality of our business;
- fluctuations in the value of the Renminbi against the U.S. dollar and other currencies;
- our ability to develop or introduce new products and services outside of the human resources industry;
- fluctuations in general economic conditions; and
- other risks outlined in our filings with the Securities and Exchange Commission, including this annual report on Form 20-F and any amendments thereto.

These risks are not exhaustive. You should read these statements in conjunction with the risks disclosed in Item 3. Key Information Risk Factors of this annual report and other risks outlined in our other filings with the Securities and Exchange Commission. Moreover, we operate in an emerging and evolving environment. New risks may emerge from time to time, and it is not possible for our management to predict all risks, nor can we assess the impact of such risks on our business or the extent to which any risk, or combination of risks, may cause actual results to differ materially from those contained in any forward-looking statements. Except as required by law, we undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

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PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not Applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not Applicable.

ITEM 3. KEY INFORMATION

A. Selected Financial Data

The following tables present the selected consolidated financial information for our 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, 2005, 2006 and 2007, and the selected consolidated balance sheet data as of December 31, 2006 and 2007, 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 years ended December 31, 2003 and 2004, and the selected consolidated balance sheet data as of December 31, 2003, 2004 and 2005 have been derived from our audited consolidated financial statements, which are not included in this annual report. The historical results presented below do not necessarily indicate results expected for any future period.

	For the year ended December 31,					
	2003	**2004**	**2005**	**2006**	**2007**	**2007**
(in thousands, except per share data)	**RMB**	**RMB**	**RMB**	**RMB**	**RMB**	**US$[(2)]**
Selected Consolidated Statement of Operations Data:						
Revenues:						
Print advertising	182,606	300,652	356,285	389,535	430,621	59,033
Online recruitment services	76,960	111,509	159,495	219,794	282,688	38,753
Executive search	15,748	24,908	26,307	19,938	16,086	2,205
Other human resource related revenues	18,020	42,875	53,507	68,586	114,871	15,747
Total revenues	293,334	479,944	595,594	697,853	844,266	115,738
Net revenues	280,119	456,120	562,026	659,843	799,284	109,572
Cost of services[(1)]	(151,477)	(224,607)	(269,328)	(294,068)	(349,022)	(47,847)
Gross profit	128,642	231,513	292,698	365,775	450,262	61,725
Operating expenses[(1)]:						
Sales and marketing	(39,043)	(69,029)	(115,095)	(136,770)	(181,230)	(24,844)
General and administrative	(55,817)	(72,096)	(100,614)	(114,322)	(128,347)	(17,595)
Total operating expenses	(94,860)	(141,125)	(215,709)	(251,092)	(309,577)	(42,439)
Income from operations	33,782	90,388	76,989	114,683	140,685	19,286
Income before income tax provision	35,792	95,201	91,367	127,901	148,979	20,422
Income tax expense	(3,192)	(34,058)	(29,945)	(28,560)	(45,402)	(6,224)
Net income	32,600	61,143	61,422	99,341	103,577	14,198

Earnings per share:						
Basic	0.83	1.32	1.10	1.79	1.84	0.25
Diluted	0.75	1.26	1.07	1.76	1.83	0.25
Earnings per ADS(3):						
Basic	1.65	2.65	2.21	3.58	3.68	0.50
Diluted	1.50	2.52	2.15	3.52	3.66	0.50

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	As of December 31,					
	2003	**2004**	**2005**	**2006**	**2007**	**2007**
(in thousands)	**RMB**	**RMB**	**RMB**	**RMB**	**RMB**	**US$(2)**
Selected Consolidated Balance Sheet Data:						
Assets:						
Cash	115,085	848,293	830,634	868,698	1,007,520	138,119
Total current assets	145,573	893,647	892,544	919,576	1,075,288	147,409
Total non-current assets	39,831	43,735	70,875	208,039	227,878	31,239
Total assets	185,404	937,382	963,420	1,127,615	1,303,166	178,648
Liabilities:						
Total current liabilities	56,096	85,564	109,540	139,075	176,115	24,143
Total non-current liabilities	24			122	516	72
Total liabilities	56,120	85,564	109,540	139,197	176,631	24,215
Total shareholders equity	129,284	851,818	853,880	988,418	1,126,535	154,433
Total liabilities and shareholders equity	185,404	937,382	963,420	1,127,615	1,303,166	178,648

(1) Share-based compensation was included in the consolidated statement of operations data as follows:

	For the year ended December 31,					
	2003	**2004**	**2005**	**2006**	**2007**	**2007**
(in thousands)	**RMB**	**RMB**	**RMB**	**RMB**	**RMB**	**US$(2)**
Cost of services	(597)	(1,811)	(1,480)	(4,621)	(4,931)	(676)
Operating expenses:						
Sales and marketing	(423)	(1,758)	(1,438)	(3,972)	(4,241)	(581)
General and administrative	(17,682)	(16,921)	(11,635)	(19,926)	(20,479)	(2,807)

(2) 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 31, 2007, which was RMB7.2946 to US$1.00.

(3) Each ADS represents two common shares.

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 your convenience. 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 31, 2007, which was RMB7.2946 to US$1.00. The prevailing rate on June 26, 2008 was RMB6.8630 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 table sets 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.

	Noon buying rate of Renminbi per U.S. dollar			
Period	**Period-end**	**Average[(1)]**	**Low**	**High**
2003	8.2767	8.2772	8.2800	8.2765
2004	8.2765	8.2768	8.2771	8.2765
2005	8.0702	8.1826	8.2765	8.0702
2006	7.8041	7.9579	8.0702	7.8041
2007	7.2946	7.5806	7.8127	7.2946
December	7.2946	7.3682	7.4120	7.2946
2008				
January	7.1818	7.2405	7.2946	7.1818
February	7.1115	7.1644	7.1973	7.1100
March	7.0120	7.0722	7.1110	7.0105
April	6.9870	6.9997	7.0185	6.9840
May	6.9400	6.9725	7.0000	6.9377
June (through June 26)	6.8630	6.9034	6.9633	6.8630

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

B. Capitalization and Indebtedness

Not Applicable.

C. Reasons for the Offer and Use of Proceeds

Not Applicable.

D. Risk Factors

Risks Related to Our Business

Because we face significant competition, 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 competition within all of our markets. Competitors of *51job Weekly* are primarily comprised of local newspaper publishers and specialized recruitment advertising publications. *51job Weekly* also faces competition from online job search websites and other online businesses seeking to expand into print recruitment advertising.

Our online recruitment services face intense competition from other dedicated job search websites such as *ChinaHR.com*, *Cjol.com* and *Zhaopin.com*, as well as from local job search websites. For example, according to public reports, *ChinaHR.com* and *Zhaopin.com* have significantly increased their sales and marketing activities in recent years. In addition, many executive search firms and other competitors currently engaged in print advertising or organizing job fairs have developed or acquired 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 print and online recruitment advertising. In addition, some of the competitors we encounter in our business process outsourcing business are affiliated with local government agencies and have licenses to provide a wider range of services than we do.

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

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

In the future, we may face competition from new entrants in the 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 new 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 customers and establish significant market share within a relatively short period of time. 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 the print media industry may result in increased competition and a material decrease in advertising rates, including the prices we charge for our print advertising services. Increased competition could result in a loss of market share and revenues, and have a material adverse effect on our business, financial condition and results of operations.

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. We also incur fixed costs relating to website connectivity, maintenance, design and operation in our online businesses. Our ability to achieve desired operating margins in our recruitment advertising businesses depends largely on our success in generating a sufficient amount of revenues from print and online recruitment advertisements to offset the associated fixed costs. In addition, to build and maintain employer and job seeker acceptance of *51job*

Weekly and *www.51job.com* as attractive media for posting and finding jobs, we need to reach and maintain a critical mass of recruitment advertisements.

In some of our markets, *51job Weekly* has not achieved the necessary economies of scale to achieve our desired profitability targets, despite our having operated in these markets for a significant period of time. We believe that this has been primarily due to competition from rival print advertising publications as well as a decrease in market demand for print advertisement services in recent years. 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 a significant majority of our revenues are generated from providing recruitment advertising services for PRC businesses or divisions of foreign firms operating in China. Although the PRC economy has grown significantly in recent years, we cannot assure you that such growth will continue. From time to time, the Chinese government has instituted various economic measures and other policy changes to regulate the pace of economic growth. 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.

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 the influence and regulation by the national and local governments, large job fairs and personal referrals continue to be key recruitment channels for the private sector in China. 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, as Internet penetration rates vary widely across the different cities and regions of China, the level of acceptance of online recruitment services may be low in certain geographies for an extended period of time, which may negatively impact our operations in those markets. Moreover, 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.

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

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

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

In addition, as part of our strategy to be a one-stop human resource services provider, we may decide to develop new services in the area of other human resource related services. We cannot assure you that we will be able to deliver new products or services on a commercially viable basis or in a timely manner, or at all. If any of our efforts to develop or operate new human resource related services are unsuccessful, our financial condition and results of operations may be materially and adversely affected.

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. 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 print advertising business model 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 print advertising services.

The term of our agreements with local newspaper contractors is generally two years, and eight of these agreements will expire between the date of this annual report and December 31, 2008. 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;
- 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 or change the newspaper contractor in one of our markets. 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 providers, 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 China Telecommunications Corporation, or China Telecom, and China Network Communications Group Corporation, or China Netcom, 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 the fixed telecommunications networks of China Telecom or China Netcom, or if China Telecom or China Netcom otherwise fail to provide such services. In addition, we have no control over the costs of the services provided by China Telecom or China Netcom. If China Telecom or China Netcom fails 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. According to public reports, our competitors, particularly those which provide online recruitment services, have significantly increased their expenditures on sales and marketing activities in recent years. 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 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 high growth since we commenced operations in 1998 and we intend to continue to expand in size and increase the number of services we provide. Our anticipated future growth will place 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. If we are unable to properly manage our services in new or existing markets or the quality of our services deteriorates due to mismanagement, we could significantly damage our brand name and reputation, which would adversely affect our ability to expand our customer base.

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

The management of our business involves the collection of cash payments by our employees and agents 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. For example, in January 2008, we identified some irregularities and non-compliance to contract terms by a third party in connection with our human resource outsourcing operations in Beijing. While the outcome of our investigation of the third party remains unclear, we face probable liability and have estimated a financial loss of RMB9.7 million (US$1.3 million) related to this matter. If we are unable to successfully detect and prevent criminal or fraudulent activity, our results of operations and financial condition may be materially and adversely affected.

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

We began operations in 1998 and 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 may encounter risks and difficulties including our potential failure to:

- implement our business model and strategy and adapt and modify them as needed;
- increase awareness of our brands, protect our reputation and develop customer loyalty;
- anticipate with any degree of certainty the behavioral and operational changes of our customers that have a significant impact on our business from time to time as they respond to evolving social, economic 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 majority of our revenues and any adverse development in this business could materially and adversely affect our overall results of operations.

We generate a majority of our revenues from *51job Weekly*, which generated approximately 59.8% of our revenues in 2005, 55.8% of our revenues in 2006 and 51.0% of our revenues in 2007. While we have experienced 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. In addition, we have observed that in some of our markets where Internet penetration rates are relatively higher, a larger percentage of new, first-time customers may choose an online service as their initial recruitment advertising purchase with us. To the extent this continues to occur 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 unable to predict future revenue streams with any high degree of certainty. More specifically, the majority of our revenues is derived from print advertising and we do not recognize 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 seasonal 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, which affects our business in the first quarter and impacts comparability of financial results to corresponding periods in prior years. Beginning in 2008, the Chinese government has instituted changes to the schedule of public holidays by eliminating the week-long holiday at the beginning of May and recognizing new observances, which may result in new seasonality patterns for our business. 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 periods of prior years. Such uncertainty makes it difficult for us to predict revenues for a particular quarter. Therefore, actual results may differ significantly from our targets or estimated quarterly results, which could cause the price of our ADSs to fall.

We 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 or new 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;
- our ability to integrate acquired personnel, operations, products and technologies into our organization effectively; and
- our ability to retain and motivate key personnel and to retain the clients of acquired firms.

Any such acquisition may require a significant commitment of management time, capital investment and other resources. 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 or are required to incur restructuring and other charges to complete an acquisition, our business, financial condition and results of operations may be materially and adversely affected. 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 in our history.

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. Similarly, the success of our training business depends on personnel with the necessary skills to conduct and support our training seminars and other activities and services in this business. Our business of performing traditional human resource department functions such as payroll, benefits and compliance management and related services for customers on an outsourced basis depends on having personnel with expertise in local and national PRC government employment regulations, payroll management and other human resource department functions. 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 staffed with personnel from Recruit to explore potential business opportunities outside of the human resource services industry in China. In August 2007, we entered into an agreement with Recruit to form a new company focused on coupon advertising services in China. Under the agreement, we have committed to providing this new company with up to RMB32.8 million (US$4.5 million) in financing and have the ability to acquire up to 40% of the new company s share capital. As of December 31, 2007, we have provided financing in the amount of RMB8.8 million (US$1.2 million) to the newly formed company. Because we lack experience and expertise in operating coupon advertising services and any businesses outside of the human resource services industry, we will rely on Recruit to manage these businesses and we cannot assure you that these 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 or operate a business 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 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 patent, trademark or copyright infringement, or misappropriation of their creative ideas or formats, or other infringement of their proprietary intellectual property rights. Any such claims, regardless of merit, may involve us in time-consuming, costly litigation or investigation, divert significant management and staff attention, require us to enter into expensive royalty or licensing arrangements, prevent us from using important technologies, business methods, content or other intellectual property, result in monetary liability, or otherwise disrupt our operations. We 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 ability to store, retrieve, process and manage substantial amounts of information, including our client and candidate databases, is an important part of our operations and a critical component of our success. To achieve our strategic objectives and to remain competitive, we must further 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 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 products and applications. The occurrence of errors in any of these may cause us to lose market share, harm our reputation and brand names, and materially and adversely affect our business.

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

As of May 31, 2008, the following three shareholders beneficially owned approximately 65.9% of our outstanding common shares:

- Rick Yan, our chief executive officer and a director, who beneficially owned approximately 26.9% of our outstanding common shares;

- Recruit, which beneficially owned approximately 21.8%, and which is affiliated with Hiroyuki Honda, one of our directors; and

- entities affiliated with DCM, which beneficially owned approximately 17.2%, and which is affiliated with David K. Chao, one of our directors.

These three shareholders, together with our other executive officers and directors, beneficially owned approximately 69.6% of our outstanding common shares. Accordingly, Mr. Yan, Recruit or DCM individually could have significant influence in determining the outcome of any corporate transaction or other matter submitted to the shareholders for approval, including mergers, consolidations and the sale of all or substantially all of our assets, election of directors and other significant corporate actions. In cases where their interests are aligned and they vote together, these shareholders will also have the power to prevent or cause a change in control. Without the consent of some or all of these shareholders, we may be prevented from entering into transactions that could be beneficial to us. In addition, these parties could violate their 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, who is our chief financial officer, entered into a share purchase agreement with Recruit. Michael Lei Feng and Norman Lui are co-founders and former executive officers of our company. 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. Mr. Hiroyuki Honda, an executive vice president and director of Recruit, was elected to our board of directors on July 28, 2006.

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.

If certain preferential tax treatments become unavailable in China, our effective income tax rate would increase. In addition, our foreign ADS holders may be subject to PRC withholding tax on the dividends payable by us and upon gains realized on their sales of our ADSs if we are classified as a PRC resident enterprise.

We file separate income tax returns because we and our affiliated entities are incorporated in different jurisdictions. We are incorporated in the Cayman Islands where no income taxes are imposed. In addition, our entities incorporated in the British Virgin Islands are exempt from income tax on foreign derived income and there are no withholding taxes imposed in the British Virgin Islands. We do not expect that we or our entities in the British Virgin Islands will record any income tax provisions in the foreseeable future.

We generate substantially all our net income from our operations in China which are conducted through various subsidiaries and affiliated entities. In accordance with former PRC income tax regulations, our subsidiaries and affiliated entities were generally subject to enterprise income tax, or EIT, at a statutory rate of 33%. However, under preferential tax rules, we have obtained preferential tax rates of 15% for some of our subsidiaries in the special economic zones of Shanghai s Pudong area and Shenzhen and a preferential tax rate of 30% for the branches of Qianjin Network Information Technology (Shanghai) Co., Ltd., or Tech JV, outside of Shanghai.

On March 16, 2007, the National People s Congress approved and promulgated a new tax law named Enterprise Income Tax Law of the PRC, or the EIT Law, which applies a uniform 25% EIT rate to both foreign-invested enterprises and domestic enterprises effective January 1, 2008. For enterprises that were established before the new EIT Law was promulgated and were entitled to preferential tax rates under former tax laws and regulations, the new EIT Law has granted a grace period of up to five years for these enterprises to gradually transition from their preferential tax rates to the standard rate of 25%. If we are unable to maintain and utilize preferential tax statuses, the EIT of some of our PRC subsidiaries would increase and our consolidated effective tax rate could also increase and adversely and materially affect our earnings.

In addition, under the new EIT Law, enterprises organized under the laws of jurisdictions outside China with their de facto management bodies located within China may be considered PRC resident enterprises and therefore subject to PRC enterprise income tax at the rate of 25% on their worldwide income. Under the implementation regulations issued by the State Council relating to the new EIT Law, de facto management bodies is defined as the bodies that have material and overall management control over the business, personnel, accounts and properties of an enterprise. Substantially all of our management is currently based in China. As such, we may be considered an enterprise established outside China with de facto management bodies located in China and thus a resident enterprise subject to the uniform 25% enterprise income tax rate as to our global income. Moreover, dividends payable by a foreign-invested enterprise to its foreign investors from profits earned after January 1, 2008 are subject to a 10% withholding tax, unless any such foreign investor s jurisdiction of incorporation has a tax treaty with China that provides for a different withholding arrangement.

Our earnings have been and will continue to be adversely affected by changes in our accounting policies, including those related to the expensing of stock options.

In 2006, we adopted Statement of Financial Accounting Standards No. 123R (revised 2004), Share-Based Payment, or SFAS No. 123R, which requires that stock-based compensation transactions, such as stock option grants, be accounted for using a fair value based method and recognized as expenses in our consolidated statement of operations. We use the Black-Scholes option pricing model to determine the fair value of stock options grants under SFAS No. 123R. This method is based upon, among other things, the volatility of our ADSs, which has been historically high. Therefore, the adoption of SFAS No. 123R negatively affects our profitability and the trading price of our ADSs. The implementation of SFAS No. 123R could also limit our ability to continue to use stock options as an incentive and retention tool, which could, in turn, hurt our ability to recruit employees and retain existing employees. Other new accounting pronouncements and varying interpretations of accounting pronouncements have occurred and may occur in the future. The change to existing rules, future changes, if any, or the questioning of current practices may adversely and materially affect our earnings.

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

We are subject to reporting obligations under the U.S. securities laws. The Securities and Exchange Commission, as required under Section 404 of the Sarbanes-Oxley Act of 2002, has adopted rules requiring public companies to include a report of management on the effectiveness of such companies internal control over financial reporting in its annual report. In addition, an independent registered public accounting firm must attest to and report on the effectiveness of the company s internal controls over financial reporting. Our management has conducted an evaluation of the effectiveness of our internal control over financial reporting and concluded that our internal control over financial reporting was effective as of December 31, 2007. Our independent registered public accounting firm has issued an attestation report and concluded that our internal control over financial reporting was effective as of December 31, 2007.

However, if we fail to maintain the effectiveness of our internal controls, our management may not be able to conclude on an ongoing basis that we have effective internal controls over financial reporting in accordance with the Sarbanes-Oxley Act. In addition, even if our management has concluded that our internal controls over financial reporting are effective, our independent registered public accounting firm may still decline to attest to our effectiveness or may issue a report that is qualified if it is not satisfied with our internal controls or the level at which our controls are documented, designed, operated or reviewed, or if it interprets the relevant requirements differently from us. Moreover, effective internal controls are necessary for us to produce reliable financial reports. As a result, any failure to achieve and maintain effective internal controls over financial reporting could result in the loss of investor confidence in the reliability of our financial statements, which in turn could negatively impact the trading price of our ADSs. Furthermore, we have incurred and may need to incur additional costs and use additional management and other resources in an effort to comply with Section 404 of the Sarbanes-Oxley Act and other requirements going forward.

We have no business insurance coverage.

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

We are vulnerable to natural disasters and other calamities.

Our servers are currently hosted in Shanghai and Tianjin. 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, riots, terrorist acts or similar events. Any of the foregoing events may give rise to server interruptions, breakdowns, system failures, technology platform failures and Internet failures, which could cause the loss or corruption of data or malfunctions of software or hardware. 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;

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

Shanghai Wang Ju Human Resource Consulting Co., Ltd., or Wang Ju.

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 and taxes. PRC regulations currently permit payment of dividends only out of accumulated profits as determined in accordance with PRC accounting standards and regulations. Our subsidiaries and affiliated entities in the PRC are also required to set aside a portion of their after-tax profits according to PRC accounting standards and regulations to fund certain reserve funds that are not distributable as cash dividends. In addition, the PRC government imposes controls on the convertibility of 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 has regulated foreign ownership in entities providing advertising and human resource related services. Prior to March 2004, PRC laws and regulations prohibited foreign persons from owning a controlling interest in advertising entities. This foreign ownership restriction was subsequently relaxed in recent

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years and foreign persons are now permitted to wholly own advertising entities in China. 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. Foreign ownership in entities providing human resource related services was limited to 49% beginning in November 2003 and this ownership limitation was increased to 70% in August 2006.

Prior to our restructuring in May 2004, 51net, our British Virgin Islands 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 then existing 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.

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 indirectly wholly owned by David Weimin Jin and Tao Wang, two executive officers of our company. 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 indirectly wholly owned by David Weimin Jin 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 the 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 7. Major Shareholders and Related Party Transactions Related Party Transactions Contractual Arrangements Among Our Group Entities.

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 2007, revenues from human resource related services provided to customers outside Shanghai accounted for approximately 4% 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 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 7. Major Shareholders and Related Party Transactions Related Party Transactions Contractual Arrangements Among Our Group Entities.

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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 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.

Under equity pledge agreements, the shareholders of our Chinese affiliated entities have pledged their respective equity interests to us. On March 16, 2007, the PRC Property Law was promulgated and took effect on October 1, 2007. According to the PRC Property Law, a pledge of the equity interest of a company in China cannot be legally established until it is duly registered with the relevant administration of industry and commerce. The pledges under the equity pledge agreements between WFOE and the shareholders of Qian Cheng, RAL and Run An are yet to be registered with the relevant administration of industry and commerce as no registration procedures are currently available to our knowledge. We will make efforts to register such pledges when the administration for industry and commerce implements registration procedures in accordance with the PRC Property Law in the future. Since we have been unable to register the pledges, we cannot assure you about the effectiveness of the pledges.

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;

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. In addition, since late 2007, the PRC government has implemented measures to restrain inflation. Such measures may cause a decrease in the level of economic activity in China, which in turn could adversely affect our results of operations and financial condition.

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. The PRC government could also determine to more closely regulate the advertising, Internet content delivery or human resource industries, which could impose additional regulatory costs and burdens on us.

On June 29, 2007, the Standing Committee of the National People s Congress of China enacted the Labor Contract Law, which became effective on January 1, 2008. The Labor Contract Law establishes restrictions and increases costs for employers, including specific provisions related to fixed-term employment contracts, temporary employment, probation, consultation with the labor union and employee assembly, employment without a contract, dismissal of employees, compensation upon termination and overtime work, and collective bargaining. In addition, under the Regulations on Paid Annual Leave for Employees, which became effective on January 1, 2008, employees who have served more than one year for an employer are entitled to a paid vacation ranging from 5 to 15 days, depending on their length of service. Employees who waive such vacation time at the request of employers shall be compensated for three times their regular salaries for each waived vacation day. The implementation of the Labor Contract Law may impact the recruitment behavior and human resource budgets of companies in China which may materially and adversely affect our business.

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, or MII, 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 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. Our failure to comply with applicable PRC Internet regulations could subject us to severe sanctions.

In July 2006, the MII issued the Notice on Strengthening the Administration of Foreign Investment in the Operation of Value Added Telecommunication Business, or the MII Notice. According to the MII Notice, foreign investors can only operate a telecommunications business in China by establishing a telecommunications enterprise with a valid telecommunications business operation license. Domestic value-added telecommunications services license holders are prohibited from leasing, transferring or selling telecommunications business operation licenses to foreign investors in any form, and from providing any resource, sites or facilities to foreign investors to facilitate the illegal operation of a telecommunications business in China. The MII Notice also requires that value-added telecommunications services license holders (including their shareholders) directly own the domain names and registered trademarks used by such value-added telecommunications services license holders in their daily operations. The MII Notice further requires each value-added telecommunications services license holder to have the necessary facilities for its approved business operations and to maintain such facilities in the regions covered by its license. In addition, all value-added telecommunications service providers are required to improve network and information security, draft relevant information safety administration regulations and set up networks and information safety emergency plans. The provincial communications administration bureaus in charge of telecommunications services are required to ensure that existing value-added telecommunications services license holders will conduct a self-assessment of their compliance with the MII Notice and submit status reports to the MII before November 1, 2006. For those who are not in compliance with the requirements above and fail to rectify the noncompliance within the limited period set by provincial communications administration bureaus, the provincial communications administration bureaus may revoke their operating licenses. Due to the lack of further necessary interpretation, it remains unclear what impact the MII Notice will have on us or other companies that have adopted the same or similar corporate and contractual structures as ours at this time.

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 China Telecom and China Netcom 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 and China Netcom 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 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. In May 2007, the PRC government widened the daily trading band from 0.3% to 0.5%. These changes in policy resulted in an appreciation in the value of the Renminbi against the U.S. dollar of approximately 2.5% in 2005, 3.3% in 2006 and 6.5% in 2007, and we reported losses from foreign currency translation of RMB11.3 million in 2005, RMB9.4 million in 2006 and RMB18.1 million (US$2.5 million) in 2007. It is possible that the Chinese government could adopt a more flexible currency policy, which could result in further and more significant revaluations of the Renminbi against the U.S. dollar or any other foreign currency. As a portion of our assets are denominated in U.S. dollars, any future upward revaluations of the Renminbi will 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. 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 PRC regulations relating to offshore investment activities by PRC residents and employee stock options granted by overseas-listed companies may increase our administrative burden and adversely impact our business and prospects. If our shareholders who are PRC residents fail to make any required registrations or filings under such regulations, we may be unable to distribute profits and may become subject to liability under PRC laws.

As part of our growth strategy, we may decide to expand, in part, by acquiring certain complementary or new businesses in the future, including companies incorporated in the PRC. The PRC State Administration of Foreign Exchange, or SAFE, issued the Notice on Issues Relating to the Administration of Foreign Exchange in Fund-Raising and Round-trip Investment Activities of Domestic Residents Conducted via Offshore Special Purpose Companies in October 2005, which became effective in November 2005, and an implementation rule in May 2007, or collectively the SAFE Rules. According to the SAFE Rules, PRC citizens and foreign citizens who reside in China, are required to register with SAFE or its local branch office before establishing or controlling any company outside of China for the purpose of financing the offshore company with their ownership interests in the assets of or their interests in any Chinese enterprise. The offshore companies are referred to in the SAFE Rules as offshore special purpose companies. In addition, a PRC resident that is a shareholder of an offshore special purpose company is required to amend its SAFE registration with the local SAFE branch with respect to the offshore special purpose company in connection with the injection of equity interests or assets of a Chinese enterprise in the offshore company or overseas fund raising by the offshore company, or any other material change in the capital of the offshore company, including any increase or decrease of capital, transfer or swap of shares, merger, division, long-term equity or debt investment or creation of any security interest. The SAFE Rules apply retroactively. As a result, Chinese residents who have established or acquired control of offshore companies that have made onshore investments in China in the past are required to complete the relevant registration procedures with the applicable local SAFE authority. If any resident of China fails to register with SAFE with respect to its ownership of an existing offshore entity, dividends remitted by the onshore entity to its overseas parent may be considered an evasion of foreign exchange purchase rules, and therefore, may be subject to penalties under relevant PRC foreign exchange laws and regulations. In addition, failure to comply with registration procedures may result in restrictions on the relevant onshore entity, including prohibitions on the payment of dividends and other distributions to its offshore parent or affiliate and on capital inflow from the offshore entity.

Current regulations are still uncertain and unclear. It is possible that the relevant government authorities may promulgate new legislation to interpret, amend or implement the SAFE Rules 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 business and prospects.

On March 28, 2007, SAFE promulgated the Application Procedure of Foreign Exchange Administration for Domestic Individuals Participating in Employee Stock Holding Plan or Stock Option Plan of Overseas Listed Company, or the Stock Option Rule, to regulate foreign exchange procedures for PRC individuals participating in employee stock holding and stock option plans of overseas companies. Under the Stock Option Rule, a PRC domestic individual must comply with various foreign exchange procedures through a domestic agent institution when participating in any employee stock holding plan or stock option plan of an overseas listed company. Certain domestic agent institutions, such as the PRC subsidiaries of an overseas listed company, a labor union of such company that is a legal person or a qualified financial institution, among others things, shall file with SAFE and be responsible for completing relevant foreign exchange procedures on behalf of PRC domestic individuals, such as applying to obtain SAFE approval for exchanging foreign currency in connection with owning stock or stock option exercises. Concurrent with the filing of such applications with SAFE, the PRC subsidiary, as a domestic agent must obtain approval from SAFE to open a special foreign exchange account at a PRC domestic bank to hold the funds in connection with the stock purchase or option exercise, any returns based on stock sales, any stock dividends issued and any other income or expenditures approved by SAFE. The PRC subsidiary also is required to obtain approval from SAFE to open an overseas special foreign exchange account at an overseas trust bank to hold overseas funds used in connection with any stock purchase.

Under the Stock Option Rule, all proceeds obtained by PRC domestic individuals from sales of stock shall be fully remitted back to China after relevant overseas expenses are deducted. The foreign exchange proceeds from these sales can be converted into RMB or transferred to the individual s foreign exchange savings account after the proceeds have been remitted back to the special foreign exchange account opened at the PRC domestic bank. If the stock option is exercised in a cashless exercise, the PRC domestic individuals are required to remit the proceeds to the special foreign exchange account. If we or our PRC optionees fail to comply with these regulations in the future, we or our PRC optionees and their local employers may be subject to fines and legal sanctions.

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 or through private transactions 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 or through private transactions, 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.

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), as amended and revised from time to time, and the common law of the Cayman Islands. The rights of shareholders to take action against the directors, actions by minority shareholders and the fiduciary 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

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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, 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 and 51net HR, which are both Cayman Islands companies, as well as our PRC subsidiaries and affiliated Chinese entities, the primary ones being:

- Shanghai Qianjin Advertising Co., Ltd., or AdCo, and AdCo s seven 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 and is wholly owned by Run An;

- 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 and is wholly owned by Run An;

- Beijing Run An Information Consultancy Co., Ltd., or Run An, which is jointly owned by David Weimin Jin and Tao Wang, two executive officers of our company;

Shanghai Wang Cai Advertising Co., Ltd., or Wang Cai AdCo, which is an AdCo Subsidiary jointly owned by AdCo and TechJV and holds licenses to conduct advertising businesses;

Shanghai Wang Ju Human Resource Consulting Culd find a buyer for this building by January 2003 and exercise our option to purchase the building and not have to pay the remaining lease costs. As this did not happen, we accrued the contractual lease costs through the end of the lease in June 2003, which are $0.2 million. Similarly for the Farmington Hills, Michigan facility, we had anticipated selling the building sooner, but as this did not occur by the end of 2002, we accrued the costs for the unused space through the end of the lease in June 2003, which are $0.1 million. The company also took a further write-down of $0.3 million on the buildings in Kanata, Ontario and Rugby, United Kingdom and a $0.1 million write-off for fixed assets in Kanata, Ontario and a $0.1 million for the Maple Grove, Minnesota and Farmington Hills, Michigan facilities.

At March 28, 2003, the net book value of two facilities, one in Kanata, Ontario and the other in Nepean, Ontario, were classified as held for sale and included in other assets.

Cumulative cash draw-downs of approximately $3.0 million and non-cash draw-downs of $1.8 million have been applied against the provisions taken in 2002, resulting in a remaining provision balance of $1.6 million at March 28, 2003. For severance related costs associated with these two restructuring actions, the actions are complete and the company does not anticipate taking additional restructuring charges and expects to finalize payment in 2003. The company will continue to evaluate the fair value of the buildings and fixed assets that were written down. The restructuring accrual is expected to be completely utilized during January 2013 at the end of the lease term for the Munich, Germany facility. The company estimated the restructuring charge for the Munich, Germany facility based on contractual payments required on the lease for the unused space, less what is expected to be received for subleasing. Because this is a long term lease that extends until 2013, the company will draw-down the amount accrued over the life of the lease. Future sublease market conditions may require the company to make further adjustments to this restructuring reserve.

The result of this restructuring activity was the establishment of our three new primary business segments: Components, Lasers and Laser Systems. In addition, improved working capital management provided substantially reduced investment in receivables and inventories.

2003

In an attempt to align the distribution and service groups with our business segments, in the first quarter of 2003 the company commenced a restructuring plan that is expected to significantly reduce these operations around the world and to consolidate these functions at the company s manufacturing facilities. As part of this plan, the company provided for severance and termination benefits of approximately $0.6 million for 22 employees in Germany, France, Italy and Belgium in the first quarter. Under the new rules for accounting for restructurings required by SFAS 146, if an employee continues to work for anything beyond a minimum period of time after their notification, then their termination benefits are to be accrued over the period that they continue to work. As the company has retained certain employees to help with the transition of work beyond the minimum periods specified in SFAS 146, the company anticipates that it will accrue additional termination and severance benefits for these employees of approximately $0.5 million over the next two quarters, as a result of the actions taken in the first quarter of 2003. The company also accrued $5,000 for the termination of an office lease in Italy during the first quarter of 2003.

Cumulative cash draw-downs of approximately $0.4 million have been applied against the provisions taken in 2003, resulting in a remaining provision balance of $0.2 million at March 28, 2003.

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Results of Operations

The following table sets forth items in the unaudited consolidated quarterly statement of operations as a percentage of sales for the periods indicated:

	Three Months Ended	
	March 28, 2003	March 29, 2002
Sales	100.0%	100.0%
Cost of goods sold	64.2	66.7
Gross profit	35.8	33.3
Operating expenses:		
Research and development	8.2	15.8
Selling, general and administrative	28.6	36.7
Amortization of purchased intangibles	3.1	3.5
Restructuring	1.5	7.4
Other	0.9	
Total operating expenses	42.3	63.4
Loss from operations	(6.5)	(30.1)
Interest income	1.5	1.7
Interest expense	(0.1)	(0.3)
Foreign exchange transaction gains	1.0	1.0
Loss before income taxes	(4.1)	(27.7)
Income tax benefit		(9.8)
Net loss	(4.1)%	(17.9)%

Three Months Ended March 28, 2003 Compared to Three Months Ended March 29, 2002

Our customers and markets continue to evolve. During the fourth quarter of 2002, the company changed the way it manages its business to reflect a growing focus on its three core business segments: Components, Lasers and Laser Systems. In classifying operational entities into a particular segment, the company aggregated businesses with similar economic characteristics, products and services, production processes, customers and methods of distribution. Segment information for the 2002 year has been restated to conform to the current year s presentation.

The following table sets forth sales in thousands of dollars by our business segments for the first three months of 2003 and 2002.

	Three Months Ended	
	March 28, 2003 Sales	March 29, 2002 Sales
Components	$16,655	$18,090
Lasers	6,987	5,968
Laser Systems	17,826	12,981

Intersegment sales elimination	(349)	(151)
Total	$41,119	$36,888

Sales. Sales for the three months ended March 29, 2003 increased by $4.2 million compared to the same period in 2002. Our sales for the past seven quarters continue in the range of $37 million to $45 million, which reflects a lack of recovery in the semiconductor and electronics markets. Sales for our Components segment decreased by $1.4 million for the first quarter of 2003 as compared to the same period in 2002 primarily due to a decrease in sales of printer products. In the first quarter of 2002, our sales of printer products were larger than normal driven by higher sales to two customers who had new product launches. These product launches by our customers caused a spike in demand for our printer products in the first quarter of 2002. Once new products are launched by our customers, their demand for our components begins to normalize. There were no comparable spikes in demand for our components in the first quarter of 2003. The decrease from the first quarter of last year to the first quarter of this year is not indicative of the business. On an annualized basis, we do not anticipate there to be a large decline in our printer products business. Sales in our Lasers segment in the first quarter of 2003 increased by $1 million over first quarter last year, mostly due to increases in our JK series of products, as a result of increases in the volume of sales related to new product introductions within that series. In the first quarter of 2003, sales in our Laser Systems segment increased by approximately $4.8 million over sales in the same period last year. Equipment sales accounted for $4.4 million of that gain with $3.3 million generated by volume and $1.1 million generated by favorable pricing. Sales in our corporate segment represent elimination of sales between segments. There was a $0.2 million increase in sales between segments for the three months ended March 28, 2003 as compared to the same period last year.

Sales by Region. We distribute our systems and services via our global sales and service network and through third-party distributors and agents. Our sales territories are divided into the following regions: the United States; Canada; Latin and South America; Europe, consisting of Europe, the Middle East and Africa; Japan; and Asia-Pacific, consisting of ASEAN countries, China and other Asia-Pacific countries. Sales are attributed to these geographic areas on the basis of the bill to customer location. Not infrequently, equipment is sold to large international companies, which may be headquartered in Asia-Pacific, but the sales of our systems are billed and shipped to locations in the United States. These sales are therefore reflected in United States totals in the table below. The following table shows sales in millions of dollars to each geographic region for the first three months of 2003 and 2002.

	Three Months Ended			
	March 28, 2003		March 29, 2002	
	Sales	% of Total	Sales	% of Total
United States	$20.7	51%	$24.1	65%
Canada	0.1		0.8	2
Europe	5.7	14	6.3	17
Japan	9.4	23	2.5	7
Asia-Pacific, other	5.0	12	3.1	9
Latin and South America	0.2		0.1	
Total	$41.1	100%	$36.9	100%

For the quarter ended March 28, 2003, all of our segments experienced increased business in Japan. With respect to our Laser Systems business, we expect that all of Asia Pacific, including Japan, to be a larger percentage of the business going forward.

Backlog. We define backlog as unconditional purchase orders or other contractual agreements for products for which customers have requested delivery within the next twelve months. Order backlog at March 28, 2003 was $44 million compared to $57 million at March 29, 2002 and $42 million at December 31, 2002. Of the $44 million in backlog at March 28, 2003, 51% is in our Components segment, 8% is in our Lasers segment and 41% in the Laser Systems market.

Gross Profit. Gross profit was 35.8% in the three months ended March 28, 2003 compared to 33.3% in the same period in 2002. As a percent of sales, gross profit increased primarily from decreases in fixed manufacturing costs as a result of restructuring actions. Also, warranty expense as a percentage of sales was lower in the first quarter of 2003 compared to the first quarter of 2002 due to unfavorable warranty experience expense adjustments in the Laser Systems segment in the first quarter of 2002. Warranty adjustments are caused by a variety of factors, such as the introduction of new products, demands placed on the product by customers, fluctuation of repair and labor costs and vendor repair charges. As a result, warranty provisions are adjusted and the expense will vary within a range that we consider normal. There was not a specific reason that caused the higher warranty expense in the first quarter of 2002, but a combination of the above factors. The decrease in warranty expense in the first quarter of 2003 was offset by an increase in inventory loss provisions over the first quarter of 2002. Additionally, the mix of products sold in the quarter had an impact on our gross profit percent, as we had sold more of our higher margin memory repair products in the first quarter of 2003 than in the first quarter of 2002. We are unable to provide a breakdown of gross profit by segment, because at a consolidated level we reclassify service sales support and service management costs from cost of sales to selling, general and administrative expenses, but do not attribute these amounts to particular segments.

Research and Development Expenses. Research and development expenses for the three months ended March 28, 2003 were 8.2% of sales or $3.4 million compared with 15.8% of sales or $5.8 million in the three months ended March 29, 2002. Research and development expenses for the Components group decreased by $0.1 million in the first quarter of 2003 to $0.9 million from $1 million in the first quarter of 2002. In the first quarter of 2003, research and development expenses in our Lasers segment were $0.6 million, which was a $0.1 million decrease from $0.7 million in the first quarter of 2002. For our Laser Systems segment, research and development expenses were $1.6 million for the three months ended March 28, 2003, a $2.2 million decrease from the same period last year, which is mostly a result of decreased spending on engineering projects as result of both completion of projects and efforts to reduce costs. Most of the decrease in research and development expenses is the result of a personnel reduction of 40% from the first quarter of 2002 to the first quarter of 2003. In our corporate segment, research and development expenses, which are mostly in support of our patent application management were $0.3 million for both the first quarter of 2003 and 2002.

Selling, General and Administrative Expenses. Selling, general and administrative expenses were 28.6% of sales or $11.8 million in the three months ended March 28, 2003, compared with 36.7% of sales or $13.5 million in the three months ended March 29, 2002. A major portion of the decrease is from reductions in pay and benefits that reflect the impact of restructuring activities and mandatory factory shut down days. There was a 28% reduction in personnel assigned to selling, general and administrative functions from the first quarter of 2002 to the first quarter of 2003. Additionally, depreciation expense decreased from first quarter of 2002 to first quarter of 2003, as property, plant and equipment became fully depreciated and our capital spending was controlled as part of our cost saving initiatives. We are unable to provide a breakdown of selling, general and administrative expenses by segment, because at a consolidated level we reclassify service sales support and service management costs from cost of sales to selling, general and administrative expenses, but do not attribute these amounts to particular segments.

Amortization of Purchased Intangibles. Amortization of purchased intangibles was 3.1% of sales or $1.3 million for the quarter ended March 28, 2003 primarily as a result of amortizing intangible assets from acquisitions. This compares to $1.3 million or 3.5% of sales for the same period in 2002.

Restructuring. As described above and in note 8 to the consolidated financial statements for the three months ended March 28, 2003, we recorded restructuring charges of $0.6 million.

Other. During the first quarter of 2003, the company recorded a reserve of approximately $0.6 million on notes receivable from a litigation settlement initially recorded in 1998. The reserve was provided because of a default on the quarterly payment due in March 2003. Additionally, the company recorded a benefit during the quarter of approximately $0.2 million for royalties earned on a divested product line and earned as part of a litigation settlement agreement.

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Loss from Operations. The following table sets forth loss from operations in millions of dollars by our business segments for the first quarter of 2003 and 2002.

	Three Months Ended	
	March 28, 2003	March 29, 2002
Segment income (loss) from operations		
Components	$ 4,855	$ 4,557
Lasers	(472)	(696)
Laser Systems	(401)	(5,992)
Total by segment	3,982	(2,131)
Unallocated amounts:		
Corporate expenses	4,389	4,955
Amortization of purchased intangibles	1,279	1,278
Restructuring and other	984	2,745
Loss from operations	$(2,670)	$(11,109)

Interest Income. Interest income was $0.6 million in both of the three months ended March 28, 2003 and the three months ended March 29, 2002. The average investment balance in both quarters was approximately the same.

Interest Expense. Interest expense was approximately $0.1 million in the three months ended March 28, 2003, compared to $0.1 million in the three months ended March 29, 2002.

Foreign Exchange Transaction Gains. Foreign exchange transaction gains were approximately $0.4 million in both of the three months ended March 28, 2003 and the three months ended March 29, 2002.

Income Taxes. The effective tax rate was 0% for the first quarter of 2003, compared with 35.2% in the same period in 2002 and 24.5% for fiscal 2002. The tax rate reflects the reduction in income tax benefit as a result of increases in valuation allowances related to the company s geographic distribution of its operating loss carry-forwards. The company did not reflect any income tax benefit to offset the operating loss based on the continuing evaluation of deferred tax assets. While the company believes it can recover the current deferred tax assets within the next three years, the company is not increasing its deferred tax assets based on current year performance.

Net Loss. As a result of the foregoing factors, net loss for the first quarter of 2003 was $1.7 million, compared with net loss of $6.6 million in the same period in 2002.

Critical Accounting Policies and Estimates

Our consolidated financial statements are based on the selection and application of significant accounting policies, which require management to make significant estimates and assumptions. There is no change in our critical accounting policies included in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations, of the Company s Form 10-K for the year ended December 31, 2002, as amended.

Liquidity and Capital Resources

Cash Flows for Three Months Ended March 28, 2003 and March 29, 2002

Cash and cash equivalents totaled $97.5 million at March 28, 2003 compared to $83.6 million at December 31, 2002. In addition, the company had $17.1 million in short-term investments and $34.4 million in long-term investments at March 28, 2003 compared to $29 million in short-term investments and $37.4 million in long-term investments at December 31, 2002. As discussed in Note 4 to the financial statements for the three months ended March 28, 2003, $10.3 million of short-term investments are pledged as collateral for the Fleet and CIBC credit facilities at March 28, 2003 and $18.9 million of the long-term investments is pledged as security for the lease agreements with BMO as described in Note 9 to the financial statements.

Cash flows from operating activities used $0.9 million for the first three months of 2003 compared to $1.9 million that was generated by operating activities during the same period in 2002. Net income, after adjustment for non-cash items, generated cash of $1.1 million in the first quarter of 2003. Decreases in, inventories and other current assets provided $3.9 million. The decrease in inventories was mostly generated by a reduction in raw materials in the Laser Systems segment. This was offset by an increase in accounts receivable and income taxes receivable and a decrease in current liabilities using $5.9 million. The increase in receivables, and corresponding increase in days sales outstanding, was due to slower collections resulting largely from a shift in sales volume to Japan where we have experienced historically longer collection cycles. In the normal course of business, days sales outstanding tend to fluctuate and the increase experienced in the first quarter of 2003 falls within historical ranges. In the first quarter of 2002, net loss, after adjustment for non-cash items, used cash of $3.7 million. Decrease in accounts receivable provided $9.6 million and a decrease in inventories and other current assets provided $2.1 million. The decrease in receivables was due to improved collection resulting in a reduction in days sales outstanding of 17 days, combined with the impact on receivables of a $5.5 million reduction in sales in the first quarter of 2002 compared to the fourth quarter of 2001. This was offset by a decrease in current liabilities using $6.1 million. The decrease in current liabilities was due to spending cut backs and a reduction in manufacturing activities.

Cash flows from investing activities generated $14.3 million during the first three months ended March 28, 2003, primarily from net maturities of $14.9 million of short-term and long-term investments offset by $0.6 million of property, plant and equipment additions. In the first quarter of 2002, investing activities used $11.8 million, primarily from net purchases of $12.8 million of short-term and other investments and $0.6 million of property, plant and equipment. This was offset by a $1.6 million reduction of other assets.

Cash flows provided by financing activities during the first three months ended March 28, 2003 were $8,000 from the issue of share capital, compared to $3.2 million for the same period in 2002, which included $3 million from proceeds of bank indebtedness and $0.2 million from the issue of share capital.

Lines of Credit

At March 28, 2003 the Company had a line of credit denominated in U.S. dollars with Fleet National Bank (Fleet), two letters of credit (LC) in Canadian dollars with the Canadian Imperial Bank of Commerce (CIBC) and a letter of credit in United Kingdom pounds with NatWest for a total amount of available credit of U.S.$8.5 million versus U.S.$12.1 million at December 31, 2002. The Company s agreement with Fleet provides for an $8.0 million line of credit. CIBC provides the Company with LC s of $0.4 million supporting its Payroll and Credit Card program. NatWest provides a $0.1 million bank guarantee for a LC used for VAT purposes in the United Kingdom. Cash and marketable securities totaling $10.3 million have been pledged as collateral for the Fleet and CIBC credit facilities under security agreements. The line of credit with Fleet expires on June 28, 2003. In addition to the customary representations, warranties and reporting covenants, the borrowings under the Fleet credit facility require the Company to maintain a quarterly minimum tangible net worth of $200.0 million. The line of credit with CIBC was reviewed by the Company and a decision to cancel the line of credit was conveyed to CIBC prior to December 31, 2002. By giving CIBC appropriate advance notice, the Company initiated its right to cancel the line of credit at any time at no cost, excluding breakage fees relating to the used and outstanding amounts under fixed loan instruments, which we do not expect to be material. The $4.0 million line of credit with CIBC was eliminated by the end of the first quarter in 2003 with only the two above mentioned letters of credit remaining. These LC s should be cancelled by the end of the second quarter of 2003. The Company also cancelled its credit facility with Bank One on December 20, 2002 without paying any breakage fees. North American inventories and receivables were pledged as collateral for the Bank One credit facility. Bank One continues to work on the release of all liens and obligations associated with the facility.

The company had approximately $8.5 million denominated in Canadian dollars and United States dollars available for general purposes under the credit facilities discussed above at March 28, 2003. Of the $8.5 million available at March 28, 2003, $3.8 million was in use consisting of funds committed at Fleet Bank for use in foreign exchange transactions, $0.4 million was in use under CIBC credit facilities for letters of credit supporting the Company s payroll and credit card program, and $0.1 million at NatWest. Though the

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Fleet Bank amount of $3.8 million is committed for support of foreign currency hedging contracts and not available, it is not considered used for the purpose of calculating interest payments. The aggregate unused portion of credit available under the credit facilities amounts to $4.2 million at March 28, 2003. The Fleet line of credit is due on demand and bears interest based on either prime or LIBOR depending on the borrowing notification period.

Other Liquidity Matters

We lease certain equipment and facilities under operating lease agreements that expire through 2013. The company leases two facilities (Maple Grove, Minnesota and Farmington Hills, Michigan) under operating lease agreements that expire in 2003, where at the end of the initial lease term, these leases require the company to renew the lease for a defined number of years at the fair market rental rate or purchase the property at the fair market value. The lessor may sell the facilities to a third party but the leases provide for a residual value guarantee of the first 85% of any loss the lessor may incur on its $19.1 million investment in the buildings, which may become payable by the company upon the termination of the transaction, or the company may exercise its option to purchase the facilities for approximately $19 million. As of December 31, 2002, residual value guarantees in connection with these leases totaled approximately $16 million. Upon termination of the leases, the company expects to purchase the buildings for approximately $19 million cash and then sell them for the combined estimated market value of the two buildings of approximately $12.5 million to $13.3 million. During the fourth quarter of fiscal 2000, the company took a charge of $6 million associated with restructuring for excess capacity at the two leased facility locations, including the estimated residual value guarantees. In the fourth quarter of 2002, the company took an additional restructuring charge of $0.1 million to increase the reserve for the decline in the estimated market values of the underlying buildings. The total expected value of the buildings at the end of the leases may vary, depending on whether or not the buildings are leased at time of sale and whether the buildings are sold to a buyer/owner or to an investor. The company will incur other costs such as lease and sales commissions. If market values for the two facilities were to decrease by 10%, our required provision would change by approximately $1 million. The lease agreement requires, among other things, the company to maintain specified quarterly financial ratios and conditions. As of March 29, 2002, the company was in breach of the fixed charge coverage ratio, but on April 30, 2002, the company entered into a Security Agreement with the Bank of Montreal, or BMO pursuant to which the company deposited with BMO and pledged approximately $18.9 million as security in connection with the operating leases discussed above in exchange for a written waiver from BMO and BMO Global Capital Solutions for any company defaults of or obligations to satisfy the specified financial covenants relating to the operating lease agreements until June 30, 2003. This item is included on the balance sheet in long-term investments.

Effective January 1, 2003, the company has removed the designation of all short-term hedge contracts from their corresponding hedge relationships. Accordingly, such contracts are recorded at fair value with changes in fair value recognized currently in income starting January 1, 2003, instead of being included in accumulated other comprehensive income. Unrealized gains on these contracts included in accumulated other comprehensive income at December 31, 2002 are recognized in the same periods as the underlying hedged transactions. Although the company now marks-to-market short-term hedge contracts to the statement of operations, the company does not intend to enter into hedging contracts for speculative purposes. At March 28, 2003, the company had seven foreign exchange forward contracts to purchase $10.7 million United States dollars with an aggregate fair value of loss of $35,000 recorded in the statement of operations as foreign exchange transaction losses and two collars to purchase $2.2 million United States dollars with an aggregate fair value of loss of $0.5 million recorded in the statement of operations as foreign exchange transaction losses. Also, the company had one currency swap contract with a notional value of $8.7 million United States dollars and an aggregate fair value gain of $24,000 after-tax recorded in accumulated other comprehensive income. At December 31, 2002, the company had eleven foreign exchange forward contracts to purchase $16.9 million United Sates dollars and one currency swap contract fair valued at $8.7 million United States dollars with an aggregate fair value loss of $0.5 million after-tax recorded in accumulated other comprehensive income and maturing at various dates in 2003. The ineffective portion of the derivative instruments totaled a combined loss of $0.3 million and is recorded in the consolidated statements of operations in foreign exchange gain (loss). The company expects an estimated $0.5 million to be reclassified into earnings during fiscal 2003.

On March 31, 2003, the company completed the sale to a third party of its excess facility in Nepean, Ontario for a price of Cdn $1.3 million (or approximately U.S.$0.9 million based on March 2003 exchange rates). At March 28, 2003, the net book value of this facility of U.S.$0.8 million is included in other assets. The estimated gain on the sale of this facility of approximately U.S.$0.1 million will be recorded in our second quarter.

On April 21, 2003, the company announced that it has entered into a definitive agreement for the acquisition of the principal assets of Spectron Laser Systems, a subsidiary of Lumenis Ltd., located in Rugby, United Kingdom. The Spectron assets are being acquired for U.S.$6.3 million in cash, subject to adjustment, and the assumption of certain liabilities. This transaction closed on May 7, 2003. The integration of Spectron into GSI Canada s Laser Group in Rugby, United Kingdom is scheduled for completion by the end of August, 2003. This acquisition is consistent with the company s strategy of expanding the product lines and technology in its laser and precision motion control components business groups. It is expected that this acquisition will be accretive to earnings in the fourth quarter of this year. The company expects to account for this transaction as a business combination under SFAS No. 141 *Business Combinations.*

On May 2, 2003, the company announced that it has acquired the principal assets of the Encoder division of Dynamics Research Corporation, located in Wilmington, Massachusetts. The Encoder division assets were acquired for US$3.3 million in cash, subject to adjustment, and the assumption of certain liabilities. The integration of the Encoder division into GSI Canada s Component Products Group in Billerica, Massachusetts is currently scheduled for completion by the end of August, 2003. This acquisition is consistent with the company s strategy to acquire new technologies and expand into new products complementary with our existing markets. The addition of the Encoder division assets represents the addition of technology and products that expand the company s offering of precision motion control components. It is currently expected that this acquisition will be accretive to earnings in the fourth quarter of this year. The company expects to account for this transaction as a business combination under SFAS No. 141 *Business Combinations*.

Our future liquidity and cash requirements will depend on numerous factors, including, but not limited to, the level of sales we will be able to achieve in the future, the introduction of new products and potential acquisitions of related businesses or technology. We believe that existing cash balances, together with cash generated from operations and available bank lines of credit, will be sufficient to satisfy anticipated cash needs to fund working capital and investments in facilities and equipment for the next two years. We are not aware of any events that could trigger a significant cash payment, except for items already accrued in the financial statements or noted above.

Special Note Regarding Forward-Looking Statements

Certain statements contained in this report on Form 10-Q/A constitute forward-looking statements within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 27A of the United States Securities Act of 1933, as amended, and Section 21E of the United States Securities Exchange Act of 1934, as amended. These forward-looking statements relate to anticipated financial performance, management s plans and objectives for future operations, business prospects, outcome of regulatory proceedings, market conditions, tax issues and other matters. All statements contained in this report on Form 10-Q/A that do not relate to matters of historical fact should be considered forward-looking statements, and are generally identified by words such as anticipate, believe, estimate, expect, intend, plan and objective and other similar expressions. Readers should not place undue reliance on th forward-looking statements contained in this document. Such statements are based on management s beliefs and assumptions and on information currently available to management and are subject to risks, uncertainties and changes in condition, significance, value and effect, including risks discussed in reports and documents filed by the company with the United States Securities and Exchange Commission and with securities regulatory authorities in Canada. Such risks, uncertainties and changes in condition, significance, value and effect, many of which are beyond our control, could cause our actual results and other future events to differ materially from those anticipated. We do not assume any obligation to update these forward-looking statements to reflect actual results, changes in assumptions or changes in other factors affecting such forward-looking statements.

Risk Factors

The risks presented below may not be all of the risks that we may face. These are the factors that we believe could cause actual results to be different from expected and historical results. Other sections of this report include additional factors that could have an effect on our business and financial performance. The industry in which we compete is very competitive and changes rapidly. Sometimes new risks emerge and management may not be able to predict all of them, or be able to predict how they may cause actual results to be different from those contained in any forward-looking statements. You should not rely upon forward-looking statements as a prediction of future results.

A prolonged economic slowdown will continue to put pressure on our ability to meet anticipated revenue levels. We are in a broad-based economic slowdown affecting most technology sectors and semiconductors and electronics in particular. As a result, many of our customers continue to order low quantities. A large portion of our sales is dependent on the need for increased capacity or replacement of inefficient manufacturing processes, because of the capital-intensive nature of our customers businesses. These also tend to lag behind in an economic recovery longer than other businesses. Because it is difficult to predict how long this slowdown will continue, we may not be able to meet anticipated revenue levels on a quarterly or annual basis.

We have experienced operating losses and may not return to profitability. We have incurred operating losses since 1998. For the three months ended March 28, 2003, we incurred a net loss of $1.7 million. For the years ended December 31, 2002 and 2001, we reported net losses of approximately $27.7 million and $14.7 million, respectively. For the year ended December 31, 2000, we did achieve overall profitability, even though we experienced operating losses of approximately $2 million, primarily as a result of the sale of assets of company s Life Science business which resulted in a non-operating gain of $73.1 million. Our operating losses in fiscal 2000 were attributable primarily to restructuring activities relating to the discontinuance of product lines in our high power laser business. No assurances can be given that we will not continue to sustain losses in the future and the market price of our common shares may decline as a result.

Our inability to return to profitability may result in the loss of significant deferred tax assets. In determining our provision for income taxes, our deferred tax assets and liabilities and any valuation allowance recorded against our net deferred tax assets requires subjective judgment and analysis. Our ability to utilize the full deferred tax assets that are recorded on our balance sheet is dependent on our achieving our planned profitability goals. If actual results differ from our plans or we do not achieve profitability, we may be required to increase the valuation allowance on our tax assets by increasing expenses, which may have a negative result on our operations.

Our business depends significantly upon capital expenditures, including by manufacturers in the semiconductor, electronics, machine tool and automotive industries, each of which are subject to cyclical fluctuations. The semiconductor and electronics, machine tool and automotive industries are cyclical and have historically experienced periods of oversupply, resulting in significantly reduced demand for capital equipment, including the products that we manufacture and market. The timing, length and severity of these cycles, and their impact on our business, are difficult to predict. For the foreseeable future, our operations will continue to depend upon capital expenditures in these industries, which, in turn, depend upon the market demand for their products. The cyclical variations in these industries have the most pronounced effect on our Laser Systems segment, due in large measure to that segment s historical focus on the semiconductor and electronics industries and the company s need to support and maintain a comparatively larger global infrastructure (and, therefore, lesser ability to reduce fixed costs) than in our other segments. Our margins, net sales, financial condition and results of operations have been and will likely continue to be materially adversely affected by continued or further downturns or slowdowns in the semiconductor and electronics, machine tool and automotive industries that we serve.

The success of our business is dependant upon our ability to respond to fluctuations in demand for our products. During a period of declining demand, we must be able quickly and effectively to reduce expenses

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while continuing to motivate and retain key employees. Our ability to reduce expenses in response to any downturn is limited by our need for continued investment in engineering and research and development and extensive ongoing customer service and support requirements. In addition, the long lead-time for production and delivery of some of our products creates a risk that we may incur expenditures or purchase inventories for products which we cannot sell. We attempt to manage this risk by employing inventory management practices such as outsourcing portions of the development and manufacturing processes, limiting our purchase commitments and focusing on production to order rather than to stock, but no assurances can be given that our efforts in this regard will be successful in mitigating this risk or that our financial condition or results of operations will not be materially adversely affected thereby.

During a period of increasing demand and rapid growth, we must be able to increase manufacturing capacity quickly to meet customer demand and hire and assimilate a sufficient number of qualified personnel. Our inability to ramp up in times of increased demand could harm our reputation and cause some of our existing or potential customers to place orders with our competitors rather than with us.

Fluctuations in our customers businesses, timing and recognition of revenues from customer orders and other factors beyond our control may cause our results of operations quarter over quarter to fluctuate, perhaps substantially. Our revenues and net income, if any, in any particular period may be lower than revenues and net income, if any, in a preceding or comparable period. Factors contributing to these fluctuations, some of which are beyond our control, include:

- fluctuations in our customers businesses;
- timing and recognition of revenues from customer orders;
- timing and market acceptance of new products or enhancements introduced by us or our competitors;
- availability of components from our suppliers and the manufacturing capacity of our subcontractors;
- timing and level of expenditures for sales, marketing and product development; and
- changes in the prices of our products or of our competitors products.

We derive a substantial portion of our sales from products that have a high average selling price and significant lead times between the initial order and delivery of the product, which, on average, can range from ten to fourteen weeks. We may receive one or more large orders in one quarter from a customer and then receive no orders from that customer in the next quarter. As a result, the timing and recognition of sales from customer orders can cause significant fluctuations in our operating results from quarter to quarter. If our quarterly revenue or operating results fall below the expectations of investors or public market analysts, our common share price may decline as a result.

Gross profits realized on product sales vary depending upon a variety of factors, including production volumes, the mix of products sold during a particular period, negotiated selling prices, the timing of new product introductions and enhancements and manufacturing costs.

A delay in a shipment, or failure to meet our revenue recognition criteria, near the end of a fiscal quarter or year, due, for example, to rescheduling or cancellations by customers or to unexpected difficulties experienced by us, may cause sales in a particular period to fall significantly below our expectations and may materially adversely affect our operations for that period. Our inability to adjust spending quickly enough to compensate for any sales shortfall would magnify the adverse impact of that sales shortfall on our results of operations.

As a result of these factors, our results of operations for any quarter are not necessarily indicative of results to be expected in future periods. We believe that fluctuations in quarterly results may cause the market prices of our common shares, on The NASDAQ Stock Market® and the Toronto Stock Exchange, to fluctuate, perhaps substantially.

Our reliance upon third party distribution channels subjects us to credit, inventory, business concentration and business failure risks beyond our control. The company sells approximately 55% of its products through

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resellers (which include OEMs, systems integrators and distributors). Reliance upon third party distribution sources subjects us to risks of business failure by these individual resellers, distributors and OEMs, and credit, inventory and business concentration risks. In addition, our net sales depend in part upon the ability of our OEM customers to develop and sell systems that incorporate our products. Adverse economic conditions, large inventory positions, limited marketing resources and other factors affecting these OEM customers could have a substantial impact upon our financial results. No assurances can be given that our OEM customers will not experience financial or other difficulties that could adversely affect their operations and, in turn, our financial condition or results of operations.

The steps we take to protect our intellectual property may not be adequate to prevent misappropriation or the development of competitive technologies or products by others that could harm our competitive position and materially adversely affect our results of operations. Our future success depends in part upon our intellectual property rights, including trade secrets, know-how and continuing technological innovation. There can be no assurance that the steps we take to protect our intellectual property rights will be adequate to prevent misappropriation or that others will not develop competitive technologies or products. As of April 23, 2003, we held 110 United States and 82 foreign patents, and had filed 61 United States and 112 foreign patent applications, which are under review by the patent authorities. There can be no assurance that other companies are not investigating or developing other technologies that are similar to ours, that any patents will issue from any application filed by us or that, if patents do issue, the claims allowed will be sufficiently broad to deter or prohibit others from marketing similar products. In addition, there can be no assurance that any patents issued to us will not be challenged, invalidated or circumvented, or that the rights thereunder will provide a competitive advantage to us.

Our success depends upon our ability to protect our intellectual property and to successfully defend against claims of infringement by third parties. From time to time we receive notices from third parties alleging infringement of such parties patent or other proprietary rights by our products. While these notices are common in the laser industry and we have in the past been able to develop non-infringing technology or license necessary patents or technology on commercially reasonable terms, there can be no assurance that we would in the future prevail in any litigation seeking damages or expenses from us or to enjoin us from selling our products on the basis of such alleged infringement, or that we would be able to develop any non-infringing technology or license any valid and infringed patents on commercially reasonable terms. In the event any third party made a valid claim against us or our customers for which a license was not available to us on commercially reasonable terms, we would be adversely affected. Our failure to avoid litigation for infringement or misappropriation of propriety rights of third parties or to protect our propriety technology could result in a loss of revenues and profits.

The industries in which we operate are highly competitive and competition in our markets could intensify, or our technological advantages may be reduced or lost, as a result of technological advances by our competitors. The industries in which we operate are highly competitive. We face substantial competition from established competitors, some of which have greater financial, engineering, manufacturing and marketing resources than we do. Our competitors can be expected to continue to improve the design and performance of their products and to introduce new products. There can be no assurance that we will successfully differentiate our current and proposed products from the products of our competitors or that the market place will consider our products to be superior to competing products. Because many of the components required to develop and produce a laser-based marking system are commercially available, barriers to entry into this market are relatively low and we expect new competitive product entries in this market. To maintain our competitive position in this market, we believe that we will be required to continue a high level of investment in engineering, research and development, marketing and customer service and support. There can be no assurance that we will have sufficient resources to continue to make these investments, that we will be able to make the technological advances necessary to maintain our competitive position, or that our products will receive market acceptance. We may not be able to compete successfully in the future, and increased competition may result in price reductions, reduced profit margins, loss of market share and an inability to generate cash flows that are sufficient to maintain or expand our development of new products.

Our operations could be negatively affected if we lose key executives or employees or are unable to attract and retain skilled executives and employees as needed. Our business and future operating results depend in part upon our ability to attract and retain qualified management, technical, sales and support personnel for our operations on a worldwide basis. The loss of key personnel could negatively impact our operations. Competition for qualified personnel is intense and we cannot guarantee that we will be able to continue to attract and retain qualified personnel.

We may not develop, introduce or manage the transition to new products as successfully as our competitors. The markets for our products experience rapidly changing technologies, evolving industry standards, frequent new product introductions, changes in customer requirements and short product life cycles. To compete effectively we must continually introduce new products that achieve market acceptance. Our future performance will depend on the successful development, introduction and market acceptance of new and enhanced products that address technological changes as well as current and potential customer requirements. Developing new technology is a complex and uncertain process requiring us to be innovative and to accurately anticipate technological and market trends. We may have to manage the transition from older products to minimize disruption in customer ordering patterns, avoid excess inventory and ensure adequate supplies of new products. The introduction by us or by our competitors of new and enhanced products may cause our customers to defer or cancel orders for our existing products, which may harm our operating results. Failed market acceptance of new products or problems associated with new product transitions could harm our business.

Delays or deficiencies in research, development, manufacturing, delivery of or demand for new products or of higher cost targets could have a negative affect on our business, operating results or financial condition. We are active in the research and development of new products and technologies. Our research and development efforts may not lead to the successful introduction of new or improved products. The development by others of new or improved products, processes or technologies may make our current or proposed products obsolete or less competitive. Our ability to control costs is limited by our need to invest in research and development. Because of intense competition in the industries in which we compete, if we were to fail to invest sufficiently in research and development, our products could become less attractive to potential customers and our business and financial condition could be materially and adversely affected. As a result of our need to maintain our spending levels in this area, our operating results could be materially harmed if our net sales fall below expectations. In addition, as a result of our emphasis on research and development and technological innovation, our operating costs may increase further in the future and research and development expenses may increase as a percentage of total operating expenses and as a percentage of net sales.

In addition, we may encounter delays or problems in connection with our research and development efforts. Product development delays may result from numerous factors, including:

- changing product specifications and customer requirements;
- difficulties in hiring and retaining necessary technical personnel;
- difficulties in reallocating engineering resources and overcoming resource limitations;
- changing market or competitive product requirements; and
- unanticipated engineering complexities.

New products often take longer to develop, have fewer features than originally considered desirable and achieve higher cost targets than initially estimated. There may be delays in starting volume production of new products and new products may not be commercially successful. Products under development are often announced before introduction and these announcements may cause customers to delay purchases of existing products until the new or improved versions of those products are available.

We may not be able to find suitable targets or consummate acquisitions in the future, and there can be no assurance that the acquisitions we have made and do in the future make will provide expected benefits. We have recently consummated two strategic acquisitions and intend in the future to continue to pursue other strategic acquisitions of businesses, technologies and products complementary to our own. Our identification

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of suitable acquisition candidates involves risks inherent in assessing the values, strengths, weaknesses, risks and profitability of acquisition candidates, including the effects of the possible acquisition on our business, diversion of management s attention from our core businesses and risks associated with unanticipated problems or liabilities. No assurances can be given that management s efforts in this regard will be sufficient, or that identified acquisition candidates will be receptive to our advances or, consistent with our acquisition strategy, accretive to earnings.

Should we acquire another business, the process of integrating acquired operations into our existing operations may result in unforeseen operating difficulties and may require the allocation of significant financial resources that would otherwise be available for the ongoing development or expansion of our existing business. We attempt to mitigate these risks by focusing our attention on the acquisition of businesses, technologies and products that have current relevancy to our existing lines of business and that are complementary to our existing product lines. Other difficulties we may encounter, and which we may or may not be successful in addressing, include those risks associated with the potential entrance into markets in which we have limited or no prior experience and the potential loss of key employees, particularly those of the acquired business.

There is a risk that United States holders could be considered to hold shares in a passive foreign investment company under United States tax laws, which may have adverse tax consequences for United States holders of our shares. Under United States tax laws, United States investors who hold stock in a passive foreign investment company, referred to in this report as a PFIC, may be subject to adverse tax consequences. Any non-United States corporation may be classified as a PFIC if 75% or more of its gross income in any year is considered passive income for United States tax purposes. For this purpose, passive income generally includes interest, dividends and gains from the sale of assets that produce these types of income. In addition, a non-United States corporation may be classified as a PFIC if the average percentage of the fair market value of its gross total assets during any year that produced passive income (based on the average of such values as at each quarter end of that year), or that were held to produce passive income, is at least 50% of the fair market value of its gross total assets.

The determination of whether a corporation is a PFIC is a fact-sensitive inquiry that depends, among other things, on the fair market value of its assets (and such value is subject to change from time to time). We believe that the company is not now and has not in the past been a PFIC. However, there is a risk that United States holders of our shares will be deemed to hold shares in a PFIC.

The tax consequences to United States holders of disposing of shares in a PFIC are as follows. All gains recognized on the disposition of PFIC shares by a United States shareholder are taxable as ordinary income. Additionally, at the time of disposition, the United States shareholder incurs an interest charge. The interest is computed at the rate for underpayments of tax, generally as though the gain had been included in the United States shareholder s gross income ratably over the period the United States shareholder held the PFIC s stock, but payment of the resulting tax had been delayed until the sale or distribution. Similar rules apply to excess distributions. An excess distribution is a current year distribution received by a United States shareholder on PFIC stock, to the extent the distribution exceeds his or her ratable portion of 125% of the average amount so received during the three preceding years. The portion of an actual distribution that is not an excess distribution is not taxed under the excess distribution rules, but rather is treated as a distribution subject to the normal tax rules. A United States shareholder may avoid the effect of the forgoing rules if he or she makes a qualified electing fund election or a mark-to-market election, but then becomes subject to the special rules that apply to such elections.

Our classification as a controlled foreign corporation could have adverse tax consequences for significant United States shareholders. A non-United States corporation, such as we are, will constitute a controlled foreign corporation, or CFC, for United States federal income tax purposes if United States shareholders owning (directly, indirectly, or constructively) 10% or more of the foreign corporation s total combined voting power collectively own (directly, indirectly, or constructively) more than 50% of the total combined voting power or total value of the foreign corporation s stock.

If we are treated as a CFC, this status should have no adverse effect on any shareholder who does not own (directly, indirectly, or constructively) 10% or more of the total combined voting power of all classes of our shares. If, however, we are treated as a CFC for an uninterrupted period of thirty (30) days or more during any taxable year, any United States shareholder who owns (directly, indirectly, or constructively) 10% or more of the total combined voting power of all classes of our shares on any day during the taxable year, and who directly or indirectly owns any shares on the last day of the year in which we are a CFC, will have to include in its gross income for United States federal income tax purposes its pro rata share of the company s subpart F income (primarily consisting of investment income such as dividends, interest and capital gains on the sale of assets producing such income) relating to the period during which we are or were a CFC.

In addition, if we were treated as a CFC, any gain realized on the sale of our shares by such a shareholder would be treated as ordinary income to the extent of the shareholder s proportionate share of the undistributed earnings and profits of the company accumulated during the shareholder s holding period while we are a CFC. If the United States shareholder is a corporation, however, it may be eligible to credit against its United States tax liability with respect to these potential inclusions foreign taxes paid on the earnings and profits associated with the included income.

We do not believe that we are currently, or have ever been, a CFC. However, no assurances can be given that we will not become a CFC in the future.

We depend on limited source suppliers that could cause substantial manufacturing delays and additional cost if a disruption in supply occurs. While we attempt to mitigate risks associated with our reliance on single suppliers by actively managing our supply chain, we do obtain some components used in our business segments from a single source. We also rely on a limited number of independent contractors to manufacture subassemblies for some of our products, particularly in our Laser Systems segment. Despite our and their best efforts, there can be no assurance that our current or alternative sources will be able to continue to meet all of our demands on a timely basis. If suppliers or subcontractors experience difficulties that result in a reduction or interruption in supply to us, or fail to meet any of our manufacturing requirements, our business would be harmed until we are able to secure alternative sources, if any, on commercially reasonable terms.

Each of our suppliers can be replaced, either by contracting with another supplier or through internal production of the part or parts previously purchased in the market, but no assurances can be given that we would be able to do so quickly enough to avoid an interruption or delay in delivery of our products to our customers and any associated harm to our reputation and customer relationships. Unavailability of necessary parts or components, or suppliers of the same, could require us to reengineer our products to accommodate available substitutions. Any such actions would likely increase our costs and could have a material adverse effect on manufacturing schedules, product performance and market acceptance, each or all of which could be expected to have a material adverse effect on our financial condition or results of operations.

Production difficulties and product delivery delays could materially adversely affect our business, operating results or financial condition. We assemble our products at our facilities in the United States, Canada and the United Kingdom. If use of any of our manufacturing facilities were interrupted by natural disaster or otherwise, our operations could be negatively affected until we could establish alternative production and service operations. In addition, we may experience production difficulties and product delivery delays in the future as a result of:

changing process technologies;

ramping production;

installing new equipment at our manufacturing facilities; and

shortage of key components.

Our operations in foreign countries subject us to risks not faced by companies operating exclusively in the United States. In addition to operating in the United States, Canada and the United Kingdom, we currently have sales and service offices in France, Germany, Italy, Japan, Singapore, Hong Kong, Korea, Taiwan, Malaysia and the Philippines. By the end of the second quarter of 2003, we intend to close our offices in France, Italy, Hong Kong, Malaysia and the Philippines, but we may in the future expand into other

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international regions. During the three months ended March 28, 2003 and March 29, 2002, approximately 49% and 35% of our revenue, respectively, were derived from our international operations.

Because of the scope of our international operations, we are subject to risks, which could materially impact our results of operations, including:

- foreign exchange rate fluctuations;
- longer payment cycles;
- greater difficulty in collecting accounts receivable;
- use of different systems and equipment;
- difficulties in staffing and managing foreign operations and diverse cultures;
- protective tariffs;
- trade barriers and export/import controls;
- transportation delays and interruptions;
- reduced protection for intellectual property rights in some countries; and
- the impact of recessionary foreign economies.

We cannot predict whether the United States or any other country will impose new quotas, tariffs, taxes or other trade barriers upon the importation of our products or supplies or gauge the effect that new barriers would have on our financial position or results of operations.

We do not believe that travel advisories or health concerns have had a material effect on our business to date. However, no assurances can be given that future travel advisories or health concerns will not have an impact on our business.

If the economic and political conditions in United States and globally do not improve or if the economic slowdown continues, we may continue to experience material adverse impacts on our business, operating results and financial condition. Our business is subject to the effects of general economic and political conditions globally. Our revenues and operating results have declined partially due to continuing unfavorable economic conditions as well as uncertainties arising out of the threatened terrorist attacks on the United States, including the potential worsening or extension of the current global economic slowdown, the economic consequences of protracted military action or additional terrorist activities and associated political instability and the impact of heightened security concerns on domestic and international travel and commerce. In particular, due to these uncertainties we are subject to:

- the risk that future tightening of immigration controls may adversely affect the residence status of non-United States engineers and other key technical employees in our United States facilities or our ability to hire new non-United States employees in such facilities; and
- the risk of more frequent instances of shipping delays.

Increased governmental regulation of our business could materially adversely affect our business, operating results and financial condition. We are subject to the laser radiation safety regulations of the Radiation Control for Health and Safety Act administered by the National Center for Devices and Radiological Health, a branch of the United States Food and Drug Administration. Among other things, these regulations require a laser manufacturer to file new product and annual reports, to maintain quality control and sales records, to perform product testing, to distribute appropriate operating manuals, to incorporate design and operating features in lasers sold to end-users and to certify and label each laser sold to end-users as one of four classes (based on the level of radiation from the laser that is accessible to users). Various warning labels must be affixed and certain protective devices installed depending on the class of product. The National Center for Devices and Radiological Health is empowered to seek fines and other remedies for violations of

the regulatory requirements. We are subject to similar regulatory oversight, including comparable enforcement remedies, in the European markets we serve.

Changes in governmental regulations may reduce demand for our products or increase our expenses. We compete in many markets in which we and our customers must comply with federal, state, local and international regulations, such as environmental, health and safety and food and drug regulations. We develop, configure and market our products to meet customer needs created by those regulations. Any significant change in regulations could reduce demand for our products, which in turn could materially adversely affect our business, operating results and financial condition.

Defects in our products or problems arising from the use of our products together with other vendors products may seriously harm our business and reputation. Products as complex as ours may contain known and undetected errors or performance problems. Defects are frequently found during the period immediately following introduction and initial implementation of new products or enhancements to existing products. Although we attempt to resolve all errors that we believe would be considered serious by our customers before implementation, our products are not error-free. These errors or performance problems could result in lost revenues or customer relationships and could be detrimental to our business and reputation generally. In addition, our customers generally use our products together with their own products and products from other vendors. As a result, when problems occur in a combined environment, it may be difficult to identify the source of the problem. These problems may cause us to incur significant warranty and repair costs, divert the attention of our engineering personnel from our product development efforts and cause significant customer relations problems. To date, defects in our products or those of other vendors products with which ours are used by our customers have not had a material negative effect on our business. However, we cannot be certain that a material negative effect will not occur in the future.

Item 3. ***Quantitative and Qualitative Disclosures About Market Risk***

Interest Rate Risk. Our exposure to market risk associated with changes in interest rates relates primarily to our cash equivalents, short-term investments and debt obligations. As described in note 7 to the consolidated financial statements, at March 28, 2003, the Company had $71.2 million invested in cash equivalents and $51.5 million invested in short-term and long-term investments. At December 31, 2002, the Company had $53.3 million invested in cash equivalents and $66.4 million invested in short-term and long-term investments. Due to the average maturities and the nature of the current investment portfolio, a one percent change in interest rates could have approximately a $1.0 million to $1.5 million effect on our interest income on an annual basis. We do not use derivative financial instruments in our investment portfolio. We do not actively trade derivative financial instruments but may use them to manage interest rate positions associated with our debt instruments. We currently do not hold interest rate derivative contracts.

Foreign Currency Risk. We have substantial sales and expenses and working capital in currencies other than U.S. dollars. As a result, we have exposure to foreign exchange fluctuations, which may be material. To reduce the Company s exposure to exchange gains and losses, we generally transact sales and costs and related assets and liabilities in the functional currencies of the operations. We have a foreign currency hedging program using currency forwards, currency swaps and currency options to hedge exposure to foreign currencies. These financial instruments are used to fix the cash flow variable of local currency costs or selling prices denominated in currencies other than the functional currency. We do not currently use currency forwards or currency options for trading purposes. Effective January 1, 2003, the Company has removed the designation of all short-term hedge contracts from their corresponding hedge relationships. Accordingly, such contracts are recorded at fair value with changes in fair value recognized currently in income starting January 1, 2003, instead of included in accumulated other comprehensive income. Unrealized gains on these contracts included in accumulated other comprehensive income at December 31, 2002 are recognized in the same periods as the underlying hedged transactions. Although the Company now marks-to-market short-term hedge contracts to the statement of operations, the Company does not intend to enter into hedging contracts for speculative purposes. At March 28, 2003, the Company had 7 foreign exchange forward contracts to purchase $10.7 million U.S. dollars with an aggregate fair value of loss of $35 thousand recorded in the statement of operations as foreign exchange transaction losses and 2 collars to purchase $2.2 million

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U.S. dollars with an aggregate fair value of loss of $0.5 million recorded in the statement of operations as foreign exchange transaction losses. Also, the Company had one currency swap contract with a notional value of $8.7 million U.S. dollars and an aggregate fair value gain of $24 thousand after-tax recorded in accumulated other comprehensive income.

At December 31, 2002, the Company had eleven foreign exchange forward contracts to purchase $16.9 million U.S. dollars and one currency swap contract fair valued at $8.7 million U.S. dollars with an aggregate fair value loss of $0.5 million after-tax recorded in accumulated other comprehensive income and maturing at various dates in 2003.

Item 4. *Controls and Procedures*

Within the 90 days prior to the date of this report, GSI Lumonics management, including the Chief Executive Officer and Chief Financial Officer, have conducted an evaluation of effectiveness of disclosure controls and procedures pursuant to Rule 13a-14 under the United States Securities Exchange Act of 1934, as amended. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures are effective in ensuring that all material information required to be disclosed in this quarterly report has been made known to them in a timely fashion. There have been no significant changes in our internal controls or other factors that could significantly affect internal controls subsequent to the date the Chief Executive Officer and Chief Financial Officer completed their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

PART II OTHER INFORMATION

Item 1. *Legal Proceedings*

See the description of legal proceedings in Note 9 to the Consolidated Financial Statements.

Item 6. *Exhibits and Reports on Form 8-K*

a) List of Exhibits

Exhibit Number	Description
99	Selected Consolidated Financial Statements and Notes in U.S. Dollars and in accordance with Canadian Generally Accepted Accounting Principles
99.1	Management s Discussion and Analysis of Financial Condition and Results of Operations Canadian Supplement
99.2	Chief Executive Officer Certification pursuant to 18 U.S.C. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.3	Chief Financial Officer Certification pursuant to 18 U.S.C. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

b) Reports on Form 8-K

Form 8-K dated April 22, 2003 Item 5, Other Events

Disclosed, and included as an exhibit, a press release announcing that the company will acquire the principal assets of Spectron Laser Systems, a subsidiary of Lumenis, Ltd., for a purchase price of $6.3 million in cash.

Form 8-K dated May 6, 2003 Item 5, Other Events

Disclosed, and included as an exhibit, a press release announcing that the company had acquired the principal assets of the Encoder division of Dynamics Research Corporation for a purchase price of $3.3 million in cash.

Form 8-K dated May 7, 2003 Item 9, Regulation FD Disclosure

Disclosed, and included as an exhibit, written communication comprised of slides which were provided and disseminated in both written and oral form to participants in a series of investor presentations delivered by officers of the company beginning on May 7, 2003.

Form 8-K dated May 23, 2003 Item 5, Other Events

Disclosed, and included as an exhibit, a press release announcing that the company s annual general meeting of shareholders will be held on Tuesday, June 24 in Bedford, Massachusetts.

Form 8-K dated July 14, 2003 Item 9, Regulation FD Disclosure

Disclosed, and included as an exhibit, written communication comprised of slides which were provided and disseminated in both written and oral form to participants in a series of investor presentations delivered by officers of the company beginning on July 8, 2003.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant, GSI Lumonics Inc., has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

GSI LUMONICS INC.
(Registrant)

Name	Title	Date
/s/ CHARLES D. WINSTON Charles D. Winston	President and Chief Executive Officer (Principal Executive Officer)	July 15, 2003
/s/ THOMAS R. SWAIN Thomas R. Swain	Vice President Finance and Chief Financial Officer (Principal Financial and Accounting Officer)	July 15, 2003

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CERTIFICATIONS PURSUANT TO

SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

Certification

I, Charles D. Winston, certify that:

1. I have reviewed this quarterly report on Form 10-Q/A of GSI Lumonics Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant s disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the Evaluation Date); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant s other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant s auditors and the audit committee of registrant s board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant s ability to record, process, summarize and report financial data and have identified for the registrant s auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant s internal controls; and

6. The registrant s other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ CHARLES D. WINSTON

Charles D. Winston
President and Chief Executive Officer

Date: July 15, 2003

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Certification

I, Thomas R. Swain, certify that:

1. I have reviewed this quarterly report on Form 10-Q/A of GSI Lumonics Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant s disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the Evaluation Date); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant s other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant s auditors and the audit committee of registrant s board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant s ability to record, process, summarize and report financial data and have identified for the registrant s auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant s internal controls; and

6. The registrant s other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ THOMAS R. SWAIN

Thomas R. Swain
Vice President Finance
and Chief Financial Officer

Date: July 15, 2003

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EXHIBIT INDEX