

Ambow Education Holding Ltd.  
Form 20-F  
April 21, 2015

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**FORM 20-F**

**(Mark One)**

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

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

**For the fiscal year ended December 31, 2014**

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

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

Date of the event requiring this shell company report \_\_\_\_\_

Commission file number: 001-34824

**AMBOW EDUCATION HOLDING LTD.**  
(Exact name of Registrant as specified in its charter)

**Not Applicable**  
(Translation of Registrant's name into English)

**Cayman Islands**  
(Jurisdiction of incorporation or organization)

**18th Floor, Building A, Chengjian Plaza, No. 18,  
BeiTaiPingZhuang Road, Haidian District, Beijing  
100088**

**People's Republic of China**  
(Address of principal executive offices)

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**People's Republic of China**

**Telephone: +86 (10) 6206-8007**

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(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

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

\* Not for trading, but only in connection with the listing on New York Stock Exchange of American depository shares representing the Class A Ordinary Shares. Each American depository share represents two Class A Ordinary Shares.

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

**Class A Ordinary Share**

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 stock as of the close of the period covered by this report.

**826,561,719 Class A Ordinary Shares and  
89,543,261 Class B Ordinary Shares,  
par value \$0.0001 per share, as of December 31, 2014**

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

Yes  No

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

Yes  No

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

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  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.

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

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

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

Item 17  Item 18

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

Yes  No

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**CONVENTIONS THAT APPLY IN THIS ANNUAL REPORT ON FORM 20-F**

Except where the context requires otherwise and for purposes of this annual report only:

“ADSs” refers to our American depositary shares, each of which represents two Class A Ordinary Shares, and “ADRs” refers to the American depositary receipts that evidence our ADSs.

“we”, “us”, “our company”, “the company”, “our” and “Ambow” refer to Ambow Education Holding Ltd. and its subsidiaries in the context of describing our operations and consolidated financial data, also include our VIEs and their respective subsidiaries.

“China” or “PRC” refers to the People’s Republic of China, excluding, for the purpose of this annual report, Hong Kong, Macau and Taiwan.

“GaoKao” refers to university entrance exams administered in China.

“IPO” refers to the initial public offering of our ADSs.

“RMB” or “Renminbi” refers to the legal currency of China.

“U.S. GAAP” refers to the Generally Accepted Accounting Principles in the United States.

“VIEs” refers to our variable interest entities, which are certain domestic PRC companies in which we do not have direct or controlling equity interests but whose historical financial results have been consolidated in our financial statements in accordance with U.S. GAAP.

“ZhongKao” refers to senior high school entrance exams administered in China.

“\$”, “US\$” or “U.S. dollars” refers to the legal currency of the United States.

**FORWARD-LOOKING STATEMENTS**

This annual report on Form 20-F includes forward-looking statements that relate to future events or our future financial performance and involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to differ materially from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. Words such as, but not limited to, “believe,” “expect,” “anticipate,” “estimate,” “intend,” “plan,” “likely,” “will,” “would,” “could,” and similar expressions identify forward-looking statements. We have based these forward-looking statements largely on our current expectations and future events and financial trends that we believe may affect our financial condition, results of operation, business strategy and financial needs. Forward-looking statements include, but are not limited to, statements about:

- Anticipated trends and challenges in our business and the markets in which we operate;
- Our ability to anticipate market needs or develop new or enhanced services and products to meet those needs;
  - Our ability to compete in our industry and innovation by our competitors;
  - Our ability to protect our confidential information and intellectual property rights;
  - Risks associated with opening new learning centers and other strategic plans;
- Our need to obtain additional funding and our ability to obtain funding in the future on acceptable terms;
- The impact on our business and results of operations arising from the defects in our real properties;
  - Our ability to create and maintain our positive brand awareness and brand loyalty;
  - Our ability to manage growth; and
  - Economic and business conditions in China.

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All forward-looking statements involve risks, assumptions and uncertainties. You should not rely upon forward-looking statements as predictors of future events. The occurrence of the events described, and the achievement of the expected results, depend on many events, some or all of which are not predictable or within our control. Actual results may differ materially from expected results. See the information under “Item 3.D Key Information—Risk Factors” and elsewhere in this annual report for a more complete discussion of these risks, assumptions and uncertainties and for other risks and uncertainties. These risks, assumptions and uncertainties are not necessarily all of the important factors that could cause actual results to differ materially from those expressed in any of our forward-looking statements. Other unknown or unpredictable factors also could harm our results. We undertake no obligation to update publicly or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this annual report might not occur.

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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 selected consolidated financial data presented below for the three years ended December 31, 2012, 2013 and 2014 and as of December 31, 2012, 2013 and 2014 is derived from our audited consolidated financial statements included elsewhere in this annual report, which were prepared in accordance with U.S. GAAP. The selected consolidated financial data presented below for the years ended December 31, 2010 and 2011, and as of December 31, 2010, 2011 is derived from our unaudited consolidated financial data for those years that are not included in this annual report (which are unaudited as they have been revised from previously issued audited financial statements to reflect the classification of discontinued operations as a separate line item in the income statement), which were prepared in accordance with U.S. GAAP.

The results presented in our selected financial data reflect all of our continuing operations since January 1, 2010 or the subsequent date of acquisition. In 2014, 70% of the interest of Medium Range Online (Beijing) Technology Co., Ltd (“Zhongcheng”) was transferred to a third party. This transaction did not have major impact on Ambow’s business, therefore this transaction was not qualified as discontinued operation. We have recalculated and recognized the remaining 30% interest using the equity method.

In 2012, we disposed of Beijing Century College and its 100% owned Beijing Siwa Century Facility Management Co. (collectively referred to as the “Beijing Century College Group”). In 2013, we have completed the disposal of Beijing 21st Century International School (“21st School”) and the disposal of the Applied Technology College of Soochow University (“Applied Technology College”). As of December 31, 2014, management had the intention to dispose of

Beijing JH Tutoring, Beijing JT Tutoring, and Ambow Jingxue (Beijing) Technology Co., Ltd (collectively referred to as the “Jinghan Group”). The transaction has been completed as of April 8, 2015. We have assessed the disposed entities meeting the criteria of discontinued operations as defined in ASC 205. The results of all discontinued operations and the gain or loss recognized on the disposal, less applicable income taxes (benefit), are reported as a separate component of income. In the period that a discontinued operation is classified as held for sale and for all prior periods presented, the assets and liabilities of the discontinued operation are presented separately on consolidated balance sheet as assets held for sale and liabilities held for sale respectively.

In addition, we have deconsolidated Jilin Clever Technology Consulting Co., Ltd and Jilin Clever Training School (collectively as “Jilin Tutoring”) on September 30, 2014. All the deconsolidations were due to loss of effective control of these schools. See Note 26 to the financial statements for details. This has also affected period-to-period comparisons of our selected consolidated financial data.

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	For the Year Ended December 31,					
	2010	2011	2012	2013	2014	2014
	RMB	RMB	RMB	RMB	RMB	US\$
	(in thousands, except share, per share and per ADS information)					
Consolidated Statement of Operations Data:						
NET REVENUES:						
Educational programs and services	680,124	893,112	675,174	536,511	411,998	66,402
Software products	214,663	366,600	66,886	—	—	—
Total net revenues	894,787	1,259,712	742,060	536,511	411,998	66,402
Cost of revenues	(342,008)	(479,476)	(477,199)	(361,573)	(274,036)	(44,167)
GROSS PROFIT	552,779	780,236	264,861	174,938	137,962	22,235
Operating expenses:						
Selling and marketing (1)	(176,131)	(236,854)	(321,418)	(151,480)	(80,377)	(12,954)
General and administrative (1)	(146,562)	(239,551)	(632,603)	(471,915)	(508,544)	(81,963)
Research and development (1)	(27,553)	(39,541)	(31,842)	(19,545)	(12,259)	(1,976)
Impairment loss from continuing operations	—	—	(761,996)	(84,246)	(292,577)	(47,155)
Total operating expenses	(350,246)	(515,946)	(1,747,859)	(727,186)	(893,757)	(144,048)
OPERATING INCOME/(LOSS)	202,533	264,290	(1,482,998)	(552,248)	(755,795)	(121,813)
OTHER EXPENSE	(793)	(17,886)	(6,739)	(21,932)	(267,861)	(43,172)
INCOME/(LOSS) BEFORE INCOME TAX,						
NON-CONTROLLING INTEREST, AND DISCONTINUED OPERATIONS	201,740	246,404	(1,489,737)	(574,180)	(1,023,656)	(164,985)
Income tax expense/(benefit)	(37,620)	(36,751)	(10,893)	10,424	(1,135)	(183)
INCOME/(LOSS) FROM CONTINUING OPERATIONS	164,120	209,653	(1,500,630)	(563,756)	(1,024,791)	(165,168)
Income/(Loss) from and on sale of discontinued operations, net of income tax	47,579	(193,434)	(172,885)	(346,449)	(57,764)	(9,310)
NET INCOME/(LOSS)	211,699	16,219	(1,673,515)	(910,205)	(1,082,555)	(174,478)
Minus: Net loss contributable to non-controlling interest	(4,333)	(4,966)	(52,349)	(3,387)	(5,742)	(925)
	216,032	21,185	(1,621,166)	(906,818)	(1,076,813)	(173,553)

NET INCOME/(LOSS)  
ATTRIBUTABLE TO  
AMBOW EDUCATION  
HOLDING LTD.

Preferred shares redemption value accretion	(94,209	)	—	—	—	—	—
Allocation of net income to participating preferred shareholders	(55,534	)	—	—	—	—	—

NET INCOME/(LOSS)  
ATTRIBUTABLE TO  
ORDINARY  
SHAREHOLDERS

	66,289	21,185	(1,621,166	)	(906,818	)	(1,076,813	)	(173,553	)
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Net income/(loss) from  
continuing operations per  
ordinary share: (2)

Basic	1.97	1.47	(9.91	)	(3.41	)	(2.44	)	(0.39	)
Diluted	1.50	1.40	(9.91	)	(3.41	)	(2.44	)	(0.39	)

Net income/(loss) from  
discontinued operations  
per ordinary share: (2)

Basic	0.56	(1.38	)	(1.22	)	(2.12	)	(0.14	)	(0.02	)
Diluted	0.42	(1.31	)	(1.22	)	(2.12	)	(0.14	)	(0.02	)

Net income/(loss) from  
continuing operations per  
ADS: (2)

Basic	3.94	2.94	(19.82	)	(6.82	)	(4.88	)	(0.78	)
Diluted	3.00	2.80	(19.82	)	(6.82	)	(4.88	)	(0.78	)

Net income/(loss) from  
discontinued operations  
per ADS: (2)

Basic	1.12	(2.76	)	(2.44	)	(4.24	)	(0.28	)	(0.04	)
Diluted	0.84	(2.62	)	(2.44	)	(4.24	)	(0.28	)	(0.04	)

Weighted average shares  
used in calculating net  
income/(loss) per share  
(2)

Basic	85,551,412	142,939,038	145,659,940	163,942,809	417,841,426	417,841,426
Diluted	112,122,045	150,432,812	145,659,940	163,942,809	417,841,426	417,841,426

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## (1) Share-based compensation expense included in:

	For the Year Ended December 31,					
	2010	2011	2012	2013	2014	2014
	RMB	RMB	RMB	RMB	RMB	US\$
	(in thousands, except share, per share and per ADS information)					
Selling and marketing	(7,204 )	(7,286 )	(6,286 )	(2,658 )	(351 )	(56 )
General and administrative	(26,029)	(25,220)	(88,019)	(73,108)	(156,870)	(25,283)
Research and development	(981 )	(842 )	(872 )	(829 )	(144 )	(23 )

Basic and diluted net income from continuing operations per ordinary share is computed by dividing net income from continuing operations adjusted for the impact of any accretion/allocation of income relating to preferred shareholders by the weighted average number of shares outstanding for the period. Basic and diluted net (2) income/(loss) from discontinued operations per ordinary share is computed by dividing net income/(loss) from discontinued operations by the weighted average number of shares outstanding for the period. The potentially dilutive warrants, preferred shares and options were excluded from the calculation of diluted net income/(loss) from continuing/discontinued operations per share in those periods where their inclusion would be anti-dilutive.



provided to you. The source of these rates is the Federal Reserve Board.

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Period	Average (1)
2010	6.7603
2011	6.4475
2012	6.2990
2013	6.1412
2014	6.1704

Period	High (1)	Low (1)
2014		
September	6.1495	6.1266
October	6.1385	6.1107
November	6.1429	6.1117
December	6.2256	6.1490
2015		
January	6.2535	6.1870
February	6.2695	6.2399

(1) Annual and monthly lows and highs are calculated from daily noon buying rates in the city of New York as published by the Federal Reserve Bank.

**B. Capitalization and Indebtedness**

Not applicable.

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

Not applicable.

**D. Factors**

**Risks related to our business and industry**

***If we are not able to continue to attract students to enroll in our programs, our net revenues may decline and we may not be able to maintain profitability.***

The success of our business largely depends on the number of student enrollments in our programs and the amount of course fees that our students are willing to pay. Therefore, our ability to continue to attract students to enroll in our programs without a significant decrease in course fees is critical to the continued success and growth of our business. This will depend on several factors, including our ability to develop new programs and enhance existing programs to respond to changes in market trends and student demands, expand our geographic reach, manage our growth while maintaining the consistency of our teaching quality, effectively market our programs to a broader base of prospective students, develop and license additional high-quality educational content and respond to competitive pressures. Our college is subject to the government imposed annual enrollment quota limit. If we were to violate requirements to which we are subject the Ministry of Education of the People's Republic of China ("MOE"), could reduce the annual enrollment quota at our college or restrict the programs we offer at our college or the methods by which we recruit new students. If we are unable to continue to attract students to enroll in our programs without a significant decrease in course fees, our net revenues may decline and we may not be able to achieve profitability, either of which could result in a material adverse effect on our business, results of operations and financial condition.

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***If we are not able to continue to attract and retain qualified education professionals, we may not be able to maintain consistent teaching quality throughout our school and learning center network and our brand, business and results of operations may be materially and adversely affected.***

Our education professionals are critical to maintaining the quality of our services, software products and programs, and maintaining our brand and reputation, as they interact with our students on a regular basis. We must continue to attract qualified education professionals who have a strong command of the subject areas to be taught and meet our qualifications. There are a limited number of education professionals in China with the necessary experience to satisfy our qualifications, and we must provide competitive compensation packages to attract and retain qualified teachers and tutors. Some of our education professionals are teachers of public schools that are working at our tutoring centers on a part-time basis. Paid tutoring by teachers of public schools has received more regulatory scrutiny recently. On January 11, 2014, MOE promulgated the Measures for Punishment for Violation of Professional Ethics of Primary and Secondary School Teachers (the “Measures”) related to some of our substantial business operations in provinces and cities such as Beijing, Tianjin, Chengdu, Jiangsu, Hunan and Hubei. The Measures prohibit teachers of public schools from teaching, on a part-time basis, at private schools during the work week or at any time. We believe that some of our teachers also work in public schools. If these education professionals choose to leave, or are forced to leave, our learning centers to comply with relevant local regulations, we will need to seek new teachers to replace them which we cannot assure you that we will be able to do at a reasonable cost or at all. If these regulations become the trend and are adopted in more provinces and cities or become more restrictive, we may need to seek additional new teachers in more places, which will further increase the difficulty of our recruiting efforts. While there has been no existing nationwide regulations imposing any penalty on private schools like ours for hiring teachers who also teach at public schools, we cannot assure you that such regulations will not be adopted in the future. In addition, we may not be able to hire and retain enough qualified education professionals to keep pace with our anticipated growth or at acceptable costs while maintaining consistent teaching quality across many different schools, learning centers and programs in different geographic locations. Shortages of qualified education professionals, or decreases in the quality of our instruction, whether actual or perceived in one or more of our markets, or an increase in hiring costs, may have a material and adverse effect on our business and our reputation. Further, our inability to retain our education professionals may hurt the brands we are trying to develop, and retaining qualified teachers at additional costs may have a material adverse effect on our business and results of operations.

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***Our business depends on the strength of our brands in the marketplace. We may not be able to retain existing students or attract new students if we cannot continue to use, protect and enhance our brands successfully in the marketplace.***

Our operational and financial performance and the successful growth of our business are highly dependent on market awareness of our “Ambow” brand and the regional brands that we have acquired. We believe that maintaining and enhancing the “Ambow” brand is critical to maintaining and enhancing our competitive advantage and growing our business. In order to retain existing students and attract new students, we plan to continue to make expenditures to create and maintain our positive brand awareness and brand loyalty. The diverse set of services and products that we offer to K-12 students, college students and other adults throughout many provinces in China places significant demands on us to maintain the consistency and quality of our services and products to ensure that our brands do not suffer from any actual or perceived decrease in the quality of our services and products. As we continue to grow in size, expand our services and products and extend our geographical reach, maintaining the quality and consistency of our services and products may be more difficult. Any negative publicity about our services, products, schools or learning centers, regardless of its veracity, could harm our brand image and have a material adverse effect on our business and results of operations.

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***We face significant competition in each major program we offer and each geographic market in which we operate, and if we fail to compete effectively, we may lose our market share and our profitability may be adversely affected.***

The private education sector in China is rapidly evolving, highly fragmented and competitive, and we expect competition in this sector to persist and intensify. In addition, our K-12 schools compete with public schools in China, which are generally viewed to be superior to private schools within the Chinese market. We face competition in each major program we offer and each geographic market in which we operate. Moreover, competition is particularly intense in some of the key geographic markets in which we operate, such as Beijing and Shanghai.

We also face competition from many different companies that focus on one area of our business and are able to devote all of their resources to that business line, and these companies may be able to more quickly adapt to changing technology, student preferences and market conditions in these markets than we can. These companies may, therefore, have a competitive advantage over us with respect to these business areas.

The increasing use of the Internet and advances in Internet- and computer-related technologies are eliminating geographic and cost-entry barriers to providing private educational services. As a result, many international companies that offer online test preparation and language training courses may decide to expand their presence in China or to try to penetrate the China market. Many of these international companies have strong education brands, and students and parents in China may be attracted to the offerings based in the country that the student wishes to study in or in which the selected language is widely spoken. In addition, many Chinese and smaller companies are able to use the Internet to quickly and cost-effectively offer their services and products to a large number of students with less capital expenditure than previously required.

Competition could result in loss of market share and revenues, lower profit margins and limit our future growth. A number of our current and potential future competitors may have greater financial and other resources than we have. These competitors may be able to devote greater resources than we can to the development, promotion and sale of their services and products, and respond more quickly than we can to changes in student needs, testing materials, admissions standards, market needs or new technologies.

Our student enrollments may decrease due to intense competition, and we may be required to reduce course fees or increase spending in response to competition in order to retain or attract students or pursue new market opportunities. As a result, our net revenues and profitability may decrease. We cannot assure you that we will be able to compete successfully against current or future competitors. If we are unable to maintain our competitive position or otherwise respond to competitive pressures effectively, we may lose our market share and our profitability may be materially adversely affected.



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*We have completed a number of acquisitions, which involve risks and uncertainties, and if we don't manage those risks well, it may harm our business.*

We have completed a number of acquisitions during the past few years. In the future, we may also establish and maintain joint ventures and strategic relationships with third parties. Strategic acquisitions, investments and relationships with third parties involve substantial risks and uncertainties, including:

- Our ability to identify and acquire targets in a cost-effective manner;

Our ability to obtain approval from relevant governmental authorities for the acquisitions and comply with applicable rules and regulations for such acquisitions;

- Potential ongoing financial obligations in connection with acquisitions;

Potential unforeseen or hidden liabilities, including litigation claims or tax liabilities, associated with acquired companies or schools;

- The diversion of resources and management attention from our existing businesses;

Failure to achieve the intended objectives, benefits or revenue-enhancing opportunities expected from the acquisitions;

Our ability to generate sufficient revenues to offset the costs and expenses of strategic acquisitions, investments, joint venture formations, or other strategic relationships; and

- Potential loss of, or harm to, employee or customer relationships as a result of ownership changes.

In particular, while we have performed due diligence on each entity that we acquired before the acquisition, some of the acquired entities did not maintain their historical documents and records properly and a substantial amount of such documents and records were unavailable for our review. As such, there may be hidden liabilities and risks relating to the business and operation of such acquired entities that we failed to identify before the acquisition and of which we are still unaware. If any such hidden liability is found or any such risk materializes in the future, we may not have any remedy against the sellers and may have to assume the liabilities and losses as a result.

If any one or more of these risks or uncertainties were to occur or if any of the strategic objectives we contemplated is not achieved, our ability to manage our business could be impaired. It could result in our failure to derive the intended benefits of these strategic acquisitions, investments, joint ventures or strategic relationships, or otherwise have a material adverse effect on our business, financial condition and results of operations. In addition, if we fail to successfully pursue our future acquisition strategy, our plans for further market penetration, revenue growth and improved results of operations could be harmed.

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*We may not be able to successfully integrate businesses that we acquire, which may cause us to lose anticipated benefits from such acquisitions and to incur significant additional expenses.*

It is challenging to integrate business operations, infrastructure and management philosophies of acquired schools and companies. The benefits of our past and future acquisitions depend in significant part on our ability to integrate technology, operations and personnel. The integration of acquired schools and companies is a complex, time-consuming and expensive process that, without proper planning and implementation, could significantly disrupt our business and operations. The main challenges involved in integrating acquired entities include the following:

· Ensuring and demonstrating to our students that the acquisitions will not result in adverse changes in service standards or business focus;

· Consolidating and rationalizing corporate IT and administrative infrastructures;

· Retaining qualified education professionals of our acquired entities;

· Consolidating service and product offerings;

· Coordinating and rationalizing research and development activities to enhance introduction of new products and technologies with reduced cost;

· Preserving strategic, marketing or other important relationships of the acquired entity and resolving potential conflicts that may arise with our key relationships; and

· Minimizing the diversion of management attention from ongoing business concerns.

We may not successfully integrate our operations and the operations of entities we acquire in a timely manner, or at all, and we may not realize the anticipated benefits or synergies of the acquisitions to the extent, or in the timeframe, anticipated, which would have a material adverse effect on our results of operations.

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***Our results of operations may fluctuate, which makes our financial results difficult to forecast, and could cause our results to fall short of expectations.***

Our results of operations may fluctuate as a result of a number of factors, many of which are outside of our control. Our net revenues from continuing operations decreased from RMB 742.1 million in 2012 to RMB 536.5 million in 2013, and decreased to RMB 412.0 (US\$66.4 million) in 2014. Comparing our results of operations on a period-to-period basis may not be meaningful, and you should not rely on our past results as an indication of our future performance. Our quarterly and annual net revenues and costs and expenses as a percentage of net revenues may be significantly different from our historical or projected rates. Our quarterly and annual net revenues and gross margins may fluctuate due to a number of factors, including:

- The mix of our net revenues across our operating segments;
- The increase of costs associated with our strategic expansion plans;
- The revenue and gross margin profiles of our acquisitions in a given period;
- Our ability to successfully integrate our acquisitions and the timing of our post-integration activities;
- Our ability to reduce our costs as a percentage of our net revenues;
- Increased competition; and
- Our ability to manage our financial resources, including administration of bank loans and bank accounts.

As a result of these and other factors, we may not sustain our past growth rates in future periods, and we may not sustain profitability on a quarterly or annual basis in the future.

***Our business depends on the continuing efforts of our senior management team and other key personnel and our business may be harmed if we lose their services.***

Our future success depends heavily upon the continuing services of the members of our senior management team and, in particular, upon our retaining the services of our founder, Chairman and Chief Executive Officer, Dr. Jin Huang. If

one or more of our senior executives or other key personnel are unable or unwilling to continue in their present positions, we may not be able to replace them easily or at all, and as a result our business may be disrupted and our financial condition and results of operations may be materially and adversely affected. In addition, if any member of our senior management team or any of our other key personnel joins a competitor or forms a competing company, we may lose teachers, students, key professionals and staff members. Competition for experienced management personnel in the private education sector is intense, the pool of qualified 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 high-quality senior executives or key personnel in the future, which could have a material adverse effect on our business and results of operations.

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***If we are not able to continually enhance our online programs, services and products and adapt them to rapid technological changes and student needs, we may lose market share and our business could be adversely affected.***

Our online programs, services and products are vital to the success of our business. The market for such programs, services and products is characterized by rapid technological changes and innovation, unpredictable product life cycles and user preferences. We must quickly modify our online programs, services and products to adapt to changing student needs and preferences, technological advances and evolving Internet practices. Ongoing enhancement of our online offerings and related technologies may entail significant expense and technical risk. We may use new technologies ineffectively or fail to adapt our online services or products and related technologies on a timely and cost-effective basis. If our improvements to our online offerings and the related technology are delayed, if they result in systems interruptions or are not aligned with market expectations or preferences, we may lose market share and our business could be materially adversely affected.

***If we fail to successfully develop and introduce new services and products in time, our competitive position and ability to generate revenues could be harmed.***

Our future success depends partly on our ability to develop new services and products. The planned timing or introduction of new services and products is subject to risks and uncertainties. Actual timing may differ materially from original plans. Unexpected technical, operational or other problems could delay or prevent the introduction of one or more of our new services or products. Moreover, we cannot assure you that any of our new services and products will achieve widespread market acceptance or generate incremental revenue. If our efforts to develop, market and sell new services and products to the market are not successful, our financial position, results of operations and cash flows could be materially adversely affected.

***Failure to adequately and promptly respond to changes in curriculum, testing materials and standards could cause our services and products to be less attractive to our students.***

There are continuous changes in the focus of the subjects and questions tested on ZhongKao and GaoKao in China, and the format of the tests and the manner in which the standardized tests are administered. These changes require us to continually update and enhance our curriculum, test preparation materials and our teaching methods. Any inability to track and respond to these changes in a timely and cost-effective manner would make our services and products less attractive to students, which may materially and adversely affect our reputation and ability to continue to attract students without a significant decrease in course fees. Further, we understand the MOE has been discussing reforms to curriculum of K-12 schools. Therefore, school curriculum will likely undergo changes and our tutoring and test preparation programs and materials will need to adapt to such changes. Failure to timely respond to such changes will adversely impact our tutoring services.



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***Failure to respond to changes to the current assessment and testing systems and admission standards in China could have a material adverse effect on our business and results of operations.***

A substantial majority of the net revenues generated in our tutoring segment in the year ended December 31, 2014 were generated from tutoring services focused on preparing for ZhongKao and GaoKao. There have been changes in some areas in the way ZhongKao is administered. For example, beginning in 2010, Yunnan Province stopped administering ZhongKao. Instead, high schools will admit students based on a combination of a comprehensive evaluation of the students' aptitude (provided by their middle schools) and the students' middle school academic performance. To ensure the success of the educational reform and cultivate students' comprehensive abilities, Yunnan Province also prohibits subject competitions in elementary and middle schools, including Olympic math competitions, and standardizes admission policies regarding adding points to middle school test scores based on a student's extracurricular activities. As for GaoKao, some top universities such as Peking University have been allowed to recruit students through independently administered tests and admission procedures in recent years. The candidates still need to take GaoKao and their scores in GaoKao may not be lower than certain thresholds, but such GaoKao scores will not be the sole determining factor in the admission process. Students admitted in this manner generally should not exceed 5% of the annual enrollment quotas of these universities as approved by the MOE. To the extent ZhongKao, or even GaoKao, becomes less prevalent throughout China, our business and results of operations may be materially adversely affected.

***If we are unable to obtain new loans, at all or on terms that are acceptable to us, our growth pace will be impacted.***

We may seek to obtain additional bank loans in the future. We cannot assure you that we will be able to obtain new loans or credit facilities, at all or on terms that are acceptable to us. Our ability to obtain financing may be affected by our financial position and leverage, our credit rating and investor perception of the education industry, as well as by prevailing economic conditions and the cost of financing in general. In addition, factors beyond our control, such as recent global market and economic conditions and the tightening of credit markets may result in a diminished availability of financing and increased volatility in credit and equity markets, which may materially adversely affect our ability to secure financing at reasonable costs or at all. We cannot assure you that the People's Bank of China ("PBOC") will not in the future take actions that may result in a tightening of the credit market in China. Our ability to obtain bank loans from domestic Chinese banks will be significantly impacted by the PBOC's policies, over which we have no control. If we are unable to obtain financing in the future on terms acceptable to us, our business operations and our growth plans would be materially harmed.

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***Our business is subject to seasonal fluctuations, which may cause our operating results to fluctuate from quarter to quarter.***

We have experienced, and expect to continue to experience, seasonal fluctuations in our revenues and results of operations, primarily due to seasonal changes in service days and student enrollments. Historically, the number of days on which our students attend our courses is lower in the first and third quarters due to school closures for the celebration of the Chinese New Year and summer vacation. Because we recognize revenue in our K-12 schools and college segments based on the number of service days in the quarter, we expect our revenue in the first and third quarters to be negatively impacted. Our costs and expenses, however, vary significantly and do not necessarily correspond with changes in our student enrollments, service days and net revenues. We make investments in marketing and promotion, teacher recruitment and training, and product development throughout the year. We expect quarterly fluctuations in our revenues and results of operations to continue. As our revenues grow in our K-12 schools and college segments, these seasonal fluctuations may become more pronounced.

***We may not be able to adequately protect our intellectual property, which could cause us to be less competitive.***

Our trademarks, trade names, copyrights, trade secrets and other intellectual property rights are important to our success. Unauthorized use of any of our intellectual property may adversely affect our business and reputation. We rely on a combination of copyright, trademark and trade secrets laws and confidentiality agreements with our employees, consultants and others, including our partner schools, to protect our intellectual property rights. Nevertheless, it may be possible for third parties to obtain and use our intellectual property without authorization. The unauthorized use of intellectual property is widespread in China, and enforcement of intellectual property rights by Chinese regulatory agencies is inconsistent. Moreover, litigation may be necessary in the future to enforce our intellectual property rights. Future litigation could result in substantial costs and diversion of our management's attention and resources and could disrupt our business. If we are unable to enforce our intellectual property rights, it could have a material adverse effect on our financial condition and results of operations. Given the relative unpredictability of China's legal system and potential difficulties enforcing a court judgment in China, we may be unable to halt the unauthorized use of our intellectual property through litigation. Failure to adequately protect our intellectual property could materially adversely affect our competitive position, our ability to attract students and our results of operations.

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

Third parties may initiate litigation against us alleging infringement upon their intellectual property rights.

In the event of a future successful claim of infringement or misappropriation and our failure or inability to develop non-infringing technology or license the infringed or misappropriated or similar technology on a timely basis, our business could be harmed. In addition, even if we are able to license the infringed or misappropriated or similar technology, license fees could be substantial and may adversely affect our results of operations.

***We rely heavily on our information systems, and if we fail to further develop our technologies, or if our systems, software, applications, database or source code contain “bugs” or other undetected errors, our operations may be seriously disrupted.***

The successful development and maintenance of our systems, software, applications and database, such as our school management software and system, learning engine and student database, is critical to the attractiveness of our online and offline programs and the management of our business operations. In order to achieve our strategic objectives and to remain competitive, we must continue to develop and enhance our technology. This may require us to acquire additional equipment and software and to develop new applications. In addition, our technology platform upon which our management systems and online programs operate, and our other databases, products, systems and source codes could contain undetected errors or “bugs” that could adversely affect their performance.

To date, our information systems have not encountered material errors or technical issues that have adversely affected or disrupted our operations. If we encounter errors or other service quality or reliability issues, or if we are unable to design, develop, implement and utilize information systems and the data derived from these systems, our ability to realize our strategic objectives and our profitability could be adversely affected, and this may cause us to lose market share, harm our reputation and brand names, and materially adversely affect our business and results of operations.

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***Unexpected network interruptions, security breaches or computer virus attacks and system failures could have a material adverse effect on our business, financial condition and results of operations.***

Any failure to maintain satisfactory performance, reliability, security or availability of our network infrastructure may cause significant damage to our reputation and our ability to attract and maintain students. Major risks involving our network structure include:

Breakdowns or system failures resulting in a prolonged shutdown of our servers, including failures attributable to power shutdowns, or attempts to gain unauthorized access to our systems, which may cause loss or corruption of data, including customer data, or malfunctions of software or hardware;

Disruption or failure in the national backbone network, which would make it impossible for visitors and students to log on to our websites;

Damage from fire, flood, power loss and telecommunications failures; and

Any infection by or spread of computer viruses.

Any network interruption or inadequacy that causes interruptions in the availability of our websites or deterioration in the quality of access to our websites could reduce customer satisfaction and result in a reduction in the number of students using our services. If sustained or repeated, these performance issues could reduce the attractiveness of our online and offline programs. In addition, we may be subject to a security breach caused by a computer hacker, which could involve attempts to gain unauthorized access to our systems or personal information stored in our systems, or to cause intentional malfunctions or loss or corruption of data, software, hardware or other computer equipment. A user who circumvents our security measures could misappropriate proprietary information or cause interruptions or malfunctions in our operations. As a result, we may be required to expend significant resources to protect against the threat of these security breaches or to alleviate problems caused by these breaches.

Furthermore, increases in the volume of traffic on our websites could also strain the capacity of our existing computer systems, which could lead to slower response times or system failures. This would cause a disruption or suspension in our online course programs, which would hurt our brand and reputation, and thus negatively affect our net revenue growth. We may need to incur additional costs to upgrade our computer systems in order to accommodate increased demand if we anticipate that our systems cannot handle higher volumes of traffic in the future.

All of our servers and routers including backup servers are currently hosted by third-party service providers within China. We do not currently maintain any backup servers outside of China. To improve the performance and to prevent

the disruption of our services, we may have to make substantial investments to deploy additional servers or one or more copies of our websites to mirror our online resources.

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***Our legal right to lease certain properties could be challenged by property owners or other third parties, which may cause interruptions to business operations of the affected schools, tutoring centers, college and career enhancement centers and adversely affect our financial results.***

We lease most of the premises used for the operation of our schools, tutoring centers, college and career enhancement centers. As a result, we are dependent on the property rights of these properties held by their owners to enable us to use the premises. We cannot assure you that all lessors of our leased business premises have the relevant land use right certificates or building ownership certificates of the premises they lease to us or otherwise have the right to lease the premises to us.

We are not aware of any actions, claims or investigations being contemplated by the competent governmental entities with respect to the defects in our leased real properties. However, if we are unable to use the existing properties, enter new leases or renew our current leases in a timely basis and on terms favorable to us, our business, results of operations and financial condition could be materially adversely affected.

***We do not possess the relevant land use right certificates or building ownership certificates for some of the properties owned by us, and certain of the properties that we own have potential defects or issues that may not be easily remedied, which could cause us to incur significant additional expenses or could disrupt certain aspects of our business.***

Some of the real properties that we own have defects or potential issues such as missing title certificates.

To the extent competent governmental entities were to detect these defects and we were found not to be in compliance with the applicable regulations, we may be subject to fines or incur significant additional expenses, our legal title to some of our properties may be challenged, and certain of the land we use to operate our business may be confiscated. If we are required to find alternative locations for our schools and learning centers, we may be required to pay increased rent for the new locations and the new locations, especially for our K-12 schools and college, may be less convenient and accessible to our students and teachers, which may materially adversely affect our business, results of operations and financial condition.

We are in the process of applying for the land use right and building ownership certificates for buildings for which we do not yet hold effective title certificates, and are trying to remedy the defects and issues that prevent us from obtaining such certificates. We expect to complete the application process and obtain the certificates in a reasonable period of time, but do not have an exact time frame. However, we cannot assure you that these applications will be approved in a timely fashion or at all. If we are not able to remedy these defects in a timely manner, we may be required to find alternative locations for our schools and learning centers or may be subject to fines or penalties, either

of which could have a material adverse effect on our business or results of operations.

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***We were aware of defects in the leased or owned real properties at target entities at the time we made acquisitions, certain defects might exist in the leased or owned properties of the schools and learning centers we acquire in the future.***

The defects in certain of the properties of our directly-operated schools and learning centers existed at the time we acquired these entities. Our mergers and acquisitions team has followed an internal procedure to identify and assess risks in connection with acquisitions. We were aware of the defects in the leased or owned properties of the acquired schools during our due diligence review, and a final business decision was made after our analysis of the likely impact of such real property defects. We cannot assure you that all properties leased or owned by our acquisition targets will be fully in compliance with the relevant real property regulations in future. If the target schools fail to remedy the defects and issues in the leased or owned real properties prior to the time at which we complete the acquisitions, the schools or learning centers may be subject to fines or other penalties, which may adversely affect our operation of these schools and our operating results.

***We may need to record a significant charge to earnings if our goodwill or intangible assets arising from acquisitions become impaired, which would adversely affect our net income.***

In accordance with U.S. GAAP, we account for our acquisitions using the acquisition method of accounting, and such acquisitions have resulted in significant goodwill and intangible assets. These assets may become impaired in the future, which could have a material adverse effect on our results of operations following such acquisitions. We are required under U.S. GAAP to review our amortizable intangible assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Goodwill is required to be tested for impairment annually, or more frequently, if facts and circumstances warrant a review. Factors that may be considered a change in circumstances indicating that the carrying value of our amortizable intangible assets may not be recoverable include a decline in stock price and market capitalization and slower or declining growth rates in our industry. During 2014, we recognized an impairment loss of RMB 292.6 million due to decline of business. In the future, we may be required to record a significant charge to earnings in our financial statements during the period in which any impairment of our goodwill or amortizable intangible assets is determined, which could have a material adverse effect on our results of operations.

***Our grant of employee share options, restricted shares or other share-based compensation and any future grants could have an adverse effect on our net income.***

We adopted a stock option plan in 2005, or 2005 Stock Plan, as well as an equity incentive plan in 2010, or 2010 Equity Incentive Plan. We have granted options and restricted shares under these plans to our employees and consultants. U.S. GAAP prescribes how we account for share-based compensation, and may have an adverse or negative impact on our results of operations. U.S. GAAP requires us to recognize share-based compensation as compensation expense in the statement of operations based on the fair value of equity awards on the date of the grant,

with the compensation expense recognized over the period in which the recipient is required to provide service in exchange for the equity award. These statements also require us to adopt a fair value-based method for measuring the compensation expense related to share-based compensation. As of December 31, 2014, we had RMB 2.3 million (US\$0.4 million) of unrecognized share-based compensation costs, adjusted for estimated forfeitures, related to unvested stock option awards granted prior to such date, which are expected to be recognized over a weighted-average period of 0.60 years. We recorded share-based compensation expenses of RMB 3.6 million for the restricted stock as of December 31, 2014 and the unrecognized share-based compensation expenses was amounting to RMB 13.6 million as of December 31, 2014. The expenses associated with share-based compensation may reduce the attractiveness of issuing share options or restricted shares under our equity incentive plan. However, if we do not grant share options or restricted shares, or reduce the number of share options or restricted shares that we grant, we may not be able to attract and retain key personnel. If we grant more share options or restricted shares to attract and retain key personnel, the expenses associated with share-based compensation may adversely affect our net income.

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***Changes to accounting pronouncements or taxation rules or practices or greater than anticipated tax liabilities may adversely affect our reported results of operations or how we conduct our business.***

A change in accounting pronouncements or taxation rules or practices can have a significant effect on our reported results and may even affect our reporting of transactions completed before the change is effective. New accounting pronouncements or taxation rules, such as FASB Interpretation No. 48 “Accounting for Uncertainty in Income Taxes,” or FIN 48 (now codified as ASC 740), the Corporate Income Tax Law in China which was effective January 1, 2008, or the CIT Law, and various interpretations of accounting pronouncements or taxation practice have been adopted and may be adopted in the future. These accounting standard and tax regulation changes, future changes and the uncertainties surrounding current practices and implementation procedures may adversely affect our reported financial results or the way we conduct our business. We are subject to income tax, business tax and other taxes in many provinces and cities in China and our tax structure is subject to review by various local tax authorities. The determination of our provision for income tax and other tax liabilities requires significant judgment and, in the ordinary course of our business, there are many transactions and calculations where the ultimate tax determination is uncertain. Although we believe our estimates are reasonable, the ultimate decisions by the relevant tax authorities may differ from the amounts recorded in our financial statements and may materially affect our financial results in the period or periods for which such determination is made. Moreover, we may lose the tax benefits we are currently receiving or we may be forced to disgorge prior tax benefits we have enjoyed and pay additional taxes and possibly penalties for prior tax years, any of which would harm our results of operations.

In order to enjoy the preferential tax treatment to be exempted from income tax on profits and to be entitled to a 50% reduction in income tax rate and to maintain the “Software Enterprise” status, entity is required to obtain a Certificate of Software Enterprise issued by the provincial IT industry administration authorities through meeting the following conditions: (a) its primary business includes computer software development and production, system integration, application services and other related technical services because an enterprise which only engages in software trading is not qualified, (b) it has developed one or more software products or has intellectual property rights to such products, or provides such services as certified computer information system integration, (c) it has the technical equipment and business location required to engage in software development and related technical services, (d) it has the means and ability to control the quality of its software products and technical services, (e) its technicians engaging in product development and technical services make up no less than 50% of the staff, (f) its research and development expenses for software technology and products make up more than 6% of its software revenues, and (g) its annual software sales make up more than 35% of its total annual revenue and the sales of self-produced software make up more than 50% of the software sales. Pursuant to the Criteria for Recognition and Administrative Measures of Software Enterprises, Software Enterprises are subject to annual inspections by the local software industry associations or other relevant associations authorized by the Ministry of Industry and Information Technology (“MIIT”). Software Enterprises which fail such annual inspections may not, for the current year, enjoy the relevant incentive policies including the preferential tax treatment. Ambow Online has obtained the Certificate of Software Enterprise and has previously enjoyed such preferential tax treatment. However, in 2014, we received a document from the tax bureau cancelling Ambow Online’s preferential tax treatment. We have taken legal action to defend ourselves, but it is still too early to determine the impact on our results of operations.

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For private schools or college operated for reasonable returns they were normally subject to income taxes at 33% prior to 2008 and 25% after January 1, 2008 but were, under certain circumstances, subject to deemed amounts or rates of income tax to be determined by the relevant tax authorities. According to the Implementing Rules of the Law for Promoting Private Education and other relevant tax rules, prior to January 1, 2008, had our schools and colleges been registered as not requiring reasonable returns, they would generally have been exempt from income taxes. To date, no separate regulations or guidelines have been released on how to define reasonable return for the purposes of assessing a school's tax status prior to January 1, 2008. Moreover, the CIT Law includes specific criteria that need to be met by an entity to qualify as a not-for-profit organization in order to be exempt from corporate income tax. An official circular was issued in November 2009 to set out further clarification of the requirements for not-for-profit organizations, and the circular stipulated that only not-for-profit organizations certified jointly by finance and taxation authorities are entitled to tax exemption and the circular shall go into effect retrospectively as of January 1, 2008. While we currently do not believe it is likely that our schools and college would qualify as not-for-profit organizations and therefore be exempt from corporate income tax under the CIT Law, the detailed implementation guidance has not been provided to local tax authorities on how to apply these changes to schools and colleges. We intend to engage an external tax consultant to conduct comprehensive tax planning once further guidance from the tax authorities is released. This consultant may be expensive and the results of the guidance may not be favorable on our tax rates in the future. If we lose the benefit of the preferential tax treatments some of our schools and companies are currently enjoying, we could be required to pay additional taxes, which could have a material adverse effect on our results of operations and financial condition.

***If the slowdown in China's economy continues or worsens, it may adversely impact our business.***

The growth rate of China's domestic product in 2014 was 7.4%, compared to a growth rate of 7.7% in 2013. A number of factors contributed to this slowdown in China's economy, including appreciation of the RMB, which adversely affected China's exports, and tightening macroeconomic measures and monetary policies adopted by the PRC government aimed at preventing overheating of China's economy and controlling China's high level of inflation. Since we derive substantially all of our revenues from students in China, any prolonged slowdown in the Chinese economy may have a negative impact on our business, results of operations and financial condition in a number of ways. For example, our students may decrease or delay spending with us, while we may have difficulty expanding our customer base fast enough, or at all, to offset the impact of decreased spending by our existing students. The adverse economic conditions, if they continue or worsen, will affect consumer spending generally, which could result in decreased demand for our services and products within our target markets.

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***If we fail to implement and maintain an effective system of internal controls, we may be unable to accurately report our results of operations or prevent fraud, and investor confidence may be materially and adversely affected.***

As a public company in the United States, we are subject to the reporting obligations under the U.S. securities laws. The Securities and Exchange Commission (“SEC”), as required under Section 404 of the Sarbanes-Oxley Act of 2002, has adopted rules requiring every public company to include a report of management on the effectiveness of such company’s internal control over financial reporting in its annual report. In addition, an independent registered public accounting firm must issue an attestation report on the effectiveness of our internal control over financial reporting. Given that Ambow’s market capitalization is less than USD 75 million as the year ended December 31, 2014, according to the Section 989G(a) of the Dodd-Frank Act, the section 404(b) of the Sarbanes-Oxley Act of 2002 is not applicable, so there is no need for an independent registered public accounting firm issue an attestation report on the effectiveness of our internal control over financial reporting. However, the section 404(a) of the Sarbanes-Oxley Act of 2002 is still applicable, which is requiring every public company to include a report of management on the effectiveness of such company’s internal control over financial reporting in its annual report. Our management have performed an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2014 and reported to our board of directors the material weaknesses as of December 31, 2014. The material weaknesses identified in our internal control over financial reporting are mainly related to the inadequate oversight over complex transactions. See “Item 15. Controls and Procedures.”

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In response to the material weaknesses described above, we have taken several measures designed to remediate the material weaknesses in our internal control over financial reporting, and we plan to continue to implement additional remedial measures. The measures we intend to take in the future may not be sufficient to remediate the material weaknesses noted by our management and our independent registered public accounting firm and to avoid potential future material weaknesses. See “Item 15. Controls and Procedures.”

We may require more resources and incur more costs than currently expected to remediate our identified material weaknesses or any additional significant deficiencies or material weaknesses that may be identified, which may adversely affect our results of operations.

If either of the material weaknesses is not remedied or recurs, or if we identify additional weaknesses or fail to timely and successfully implement new or improved controls, our ability to assure timely and accurate financial reporting may be adversely affected, and we could suffer a loss of investor confidence in the reliability of our financial statements, which in turn could result in lawsuits being filed against us by our shareholders, or otherwise harm our reputation.

**Risks related to regulation of our business and our corporate structure**

*All aspects of our business are subject to extensive regulation in China, we may not be in full compliance with these regulations and our ability to conduct business is highly dependent on our compliance with this regulatory framework. If the PRC government finds that the agreements that establish the structure for operating our business do not comply with applicable PRC laws and regulations, we could be subject to severe penalties.*

The Chinese government regulates all aspects of our business and operations, including licensing of parties to perform various services, pricing of tuition and other fees, curriculum content, standards for the operations of schools, tutoring centers, college and career enhancement centers and foreign investments in the education industry. The laws and regulations applicable to the education sector are subject to frequent change, and new laws and regulations may be adopted, some of which may have a negative effect on our business, either retroactively or prospectively.

Currently, PRC laws and regulations do not explicitly impose restrictions on foreign investment in the tutoring service sector in China. However, some local government authorities in the PRC have adopted different approaches in granting licenses and permits (particularly, imposing more stringent restrictions on foreign-invested entities) for entities providing tutoring services. In some areas, local government authorities do not allow foreign-invested entities to establish private schools to engage in tutoring services, other than in the forms of Sino-foreign cooperative schools or international schools. Under current PRC laws, the foreign contributors of Sino-foreign cooperative schools shall be foreign educational institutions such as universities or colleges instead of foreign companies. As a foreign company,

we are not qualified to run Sino-foreign cooperative schools in China. International schools are schools only for children of aliens in China and shall not admit any children of Chinese citizens.

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We conduct our K-12 school and tutoring business and provide online services in China primarily through contractual arrangements between Ambow Online, our principal operating subsidiary in China, and our VIEs, and their respective shareholders.

According to the Foreign Investment Industries Guidance Catalog, or Foreign Investment Catalog, which was amended and promulgated by the National Development and Reform Commission (“NDRC”), and the Ministry of Commerce (“MOFCOM”) on March 10, 2015 and became effective on April 10, 2015, foreign investment is encouraged to participate in vocational training services beyond educational services. The foreign investment in higher education, ordinary senior high school education and pre-school education has to take the form of a Sino-foreign cooperative joint venture led by Chinese parties. Foreign investment is banned from compulsory education, which means grades 1-9. Foreign investment is allowed to invest in after-school tutoring services, which do not grant diplomas. However, many local government authorities do not allow foreign-invested entities to establish private schools to engage in tutoring services, other than in the forms of Sino-foreign cooperative schools or international schools. Under current PRC laws, the foreign contributors of Sino-foreign cooperative schools shall be foreign educational institutions such as universities or colleges instead of foreign companies. As of December 31, 2014, we had a total of 157 centers and schools, comprised of 123 tutoring centers, 4 K-12 schools, 10 career enhancement centers, 18 training offices and 2 career enhancement campuses. We conduct our education business in China primarily through contractual arrangements among our subsidiaries in China and VIEs. Our VIEs and their respective subsidiaries, as PRC domestic entities, hold the requisite licenses and permits necessary to conduct our education business in China and operate our tutoring centers, K-12 schools and career enhancement centers.

If our ownership structure and contractual arrangements are found to be in violation of any existing or future PRC laws or regulations or we fail to obtain any of the required permits or approvals, the relevant PRC regulatory authorities including the MOE, the MOFCOM, and the MIIT, which regulate the education industry, foreign investment in China and Internet business, respectively, would have broad discretion in dealing with such violations, including:

- Revoking the business and operating licenses of our PRC subsidiaries and affiliated entities;

- Discontinuing or restricting the operations of any related-party transactions among our PRC subsidiaries and affiliated entities;

- Imposing fines or other requirements with which we or our PRC subsidiaries and affiliated entities may not be able to comply;

- Revoking the preferential tax treatment enjoyed by our PRC subsidiaries and affiliated entities;

Requiring us or our PRC subsidiaries and affiliated entities to restructure the relevant ownership structure or operations; or

Restricting or prohibiting our use of the proceeds of our IPO to finance our business and operations in China, especially expansion of our business through strategic acquisitions.

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Similar ownership structure and contractual arrangements have been used by many China-based companies listed overseas, including in the United States. To our knowledge, none of the penalties listed above has been imposed on any of those public companies, including companies in the education industry. However, we cannot assure you that such penalties will not be imposed on any other companies or us in the future. If any of the above penalties is imposed on us, our business operations and expansion, financial condition and results of operations will be materially and adversely affected.

***Substantial uncertainties exist with respect to the enactment timetable, interpretation and implementation of draft PRC Foreign Investment Law and how it may impact the viability of our current corporate structure, corporate governance and business operations.***

The Ministry of Commerce, or MOFCOM, published a discussion draft of the proposed Foreign Investment Law on January 19, 2015 aiming to, upon its enactment, replace the trio of existing laws regulating foreign investment in China, namely, the Sino-foreign Equity Joint Venture Enterprise Law, the Sino-foreign Cooperative Joint Venture Enterprise Law and the Wholly Foreign-invested Enterprise Law, together with their implementation rules and ancillary regulations. The draft Foreign Investment Law embodies an expected PRC regulatory trend to rationalize its foreign investment regulatory regime in line with prevailing international practice and the legislative efforts to unify the corporate legal requirements for both foreign and domestic investments. The draft Foreign Investment Law, if enacted as proposed, may materially impact the entire legal framework regulating the foreign investments in China and may also impact viability of our current corporate structure, corporate governance and business operations to some extent.

Among other things, the draft Foreign Investment Law expands the definition of foreign investment and introduces the principle of "actual control" in determining whether a company is considered a foreign-invested enterprise, or an FIE. As such, the jurisdiction of incorporation of an entity is not the ultimate determining factor as to whether or not it's an FIE. The draft Foreign Investment Law specifically provides that entities established in China but "controlled" by foreign investors will be treated as FIEs, whereas an entity set up in a foreign jurisdiction would nonetheless be, upon market entry clearance by the MOFCOM or its local branches, treated as a PRC domestic investor provided that the entity is "controlled" by PRC entities and/or citizens. In this connection, "control" is broadly defined in the draft law to cover, among others, having the power to exert decisive influence, via contractual or trust arrangements, over the subject entity's operations, financial matters or other key aspects of business operations. Once an entity is determined to be an FIE and its investment amount exceeds certain thresholds or its business operation falls within a "negative list", to be separately issued by the State Counsel in the future, market entry clearance by the MOFCOM or its local branches would be required.

The "variable interest entity" structure, or VIE structure, has been adopted by many PRC-based companies, to obtain necessary licenses and permits in the industries that are currently subject to foreign investment restrictions in China. We set up the VIE structure to address the uncertainties for securing licenses and permits which may be required for our business operation. See "Risk Factors - Risks Related to regulation of our business and our corporate structure—Our VIEs and their respective subsidiaries may be subject to significant limitations on their ability to operate private

schools or make payments to related parties or otherwise be materially and adversely affected by changes in PRC laws and regulations.”, “Regulations - Foreign investment in education service industry” and “Regulations -Regulations on Chinese-foreign cooperation in operating schools”. Under the draft Foreign Investment Law, variable interest entities that are controlled via contractual arrangement would also be deemed as FIEs, if they are ultimately “controlled” by foreign investors. Therefore, for any companies with a VIE structure in an industry category that is on the “negative list,” the VIE structure may be deemed legitimate only if the ultimate controlling person(s) is/are of PRC nationality (either PRC companies, PRC citizens or PRC state owned enterprises or agencies, or PRC citizens).Conversely, if the actual controlling person(s) is/are of foreign nationalities, then the variable interest entities will be treated as FIEs and any operation in the industry category on the “negative list” without market entry clearance may be considered as illegal.

As of the date of this prospectus, more than 50% of the total share capital of our company is actually controlled by foreign nationals. However, the draft Foreign Investment Law has not taken a position on what actions shall be taken with respect to the existing companies with a VIE structure, although a few possible options were proffered to solicit comments from the public. Under these options, a company with VIE structures and in the business on the “negative list” at the time of enactment of the new Foreign Investment Law has either the option or obligation to disclose its corporate structure to the authorities, while the authorities, after reviewing the ultimate control structure of the company, may either permit the company to continue its business by maintaining the VIE structure (when the company is deemed ultimately controlled by PRC citizens), or require the company to dispose of its businesses and/or VIE structure based on circumstantial considerations. Moreover, it is uncertain whether our business will be subject to the foreign investment restrictions or prohibitions set forth in the “negative list” to be issued, we face uncertainties to maintain our VIE structure in the future.

The draft Foreign Investment Law, if enacted as proposed, may also materially impact our corporate governance practice and increase our compliance costs. For instance, the draft Foreign Investment Law imposes stringent ad hoc and periodic information reporting requirements on foreign investors and the applicable FIEs. Aside from investment implementation report and investment amendment report that are required at each investment and alteration of investment specifics, an annual report is mandatory, and large foreign investors meeting certain criteria are required to report on a quarterly basis. Any company found to be non-compliant with these information reporting obligations may potentially be subject to fines and/or administrative or criminal liabilities, and the persons directly responsible may be subject to criminal liabilities.

***We rely on contractual arrangements with our VIEs and their respective shareholders for a substantial portion of our China operations, which may not be as effective in providing operational control as direct ownership.***

We have relied and expect to continue to rely on contractual arrangements with our VIEs and their respective shareholders to operate a substantial portion of our education business. For a description of these contractual arrangements, see “Item 4.C — Information on the Company — Organizational Structure” and “Item 7.B — Related Party Transactions—Contractual arrangements with our VIEs and their respective subsidiaries and shareholders.” These contractual arrangements may not be as effective in providing us with control over our VIEs and their respective subsidiaries as direct ownership. If we had direct ownership of our VIEs and their respective subsidiaries, we would be able to exercise our rights as a shareholder to effect changes in the board of directors of our VIEs and their respective subsidiaries, which could effect changes, subject to any applicable fiduciary duties, at the management level. As a legal matter, if our VIEs or any of their respective shareholders fails to perform its or his or her respective

obligations under these contractual arrangements, we may have to incur substantial costs and expend significant resources to enforce such arrangements. We may also rely on legal remedies under PRC law, including seeking specific performance or injunctive relief, and claiming damages, but these remedies may not be effective. For example, if the shareholders of any of our VIEs were to refuse to transfer their equity interest in such VIEs to us or our designee when we exercise the call option pursuant to these contractual arrangements, or if they were otherwise to act in bad faith toward us, then we may have to take legal action to compel them to fulfill their contractual obligations. In addition, we may not be able to renew these contracts with our VIEs and/or their respective shareholders. If VIEs or their shareholders fail to perform the obligations secured by the pledges under the equity pledge agreements, one of the remedies for default is to require the pledgors to sell the equity interests of VIEs in an auction or sale of the shares and remit the proceeds to Ambow Online, net of all related taxes and expenses. Such an auction or sale of the shares may not result in our receipt of the full value of the equity interests or the business of VIEs.

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In addition, these contractual arrangements are governed by PRC law and provide for the resolution of disputes through arbitration in the PRC. Accordingly, these contracts would be interpreted in accordance with PRC law and any disputes would be resolved in accordance with PRC legal procedures. The legal environment in the PRC may not be as developed as in some other jurisdictions, such as the United States. As a result, uncertainties in the PRC legal system could limit our ability to enforce these contractual arrangements. In the event we are unable to enforce these contractual arrangements, we may not be able to exert effective control over our affiliated entities, and our ability to conduct our business would be materially adversely affected.

***The shareholders of our VIEs may have potential conflicts of interest with us, which may harm our business and financial condition.***

The shareholders of our VIEs are also employees of our company, and one of them, Xuejun Xie, is a director of certain of our VIEs as well as our company. Conflicts of interest between their dual roles may arise. We cannot assure you that when conflicts of interest arise, any or all of these individuals will act in the best interests of our company or that conflicts of interest will be resolved in our favor. In addition, these individuals may breach or cause our VIEs or their respective subsidiaries to breach or refuse to renew the existing contractual arrangements that allow us to effectively control our VIEs and their respective subsidiaries and to receive economic benefits from them. Currently, we do not have existing arrangements to address potential conflicts of interest between these individuals and our company. We rely on these individuals to abide by the laws of the Cayman Islands and China, both of which provide that directors owe a fiduciary duty to the company, which requires them to act in good faith and in the best interests of the company and not to use their positions for personal gain. If we cannot resolve any conflicts of interest or disputes between us and the beneficial owners of our VIEs, we would have to rely on legal proceedings, which could result in disruption of our business and substantial uncertainty as to the outcome of any such legal proceedings.

***Our VIEs and their respective subsidiaries may be subject to significant limitations on their ability to operate private schools or make payments to related parties or otherwise be materially and adversely affected by changes in PRC laws and regulations.***

The principal regulations governing private education in China are The Law for Promoting Private Education (2003) and The Implementing Rules for the Law for Promoting Private Education (2004), or 2004 Implementing Rules. Under these laws and regulations, a private school may elect to be a school that does not require reasonable returns or a school that requires reasonable returns. At the end of each fiscal year, every private school is required to allocate a certain amount to its development fund for the construction or maintenance of the school or procurement or upgrading of educational equipment. In the case of a private school that requires reasonable returns, this amount shall be no less than 25% of the annual net income of the schools, while in the case of a private school that does not require reasonable returns, this amount shall be equivalent to no less than 25% of the annual increase of net assets of the school (as determined under generally accepted accounting principles in the PRC). All of the private schools operated by our VIEs and their respective subsidiaries currently comply with the existing laws and regulations regarding the allocation of their development funds. A private school that requires reasonable returns must publicly disclose such election and additional information required under the regulations. A private school shall consider factors such as the

school's tuition fees, ratio of the funds used for education-related activities to the course fees collected, admission standards and educational quality when determining the percentage of the school's net income that would be distributed to the investors as reasonable returns. However, none of the current PRC laws and regulations provides a formula or guidelines for determining "reasonable returns." In addition, none of the current PRC laws and regulations sets forth different requirements or restrictions on a private school's ability to operate its education business based on such school's status as a school that requires reasonable returns or a school that does not require reasonable returns. New laws or regulations might be adopted to:

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Impose significant limitations on the ability of our schools to operate their business, charge course fees or make payments to related parties, such as Ambow Online, for services received; or

Specify the formula for calculating “reasonable returns.”

We cannot predict the timing and effects of any such amendments or new laws and regulations. Changes in PRC laws and regulations governing private education or otherwise affecting our VIEs’, and their respective subsidiaries’, operations could have a material adverse effect on our business, prospects and results of operations.

As of December 31, 2014, we had a total of 32 schools that were registered as private schools as opposed to companies. Of the 32 schools, 4 schools that we continue to own were registered as schools not requiring reasonable returns. The other 28 schools were registered as schools requiring reasonable returns. The total net revenue of the schools requiring reasonable returns accounted for 66.7% of our consolidated total net revenue for the year ended December 31, 2014. The total net revenue of the schools not requiring reasonable returns accounted for 1.6% of our consolidated total net revenue for the year ended December 31, 2014. Both of the schools requiring reasonable returns and not requiring reasonable returns reported a net loss position for the period ending December 31, 2014.

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***Regulatory agencies may commence investigations of the tutoring centers, K-12 schools, career enhancement centers and college controlled and operated by our VIEs. If the results of the investigations are unfavorable to us, we may be subject to fines, penalties, injunctions or other censure that could have an adverse impact on our reputation and results of operations.***

Our VIEs control and operate tutoring centers, K-12 schools, career enhancement centers and one college (the college was sold in 2013). As the provision of these services is heavily regulated in China, especially primary or secondary schools, these schools and companies that our VIEs or their respective subsidiaries currently own or operate or may acquire or establish in the future may be subject from time to time to inspections and investigations, claims of non-compliance or lawsuits by governmental agencies, which may allege statutory violations, regulatory infractions or other causes of action. For example, if an independent college is found unable to satisfy one or more conditions for running a college set by the MOE in such inspection or investigation, the MOE may impose limitation on the annual enrollment quota or even suspend the recruitment of the college. If the results of any such investigations or lawsuits are unfavorable to us, we may be subject to fines, penalties, injunctions or other censure that could have an adverse impact on our reputation and results of operations. Even if we adequately address the issues raised by a government investigation, we may have to devote significant financial and management resources to resolve these issues, which could have a material adverse effect on our business.

***Contractual arrangements we have entered into among our subsidiaries and our VIEs and their respective shareholders may result in adverse tax consequences to us; such arrangements may be subject to scrutiny by the PRC tax authorities and a finding that we or our VIEs and their respective shareholders owe additional taxes could substantially reduce our consolidated net income and the value of your investment.***

Under PRC laws and regulations, arrangements and transactions among related parties should be priced on an arm's length basis and may be subject to audit or challenge by the PRC tax authorities. We could face material adverse tax consequences if the PRC tax authorities determine that the contractual arrangements between Ambow Online and our VIEs and their respective shareholders do not represent an arm's-length price and adjust our VIEs' or any of their respective subsidiaries' income in the form of a transfer pricing adjustment. A transfer pricing adjustment could, among other things, result in, for PRC tax purposes, increased tax liabilities for our VIEs or any of their respective subsidiaries. In addition, the PRC tax authorities may require us to disgorge our prior tax benefits, and require us to pay additional taxes for prior tax years and impose late payment fees and other penalties on our affiliated entities for underpayment of prior taxes. To date, similar contractual arrangements have been used by many other public companies and, to our knowledge, the PRC tax authorities have not imposed any material penalties on those companies. However, we cannot assure you that such penalties will not be imposed on any other companies or us in the future. Our consolidated net income may be harmed if our affiliated entities' tax liabilities increase or if they are found to be subject to additional taxes, late payment fees or other penalties.

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***The tuition, accommodation and other fees charged by our degree programs and our K-12 schools and student enrollment at these schools are subject to regulation by the Chinese government, and our revenue is highly dependent on the level of these fees and our student enrollment.***

Chinese regulators have broad powers to regulate the tuition, accommodation and other fees charged by primary, secondary and other schools and student enrollment levels at these schools. As a result, new regulations could adversely impact the fees we receive from the schools to which we provide course materials and software products and the student enrollments at our directly- operated schools and at our partner schools, as well as the returns from the K-12 schools operated by our Chinese affiliated entities. The tuition, accommodation and other fees charged by our degree programs and our K-12 schools are subject to various price controls administered by local price-control authorities and our student enrollment in our independent college is subject to annual enrollment quotas established by the MOE. In light of the substantial increase in tuitions and other education-related fees in China in recent years, China's price-control authorities may impose stricter price control on tuition changes in the future. As of the date of this annual report, there was no indication from the MOE or the relevant authorities that the government would significantly change the tuition charges or student annual enrollment quotas. If the tuition charges were to be decreased or if they were not allowed to increase in line with increases in our costs because of the actions of China's administrative price controls or if student enrollments at private schools were restricted, our net revenue and profitability would be materially adversely affected.

***The discontinuation of any preferential tax treatments or deemed tax treatments currently available to us or the disgorgement of any benefits we enjoyed in the past could result in a decrease of our net income and harm our results of operations.***

According to the 2004 Implementing Rules, private schools that do not require reasonable returns enjoy the same preferential tax treatment as public schools. While it is indicated in the 2004 Implementing Rules that the relevant authorities under the State Council may consider formulating separate preferential tax treatment policies applicable to private schools requiring reasonable returns, no such tax preferential policy has been promulgated yet. In March 2007, the Chinese government enacted the CIT Law, and promulgated the Implementing Regulations for the PRC Corporate Income Tax Law in December 2007, both of which came into effect on January 1, 2008. On February 22, 2008, the Ministry of Finance and State Taxation Administration issued a subsequent notice, or the 2008 Tax Notice, that effectively abolished our preferential tax treatment under the 2004 Implementing Rules. The CIT Law and 2008 Tax Notice, among other things, impose a unified income tax rate of 25% for all private schools regardless of whether they require a reasonable return or not unless the school qualifies as a not-for-profit organization as defined in the PRC tax regime effective January 1, 2008. If a school qualifies as a not-for-profit organization in accordance with the tax law, it will be exempt from corporate income tax for certain of its income qualified for exemption under the relevant laws and rules. In November 2009, the Ministry of Finance and State Taxation Administration further issued rules providing the criteria for a not-for-profit organization to qualify for exemption of corporate income tax. These rules are relatively new and contain many ambiguities. In practice, tax treatments for private schools vary across different cities in China. In some cities, private schools are subject to a 25% standard corporate income tax, while in other cities, private schools are subject to a 1.5% to 2.5% tax on gross receipts received by the schools or a deemed fixed tax amount or may be exempted from corporate income tax. These deemed tax rates and deemed fixed tax amount treatments granted to our schools by local tax authorities are subject to review and may be adjusted or revoked at any

time. In addition, education services provided to students receiving degree-oriented education by private schools are also exempted from business tax in China so long as those schools are accredited to issue diplomas or degree certificates recognized by the MOE.

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Under PRC laws and regulations, an enterprise that qualifies as a new and high-technology enterprise or a software enterprise may enjoy preferential tax benefits. An enterprise qualified as both a “new and high-technology enterprise” and as a “software enterprise” may choose one of the more preferential tax treatments. For example, Ambow Online is a certified “new and high-technology enterprise” and a “software enterprise” and has chosen to enjoy preferential tax treatments as a “software enterprise.” As a result, Ambow Online is entitled to a two-year exemption from the first year it generates taxable income and a 12.5% corporate income tax rate for another three years, which might be followed by a 15% tax rate so long as Ambow Online continues to qualify as a “new or high-technology enterprise”. For the years ended December 31, 2012 and 2013, the Group did not have any material interest and penalties associated with tax positions. In 2014, we received a document from the tax bureau cancelling Ambow Online’s preferential tax treatment. We have taken legal action to defend ourselves, but it is still too early to determine the impact on our results of operations. Loss of these preferential tax treatments could have a material adverse effect on our financial condition and results of operations.

***The regulation of Internet website operators in China is subject to interpretation, and our operation of online education programs could be harmed if we are deemed to have violated applicable laws and regulations.***

The interpretation and application of existing Chinese laws and regulations, the stated positions of the main governing authority, the MIIT, and the possibility of adopting new laws or regulations have created significant uncertainties regarding the legality of the businesses and activities of Chinese companies with Internet operations. In particular, according to the Internet Information Services Administrative Measures promulgated by the State Council on September 25, 2000, the activities of Internet content providers are regulated by various Chinese governmental authorities, including, the MOE, the State Administration of Radio, Film and Television, the General Administration of Press and Publication, or GAPP, and the Ministry of Culture, or MOC, depending on the specific activities conducted by the Internet content provider. In addition, MIIT promulgated a notice titled “Notice on Strengthening Management of Foreign Investment in Operating Value-Added Telecom Services” on July 13, 2006, which prohibits PRC Internet content providers from leasing, transferring or selling their ICP licenses or providing facilities or other resources to illegal foreign investors. The notice states that PRC Internet content providers (or their shareholders) should directly own the trademarks and domain names for websites operated by them, as well as servers and other infrastructure used to support these websites and a PRC Internet content provider’s failure to comply with the notice by November 1, 2006 may result in revocation of its ICP license.

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Ambow Shida holds an ICP license issued by Beijing Communications Administration, the local counterpart of the MIIT. According to this ICP license, Ambow Shida is approved to provide internet information services, excluding services of press, publication, education, medicine and medical apparatus and instruments. Due to the uncertainties of implementation of relevant regulations by different authorities, we cannot assure you that Ambow Shida has satisfied or will be able to satisfy all the requirements for a PRC Internet content provider and the ICP license held by Ambow Shida will be deemed to be adequate for all of the online services that we provide. For example, Ambow Shida's ICP license does not cover educational content while most materials provided on our websites may be deemed educational content, including content related to our tutoring centers and career enhancement centers. According to our experience and our knowledge of other education providers in our industry, and as advised by our PRC counsel, based on their consultation with the Beijing Municipal Commission of Education, the content provided by us does not exceed the scope of Ambow Shida's ICP License, we believe the content on, and use of, our website are in compliance with the requirement imposed by Chinese Internet Regulations on ICP Licenses. We cannot assure you, however, that the competent authorities will not adopt a different interpretation of this issue.

If the provision of the online services is deemed to exceed the scope of Ambow Shida's license, we may be required to cease providing these online materials, which would harm our net revenues and results of operations. As we are a foreign enterprise in China, Ambow Shida may also be deemed to have illegally leased its ICP license or provided facilities or other resources to foreign investors. If we are deemed to have violated applicable Chinese Internet regulations, we could be subject to severe penalties, including confiscation of illegal gains, fines ranging from three to five times the illegal gains, suspension of certain types of services provided or orders to shut down the relevant websites.

In late 2012, we decided to suspend the software sales temporarily due to the loss of business impacted by negative publicity in the media in the last quarter of 2012. We considered this suspension of the software sales as a temporary strategy, and would resume the software sales later when the company's business had recovered and got sufficient funding for rebuilding the R&D team.

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Currently, we still retain part of the software sales to some small distributors, and although reduced, our R&D team has been maintaining the basic software developing codes and databases. So the company didn't consider this suspension as a discontinuation of the software business.

**Risks related to doing business in China**

*PRC economic, political and social conditions, as well as changes in any government policies, laws and regulations, could adversely affect the overall economy in China or the education or career enhancement market, which could harm our business.*

Substantially all of our operations are conducted in China, and substantially all of our net revenues are derived from China. Accordingly, our business, financial condition, results of operations, prospects and certain transactions we may undertake are subject, to a significant extent, to economic, political and legal developments in China.

The PRC economy differs from the economies of most developed countries in many respects, including the amount of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. While the PRC economy has experienced significant growth in the past two to three decades, growth has been uneven, both geographically and among various sectors of the economy. Demand for our services and products depends, in large part, on economic conditions in China. Any slowdown in China's economic growth may cause our potential customers to delay or cancel their plans to purchase our services and products, which in turn could reduce our net revenues.

Although the PRC economy has been transitioning from a planned economy to a more market-oriented economy since the late 1970s, the PRC government continues to play a significant role in regulating industry development by imposing industrial policies. The PRC government also exercises significant control over China's economic growth through allocating resources, controlling the incurrence and payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. Changes in any of these policies, laws and regulations could adversely affect the economy in China or the education or career enhancement market, which could harm our business.

The PRC government has implemented various measures to encourage foreign investment and sustainable economic growth and to guide the allocation of financial and other resources, which have for the most part had a positive effect on our business and growth. However, we cannot assure you that the PRC government will not repeal or alter these measures or introduce new measures that will have a negative effect on us. China's social and political conditions may also not be as stable as those of the United States and other developed countries. Any sudden changes to China's political system or the occurrence of widespread social unrest could have a material adverse effect on our business and

results of operations.

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***Uncertainties with respect to the PRC legal system could harm us.***

Our operations in China are governed by PRC laws and regulations. The PRC legal system is a civil law system based on written statutes. Unlike common law systems, prior court decisions have limited precedential value. Ambow Online and our other wholly-owned subsidiaries in China are generally subject to laws and regulations applicable to foreign investments in China and, in particular, laws applicable to wholly foreign-owned enterprises.

Since 1979, PRC legislation and regulations have significantly enhanced the protections afforded to various forms of foreign investments in China. However, China has not developed a fully integrated legal system and recently-enacted laws and regulations may not sufficiently cover all aspects of economic activities in China. In particular, because these laws and regulations are relatively new, and because of the limited volume of published decisions and their nonbinding nature, the interpretation and enforcement of these laws and regulations involve uncertainties. In addition, the PRC legal system is based in part on government policies and internal rules (some of which are not published on a timely basis or at all) that may have a retroactive effect. As a result, we may not be aware of our violation of these policies and rules until sometime after the violation. Moreover, some regulatory requirements issued by certain PRC government authorities may not be consistently applied by other government authorities, including local government authorities, thus making strict compliance with all regulatory requirements impractical, or in some circumstances, impossible. In addition, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention.

***If the chops of our subsidiaries and VIEs in China are not kept safely, are stolen or are used by unauthorized persons or for unauthorized purposes, the corporate governance of those entities could be severely and adversely compromised.***

In China, a company chop or seal serves as the legal representation of the company towards third parties even when unaccompanied by a signature. Each legally registered company in China is required to have a company chop, which must be registered with the local Public Security Bureau. Our company chops, or chops, are kept securely at our President Office under the direction of Chief Executive Officer at the headquarters level or held securely by personnel designated and approved by the General Manager or Headmaster at subsidiaries or VIEs level. Use of chops requires proper approvals in accordance with our internal control procedures. The custodian at the President Office also maintains a log to keep detailed record of each use of the chops. Moreover, the President Office is always locked after office hours and only authorized persons have the access to the keys.

The company believes it has sufficient controls in place over access to and use of the chops. We however cannot assure you that unauthorized access to or use of those chops can be totally precluded. To the extent those chops are stolen or are used by unauthorized persons or for unauthorized purposes, the corporate governance of these entities could be severely and adversely compromised and the operations of these entities could be significantly and adversely impacted.



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***Our subsidiaries and affiliated entities in China are subject to restrictions on making dividends and other payments to us or any other affiliated company.***

We are a holding company and rely principally on dividends paid by our subsidiaries established in China for our cash needs, including the funds necessary to pay dividends and other cash distributions to our shareholders to the extent we choose to do so, to service any debt we may incur and to pay our operating expenses. Our PRC subsidiaries' income in turn depends on the service and other fees paid by our VIEs. Current PRC regulations permit our subsidiaries in China to pay dividends to us only out of their accumulated profits, if any, determined in accordance with Chinese accounting standards and regulations. In addition, under the applicable requirements of PRC law, our PRC subsidiaries and affiliated entities incorporated as companies may only distribute dividends after they have made allowances to fund certain statutory reserves. These reserves are not distributable as cash dividends.

In addition, under the CIT Law, which became effective on January 1, 2008, dividends paid to us by our PRC subsidiaries are subject to withholding tax. The withholding tax on dividends may be exempted or reduced by the PRC State Council. Currently, the withholding tax rate is 10% unless reduced or exempted by treaty between the PRC and the tax residence of the holder of the PRC subsidiary.

Furthermore, if our subsidiaries and affiliated entities in China incur debt on their own behalf in the future, the instruments governing the debt may restrict their ability to pay dividends or make other payments to us. In addition, the PRC tax authorities may require us to adjust our taxable income under the contractual arrangements we currently have in place in a manner that would restrict our subsidiaries' ability to pay dividends and make other distributions to us.

In addition, at the end of each fiscal year, each of our affiliated entities that are private schools in China is required to allocate a certain amount to its development fund for the construction or maintenance of the school or procurement or upgrade of educational equipment. In the case of a private school that requires reasonable returns, this amount shall be no less than 25% of the annual net income of the school, while in the case of a private school that does not require reasonable returns, this amount shall be equivalent to no less than 25% of the annual increase in the net assets of the school, if any.

Entities registered as schools not requiring reasonable returns are restricted from directly distributing to us any dividends or profits.

To date, our PRC subsidiaries have not paid dividends to us out of their accumulated profits. In the near future, we do not expect to receive dividends from our PRC subsidiaries because the accumulated profits of these PRC subsidiaries are expected to be used for their own business or expansions. If we are unable to extract the earnings and profits of

some of our schools and learning centers, it could have a material adverse effect on our liquidity and financial condition.

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***PRC regulation of loans and direct investment by offshore holding companies to PRC entities may delay or prevent us from making loans or additional capital contributions to our PRC operating subsidiaries and affiliated entities, which could harm our liquidity and our ability to fund and expand our business.***

As an offshore holding company of our PRC operating subsidiaries and affiliated entities, we may make loans to our PRC subsidiaries and VIEs or we may make additional capital contributions to our PRC subsidiaries. Any loans to our PRC subsidiaries or consolidated PRC affiliated entities are subject to PRC regulations. For example:

Loans by us to our wholly-owned subsidiaries in China, each of which is a foreign-invested enterprise, to finance their activities cannot exceed statutory limits and must be registered with the PRC State Administration of Foreign Exchange (“SAFE”), or its local counterparts; and

Loans by us to our VIEs and their respective subsidiaries, which are domestic PRC entities, must be approved by the relevant government authorities and must also be registered with SAFE or its local counterparts.

We may also decide to finance our wholly-owned subsidiaries by means of capital contributions. These capital contributions must be approved by the PRC Ministry of Commerce or its local counterparts. We are not likely, however, to finance the activities of our VIEs and their respective subsidiaries by means of capital contributions due to regulatory issues related to foreign investment in domestic PRC entities, as well as the licensing and other regulatory issues discussed in the “Regulation” section of this annual report. We cannot assure you that we will be able to obtain these government registrations or approvals on a timely basis, if at all, with respect to future loans or capital contributions by us to our subsidiaries or our VIEs or any of their respective subsidiaries. If we fail to receive such registrations or approvals, our ability to capitalize our PRC operations may be negatively affected, which could adversely affect our liquidity and our ability to fund and expand our business.

On March 30, 2015, SAFE promulgated Circular of the State Administration of Foreign Exchange on Reforming the Management Approach Regarding the Foreign Exchange Capital Settlement of Foreign-invested Enterprises, or Circular 19, which will become effective on June 1, 2015. Circular 19 facilitates foreign-invested enterprises’ domestic equity investment with the amount obtained from foreign exchange settlement. The foreign-invested enterprises whose main business is investment (including foreign-invested investment companies, foreign-invested venture capital enterprises and foreign-invested equity investment enterprises) are allowed to directly settle their foreign exchange capitals and transfer the amount therefrom to the account of an invested enterprise according to the actual amount of investment. Ordinary foreign-invested enterprises other than those of the aforesaid types shall make domestic equity investments by capital transfer in the original currencies governed by the prevailing provisions on domestic re-investment.

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Presently none of Ambow Online or our other wholly-owned subsidiaries are registered as an investment company. We do not intend to turn these entities into investment companies because to do so these subsidiaries would have to satisfy criteria promulgated by MOFCOM and be approved by MOFCOM or its provincial counterparts before registration with the administration for industries and commerce, which is difficult to accomplish and time consuming. As a result, if capital is injected into Ambow Online and our other subsidiaries as increased registered capital, we could not convert such proceeds into RMB to fund acquisitions of the VIEs and their respective subsidiaries, and our ability to expand our business may be adversely affected.

While we may not transfer capital through our wholly-owned subsidiaries for the purpose of domestic acquisitions, we may use our capitals to acquire PRC companies or schools that do not include compulsory education through Wenjian Gongying, an RMB fund established in Suzhou as a venture capital joint venture, subject to the PRC industrial policy for foreign investment. If we use our capital to make acquisitions through Wenjian Gongying in entities that are in restricted industries, like high schools, without receiving proper approvals or in entities that are in prohibited industries, like schools that provide compulsory education, we may be subject to significant fines of unknown amounts or other sanctions. See “Item 4.C — Information on the Company — Organizational Structure” for a further description of the legal structure, joint venture participants’ identities and such participants’ respective percentage ownership interest in Wenjian Gongying and for a further description of the PRC rules and regulations that will be applicable to our planned investments through Wenjian Gongying.

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If we use our capital for the business of Ambow Online or our other wholly-owned subsidiaries, we are also required to apply to the authority of commerce for approval for an increase of their respective registered capital given that the original registered capital of these subsidiaries have been fully paid. We cannot assure you that we can obtain such approvals in a timely manner or at all. If we are unable to use our capital to fund our PRC operating entities or their subsidiaries or to make strategic acquisitions, it could have a material adverse effect on our expansion plans and future growth.

*It is unclear whether we will be considered a PRC “resident enterprise” under the CIT Law and, depending on the determination of our PRC “resident enterprise” status, dividends paid to us by our PRC subsidiaries may be subject to PRC withholding tax, we may be subject to 25% PRC income tax on our worldwide income, and holders of our ADSs or ordinary shares may be subject to PRC withholding tax on dividends paid by us and gains realized on their transfer of our ADSs or ordinary shares.*

The CIT Law and its Implementing Regulations, which became effective on January 1, 2008, provide that enterprises established outside of China whose “de facto management bodies” are located in China are considered “resident enterprises.” The Implementing Regulations of the PRC CIT Law define the term “de facto management bodies” as a body which substantially manages, or has control over the business, personnel, finance and assets of an enterprise. The SAT issued the Notice Regarding the Determination of Chinese-Controlled Offshore Incorporated Enterprises as PRC Tax Resident Enterprises on the Basis of De Facto Management Bodies, or Circular 82, on April 22, 2009. Circular 82 provides certain specific criteria for determining whether the “de facto management body” of a Chinese-controlled offshore incorporated enterprise is located in China. Following Circular 82, on July 27, 2011, the SAT issued Administrative Measures on Income Taxes of Resident Enterprises Incorporated outside Mainland China and Are Controlled by Chinese Enterprises (Trial Implementation), or Resident Enterprise Administrative Measure, which was effective as of September 1, 2011. This Resident Enterprise Administrative Measures provide clarification of resident status determination, post-determination administration, as well as competent tax authorities. However, Circular 82 and Resident Enterprise Administrative Measures apply only to offshore enterprises controlled by PRC enterprises, not those invested in by PRC individuals, like our company. Currently there are no further detailed rules or precedents applicable to us governing the procedures and specific criteria for determining “de facto management bodies” and it is still unclear if the PRC tax authorities would determine that we should be classified as a PRC “resident enterprise.”

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If we are treated as a PRC “resident enterprise,” however, we will be subject to PRC income tax on our worldwide income at the 25% uniform tax rate, which could have an impact on our effective tax rate and an adverse effect on our net income and results of operations and our income tax expenses will increase and the amount of dividends, if any, we may pay to our shareholders and ADS holders may be decreased, although dividends distributed from our PRC subsidiaries to us could be exempt from the PRC dividend withholding tax, since such income is exempted under the CIT Law and its Implementing Regulations to a PRC resident recipient.

In addition, if we are considered a PRC “resident enterprise,” dividends we pay with respect to our ADSs or ordinary shares and the gains realized from the transfer of our ADSs or ordinary shares may be considered income derived from sources within the PRC for PRC tax purposes and be subject to PRC withholding tax.

***Restrictions on currency exchange may limit our ability to receive and use our revenue effectively.***

Because substantially all of our revenue is denominated in RMB, restrictions on currency exchange may limit our ability to use revenue generated in RMB to fund any business activities we may have outside China or to make dividend payments to our shareholders and ADS holders in U.S. dollars. The principal regulation governing foreign currency exchange in China is the Foreign Currency Administration Rules (1996), as amended. Under these rules, RMB is freely convertible for trade and service-related foreign exchange transactions, but not for direct investment, loan or investment in securities outside China unless the prior approval of SAFE is obtained. Although the PRC government regulations now allow greater convertibility of RMB for current account transactions, significant restrictions still remain. For example, foreign exchange transactions under our subsidiaries capital accounts, including principal payments in respect of foreign currency-denominated obligations, remain subject to significant foreign exchange controls. These limitations could affect our ability to obtain foreign exchange for capital expenditures. We cannot be certain that the PRC regulatory authorities will not impose more stringent restrictions on the convertibility of RMB, especially with respect to foreign exchange transactions.

***Fluctuations in the value of the RMB may have a material adverse effect on your investment.***

The change in value of the RMB against the U.S. dollar and other currencies is affected by, among other things, changes in China’s political and economic conditions. On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the RMB to the U.S. dollar. Under the policy, the RMB is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. It is difficult to predict how the RMB exchange rates may change in the future. There remains significant international pressure on the PRC government to adopt a more flexible currency policy, which could result in a further and more significant adjustment of the RMB against the U.S. dollar.



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Any significant revaluation of the RMB may have a material adverse effect on the value of, and any dividends payable on, our ADSs in foreign currency terms. More specifically, if we decide to convert our RMB into U.S. dollars for the purpose of making payments for dividends on our ordinary shares or ADSs or for other business purposes, appreciation of the U.S. dollar against the RMB would have a negative effect on the U.S. dollar amount available to us. To the extent that we need to convert U.S. dollars denominated financial assets into RMB for our operations, appreciation of the RMB against the U.S. dollar would have an adverse effect on the RMB amount we would receive from the conversion. Consequently, appreciation or depreciation in the value of the RMB relative to the U.S. dollar could materially adversely affect our financial results reported in U.S. dollar terms without giving effect to any underlying change in our business or results of operations.

***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, restrict our overseas and cross-border investment activity or otherwise adversely affect the implementation of our acquisition strategy. If our shareholders who are PRC residents, or our PRC employees who are granted or exercise stock options, 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.***

In 2005, SAFE promulgated regulations that require PRC residents and PRC corporate entities to register with local branches of SAFE in connection with their direct or indirect offshore investment activities. These regulations apply to our shareholders who are PRC residents and may apply to any offshore acquisitions that we make in the future.

Under the SAFE regulations, PRC residents who make, or have previously made, direct or indirect investments in offshore companies, will be required to register those investments. In addition, any PRC resident who is a direct or indirect shareholder of an offshore company is required to file or update the registration with the local branch of SAFE, with respect to that offshore company, any material change involving its round-trip investment, capital variation, such as an increase or decrease in capital, transfer or swap of shares, merger, division, long-term equity or debt investment or creation of any security interest. If any PRC shareholder fails to make the required SAFE registration, the PRC subsidiaries of that offshore parent company may be prohibited from distributing their profits and the proceeds from any reduction in capital, share transfer or liquidation, to their offshore parent company, and the offshore parent company may also be prohibited from injecting additional capital into their PRC subsidiaries. Moreover, failure to comply with the various SAFE registration requirements described above could result in liability under PRC laws for evasion of applicable foreign exchange restrictions.

We cannot provide any assurances that all of our shareholders who are PRC residents will make or obtain any applicable registrations or approvals required by these SAFE regulations. The failure or inability of our PRC resident shareholders to comply with the registration procedures set forth in the SAFE regulations may subject our PRC subsidiaries to fines and legal sanctions, restrict our cross-border investment activities, or limit our PRC subsidiaries' ability to distribute dividends to or obtain foreign-exchange denominated loans from our company.



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As it is uncertain how the SAFE regulations will be interpreted or implemented, we cannot predict how these regulations will affect our business operations or future strategy. For example, we may be subject to a more stringent review and approval process with respect to our foreign exchange activities, such as remittance of dividends and obtaining foreign currency denominated borrowings, which may harm our results of operations and financial condition. In addition, if we decide to acquire a PRC domestic company, we cannot assure you that we or the owners of such company, as the case may be, will be able to obtain the necessary approvals or complete the necessary filings and registrations required by the SAFE regulations. This may restrict our ability to implement our acquisition strategy and could adversely affect our business and prospects.

On February 15, 2012, SAFE promulgated the Notice of the State Administration of Foreign Exchange on Issues Related to Foreign Exchange Administration in Domestic Individuals' Participation in Equity Incentive Plans of Companies Listed Abroad, or the No. 7 Notice, which supersedes the Operation Rules on 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, in its entirety and immediately became effective upon circulation. According to the No. 7 Notice, domestic individuals, which include any directors, supervisors, senior managerial personnel or other employees of a domestic company who are Chinese citizens (including citizens of Hong Kong, Macao and Taiwan) or foreign individuals who consecutively reside in the territory of the PRC for one year, who participate in the same equity incentive plan of an overseas-listed company shall, through the domestic companies they serve, collectively entrust a domestic agency to handle issues like foreign exchange registration, account opening, funds transfer and remittance, and entrust an overseas institution to handle issues like exercise of options, purchasing and sale of related stocks or equity, and funds transfer. As an overseas publicly listed company, we and our employees who have been granted stock options or any type of equity awards may be subject to the No. 7 Notice. If we or our employees who are subject to the No. 7 Notice fail to comply with these regulations, we may be subject to fines and legal sanctions. See "Item 4.B — Information on the Company — Business Overview — Regulation—SAFE regulations on employee share options."

***The M&A Rules establish more complex procedures for some acquisitions of Chinese companies by foreign investors, which could make it more difficult for us to pursue growth through acquisition in China.***

The Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors ("M&A Rules") that became effective on September 8, 2006 and was revised on June 22, 2009 established additional procedures and requirements that could make merger and acquisition activities by foreign investors more time-consuming and complex, including requirements in some instances that the MOFMOC be notified in advance of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise. Complying with the requirements of the M&A Rules to complete such transactions could be time-consuming, and any required approval processes, including obtaining approval from the MOFMOC, may delay or inhibit our ability to complete such transactions, which could materially adversely affect our ability to grow our business through acquisitions in China.

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***We do not have business insurance coverage in China, which could harm our business.***

We could be held liable for accidents that occur at our learning centers and other facilities. In the event of on-site food poisoning, personal injuries, fires or other accidents suffered by students or other people, we could face claims alleging that we were negligent, provided insufficient supervision or instruments or were otherwise liable for the injuries. Such accidents may adversely affect our reputation and financial results. The insurance industry in China is still at an early stage of development. Insurance companies in China offer limited business insurance products. As a result, we do not have any business liability or disruption insurance coverage for our operations. Any business disruption, litigation or natural disaster would result in substantial costs and diversion of our resources.

***We face risks related to natural disasters and health epidemics in China, which could have a material adverse effect on our business and results of operations.***

Our business could be severely disrupted and materially adversely affected by natural disasters or the outbreak of health epidemics in China. For example, in May 2008, Sichuan Province suffered a strong earthquake measuring approximately 8.0 on the Richter scale that caused widespread damage and casualties. In addition, in the last decade, the PRC has suffered health epidemics related to the outbreak of avian influenza and severe acute respiratory syndrome, or SARS. In April 2009, an outbreak of the H1N1 virus, also commonly referred to as “swine flu,” occurred in Mexico and spread to other countries, including Hong Kong and mainland China. The Chinese government and certain regional governments within China have enacted regulations to address the H1N1 virus specifically within the education services market, which may have an effect on our business. Any future natural disasters or health epidemics in the PRC could also severely disrupt our business operations and have a material adverse effect on our business and results of operations.

***Labor laws in the PRC may adversely affect our results of operations.***

On June 29, 2007, the PRC government promulgated a labor law, namely the Labor Contract Law of the PRC, or the Labor Contract Law, which became effective on January 1, 2008. The Labor Contract Law imposes greater liabilities on employers and significantly affects the cost of an employer’s decision to reduce its workforce. Further, it requires certain terminations be based upon seniority and not merit. In the event we decide to significantly change or decrease our workforce, the Labor Contract Law could adversely affect our ability to enact such changes in a manner that is most advantageous to our business or in a timely and cost-effective manner, thus materially adversely affecting our financial condition and results of operations.

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**Risks related to ownership of our ADSs**

*Our ADSs were delisted from the NYSE and are now quoted in the OTC Markets, which have limited the liquidity and price of the ADSs*

On October 6, 2014, our ADSs were removed from listing on the NYSE and subsequently began quotation in the OTC Markets. Although we remain as an SEC registered company and will continue to file our Annual Reports on Form 20-F, the liquidity of the OTC Markets is very limited and many institutions are prohibited from transacting in securities in the OTC Markets. Volatility in the price of our ADSs may be caused by factors outside of our control and may be unrelated or disproportionate to changes in our results of operations.

*We may need additional capital, and the sale of additional ADSs or other equity securities would result in additional dilution to our shareholders.*

We believe that our current cash and cash equivalents and anticipated cash flow from operations will be sufficient to meet our anticipated cash needs for more than the next twelve months. We may, however, require additional cash resources due to changed business conditions or other future developments. If our resources are insufficient to satisfy our cash requirements, we may seek to sell additional equity or debt securities or obtain a credit facility. To consummate these transactions, we may issue additional shares in these acquisitions that will dilute our shareholders. The sale of additional equity securities could result in additional dilution to our shareholders. The incurrence of indebtedness would result in increased debt service obligations and could result in operating and financing covenants that would restrict our operations or our ability to pay dividends. Our ability to raise additional funds in the future is subject to a variety of uncertainties, including:

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- Our future financial condition, results of operations and cash flows;
- General market conditions for capital raising activities; and
- Economic, political and other conditions in China and elsewhere.

We cannot assure you that if we need additional cash financing it will be available in amounts or on terms acceptable to us, or at all.

***Insiders have substantial control over us, which could adversely affect the market price of our ADSs.***

Under our amended and restated memorandum and articles of association, our ordinary shares are divided into Class A Ordinary Shares and Class B Ordinary Shares. Holders of Class A Ordinary Shares are entitled to one vote per share, while holders of Class B Ordinary Shares are entitled to ten votes per share. As of the date hereof we no longer have a Class B Ordinary Shares outstanding. Shareholdings of our executive officers and directors, and their respective affiliates, give them the power to control any actions that require shareholder approval under Cayman Islands law, our amended and restated memorandum and articles of association, including the election and removal of any member of our board of directors, mergers, consolidations and other business combinations, changes to our amended and restated memorandum and articles of association, the number of shares available for issuance under share incentive plans and the issuance of significant amounts of our ordinary shares in private placements. Our executive officers and directors and their respective affiliates have sufficient voting rights to determine the outcome of all matters requiring shareholder approval.

As a result of our executive officers and directors and their respective affiliates' ownership of a majority of our ordinary shares, their voting power may cause transactions to occur that might not be beneficial to you as a holder of ADSs and may prevent transactions that would be beneficial to you. For example, their voting power may prevent a transaction involving a change of control of us, including transactions in which you as a holder of our ADSs might otherwise receive a premium for your securities over the then-current market price. Similarly, our executive officers and directors and their respective affiliates may approve a merger or consolidation of our company which may result in you receiving a stake (either in the form of shares, debt obligations or other securities) in the surviving or new consolidated company which may not operate our current business model and dissenters' rights may not be available to you in such an event. This concentration of ownership could also adversely affect the market price of our ADSs or lessen any premium over market price that an acquirer might otherwise pay.

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***Compliance with rules and requirements applicable to public companies has increased our administrative costs, and any failure by us to comply with such rules and requirements could negatively affect investor confidence in us and cause the market price of our ADSs to decline.***

As a public company, we have incurred and will continue to incur significant legal, accounting and other expenses that we did not incur as a private company prior to our IPO. In addition, the Sarbanes-Oxley Act, as well as rules and regulations implemented by the SEC, have required significant additional corporate governance practices to be implemented by public companies. We expect these rules and regulations to continue to result in high legal, accounting and financial compliance costs and to make certain corporate activities more time consuming and costly. Complying with these rules and requirements may be especially difficult and costly for us because we may have difficulty hiring sufficient personnel in China with experience and expertise relating to U.S. GAAP and U.S. public company reporting requirements. If we cannot employ sufficient personnel to ensure compliance with these rules and regulations, we may need to rely more on outside legal, accounting and financial experts, which would be very costly. In addition, we will incur additional costs associated with our public company reporting requirements. We cannot predict or estimate the amount of additional costs we may incur or the timing of such costs but expect that these additional costs could be up to a few million US\$ annually. If we fail to comply with these rules and requirements, or are perceived to have weaknesses with respect to our compliance, we could become the subject of a governmental enforcement action, investor confidence in us could be negatively impacted and the market price of our ADSs could decline.

***If we cease to qualify as a foreign private issuer, we would be required to comply fully with the reporting requirements of the Exchange Act applicable to U.S. domestic issuers, and we would incur significant legal, accounting and other expenses that we would not incur as a foreign private issuer.***

As a foreign private issuer, we are exempt from the rules under the Securities Exchange Act of 1934, or the Exchange Act, prescribing the furnishing and content of proxy statements, and our officers, directors and principal shareholders will be exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act. In addition, we are not required under the Exchange Act to file periodic reports and financial statements with the SEC as frequently or as promptly as U.S. domestic issuers, and we are not required to disclose in our periodic reports all of the information that U.S. domestic issuers are required to disclose. While we currently qualify as a foreign private issuer, we may cease to qualify as a foreign private issuer in the future. If we do not qualify as a foreign private issuer, we will be required to comply fully with the reporting requirements of the Exchange Act applicable to U.S. domestic issuers, and we will incur significant legal, accounting and other expenses that we would not incur as a foreign private issuer.

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***We may be classified as a passive foreign investment company, which could result in adverse United States federal income tax consequence to U.S. holders of our ADSs or ordinary shares.***

We believe we were not a “passive foreign investment company,” or PFIC, for United States federal income tax purposes for our taxable year ending December 31, 2014. However, a separate determination must be made each year as to whether we are a PFIC (after the close of each taxable year) and we cannot assure you that we will not be a PFIC for the year ending December 31, 2014 or any future taxable year. A non-United States corporation will be considered a PFIC for any taxable year if either (1) at least 75% of its gross income is passive income or (2) or least 50% of the value of its assets (generally based on an average of the quarterly values of the assets during a taxable year) is attributable to assets that produce or are held for the production of passive income. PFIC status depends on the composition of our assets and income and the value of our assets (including, among others, a pro rata portion of the income and assets of each subsidiary in which we own, directly or indirectly, at least 25% (by value) of the equity interest) from time to time. Because we currently hold, and expect to continue to hold, a substantial amount of cash or cash equivalents, which are generally treated as passive assets, and, because the calculation of the value of our assets may be based in part on the value of our ADSs, which is likely to fluctuate (and may fluctuate considerably given that market prices of technology companies historically have been especially volatile), we may be a PFIC for any taxable year. If we were treated as a PFIC for any taxable year during which a United States holder held an ADS or an ordinary share, certain adverse United States federal income tax consequences could apply to such United States holder. See “Item 10.E—Taxation—United States federal income taxation—Passive foreign investment company.”

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***Anti-takeover provisions in our amended and restated memorandum and articles of association may discourage, delay or prevent a change in control.***

Some provisions of our amended and restated memorandum and articles of association may discourage, delay or prevent a change in control of our company or management that shareholders may consider favorable, including, among other things, the following:

Provisions that authorize our board of directors to issue preferred shares in one or more series and to designate the price, rights, preferences, privileges and restrictions of such preferred shares without any further vote or action by our shareholders; and

Provisions that restrict the ability of our shareholders to call meetings and to propose special matters for consideration at shareholder meetings.

***The laws of the Cayman Islands may not provide our shareholders with benefits comparable to those provided to shareholders of corporations incorporated in the United States.***

Our corporate affairs are governed by our memorandum and articles of association, by the Companies Law (2011 Revision) of the Cayman Islands and by the common law of the Cayman Islands. The rights of shareholders to take action against our 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 in the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands and from English common law. Decisions of the Privy Council (which is the final Court of Appeal for British overseas territories such as the Cayman Islands) are binding on a court in the Cayman Islands. Decisions of the English courts, and particularly the House of Lords and the Court of Appeal are generally of persuasive authority but are not binding in the courts of 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 precedents in the United States. In particular, the Cayman Islands have a less developed body of securities laws relative to the United States. Therefore, our public shareholders may have more difficulty protecting their interests in the face of actions by our management, directors or controlling shareholders than would shareholders of a corporation incorporated in a jurisdiction in the United States. In addition, shareholders of Cayman Islands companies may not have standing to initiate a shareholder derivative action before the federal courts of the United States. The Cayman Island courts are also unlikely to impose liability against us, in original actions brought in the Cayman Islands, based on certain civil liabilities provisions of U.S. securities laws. See “Item 10.B—Additional Information—Memorandum and Articles of Association.”

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***It may be difficult for you to enforce any judgment obtained in the United States against our company, which may limit the remedies otherwise available to our shareholders.***

Substantially all of our assets are located outside the United States. Almost all of our current operations are conducted in China. A majority of our directors and officers reside outside the United States and a substantial portion of their assets are located outside of the United States. As a result, it may be difficult or impossible for you to bring an action against us or against these directors and officers in the Cayman Islands or in China in the event that you believe that your rights have been infringed under the securities laws or otherwise. Even if you are successful in bringing an action of this kind, the laws of the Cayman Islands and of China may render you unable to enforce a judgment against our assets or the assets of our directors and officers. There is no statutory recognition in the Cayman Islands of judgments obtained in the United States, although the courts of the Cayman Islands will in certain circumstances recognize and enforce a non-penal judgment of a foreign court of competent jurisdiction without retrial on the merits. While there is no binding authority on this point, this is likely to include, in certain circumstances, a non-penal judgment of a United States court imposing a monetary award based on the civil liability provisions of the U.S. federal securities laws. The Grand Court of the Cayman Islands (“the Court”) may stay proceedings if concurrent proceedings are being brought elsewhere. Moreover, 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. As a result of all of the above, our public shareholders may have more difficulty in protecting their interests through actions against us or our officers, directors or major shareholders than would shareholders of a corporation incorporated in a jurisdiction in the United States.

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***The voting rights of holders of ADSs are limited by the terms of the deposit agreement, and you may not be able to exercise your right to vote the ordinary shares underlying your ADSs.***

Holders of our ADSs will only be able to exercise the voting rights with respect to the underlying ordinary 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 ordinary shares in accordance with these instructions. You will not be able to directly exercise your right to vote with respect to the underlying ordinary shares unless you withdraw the shares. Under our amended and restated memorandum and articles of association, the minimum notice period required for convening a shareholder meeting is ten days. When a shareholder meeting is convened, you may not receive sufficient advance notice to withdraw the ordinary shares underlying your ADSs 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 their manner of carrying out your voting instructions. This means that you may not be able to exercise your right to vote and you may have no legal remedy if the shares underlying your ADSs are not voted as you requested.

***Holders of our ADSs may not be able to participate in rights offerings and may experience dilution of your holdings as a result.***

We may from time to time distribute rights to our shareholders, including rights to acquire our securities. Under the deposit agreement for the ADSs, the depositary will not offer those rights to ADS holders unless both the rights and the underlying securities to be distributed to ADS holders are either registered under the Securities Act, or exempt from registration under the Securities Act with respect to all holders of ADSs. We are under no obligation to file a registration statement with respect to any such rights or underlying securities or to endeavor to cause such a registration statement to be declared effective. In addition, we may not be able to take advantage of any exemptions from registration under the Securities Act. Accordingly, holders of our ADSs may be unable to participate in rights offerings we make and may experience dilution in their holdings as a result.

***Holders of our ADSs may not receive distributions on our ordinary shares or any value for them if such distribution is illegal or if any required government approval cannot be obtained in order to make such distribution 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 ordinary shares or other deposited securities underlying our ADSs, after deducting its fees and expenses. You will receive these distributions in proportion to the number of ordinary shares your ADSs represent. However, the depositary is not responsible if it decides that it is unlawful or impractical to make a distribution available to any

holders of ADSs. For example, it would be unlawful to make a distribution to a holder of ADSs if it consists of securities that require registration under the Securities Act but that are not properly registered or distributed under an applicable exemption from registration. The depositary may also 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, ordinary 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, ordinary shares, rights or anything else to holders of ADSs. This means that you may not receive distributions we make on our ordinary shares or any value for them if it is illegal or impractical for us to make them available to you. These restrictions may cause a material decline in the value of our ADSs.

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

Your ADSs are transferable on the books of the depository. However, the depository may close its transfer books at any time or from time to time when it deems expedient in connection with the performance of its duties. In addition, the depository may refuse to deliver, transfer or register transfers of ADSs generally when our books or the books of the depository are closed, or at any time if we or the depository deem 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.

All of our PRC corporate entities, including Ambow Online, our VIEs and their subsidiaries, maintain corporate records and filings with industry and commerce administration authorities where such PRC entities are registered. Information contained in such corporate records and filings includes, among others, business address, registered capital, business scope, articles of association, equity interest holders, legal representative, changes to the above information, annual financial reports, matters relating to termination or dissolution, information relating to penalties imposed, and annual inspection records.

There have been regulations promulgated by various government authorities in PRC that govern the public access to corporate records and filings. Pursuant to the Company Law and Regulations of the People's Republic of China on the Registration Administration of Companies, the company registration authority shall record the registered items of companies in a company recording book for the consultation and reproduction purposes of the public. The general public may apply to the company registration authority for inspection of the registered items of companies. Under the *Measures for Accessing Corporate Records and Filings* promulgated on December 16, 1996 by the State Administration for Industry and Commerce ("SAIC"), or the SAIC Measures, a wide range of basic corporate records, except for such restricted information as business results and financial reports, can be inspected by the public without restrictions. Under these SAIC Measures, a company's restricted information can only be inspected by authorized government officers and officials from judicial authorities or lawyers involved in pending litigation relating to such company and with court-issued proof of such litigation. In practice, local industry and commerce administration authorities in different cities have adopted various regional regulations, which impose more stringent restrictions than the SAIC Measures by expanding the scope of restricted information that the public cannot freely access. Many local industry and commerce administration authorities only allow unrestricted public access to such basic corporate information as name, legal representative, registered capital and business scope of a company. Under these local regulations, access to the other corporate records and filings (many of which are not restricted information under the SAIC Measures) is only granted to authorized government officers and officials from judicial authorities or lawyers involved in pending litigation relating to such company and with court-issued proof of such litigation.

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However, neither the SAIC nor the local industry and commerce administration authorities have strictly implemented the restrictions under either the SAIC Measures or the various regional regulations before early 2012. As a result, before early 2012, the public was able to access all or most corporate records and filings of these listed companies' PRC affiliates maintained with the industry and commerce administration authorities. Such records and filings were reported to have formed important components of research reports on certain China-based, U.S.-listed companies, which were claimed to have uncovered wrongdoings and fraud committed by these companies.

It was reported that, since the first half of 2012, local industry and commerce administration authorities in a number of cities had started strictly implementing the above restrictions and had significantly curtailed public access to corporate records and filings. There have also been reports that only the limited scope of basic corporate records and filings are still accessible by the public, and much of the previously publically accessible information, such as financial reports and changes to equity interests, now can only be accessed by the parties specified in, and in strict accordance with the restrictions under, the various regional regulations. Individuals other than the parties specified in the various regional regulations may get access to the corporate records and filings including, but not limited to, financial reports, shareholder changes and assets transfers with the permission of the PRC subject companies with reference letters issued by the companies. Such reported limitation on the public access to corporate records and filings and the resulting concerns over the loss of, or limit in, an otherwise available source of information to verify and evaluate the soundness of China-based U.S.-listed companies' business operations in China may have a significant adverse effect on the overall investor confidence in such companies' reported results or other disclosures, including those of our company, and may cause the trading price of our ADSs to decline.

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**Item 4. Information on the Company**

**A. History and Development of the Company**

Our founder, Dr. Jin Huang, established Ambow Corporation, a California company, in 2000. From 2000 through January 2005, our business was conducted through (1) Beijing Ambow Online Software Co., Ltd., or Ambow Online, which was established as a wholly foreign owned enterprise under the laws of the PRC in 2000 by Ambow Corporation, and (2) Beijing Shida Ambow Education Technology Co., Ltd., or Ambow Shida, a limited liability company established under the laws of the PRC in 2004, which was initially operated as a joint venture among Ambow Technology Company Limited, or Ambow Technology, Jianguo Xue, Xiaogang Feng, Xuejun Xie and Beijing Normal University Tech-Zone Technology Development Co., Ltd.

In May 2005, our prior holding company, Ambow Education Co., Ltd., or AECL, which was formed in January 2005 as an exempted company incorporated with limited liability under the laws of the Cayman Islands, acquired 100% of the outstanding equity interests in Ambow Online from Ambow Corporation. In April 2010, AECL transferred the 100% outstanding equity interest in Ambow Online to Ambow Education Management (Hong Kong) Limited.

Through a series of transfers in May 2005 and December 2008, Ambow Technology, Xiaogang Feng and Beijing Normal University Tech-Zone Technology Development Co., Ltd. transferred all their equity interest in Ambow Shida to Xuejun Xie so that Xuejun Xie and Jianguo Xue currently own 100% of the equity interest in Ambow Shida.

Our current holding company, Ambow, an exempted company incorporated with limited liability under the laws of the Cayman Islands, was established in June 2007. On July 18, 2007, Ambow entered into a share exchange agreement with AECL and its shareholders. Pursuant to this share exchange agreement, (1) all shareholders of AECL exchanged their shares in AECL for shares in Ambow, and (2) AECL became a wholly-owned subsidiary of Ambow.

Following the share exchange described above, we also established certain wholly-owned subsidiaries in Hong Kong, including Ambow Education Management (Hong Kong) Ltd. and Ambow Education (Hong Kong) Limited. In furtherance of our business development in China, a number of PRC domestic companies were also incorporated in a number of cities. From January 2005 until now, we have conducted our education business in China primarily through contractual arrangements among our subsidiaries in China and our VIEs.

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We and certain selling shareholders of our company completed an initial public offering of 10,677,207 ADSs in August 2010. On August 5, 2010, we listed our ADSs on the New York Stock Exchange, or the NYSE, under the symbol “AMBO.”

From 2008 to 2012, we made a total of 31 separate acquisitions through business combinations and one acquisition of long-term operating rights.

In December 2011, the company signed an agreement to sell two legal entities, being Beijing Century College and its 100% owned Beijing Siwa Century Facility Management Co. (together “Beijing Century College Group”), and part of the interest of 21st School to Xihua Investment Group (“Xihua Group”). By December 2012, the disposal of Beijing Century College Group had been completed.

In the year of 2012, two former employees of the company made allegations of financial impropriety and wrongful conduct in connection with the company’s prior year acquisitions of training schools. The Audit Committee of the Board of Directors of the company determined that it would conduct an internal investigation to thoroughly review these allegations. This investigation was conducted with the assistance of independent outside counsel. In late 2012, the company decided to suspend the software sales temporarily gradually, mostly due to the loss of business impacted by negative publicity in the media. The company considered this suspension of the software sales as a temporary strategy, would resume the software sales later when the company’s business had recovered and got sufficient funding for rebuilding the R&D team.

In July 2013, we sold our last college, Applied Technology College, to the Kunshan Venture Investment Limited (“Kunshan Venture”).

In April 2013, we entered into a disposal agreement with Xihua Group, pursuant to which, Ambow disposed of the remaining fourteen-year operating rights to Xihua Group. The disposal was completed by December 31, 2013.

On June 7, 2013, the Joint Provisional Liquidators (“JPLs”) were appointed as provisional liquidators of the company by the Cayman Court following the filing of a winding up petition by GL Asia Mauritius II Cayman Limited (the “Petitioner”).

During the year of 2013, we deconsolidated Tianjin Tutoring effective October 1, 2013 due to the fact that Tianjin Tutoring stopped providing financial statements and reporting operating results to the Group, and deconsolidated Guangzhou ZS Career Enhancement and Guangzhou DP Tutoring effective January 1 2014 due to the fact that we lost

control and connection with these schools. Afterwards, the Group did not have any continuing involvement with these deconsolidated subsidiaries.

By the report issuance date, the deregistration from the Administration for Industry and Commerce is in the process. Therefore, Tianjin Tutoring, Guangzhou ZS Career Enhancement and Guangzhou DP Tutoring were subsidiaries of the Group legally as of December 31, 2014.

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Prior to the JPLs' appointment, the Audit Committee of the company had commenced an investigation into allegations of certain financial improprieties and wrongful conduct by certain senior executives within the group of entities of which the company is the parent (the "Audit Committee Investigation"). In July 2012, the Audit Committee engaged Fenwick & West LLP ("Fenwick & West") and Ernst & Young LLP ("Ernst & Young") to assist with the investigation. At that time, the company's auditor was PricewaterhouseCoopers Zhong Tian CPAs Limited Company ("PwC").

In March 2013, three members of the Board of Directors — two of which held positions on the Audit Committee — resigned stating that they were unable to effectively discharge their duties in light of the refusal of Dr. Jin Huang to resign or take a leave of absence from her leadership positions within the company whilst the Audit Committee Investigation was ongoing. PwC, Fenwick & West and Ernst & Young all resigned from their respective roles shortly thereafter. The company subsequently appointed replacements for each of the above, being Marcum Bernstein & Pinchuk LLP ("MarcumBP") as auditors, and DLA Piper LLP ("DLA") and Deloitte Financial Advisory Services LLP ("Deloitte") to assist with the Audit Committee Investigation.

On September 23, 2013, JPLs formed a committee comprising creditors and shareholders of the company (the "Stakeholder Committee"). On November 13, 2013, the Cayman Court sanctioned the recommencement of the Audit Committee Investigation following an application, which was brought by the JPLs with the support of the members of the Stakeholder Committee. Engagement letters were subsequently finalized with DLA and Deloitte to complete the Audit Committee Investigation, with the assistance of third party funding which the JPLs negotiated on the company's behalf.

On February 20, 2014, the JPLs received the report on the Audit Committee Investigation from DLA. In summary, this report concluded that there was insufficient evidence to substantiate the allegations as to questionable or inappropriate conduct, which had been made against the directors, officers and employees of the company. However, the report advised that the company's corporate governance structure needed improvement. Shortly after receiving this report, the JPLs re-commenced negotiations with parties who had previously expressed an interest in providing long term funding to the company.

Upon the satisfaction of conditions and deliverables under the restructuring agreement (the "Restructuring Agreement") and associated agreements to implement the core parts of the restructuring plan sanctioned by the Cayman Court pursuant to its order dated May 7, 2014 (the "Restructuring Plan"), the Court approved the return of management to our Board of Directors (as reconstituted pursuant to the Restructuring Plan). Upon the discharge, we are to proceed with the completion of the Restructuring Plan transactions.

Our new Board of Directors of seven directors was constituted on May 13, 2014, which resulted from the resignation of two directors and the appointment of three new directors (two of whom are independent directors). The new Board consists of four existing directors: Dr. Jin Huang, Mr. Justin Chen, Mr. Ping Wu, and Mr. Winston Sim; and three new directors: Mr. John Porter, Mr. Ralph Parks and Dr. Yan Hui-Ma.

A restructuring agreement, between the company and CEIHL provides for a loan facility for the company, comprising approximately RMB 290.6 million (US\$48.0 million) less the amounts paid, or procured to be paid, by CEIHL or its nominee in satisfaction of and/or discharge of and/or to purchase and cancel the onshore debt with estimated pay off value of approximately RMB 83.0 million (US\$13.3 million) and includes the amount of the existing facility provided by CEIHL pursuant to which the sum of approximately RMB 104.0 million (US\$17.0 million) of principal is due, leaving the rest of the cash being injected into the company, and includes, inter alia, the necessary conversion rights to enable CEIHL to become the holder of 50.1% of the voting rights (equating to 85% of the economic interest) in the company.

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Under the Second Amended and Restated Loan Agreement and related financing documents, a) the outstanding US\$17.0 million convertible loan originally borrowed from the IFC that was indirectly assigned to CEIHL has been amended and extended; b) CEIHL, Baring Private Equity Asia V Holding (4) Limited (“Baring”) and SummitView Investment Fund I, L.P. (“SummitView”) funded a total of approximately US\$31.0 million in new loans under lending commitments, among which, CEIHL assigned approximately RMB 30.6 million (US\$5.0 million) each of its commitments to Baring and SummitView, and Baring and SummitView each funded a loan of US\$5.0 million to the company.

In connection with the entry into the Second Amended and Restated Loan Agreement, the parties agreed to terminate the registration rights agreement dated October 24, 2012 between Ambow Education Ltd and IFC.

In connection with the Restructuring Plan, CEIHL and the company entered into a Working Capital Facility Agreement, which makes available to the company working capital of up to approximately RMB 31.2 million (US\$5.0 million) at an interest rate of 3% per annum for a term of 3 years, subject to certain conditions.

In connection with the restructuring, the shareholding of SummitView pursuant to the Share Purchase Agreement dated April 28, 2013, between SummitView and the company as amended, on May 31, 2013, (the “SummitView SPA”) will be adjusted in light of the capital contributed to the company pursuant to the SummitView SPA.

On September 2014, we deconsolidated Jilin Tutoring. The principal of Jilin Tutoring stopped providing financial statements and reporting operation results to the Group after September 30, 2014, which was determined at the date that the Group ceased to have substantial control on Jilin Tutoring. Afterwards, the Group did not have any continuing involvement with this deconsolidated subsidiary.

By the report issuance date, the deregistration from the Administration for Industry and Commerce is in the process. Therefore, Jilin Tutoring was subsidiary of the Group legally as of December 31, 2014.

Our principal executive offices are located at 18th Floor, Building A, Chengjian Plaza, No.18, BeiTaiPingZhuang Road, Haidian District, Beijing 100088, People’s Republic of China. Our telephone number at this address is +86 (10) 6206-8000. Our registered office in the Cayman Islands is located at Maples Corporate Services Limited, P.O. Box 309, Ugland House, Grand Cayman KY1-1104, Cayman Islands. Our telephone number at this address is +1 (345) 949-8066. Our agent for service of process in the United States is CT Corporation System, located at 111 Eighth Avenue, New York, New York 10011.

## Recent Developments

On January 21, 2015, Spin-Rich Ltd., a British Virgin Islands company that is wholly owned by Dr. Jin Huang, converted all of its 12,600,000 Class B Ordinary Shares into Class A Ordinary Shares on a one for one basis. Prior to the conversion, the holders of Class A Ordinary Shares and Class B Ordinary Shares voted together on all matters submitted to a vote and each Class B Ordinary Share was entitled to ten (10) votes. As an affiliate of Spin-Rich, Ltd., upon the conversion of Spin-Rich, Ltd.'s Class B Ordinary Shares, Dr. Huang's ownership of Class B Ordinary Shares was reduced below 5%. As a result, in accordance with the Company's Memorandum & Articles of Association, all of the outstanding Class B Ordinary Shares held by shareholders other than Spin-Rich, Ltd., were automatically converted into Class A Ordinary Shares on a one-for-one basis. As a result, we now only have Class A Ordinary Shares issued and outstanding.

The company held an extraordinary general meeting (EGM) of shareholders of Ambow Education Holding Ltd on March 5, 2015 at the Marina Mandarin Hotel Singapore, 6 Raffles Boulevard, Marina Square, Singapore 039594. The following are the proposals presented and the result of the votes of the EGM is:

1. To increase the authorized share capital of the Company from US\$125,000 divided into 1,000,000,000 Class A Ordinary Shares of a nominal or par value of US\$0.0001 each, 200,000,000 Class B Ordinary Share of a nominal or par value of US\$0.0001 each and 50,000,000 Preferred Shares of a nominal or par value of US\$0.0001 to US\$145,000 divided into 1,200,000,000 Class A Ordinary Shares of a nominal or par value of US\$0.0001 each, 200,000,000 Class B Ordinary Share of a nominal or par value of US\$0.0001 each and 50,000,000 Preferred Shares of a nominal or par value of US\$0.0001. There were 789,685,690 votes for the proposal, 780,020 votes against the proposal and 2,240 abstain the proposal.

2. To approve and adopt the Fifth Amended and Restated Memorandum of Association and Articles of Association of the Company. There were 789,704,706 votes for the proposal, 654,672 votes against the proposal and 108,572 abstain the proposal.

The Company entered into a disposal agreement with a third party to transfer the ownership of Jinghan Group at a consideration of RMB 1,200 million in early 2015, out of which the Company committed to provide necessary funding to the third party for capital injections and settlement of liabilities to ensure Jinghan's continuous operation. It is further confirmed that the said obligations to the Company amounted to RMB 700 million. The disposal has been completed as of April 8, 2015.

On March 5, 2015, CEIHL converted US\$6.3 million of the Convertible Loan and became the registered holder of 133,735,632 Class A Ordinary Shares. In total, CEIHL owns 635,244,253 Class A Ordinary Shares, representing 56.05% ownership interest. On the same date, Baring converted US\$5 million of the Convertible Loan and became the registered holder of 83,584,770 Class A Ordinary Shares. In total, Baring owns 98,413,450 Class A Ordinary Shares, representing 8.68% ownership interest.

**B.**

**Business Overview**

We are a leading national provider of educational and career enhancement services in China. Our business addresses two critical demands in China's education market, the desire for students to be admitted into top secondary and post-secondary schools, and the desire for graduates of those schools to obtain more attractive jobs. We offer high quality, individualized services and products through our combined online and offline delivery model powered by our proprietary technologies and infrastructure. As of December 31, 2014, we had a total of 157 centers and schools, comprised of 123 tutoring centers, 4 K-12 schools, 10 career enhancement centers, 18 training centers and 2 career enhancement campuses, which are located in 21 provinces and autonomous regions within China.

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Our educational services cover K-12 programs and tutoring services which provides test preparation programs. We provide results-oriented services and products customized to regional curriculum requirements and individual student needs to help students enhance academic results, including scores on ZhongKao and GaoKao admission tests, the results of which are of primary importance in determining admission into top high school and university programs. We refer to these K-12 programs and tutoring services with standards-based curriculum that enable students to improve their academic results and educational opportunities as “**Better Schools.**”

Our career enhancement services target students at universities, colleges and community colleges, recent graduates of these institutions and employees and management in businesses and corporations. We are the premium brand in China’s educational and career enhancement services market, known for helping university level students and graduates enhance their practical skills and improve their competitive positioning. We refer to these career enhancement services programs that facilitate post-secondary students obtaining more attractive employment, as well as our college programs as “**Better Jobs.**” Our Better Jobs programs are mainly offered through our career enhancement service network, which are strategically located in key economic centers across China where there is a high concentration of companies in high-growth industries. Our career enhancement service network is located in the Bohai Rim Area, the Central South Area (Changsha, Zhuzhou and Xiangtan) and the Yangtze River Delta.

Within our career enhancement training centers, we partner with leading international vocational training content providers, corporations and universities to provide practical project-based training, “hands-on training” and simulations of professional skills to enhance students’ overall competitiveness for better employment opportunities after graduation.

We currently deliver our wide range of educational and career enhancement services and products through integrated offline and online channels in an interactive learning environment, powered by our proprietary technology platform that has enabled us to provide individualized content and learning solutions tailored to each of our students’ needs, and to develop standards-based, individualized curricula with consistently high quality across our schools, tutoring centers, career enhancement centers and campuses.

From our inception in 2000 through 2003, we focused on building our technology foundation by designing our proprietary software and technology solutions to provide educational and career enhancement services. From 2004 to 2007, we focused on building our nationwide services platform by deploying our services and products through sales agents, which enabled us to reach a large target customer base, build our Ambow brand and increase awareness of our products and services in a capital efficient way. As a result of the successful implementation of the aforementioned strategy, users of our software products or services grew throughout this period: from approximately 400 in 2004 to approximately 170,000 in 2007. By the end of 2007, our student users had reached a critical mass, we had proven that our services and products built upon our proprietary technology were effective and well received by students and our brand and services became well known in the industry and among our target customers. At the beginning of 2008, we considered it to be the opportune time to establish physical service network to capture further business opportunities and provide our services and products through both offline classroom teaching and an online delivery platform to our target customers in our directly-operated learning centers and schools. We established the strategic service network

primarily by opening or acquiring top-tier tutoring centers, K-12 schools, career enhancement centers and college, which we believe enhanced the Ambow brand as a premium educational and career enhancement service provider.

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We have two business divisions, “Better Schools” and “Better Jobs,” and four operating segments, which are tutoring, K-12 schools, career enhancement and college (disposed in 2013). Our tutoring and K-12 schools segments are within our Better Schools division and career enhancement and college segments are within our Better Jobs division. Our business declined since the internal independent investigation in 2012 and subsequent negative publicity in the media.

Revenues from continuing operations for our Better Schools division accounted for 57.9%, 63.6% and 57.4% of our total net revenues from continuing operations in the fiscal years of 2012, 2013 and 2014, respectively. Revenues from our Better Jobs division accounted for 42.1%, 36.4% and 42.6% of our total net revenues from continuing operations in 2012, 2013 and 2014, respectively. We recorded net income from continuing operations of RMB 742.1 million, RMB 536.5 million and RMB 412.0 million (US\$66.4 million) in 2012, 2013 and 2014, respectively.

**Our services and products**

We offer a variety of educational and career enhancement services and products to students, recent graduates and corporate employees and management in China. Our career enhancement services that help students and graduates obtain better jobs are offered both in our dedicated career enhancement centers and campuses as well as through our online programs. Our corporate training services to improve employees and management soft skills are normally offered in our training centers, the corporate clients offices or hotel conference centers. We extend our educational and career enhancement services and product offerings to students through our distributors and corporate partners in locations in which we do not have a direct presence. To support our educational and career enhancement services and products, we also provide software products to accommodate our students’ individual learning habits and enrich their learning experience. Our tutoring programs, which are offered in our tutoring centers, are our primary educational services and product offerings to help students enroll in better schools. We also operate K-12 schools to support our tutoring programs by providing strong local brand names and reputations, local education content expertise and potential student customer.

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In late 2012, Ambow decided to suspend the software sales temporarily due to the loss of business impacted by negative publicity in the media in the last quarter of 2012. Management only considered this suspension of the software sales as a temporary strategy, and intended to resume the software sales when our business recovers and has sufficient funding for rebuilding the R&D team.

In 2013 and 2014, there were no software sales to distributors, however, although reduced, our R&D team has been maintaining the basic software developing codes and databases. The company didn't consider this suspension to be a discontinuation of the software business.

The following map sets forth the service coverage and the geographic coverage of our tutoring centers and K-12 schools (marked as Better Schools), and our career enhancement centers, career enhancement campuses and training centers (marked as Better Jobs) as of December 31, 2014:

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Note: The geographic coverage of our tutoring centers includes Jinghan Group, which was disposed of at April 8, 2015.

*Better Schools*

Our Better Schools division consists of 123 tutoring centers and four K-12 schools as of December 31, 2014, which are located in or around our 17 provinces and 4 municipalities directly under the Central Government across China.

Our tutoring centers are designed to help students perform better in school and prepare for important tests, specifically high school and university entrance exams. In addition to our classroom-based teaching services, we offer educational curriculum and software products through our web-based applications to allow our students access to our tutoring services from anywhere at any time. Combined with our proprietary “learning engine,” our software features such functions as online video classes, practice questions, discussion forums and prior actual tests. Our educational software products include eBoPo (meaning “energy and impact” in Chinese), which offers full subjects, online practice tests and instruction for K-12 level students. Our software products and web-based applications complement our in-person classes and offer individualized services and tailored content based on each student’s specific needs. Our tutoring centers offer the classroom instruction, small class and one-on-one tutoring.

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Our K-12 schools, which are accredited by the local equivalent of the MOE, provide full-subject national curriculum, including mathematics, language, history, sciences and arts. Before our students enter our K-12 schools, they need to take our admissions test. Before they graduate from our K-12 schools, they need to pass the exam required by the local MOE. When they pass this exam, they earn a certificate recognized by the local public school system. Our tutoring centers provide corresponding tutoring programs, along with ZhongKao and GaoKao preparation, GaoKao retake preparation and overseas exam preparation. Our strategy for our educational services is to establish service network that provide services in populated and economically-developed cities in China. We intend to continue to improve the education quality and brands of our schools, which we leverage to support our Better Schools division.

### *Better Jobs*

Our Better Jobs division consists of 10 career enhancement centers, 18 training offices, and 2 career enhancement campuses as of December 31, 2014, which is located in the Bohai Rim Area, Central South Area (Changsha, Zhuzhou and Xiangtan) and the Yangtze River Delta. Our career enhancement centers are designed to help university level students and graduates enhance their practical skills and improve their competitive positioning upon graduation as they look to start their career. We have located our service network in regional economic centers within China where there is a high concentration of companies in high-growth industries. We cooperate with universities to provide our career enhancement services to their students. Our university partners provide us with a large base of customers to whom we can offer our services and products. Classes taken at our career enhancement centers and campuses can also count as credits earned towards requirements of certain university degree programs.

Our career enhancement centers currently focus on IT services and digital art training. Our career enhancement services curriculum emphasizes providing students with “hands-on training” for professional skills, including case studies, job environment simulation and specific technical skills needed to excel in jobs at our corporate partners, as well as “soft skills” training, including courses on time management, presentation, leadership and interview techniques. We design our career enhancement curriculum based on our understanding of the target industries and the actual recruiting needs of our corporate partners and corporations looking to hire our students. We also offer corporate training programs for our corporate partners’ employees that are designed jointly with certain of our corporate partners to specifically tailor the training for these employees.

We operate two career enhancement campuses, namely Kunshan Ambow Service Outsourcing Industrial Park, or Kunshan Park, and Dalian Ambow Service Outsourcing Industrial Park, or Dalian Park. Kunshan Park and Dalian Park are located in the Yangtze River Delta and Bohai Economic Rim, respectively. These career enhancement campuses serve the needs of students and employers located throughout the Yangtze River Delta and Bohai Economic Rim. Our career enhancement campuses offer teaching facilities, laboratories, dormitories, grocery stores and other community infrastructure in order to accommodate students’ educational and recreational activities. These facilities, which can hold up to an aggregate of 8,000 people for training at a given time, are currently operated by Ambow, each for a period of 20 years. Both of these office park-type career enhancement campuses are built by local governments in China. They focus on information technology outsourcing and business process outsourcing as the main objectives of the campuses’ training programs.



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We acquired Genesis Career Enhancement in 2011 which provides outbound and in-house management trainings targeted for corporate clients.

**Student recruitment and retention**

We employ a variety of marketing and recruiting methods to attract students and increase student enrollments at our learning centers and schools. We recruit students to our tutoring centers and K-12 schools from the local areas near these centers and schools. We recruit students to our career enhancement centers nationally throughout China. We believe prospective students are attracted to our learning centers and schools due to our strong brand name, innovative teaching and learning practices, and high-quality, individualized services. Our proprietary learning engine technology combined with offline teacher instruction ensures that students receive individualized orientation, instruction and progress assessment in a student-centered environment. By analyzing the accumulated data stored in each student's learning record, our learning engine optimizes learning strategies and methods, and provides personalized educational content for each student. The longer and more often a student uses our services and products, the more effective and efficient services and content we are able to provide to him or her, thus enhancing the students' tendency to continue to utilize our services throughout their learning cycle. Students in our tutoring centers and K-12 schools have significantly improved their results in ZhongKao and GaoKao exams, which we believe has enhanced our reputation in the markets in which we participate through word-of-mouth referrals. Our career enhancement centers help students to identify their career goals early in their life, and provide them with project-based training to improve their employment opportunities.

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**Our technology infrastructure**

We believe our proprietary technologies are one of our major strengths and we have devoted significant resources to the development of technologies for the delivery of our educational and career enhancement services. These include our educational services platform, operational management platform and development and deployment platform. The educational services platform is the backbone that supports our educational and career enhancement product and service offerings to our students. The operational management platform supports our internal management and administrative applications for tutoring centers, K-12 schools, career enhancement centers and college. The development and deployment platform supports our educational service platform and operational management platform, and standardizes the development of and communication between our IT products and applications.

***Educational services platform***

Our educational services platform is built around and driven by our core proprietary technology, the “Learning Engine.” Utilizing advanced Internet and multi-media technologies, the learning engine enables us to embed educational materials and cognitive theories, including memory curve and competency model theories, into our interactive learning products and services, such as the “eBoPo” series for educational services and “Career GPS System” for career enhancement services. Our learning engine creates an environment in which personalized courses and instructions can be generated and delivered based on a student’s own knowledge level, goals and learning needs. Our learning engine readily supports features that promote learning, such as video streaming, PowerPoint and interactive testing functions, via open interface and multi-language channels.

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### *Continued tracking*

As part of the learning engine, our learning tracking system comprehensively records a student's progress and achievements throughout the learning experience. The system assesses a student's knowledge and competency level when he or she starts, and continually monitors the interactions between the student and his or her computer, keeping on file the student's learning process and progress. The system is able to capture and memorize the way a student learns and creates a unique learning profile, which we refer to as each student's "Learning Passport." The system is also able to compare the student's current performance with past achievements, both at an individual and at a peer group level, giving the student a clear understanding of his or her current learning status, and helping adapt course material and provides feedback.

### *Individualized learning experience to students*

Our interactive learning engine customizes each student's learning experience and tracks and evaluates the learning performance as it happens. By leveraging our learning tracking system and analyzing the cumulated data stored in the Learning Passports, the learning engine can optimize learning strategies and methods and provide personalized education content, recursive exercise and study guidance for each student. The learning engine can set learning targets based on personal goals and requirements and adjust individual learning profiles and learning paths as it learns and perceives more about the student, delivering the appropriate learning materials to optimize the student's education outcome.

### *High quality*

Our personalized educational framework ensures that students receive high-quality educational experiences tailored to their individual needs. Our educational content and services are not linked to one teacher, but rather to many highly-qualified and experienced educational experts, who work closely with us to ensure that materials are of the high quality and relevance for students. This means that no matter where students are living-in urban centers or rural villages across China-they can be confident of receiving the same high standard of resources and support at all times.

### *Operational management platform*

We have built up an operational management platform to integrate our key management and administrative functions. We are developing additional functionality within our operational management platform to allow us to track revenues and expenses across each of our schools and learning centers by sub-segments within our operating segments. This

will allow us to have better period-to-period insights into the underlying drivers in our business within each of our four distinct operating segments.

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### *Development and deployment platform*

Our research, development and deployment efforts are greatly facilitated by our Enterprise Service Bus, or ESB. As a widely-used software architecture, an ESB acts as a message broker between different business applications, reducing the number of point-to-point connections required to allow applications to communicate, which makes it easier to adapt a system to changes in one or more of its components. Through our standards-based ESB, our technology platform allows for the rapid development and deployment of highly reliable, scalable and stable Internet-based cross-platform applications. We have also adopted the Model-View-Controller design pattern for our platform, which allows the layering of the data, presentation and control modules, thereby making the system more nimble, robust and manageable. The adaptor between the data and control layers easily allows for integration of our services and products with third-party systems.

### **Intellectual property**

We have developed our proprietary technology over the past decade. Our trademarks, copyrights, trade secrets and other intellectual property rights distinguish our services and products from those of our competitors, and contribute to our competitive advantage in our target markets. To protect our brand and other intellectual property, we rely on a combination of trademark, copyright and trade secret laws as well as confidentiality agreements with our employees, contractors and others.

“Ambow”, “”, “”, “”, “”, “ebopo”, “”, “”, “” and “” are our registered trademarks in China. We have also applied for additional trademarks and logos, including “”, “”, “”, and “” with the Trademark Office of the SAIC in China. Our main websites are located at [www.ambow.com](http://www.ambow.com) and [www.ambow.com.cn](http://www.ambow.com.cn). In addition, we have registered certain domain names, including [www.ambow.net](http://www.ambow.net). In addition to building “Ambow” as a stand-alone brand, we intend to continue to co-brand “Ambow” with the brands of our acquired schools and programs for the foreseeable future in order to fully leverage their established local presence and reputation.

We cannot be certain that our efforts to protect our intellectual property rights will be adequate or that third parties will not infringe or misappropriate these rights. In addition, there can be no assurance that competitors will not independently develop similar intellectual property. If others are able to copy and use our programs and services, we may not be able to maintain our competitive position. Furthermore, the application of laws governing intellectual property rights in China and abroad is uncertain and evolving and could involve substantial risk to us. If litigation is necessary to enforce our intellectual property rights or determine the scope of the proprietary rights of others, we may have to incur substantial costs or divert other resources, which could harm our business.

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### **Selling and marketing**

To promote our brands in the fragmented domestic education market, we selectively and systematically market our products and build our brand names through a number of different marketing programs. By doing so, we intend to continue to create and implement a standard corporate identity across all Ambow schools, tutoring centers, college and career enhancement centers. Our marketing efforts, which include national marketing by our corporate headquarters and local marketing by individual schools, tutoring centers, college and career enhancement centers, focus primarily on:

- Sponsoring charity and social events and forums around key educational events to build up our corporate image as the most trustworthy, life-long education and career enhancement partner in China;

- Buying airtime on national and local media programs as well as advertising space in billboards and buses to raise the awareness of our educational and career enhancement services and programs;

- Hosting industry summits with key corporate partners;

- Partnering with local governments to provide positive support for local schools and the local job market; and

- We also rely on word-of-mouth referrals and verbal marketing about our services and programs.

### **Our partners**

In addition to selling our services and products directly to students in our directly-operated schools, tutoring centers and career enhancement centers, we sell our software products indirectly to schools, tutoring centers, career enhancement centers and our corporate partners through distributors. In our Better Schools division, we sell our eBoPo software products through our Better Schools distributors. In our Better Jobs division, we sell our training platform and corporate training software products through our Better Jobs distributors. For software products we sell indirectly, our distributors provide primary support to the end users, and, in rare instances, we provide limited secondary support in the event that our distributors cannot answer questions of the end users.

### ***Partner schools***

We have business relationships with K-12 schools and colleges and universities not directly owned or operated by us, both directly and through our distributors. Most of our current relationships with K-12 schools are indirect as they, or their students, are end-user customers of our distributors and are generally limited to such schools' purchase of our software products through our distributors. Our direct partnerships are primarily with colleges and universities, which send their students to our career enhancement centers and, to a lesser extent, K-12 schools. These colleges and universities with whom we have direct partnerships are under no contractual obligation to recommend our services or products.

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**Disposals**

In December 2011, we signed an agreement to sell Beijing Century College Group and part of the interest of 21st School to Xihua Group. By December 2012, the transaction to sell Beijing Century College Group had been completed. We maintained control and legal title on 21st School for an additional fifteen years even after selling part of the interest in the 21st School. However, during 2013, we returned the 15-year operating rights of 21st School back to Xihua Group. In July 2013, we sold Applied Technology College, which was our last college, to the Kunshan Venture Investment Limited.

Medium Range Online (Beijing) Technology Co., Ltd (“Zhongcheng”) is a company focusing on career enhancement. It was incorporated on September 2, 2009 and was 100% owned by Shanghai Ambow Education Information Consulting Co., Ltd (“Ambow Shanghai”). Due to Ambow group’s cash flow shortage, we were seeking opportunities to dispose of partial assets and entities to generate cash flow. In 2014, a 70% interest in Zhongcheng was transferred to a third party. This transaction will not have major impact on our business, therefore this transaction was not qualified as discontinued operation.

The Company entered into a disposal agreement with a third party to transfer the ownership of Jinghan Group at a consideration of RMB 1,200 million in early 2015, out of which the Company committed to provide necessary funding to the third party for capital injections and settlement of liabilities to ensure Jinghan’s continuous operation. It is further confirmed that the said obligations to the Company amounted to RMB 700 million. The disposal has been completed as of April 8, 2015.

We believe that these disposals assisted us in consolidating our resources and focusing on the core businesses, which in turn resulted in organic growth, greater capital efficiency and better asset turnover.

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### **Deconsolidation**

Tianjin Tutoring, Guangzhou ZS Career Enhancement and Guangzhou DP Tutoring were 100% owned by the Group. In 2013, affected by the negative publicity and the internal investigation that occurred in 2012, the principals and most of the staff, especially the sales teams, resigned from these three entities because they lost confidence in the Group. The business operations of these three entities significantly suffered from the impact of the resignations. As a result, Tianjin Tutoring stopped providing financial statements and reporting operating results to the Group after September 30, 2013, which we determined is the date that the Group ceased to have substantial control on Tianjin Tutoring. The Group lost control and connection with Guangzhou ZS Career Enhancement and Guangzhou DP Tutoring in early 2014. Afterwards, the Group did not have any continuing involvement with these deconsolidated subsidiaries.

As of the date hereof, the cancelation of registration from the Administration for Industry and Commerce is in the process. Therefore, Tianjin Tutoring, Guangzhou ZS Career Enhancement and Guangzhou DP Tutoring are still legally subsidiaries of the Group, although we have deconsolidated them for financial and accounting purposes.

The principal of Jilin Tutoring stopped providing financial statements and reporting operation results to the Group after September 30, 2014, which was determined at the date that the Group ceased to have substantial control on Jilin Tutoring. Afterwards, the Group did not have any continuing involvement with these deconsolidated subsidiaries.

By the report issuance date, the deregistration from the Administration for Industry and Commerce is in the process. Therefore, Jilin Tutoring was subsidiary of the Group legally as of December 31, 2014.

### **Competition**

The educational and career enhancement services market in China is rapidly evolving, highly fragmented and competitive, and we expect competition in this sector to persist and intensify. We face direct competition in each geographic market and each business segment in which we operate, though no single competitor operates in all of our business segments. Our competition in our tutoring programs is from other education companies, and in our K-12 schools is from both public and private schools. To date, we have not faced significant, direct competition in our career enhancement centers, but we expect this to change as companies have begun to enter this market. We believe that the principal competitive factors in our markets include the following:

Alignment of individualized programs, services and products to specific needs of students, parents, educators and employers;

Overall customer experience;

Scope and quality of program, service and product offerings;

Proximity of services to the customers;

Brand recognition and reputation of service providers; and

Ability to effectively market programs, services and products to a broad base of prospective students.

We believe that our primary competitive advantages are our well-known “Ambow” brand and established leadership in online education and career enhancement services in China. Our core proprietary technology, “Learning Engine” is unique to the industry. We are also recognized by our ability to deliver standards-based, individualized curriculum with consistent, high quality across our schools, tutoring centers, colleges and career enhancement centers. However, some of our existing and potential competitors may have more resources than we do. These competitors may be able to devote greater resources than we can to the development, promotion and sale of their programs, services and products and respond more quickly than we can to changes in customer demands, market needs or new technologies. In addition, we face competition from many different organizations that focus on some of our targeted markets, which may be able to respond more promptly to changes in student preferences in these markets.

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In addition, the increasing use of the Internet and advances in Internet and computer-related technologies are eliminating geographic and cost-entry barriers to providing private educational and career enhancement services. Many smaller companies are able to use the Internet to quickly and cost-effectively offer their programs, services and products to a large number of students with less capital expenditure than was previously required.

## **Seasonality**

Our business is subject to seasonal variations. Historically, service days consumed in our K-12 schools and colleges are lower during the first quarter due to school closures in January or February for Chinese New Year and winter vacation and during the third quarter due to summer vacation. Our tutoring and our career enhancement segments are affected by seasonal variations in the first quarter due to Chinese New Year and winter vacations, though this seasonal impact is to a lesser extent than the impact on our K-12 schools and college.

## **Regulations**

We operate our business in China under a legal regime consisting of the State Council, which is the highest authority of the executive branch of the PRC central government, and several ministries and agencies under its authority, including the MOE, the MIIT, the SAIC, the Ministry of Civil Affairs (“MCA”), the MOFCOM, the SAFE, and their respective authorized local counterparts. This section summarizes the principal PRC regulations relating to our business.

### *Regulations on private education*

The principal regulations governing private education in China consist of the Education Law of the PRC, the Law for Promoting Private Education (2003) and The Implementing Rules for the Law for Promoting Private Education (2004) and the Regulations on Chinese-Foreign Cooperation in Operating Schools. Below is a summary of relevant provisions of these regulations.

### *Education Law of the PRC*

On March 18, 1995, the National People’s Congress (“NPC”) enacted the Education Law of the PRC, or the Education Law. The Education Law sets forth provisions relating to the fundamental education systems of the PRC, including a

school system of pre-school education, primary education, secondary education and higher education, a system of nine-year compulsory education and a system of education certificates. The Education Law stipulates that the government formulates plans for the development of education and establishes and operates schools and other institutions of education and, in principle, enterprises, social organizations and individuals are encouraged to operate schools and other types of education organizations in accordance with PRC laws and regulations. Meanwhile, no organization or individual may establish or operate a school or any other education institution for profit-making purposes. However, according to the Law for Promoting Private Education, private schools may be operated for “reasonable returns,” as described in more detail below.

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***The Law for Promoting Private Education and the Implementing Rules for the Law for Promoting Private Education***

The Law for Promoting Private Education (2003) became effective on September 1, 2003, and the Implementing Rules for the Law for Promoting Private Education (2004) became effective on April 1, 2004. Under this law and these regulations, “private schools” are defined as schools established by social organizations or individuals using non-government funds. In addition, private schools providing certifications, pre-school education, education for self-study aid and other academic education shall be subject to approval by the education authorities, while private schools engaging in occupational qualification training and occupational skill training shall be subject to approvals from the authorities in charge of labor and social welfare. A duly approved private school will be granted a Private School Operation License by local or provincial-level counterparts of the MOE for operating a private school, and shall be registered with the local or provincial-level counterparts of the MCA as a privately run non-enterprise institution and be issued a Private Non-enterprise Organization Registration Certificate. The durations of our Private School Operation Licenses vary from two years to 30 years and the durations of our Private Non-enterprise Organization Registration Certificates vary from one year to five years, depending on the location of our private schools.

Under the law and regulations discussed above, private schools have the same status as public schools, though private schools are prohibited from providing military, police, political and other kinds of education which are of a special nature. Government-run schools that provide compulsory education are not permitted to be converted into private schools. In addition, the operation of a private school is highly regulated. For example, the items and criteria of fees charged by a private school on those students receiving degree education need to be approved by the governmental pricing authority and is required to be publicly disclosed.

Private schools are divided into three categories: private schools established with donated funds; private schools that require reasonable returns and private schools that do not require reasonable returns. While private education is treated as a public welfare undertaking under the regulations, in the case of private schools choosing to require “reasonable returns”, investors of these schools may choose to require “reasonable returns” from the annual net balance of the school after deduction of costs, donations received, government subsidies, if any, the reserved development fund and other expenses as required by the regulations.

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The election to establish a private school requiring reasonable returns shall be provided in the articles of association of the school. The percentage of the school's annual net balance that can be distributed as a reasonable return shall be determined by the school's board of directors, taking into consideration the following factors: (i) items and criteria for the school's fees, (ii) the ratio of the school's expenses used for educational activities and improving the educational conditions to the total fees collected; and (iii) the admission standards and educational quality. The relevant information relating to the factors discussed above is required to be publicly disclosed before the school's board determines the percentage of the school's annual net balance that can be distributed as reasonable returns. Such information and the decision to distribute reasonable returns is also required to be filed with the approval authorities within 15 days from the decision made by the board. However, none of the current PRC laws and regulations provides a formula or guidelines for determining "reasonable returns." In addition, none of the current PRC laws and regulations sets forth different requirements or restrictions on a private school's ability to operate its education business based on such school's status as a school that requires reasonable returns or a school that does not require reasonable returns.

At the end of each fiscal year, every private school is required to allocate a certain amount to its development fund for the construction or maintenance of the schools or procurement or upgrade of educational equipment. In the case of a private school that requires reasonable returns, this amount shall be no less than 25% of the annual net income of the school, while in the case of a private school that does not require reasonable returns, this amount shall be not less than 25% of the annual increase in the net assets of the school, if any. Private schools that do not require reasonable returns shall be entitled to the same preferential tax treatment as public schools, while the preferential tax treatment policies applicable to private schools requiring reasonable returns shall be formulated by the relevant PRC authorities. However, ever since then, no such regulations in respect of tax preferential policy for private schools established by investors requiring reasonable returns have been promulgated.

As of December 31, 2014, we had across our three reportable segments a total of 32 schools that are registered as private schools as opposed to companies, of which four schools are registered as schools not requiring reasonable returns, while all other schools are registered as schools requiring reasonable returns.

### ***Foreign investment in education service industry***

According to the Foreign Investment Industries Guidance Catalog, or Foreign Investment Catalog, which was amended and promulgated by the NDRC, and the MOFCOM on December 24, 2011 and became effective on January 30, 2012, foreign investment is encouraged to participate in higher education and vocational training services. The foreign investment in higher education has to take the form of a Sino-foreign equity or cooperative joint venture. Senior high school education in grades 10-12 is a restricted industry. The foreign investment in senior high school education has to take the form of a cooperative joint venture. Foreign investment is banned from compulsory education, which means grades 1-9. Foreign investment is allowed to invest in after-school tutoring services, which do not grant diplomas. However, many local government authorities do not allow foreign-invested entities to establish private schools to engage in tutoring services, other than in the forms of Sino-foreign cooperative schools or international schools. Under current PRC laws, the foreign contributors of Sino-foreign cooperative schools shall be foreign educational institutions such as universities or colleges instead of foreign companies. As of December, 2014,

we had a total of 157 centers and schools, comprised of 123 tutoring centers, 4 K-12 schools, 10 career enhancement centers, 18 training offices and 2 career enhancement campuses. We conduct our education business in China primarily through contractual arrangements among our subsidiaries in China and VIEs. Our VIEs and their respective subsidiaries, as PRC domestic entities, hold the requisite licenses and permits necessary to conduct our education business in China and operate our tutoring centers, K-12 schools, career enhancement centers and colleges.

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***Regulations on Chinese-foreign cooperation in operating schools***

Chinese-foreign cooperation in operating schools or training programs is specifically governed by the Regulations on Operating Chinese-foreign Schools, promulgated by the State Council in 2003 and the Implementing Rules for the Regulations on Operating Chinese-foreign Schools, or the Implementing Rules, which were issued by the MOE in 2004.

The regulations on Operating Chinese-foreign Schools and its Implementing Rules encourage substantive cooperation between overseas educational organizations with relevant qualifications and experience in providing high-quality education and Chinese educational organizations to jointly operate various types of schools in the PRC, with such cooperation in the areas of higher education and occupational education being encouraged. Chinese-foreign cooperative schools are not permitted, however, to engage in compulsory education and military, police, political and other kinds of education that are of a special nature in the PRC.

Permits for Chinese-foreign Cooperation in Operating Schools or Chinese-foreign Cooperation Project shall be obtained from the relevant education authorities or from the authorities that regulate labor and social welfare in the PRC.

***Regulations on online and distance education***

Pursuant to the Administrative Regulations on Educational Websites and Online and Distance Education Schools issued by MOE in 2000, or the Online Education Regulations, educational websites and online education schools may provide education services in relation to higher education, elementary education, pre-school education, teacher education, occupational education, adult education and other educational services. Under the Online Education Regulations, “educational websites” refers to education websites providing education or education-related information services to website visitors by means of a database or an online education platform connected to the Internet or an educational television station through an Internet service provider, or ISP. Under the Online Education Regulations, “online education schools” refer to organizations providing academic education services or training services online and issuing various certificates.

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Under the Online Education Regulations, setting up educational websites and online education schools is subject to approval from relevant education authorities, depending on the specific types of education provided. Under the Online Education Regulations, any educational website and online education school shall, upon receipt of approval, indicate on its website such approval information as well as the approval date and file number.

According to the Administrative License Law promulgated by the Standing Committee of NPC, on August 27, 2003 and effective as of July 1, 2004, only laws promulgated by the NPC and regulations and decisions promulgated by the State Council may establish administrative license requirements. On June 29, 2004, the State Council promulgated the Decision on Cutting Down Administrative Licenses for the Administrative Examination and Approval Items Really Necessary to be Retained, in which the administrative license for “online education schools” was retained, while the administrative license for “educational websites” was not retained. Our online education business is mainly conducted by Ambow Shida, with Ambow Online providing technical support and marketing consulting services relating to online education and, therefore, falls into the “educational websites” category, as a result of which our online education business is not subject to regulatory approval pursuant to these laws and regulations.

***Regulation of the software industry***

*Policies to Encourage the Development of Software*

On June 24, 2000, the State Council issued Certain Policies to Encourage the Development of Software and Integrated Circuit Industries, or the Policies, to encourage the development of the software and integrated circuit industries in China and to enhance the competitiveness of the PRC information technology industry in the international market. The Policies encourage the development of the software and integrated circuit industries in China through various methods, including:

· Encouraging venture capital investment in the software industry and providing capital to software enterprises or assisting such software enterprises to raise capital overseas;

· Providing tax incentives, including an immediate tax rebate for taxpayers who sell self-developed software products, before 2010, of the amount of the statutory value-added tax that exceeds 3% and a number of exemptions and reduced corporate income tax rates;

· Providing government support, such as government funding in the development of software technology;

Providing preferential treatments, such as credit facilities with low interest rates to enterprises that export software products;

- Taking various strategies to ensure that the software industry has sufficient expertise; and
- Implementing measures to enhance intellectual property protection in China.

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To qualify for preferential treatments, an enterprise must be recognized as a software enterprise by governmental authorities. A software enterprise is subject to annual inspection, failure of which in a given year will cause the enterprise to lose the relevant benefits. In 2014, we received a document from the tax bureau cancelling Ambow Online's preferential tax treatment. We have taken legal action to defend ourselves, but it is still too early to determine the impact on our results of operations.

### *Software products administration*

On October 27, 2000, the MIIT issued and enforced the Measures Concerning Software Products Administration to regulate and administer software products and promote the development of the software industry in China. Pursuant to the Measures Concerning Software Products Administration, all software products operated or sold in China must be duly registered with and recorded by the relevant authorities, and no entity or individual is allowed to sell or distribute any unregistered and unrecorded software products.

On March 5, 2009, the MIIT promulgated the new Measures Concerning Software Products Administration, or the New Measures, which became effective on April 10, 2009. Under the New Measures, software products operated or sold in China are not required to be registered or recorded by relevant authorities, and software products developed in China (including those developed in China on the basis of imported software) can enjoy certain favorable policies when they have been registered and recorded. Upon registration, the software products will be granted registration certificates. Each registration certificate is valid for five years from the issuance date and may be renewed upon expiry. Software developers or producers are allowed to sell their software products independently or through agents, or by way of licensing. The MIIT and other relevant authorities may carry out supervision and inspection over the development, production, operation and import/export of software products in and out of China.

### *Software copyright*

The State Council promulgated the Regulations on the Protection of Computer Software, or the Software Protection Regulations, on December 20, 2001, which became effective on January 1, 2002. The Software Protection Regulations were promulgated, among other things, to protect the copyright of computer software in China. According to the Software Protection Regulations, computer software that is independently developed is attached to physical goods will be protected. However, such protection does not apply to any ideas, mathematical concepts, processing and operation methods used in the development of software solutions. Under the Software Protection Regulations, PRC citizens, legal persons and organizations will enjoy copyright protection for computer software that they have developed, regardless of whether the software has been published. Foreigners or any person without a nationality shall enjoy copyright protection over computer software that they have developed, as long as such computer software was first distributed in China. Software of foreigners or any person without a nationality will enjoy copyright protection in China under these regulations in accordance with a bilateral agreement, if any, executed by and between China and the country to which the developer is a citizen of or in which the developer habitually resides,

or in accordance with an international treaty to which China is a party. Under the Software Protection Regulations, owners of software copyright will enjoy the rights of publication, authorship, modification, duplication, issuance, lease, transmission on the information network, translation, licensing and transfer. Software copyright protection takes effect on the day of completion of the software's development. The protection period for software developed by legal persons and other organizations is 50 years and ends on December 31 of the fiftieth year from the date the software solution was first published. However, the Software Protection Regulations will not protect the software if it is not published within 50 years from the date of the completion of its development. Civil remedies available under the Software Protection Regulations against infringements of copyright include cessation of the infringement, elimination of the effects, apology and compensation for losses. The copyright administrative authorities will order the infringer of software copyright to stop all infringing acts, confiscate illegal gains, confiscate and destroy infringing copies, and may impose a fine on the offender under certain circumstances.

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*Software copyright registration*

On February 20, 2002, the State Copyright Administration of the PRC promulgated and enforced the Measures Concerning Registration of Computer Software Copyright Procedures, or the Registration Procedures, to implement the Software Protection Regulations and to promote the development of China's software industry. The Registration Procedures apply to the registration of software copyrights and software copyright exclusive licensing contracts and assignment contracts. The registrant of a software copyright will either be the copyright owner or another person (whether a natural person, legal person or an organization) in whom the software copyright becomes vested through succession, assignment or inheritance. Upon registration, the registrant shall be granted a registration certificate by the China Copyright Protection Center. As of December 31, 2013, we have been issued 71 registration certificates for computer software copyrights, of which we use 36 of such registration certificates to operate our business.

In late 2012, we decided to suspend the software sales temporarily gradually, mostly due to the loss of business impacted by negative publicity in the media in the last quarter of 2012. We considered this suspension of the software sales as a temporary strategy, would resume the software sales later when the company's business had recovered and got sufficient funding for rebuilding the R&D team.

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***Regulations on Internet information services***

Subsequent to the State Council's promulgation of the Telecom Regulations and the Internet Information Services Administrative Measures on September 25, 2000, or the Internet Information Measures, the MIIT and other regulatory authorities formulated and implemented a number of Internet-related regulations, including but not limited to the Internet Electronic Bulletin Board Service Administrative Measures, or the BBS Measures.

The Internet Information Measures require that commercial Internet content providers, or ICP providers, obtain a license for Internet information services, or ICP license, from the appropriate telecommunications regulatory authorities in order to provide any commercial Internet information services in the PRC. ICP providers are required to display their ICP license number in a conspicuous location on their home page. In addition, the Internet Information Measures also provide that ICP providers that operate in sensitive and strategic sectors, including news, publishing, education, health care, medicine and medical devices, must also obtain additional approvals from the relevant authorities in charge of those sectors. The BBS Measures provide that any ICP provider engaged in providing online bulletin board services, or BBS, is subject to a special approval and filing process with the relevant telecommunications regulatory authorities.

In July 2006, the MIIT posted on its website the "Notice on Strengthening Management of Foreign Investment in Operating Value-Added Telecom Services." The notice prohibits PRC ICP providers from leasing, transferring or selling their ICP licenses or providing facilities or other resources to any illegal foreign investors. The notice states that PRC ICP providers or their shareholders should directly own the trademarks and domain names for websites operated by them, as well as servers and other infrastructure used to support these websites.

We believe that our operations are currently in compliance with these regulations.

***Regulations on broadcasting audio-video programs through the Internet or other information network***

The State Administration of Radio, Film and Television ("SARFT"), promulgated the Rules for Administration of Broadcasting of Audio-Video Programs through the Internet and Other Information Networks, or the Broadcasting Rules, in 2004, which became effective on October 11, 2004. The Broadcasting Rules apply to the activities of broadcasting, integrating, transmitting and downloading of audio-video programs with computers, televisions or mobile phones and through various types of information networks. Pursuant to the Broadcasting Rules, a Permit for Broadcasting Audio-Video Programs via Information Network is required to engage in these Internet broadcasting activities. On April 13, 2005, the State Council announced a policy on private investments in businesses in China relating to cultural matters that prohibits private investments in businesses relating to the dissemination of audio-video programs through information networks.



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On December 20, 2007, SARFT and MIIT issued the Internet Audio-Video Program Measures, which became effective on January 31, 2008. Among other things, the Internet Audio-Video Program Measures stipulate that no entities or individuals may provide Internet audio-video program services without a License for Disseminating Audio-Video Programs through Information Network issued by SARFT or its local counterparts or completing the relevant registration with SARFT or its local counterparts; and only entities wholly owned or controlled by the PRC government may engage in the production, editing, integration or consolidation, and transfer to the public through the Internet, of audio-video programs, and the provision of audio-video program uploading and transmission services. On February 3, 2008, SARFT and MIIT jointly held a press conference in response to inquiries related to the Internet Audio-Video Program Measures, during which SARFT and MIIT officials indicated that providers of audio-video program services established prior to the promulgation date of the Internet Audio-Video Program Measures that do not have any regulatory non-compliance records can re-register with the relevant government authorities to continue their current business operations. After the conference, the two authorities published a press release that confirms the above guidelines. There remain significant uncertainties relating to the interpretation and implementation of both the Internet Audio-Video Program Measures and the press release, in particularly with respect to the scope of “Internet Audio-Video Programs.” On April 1, 2010, SARFT promulgated the Tentative Categories of Internet Audio-Visual Program Service (“Categories”), which clarified the scope of Internet Audio-Video Programs. According to the Categories, there are four categories of Internet audio-visual program service which in turn are divided into seventeen sub-categories. The third sub-category of the second category covers the making and broadcasting of certain specialized audio-visual programs concerning art, culture, technology, entertainment, finance, sports and education.

We do not believe that we are required to apply for a License for Disseminating Audio-Video Programs through Information Network as an enterprise providing online education and test preparation courses. As an online education services provider, we transmit our audio-video educational courses and programs through the Internet only to enrolled course participants, not to the general public. The limited scope of our audience distinguishes us from general online audio-video broadcasting companies, such as companies operating user-generated content websites. In addition, we do not provide audio-video program uploading and transmission services. As a result, we believe that we are not one of those providers of audio-video program services covered under the Internet Audio-Video Program Measures. In the event that we are deemed to be a provider of audio-video program services covered under the Internet Audio-Video Program Measures, we believe that pursuant to the press release it is possible that we may be allowed to continue our current operations and re-register with SARFT or MIIT in accordance with the published guidelines, as we were established prior to the promulgation of the Internet Audio-Video Program Measures and have not had any regulatory non-compliance records. We and our PRC legal counsel are closely monitoring the regulatory developments relating to the Internet Audio-Video Program Measures and we will register with the relevant governmental authorities and obtain the necessary license if required. However, if the governmental authorities decide that our provision of online education services fall within the Internet Audio-Video Program Measures and we are unable to register or obtain the necessary license timely, or at all, due to reasons beyond our control, our equity ownership structure may require significant restructuring, or we may become subject to significant penalties, fines, legal sanctions or an order to suspend our use of audio-video content.

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***Regulations on information security***

Internet content in China is regulated by the PRC government to protect state security. The NPC has enacted a law that may subject to criminal punishment in China any person who: (i) gains improper entry into a computer or system of strategic importance; (ii) disseminates politically disruptive information; (iii) leaks state secrets; (iv) spreads false commercial information; or (v) infringes intellectual property rights.

The Ministry of Public Security has promulgated measures that prohibit use of the Internet in ways that, among other things, result in a leakage of state secrets or a spread of socially destabilizing content. The Ministry of Public Security has supervision and inspection rights in this regard, and we are subject to the jurisdiction of the local security bureaus. If an ICP license holder violates these measures, the PRC government may revoke its ICP license and shut down its websites. We believe we are in compliance with these regulations.

***Regulations on Protection of the Right of Dissemination through Information Networks***

On May 18, 2006, the State Council promulgated the Regulations on Protection of the Right of Dissemination through Information Networks, or the Dissemination Protection Regulations, which became effective on July 1, 2006. The Dissemination Protection Regulations require that every organization or individual who disseminates a third-party's work, performance, audio or visual recording products to the public through information networks shall obtain permission from, and pay compensation to, the copyright owner of such products, unless otherwise provided under relevant laws and regulations. The copyright owner may take technical measures to protect his or her right of dissemination through information networks and any organization or individual shall not intentionally evade, circumvent or otherwise assist others in evading such protective measures unless permissible under law. The Dissemination Protection Regulations also provide that permission from the copyright owners and compensation for the copyright-protected works is not required in the event of limited dissemination to teaching or research staff for the purpose of school teaching or scientific research only. We hold copyrights for all of the course materials on our websites.

***Regulation of domain names and website names***

PRC law requires owners of Internet domain names to register their domain names with qualified domain name registration agencies approved by MIIT and obtain registration certificates from such registration agencies. A registered domain name owner has an exclusive use right over its domain name. Unregistered domain names may not receive proper legal protections and may be misappropriated by unauthorized third parties. As of December 31, 2014, we have registered 102 domain names relating to our websites, with the Internet Corporation for Assigned Names and Numbers and the China Internet Network Information Center.



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PRC law requires entities operating commercial websites to register their website names with the SAIC or its local offices and obtain commercial website name registration certificates. If any entity operates a commercial website without obtaining such a certificate, it may be charged a fine or imposed other penalties by the SAIC or its local offices. On November 5, 2004, the MIIT amended the Measures for Administration of Domain Names for the Chinese Internet, or the Domain Name Measures. The Domain Name Measures regulate the registration of domain names, such as the first tier domain name “.cn”. In February 2006, China Internet Network Information Center (“CNNIC”), issued the Implementing Rules for Domain Name Registration and the Measures on Domain Name Disputes Resolution, pursuant to which CNNIC can authorize a domain name dispute resolution institution to decide disputes. As of December 31, 2014, we have registered 5 website names used in connection with our online education business with Beijing Municipal Bureau of Industry and Commerce.

***Regulation of privacy protection***

PRC law does not prohibit Internet content providers from collecting and analyzing personal information from their users. PRC law prohibits Internet content providers from disclosing to any third parties any personal information it collects via Internet or transmitted by users through their networks unless otherwise permitted by law. If an Internet content provider violates these regulations, MIIT or its local offices may impose penalties and the Internet content provider may be liable for damages caused to its users. We believe we are in compliance with these regulations.

***Regulation of copyright and trademark protection***

China has adopted legislation governing intellectual property rights, including copyrights and trademarks. China is a signatory to the main international conventions on intellectual property rights and became a member of the Agreement on Trade Related Aspects of Intellectual Property Rights upon its accession to the World Trade Organization in December 2001.

*Copyright.* NPC amended the Copyright Law in 2001 to widen the scope of works and rights that are eligible for copyright protection which extends copyright protection to Internet activities, products disseminated over the Internet and software products. In addition, there is a voluntary registration system administered by the China Copyright Protection Center. In February 2010, the NPC further amended the Copyright Law to regulate the registration of pledge of copyright, which became effective on April 1, 2010.



to establishing or assuming control of an offshore company for the purpose of financing that offshore company with assets or equity interests in an onshore enterprise in the PRC, each PRC resident, whether a natural or legal person, must complete certain overseas investment foreign exchange registration procedures with the relevant local SAFE branch. An amendment to the registration with the local SAFE branch is required to be filed by any PRC resident that directly or indirectly holds interests in that offshore company upon either (i) the injection of equity interests or assets of an onshore enterprise to the offshore company or (ii) the completion of any overseas fund-raising by such offshore company. An amendment to the registration with the local SAFE branch is also required to be filed by such PRC resident when there is any material change involving a change in the capital of the offshore company, such as (i) an increase or decrease in its capital, (ii) a transfer or swap of shares, (iii) a merger or division, (iv) a long-term equity or debt investment or (v) the creation of any security interests.

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SAFE Circular 37 applies retroactively. As a result, PRC residents who established or acquired control of offshore companies that made onshore investments in the PRC in the past were required to apply for supplementary registration. Under SAFE Circular 37, failure to comply with the registration procedures may result in restrictions on the relevant onshore entity, including restrictions on the payment of dividends and other distributions to its offshore parent or affiliate and restrictions on the capital inflow from the offshore entity, and may also subject relevant PRC residents to penalties under the PRC foreign exchange administration regulations.

As a Cayman Islands company, we are considered a foreign entity in China. If we purchase the assets or equity interests of a PRC company owned by PRC residents in exchange for our equity interests, such PRC residents will be subject to the registration procedures described in SAFE Circular 37. Moreover, PRC residents who are beneficial holders of our shares are required to register with SAFE in connection with their investment in us.

We believe that, except for renewal of the registration under SAFE Circular 37, our beneficial owners who are known to us to be PRC residents are currently in compliance with SAFE Circular 37.

***Regulations on dividend distribution***

The principal regulations governing dividend distributions by wholly foreign-owned enterprises and Sino-foreign equity joint ventures include:

- Wholly Foreign-Owned Enterprise Law (1986), as amended;
- Wholly Foreign-Owned Enterprise Law Implementing Rules (1990), as amended;
- Sino-foreign Equity Joint Venture Enterprise Law (1979), as amended; and
- Sino-foreign Equity Joint Venture Enterprise Law Implementing Rules (1983), as amended.

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



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***Regulation of overseas listings***

On August 8, 2006, six PRC regulatory agencies, including the China Securities Regulatory Commission (“CSRC”), promulgated the Regulation on Mergers and Acquisitions of Domestic Companies by Foreign Investors, which became effective on September 8, 2006 and was amended by the MOFCOM on June 22, 2009. This regulation, among other things, has certain provisions that require offshore special purpose vehicles, or SPVs, formed for the purpose of acquiring PRC domestic companies and controlled by PRC individuals, to obtain the approval of the CSRC prior to listing their securities on an overseas stock exchange. On September 21, 2006, the CSRC published on its official website a notice specifying the documents and materials that are required to be submitted for obtaining CSRC approval.

We believe that CSRC’s approval was not applicable to us in the context of our IPO because we established our PRC subsidiaries by means of direct investment rather than merger or acquisition of PRC domestic companies. There remains some uncertainty as to how this regulation will be interpreted or implemented in the context of an overseas offering. If the CSRC or another PRC regulatory agency subsequently determines that the CSRC’s approval was required for our IPO, we may face sanctions by the CSRC or another PRC regulatory agency. If this happens, these regulatory agencies may impose fines and penalties on our operations in the PRC, limit our operating privileges in the PRC, delay or restrict the repatriation of the proceeds from our IPO into the PRC, restrict or prohibit payment or remittance of dividends by our PRC subsidiaries to us or take other actions that could have a material adverse effect on our business, financial condition, results of operations, reputation and prospects, as well as the trading price of our ordinary shares.

***SAFE regulations on employee share options***

On March 28, 2007, SAFE promulgated the Application Procedures of Foreign Exchange Administration for Domestic Individuals Participating in Employee Share Holding Plan or Share Option Plan of Overseas Listed Company, or the Share Option Rule. On February 15, 2012, SAFE promulgated the Notice of the State Administration of Foreign Exchange on Issues Related to Foreign Exchange Administration in Domestic Individuals’ Participation in Equity Incentive Plans of Companies Listed Abroad, or the No. 7 Notice, which supersedes the Share Option Rule in its entirety and immediately became effective upon circulation. According to the No. 7 Notice, domestic individuals, which include any directors, supervisors, senior managerial personnel or other employees of a domestic company who are Chinese citizens (including citizens of Hong Kong, Macao and Taiwan) or foreign individuals who consecutively reside in the territory of PRC for one year, who participate in the same equity incentive plan of an overseas listed company shall, through the domestic companies they serve, collectively entrust a domestic agency to handle issues like foreign exchange registration, account opening, funds transfer and remittance, and entrust an overseas institution to handle issues like exercise of options, purchasing and sale of related stocks or equity, and funds transfer. Where a domestic agency needs to remit funds out of China as required for individuals’ participation in an equity incentive plan, the domestic agency shall apply with the local office of the SAFE for a foreign exchange payment quota on a yearly basis. A domestic agency shall open a domestic special foreign exchange account in the bank. After repatriation of foreign currency income earned by individuals from participation in an equity incentive plan, the domestic agency

shall request the bank to transfer the funds from its special foreign currency account to respective personal foreign currency deposit accounts. In the case of any significant change to the equity incentive plan of a company listed abroad (such as amendment to any major terms of the original plan, addition of a new plan, or other changes to the original plan due to merger, acquisition or reorganization of the overseas listed company or the domestic company or other major events), the domestic agency or the overseas trustee, the domestic agency shall, within three months of the occurrence of such changes, go through procedures for change of foreign exchange registration with the local office of the SAFE. The SAFE and its branches shall supervise, administer and inspect foreign exchange operations related to individuals' participation in equity incentive plans of companies listed abroad, and may take regulatory measures and impose administrative sanctions on individuals, domestic companies, domestic agencies and banks violating the provisions of this Notice.

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We and our employees who have been granted applicable equity awards shall be subject to the No.7 Notice. If we fail to comply with the No. 7 Notice, we and/or our employees who are subject to the No.7 Notice may face sanctions imposed by foreign exchange authority or any other PRC government authorities.

In addition, the State Administration of Taxation has recently issued a few circulars concerning employee share options. Under these circulars, our employees working in China who exercise share options will be subject to PRC individual income tax. Our PRC subsidiaries have obligations to file documents relating to employee share options with relevant tax authorities and withhold individual income taxes of those employees who exercise their share options. If our employees fail to pay and we fail to withhold their income taxes, we may face sanctions imposed by tax authorities or other PRC government authorities.

**C. Organizational Structure**

The diagrams below illustrate our corporate structure with respect to each of our significant subsidiaries and VIEs and the place of incorporation of each named entity as of December 31, 2014.

Sponsorship interest under the Law of Promoting Private Education is substantially similar to equity interest under the PRC Company Law. Minor differences are illustrated in the following perspectives:

(1) Right to receive return on investment. Shareholders of companies are entitled to dividends for their investment, while not all sponsors of private schools can claim returns on their investment in the private schools. Under the Law of Promoting Private Education, the sponsors of a private school may decide whether to require reasonable returns or not on their contributions to the private school, and accordingly private schools can be classified into schools whose sponsors require reasonable returns and schools whose sponsors do not require reasonable returns. Sponsors of a schools whose sponsors require reasonable returns are entitled to receive profit distribution from the school while sponsors of a schools whose sponsors do not require reasonable returns cannot.

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(2) The portion of after-tax profits available for distribution. The proportion of after-tax profits that can be distributed by a company to its shareholders is different from that can be distributed by a schools whose sponsors require reasonable returns to its sponsors. Under the PRC Company Law, a company is required to allocate 10% of its after-tax profits to statutory reserve funds before making dividends to its shareholders while, under the Law for Promoting Private Education, a schools whose sponsors require reasonable returns is required to allocate no less than 25% of its annual net profit to its development fund and make allocation for mandatory expenses as required by applicable laws and regulations.

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Notes:

(1) We excluded certain entities from this diagram that do not conduct any significant business or own or control other entities that conduct significant business. These entities include: 24 British Virgin Islands companies wholly owned by Ambow.

(2) Shareholders of Ambow Shida are Xuejun Xie, one of our officers and directors, and Jianguo Xue, one of our officers, who own 90% and 10% of Ambow Shida, respectively.

(3) Shareholders of Ambow Sihua are Xuejun Xie and Xiaogang Feng, one of our employees, who own 57.38% and 42.62% of Ambow Sihua, respectively.

(4) Individual shareholders of Ambow Shanghai are Xuejun Xie and Xiaogang Feng, who own 64% and 16% of Ambow Shanghai, respectively. Wenjian Gongying owns the remaining 20% of Ambow Shanghai.

(5) Shareholders of Suzhou Wenjian are Yisi Gu, one of our officers, Xuejun Xie, and Xiaogang Feng, who own 30%, 30% and 40% of Suzhou Wenjian, respectively.

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**Exhibit A: Entities owned by Shanghai Ambow Education Information Consulting Co., Ltd. (36)**

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**Exhibit B: Entities owned by Beijing Ambow Shida Education Technology Co., Ltd. (8)**

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**Exhibit C: Entities owned by Ambow Sihua Education and Technology Co., Ltd. (23)**

Due to PRC regulatory restrictions on foreign investments in education for students in grades one to twelve and in Internet content businesses, since 2005, we have conducted our business in China primarily through contractual arrangements among Ambow Online, one of our wholly-owned subsidiaries in China, and the following domestic PRC companies, which are owned by certain PRC persons and entities as described in the notes to the above table:

- Ambow Shida, which holds our schools, including elementary schools, junior high schools, and high schools;
  
- Ambow Sihua, which holds our tutoring centers; and
  
- Ambow Shanghai, which holds our career enhancement centers, a career enhancement software company and one corporate training company group.

Ambow Online and the acquired schools and learning centers are the principal operating entities for our business operations within China. Their functional currency is RMB. Ambow, our investment holding company, is the principal operating entity for operations relating to non-Chinese partners, including Cisco Systems and McGraw-Hill. Its functional currency is US\$.

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Ambow Online has entered into a series of contractual arrangements with each of the above domestic PRC companies that enable us to:

Exercise effective control over our VIEs and their respective subsidiaries by having such VIEs' shareholders pledge their respective equity interests in these VIEs to Ambow Online and, through powers of attorney, entrust all the rights to exercise their voting power over these VIEs to Ambow Online. There is no limitation on Ambow Online's rights to exercise the voting power over the VIEs or to obtain and dispose of the pledged equity interests in the VIEs holding the tutoring centers and career enhancement centers by exercise of its call option or share pledge. Ambow Online's rights to obtain and dispose of the pledged equity interests in the VIEs holding the K-12 schools and college by exercise of its call option or share pledge are subject to Ambow Online's designating other PRC persons or entities to acquire the pledged equity interests in order not to violate PRC laws that prohibit or restrict foreign ownership in K-12 schools and college;

Receive economic benefits from the pre-tax profits of our VIEs and their respective subsidiaries in consideration for products sold and technical support, marketing and management consulting services provided by Ambow Online to our VIEs and their respective subsidiaries. Such economic benefits, being net revenues of RMB 88.2 million and RMB 0.04 million and nil for the years ended December 31, 2012, 2013 and 2014 respectively (which have been eliminated upon consolidation) were earned by Ambow Online in consideration of the products sold and services provided to our VIEs' subsidiaries; and

Have an exclusive option to purchase all or part of the equity interests in our VIEs and all or part of the equity interest in its subsidiaries, as well as all or part of the assets of our VIEs, in each case when and to the extent permitted by applicable PRC law.

Similar to Ambow Online, Ambow Yuhua was recognized as a "software enterprise" and owned by Ambow College Management Limited (Hong Kong), Ambow Sihua and Ambow Shida with shares ownership of 87.2%, 11.5%, and 1.3% respectively. It provided softwares products and related technical services to our VIEs and their respective subsidiaries through contractual arrangements. The economic benefits from the pre-tax profits of our VIEs and their respective subsidiaries in consideration for products sold and technical support provided by Ambow Yuhua, being net revenues of RMB 8.9 million, nil and nil for the years ended December 31, 2012, 2013 and 2014, respectively (which have been eliminated upon consolidation) were earned by Ambow Yuhua.

Accordingly, we treat these domestic PRC companies as variable interest entities and have consolidated their historical financial results in our financial statements in accordance with U.S. GAAP. These domestic PRC companies and their subsidiaries hold the requisite licenses and permits necessary to conduct our education business in China.

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Each of Ambow Shida, Ambow Shanghai, Ambow Sihua and Suzhou Wenjian has executed a series of control agreements with Ambow Online described in more detail below through which agreements Ambow Online exercises effective contractual control over Ambow Shida, Ambow Shanghai, Ambow Sihua and Suzhou Wenjian.

Ambow Shida, Ambow Sihua and Ambow Shanghai each is a controlling entity operating one of our business lines, including tutoring centers, K-12 schools, career enhancement service centers and campuses and each owns certain interest in a number of schools and entities. Below is the detailed description of their interests as of December 31, 2014:

1. Tutoring Centers

- (1) Ambow Sihua owns the 100% equity interest in (a) Tianjin Ambow Huaying Education Technology Co., Ltd., which owns the 100% equity interest in (b) Tianjin Tutoring and (c) Tianjin Ambow Huaying School. The three entities of (a), (b) and (c) are together known as “Tianjin Tutoring”, which has been deconsolidated in the year of 2013 due to loss of control;
- (2) Ambow Sihua owns the 100% equity interest in Beijing YZ Tutoring, which operates one tutoring centers;
- (3) Ambow Sihua owns the 100% equity interest in Shuyang Tutoring, which operates one tutoring center;
- (4) Ambow Sihua owns the 100% equity interest in Jilin Clever Technology Consulting Co., Ltd., which owns the 100% equity interest in Jilin Tutoring, which has been deconsolidated in the year of 2014 due to loss of control;
- (5) Ambow Sihua owns the 100% equity interest in Zhenjiang Ambow Education Training Center, which operates three tutoring centers;
- (6) Ambow Sihua owns the 100% equity interest in Zhengzhou Tutoring, which operates one tutoring center;
- (7) Ambow Sihua owns the 100% equity interest in Changsha Tutoring, which operates three tutoring centers;
- (8) Ambow Sihua owns the 100% equity interest in Beijing Century Tutoring, which operates two tutoring centers;

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- (9) Ambow Sihua owns the 100% equity interest in Guangzhou DP Tutoring, which has been deconsolidated in the year of 2013 due to loss of control;
- (10) Ambow Sihua owns the 100% equity interest in Beijing JY Tutoring, which operates 103 tutoring centers;
- (11) Ambow Sihua owns the 90% equity interest in Shenyang Hanwen Educational Training School, which operates one tutoring centers;
- (12) Ambow Shida owns the 95% equity interest in Beijing SIWA Future Education Enterprise Co., Ltd., which operates one tutoring center;
- (13) Ambow Sihua owns the 100% equity interest in Beijing Xin Gan Xian Tutoring, which operates one tutoring centers;
- (14) Ambow Sihua owns the 100% equity interest in Beijing JT Tutoring, which operates four tutoring centers;
- (15) Ambow Sihua owns the 100% equity interest in Lanzhou Anning Ambow English Training School, which operates one tutoring center; and
- (16) Ambow Sihua owns the 100% equity interest in Lanzhou Chengguan Ambow English Training School, which operates one tutoring center.

2.

Career Enhancement Centers and Campuses

- (1) Ambow Shanghai owns the 100% equity interest in Shanghai Hero Further Education Institute, which operates 5 career enhancement service centers;

Ambow Shanghai owns the 100% equity interest in Medium Range Online (Beijing) Technology Co., Ltd. (Zhong Cheng Zai Xian), which operates one career enhancement service centers. The agreement of transferring 70% equity interest to a third party was signed in 2014. The business registration update was completed in 2015.

- (3) Ambow Shanghai owns the 100% equity interest in Kunshan Ambow Education Technology Co., Ltd., or Ambow Kunshan, which operates one career enhancement campus;

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- (4) Ambow Shanghai owns the 100% equity interest in Jinan WR Career Enhancement, which operates one career enhancement service center;
- (5) Ambow Shanghai owns the 100% equity interest in Hebei YL Career Enhancement, which operates one career enhancement service center;
- (6) Ambow Shanghai owns the 100% equity interest in Chongqing XT Career Enhancement, which operates one career enhancement service centers;
- (7) Ambow Shanghai owns the 100% equity interest in Guangzhou ZS Career Enhancement, which operates one career enhancement service center which has been deconsolidated in the year of 2013 due to loss of control;
- (8) Ambow Kunshan owns the 100% equity interest in Beijing Away Career Enhancement, which operates one career enhancement service centers; and
- (9) Ambow Kunshan owns the 100% equity interest in Dalian High Tech Zone Ambow Hope Training School, which operates one career enhancement service campus.

In addition, Ambow Shanghai also owns 100% equity interest in Genesis Career Enhancement (Shanghai Renzhongren), a group of three companies which provide outbound and in-house management trainings tailored for employees and management teams through their 18 subsidiaries.

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3. Schools

(1) K-12 Schools

Ambow Shida owns the 100% equity interest in Zhenjiang Ambow International School;

Ambow Shida owns the 100% equity interest in Shuyang K-12 School;

Ambow Shida owns a 70% equity interest and Changsha Yaxing Property Development Company Limited, an entity unrelated to us, owns a 30% equity interest in Changsha K-12 Experimental School and Changsha Kindergarten (Ambow Shida will receive the remaining 30% equity interest in 2029 and Ambow Shida may either rent or purchase, at the then current fair market value, from Changsha Yaxing Property Development Company Limited, which owns the real properties at Changsha K-12 Experimental School and Changsha Kindergarten, such real properties for the continuing use of these properties by the two schools. Ambow Shida's receipt of the remaining equity interest in 2029 is not conditional upon the rent or purchase of the schools' real properties). The land and premises are leased to Changsha K-12 Experimental School and Changsha Kindergarten for 20 years, from October 1, 2009 to September 30, 2029, and free of charge for the first six years, i.e, from October 1, 2009 to September 30, 2015; and

Ambow Shida owns a 90% equity interest and Shenyang Hanwen Classic Books Publishing Co., Ltd., an entity unrelated to us, owns a 10% equity interest in Shenyang K-12 school.

(2) College

In 2013, we disposed of our only college, Applied Technology College. There was no business in 2014.

In addition to the operational entities described above, we have also formed an RMB fund, Wenjian Gongying, which is owned by us, our Hong Kong subsidiary, Ambow Education (Hong Kong) Ltd., and Suzhou Wenjian, a domestic PRC entity controlled by Ambow Online through contractual arrangements. We may use Wenjian Gongying in the future to provide funding to Ambow Sihua, Ambow Shanghai and other permitted affiliated entities in China, in which event our RMB fund would become a shareholder in such entities. The business purpose of Wenjian Gongying is to make equity investments, consult on venture investments and provide management consulting for companies it invests in. Wenjian Gongying facilitates our ability to convert US\$ into RMB to make investments in the PRC. This allows us to make investments in other PRC companies and schools that do not include compulsory education. Such investment by Wenjian Gongying will be subject to the PRC industrial policies on foreign investment, which policies classify industries as "encouraged", "permitted", "restricted" and "prohibited" for foreign investment purposes. Wenjian Gongying, as a foreign-invested entity, is allowed by such policies to invest in colleges that are in an encouraged industry, tutoring centers and career enhancement centers that are in permitted industries and high schools that are in a restricted industry. While Wenjian Gongying's investment in restricted industries, such as high schools, requires approval by the MOFCOM or its local counterparts, its investment in permitted industries or encouraged industries only needs to be

filed with such agencies, provided that where an acquisition target is a school or a college, the approval of the MOE or its local counterparts shall also be obtained.

The foreign exchange Wenjian Gongying uses as consideration for an equity acquisition or capital contribution is allowed to be converted into RMB by the seller in an acquisition transaction or the entity receiving a capital contribution, as applicable, according to a SAFE notice issued on November 14, 2008. Since Wenjian Gongying is wholly-owned by us and our affiliates, we do not need to pay Wenjian Gongying any fees for any investment we may make through it. Our domestic entities may use our RMB operating profit to acquire PRC private schools that conduct compulsory education because they are not subject to investment restrictions applicable to foreign investment and, therefore, no MOFCOM or SAFE approval will be involved. Since we control Wenjian Gongying and our domestic entities through equity investments and VIE structure, respectively, our control will extend to those entities whose controlling ownership interest is purchased through Wenjian Gongying or our domestic entities.

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*Agreements that provide effective control over our VIEs and their respective subsidiaries*

*Agreements that provide effective control over Ambow Shida and its subsidiaries*

We have entered into a series of agreements with Ambow Shida and its shareholders. These agreements provide us substantial ability to control Ambow Shida and its shareholders, and we have obtained an option to purchase all of the equity interests of Ambow Shida. We have no agreements that pledge the assets of our VIEs for the benefit of Ambow Online. These agreements include:

*Share Pledge Agreement.* Pursuant to the share pledge agreement, dated January 31, 2005, among Ambow Online, Xuejun Xie and Jianguo Xue, each a shareholder of Ambow Shida, as amended by the supplementary agreement dated January 4, 2009 entered into by and among AECL, Ambow Online, Xuejun Xie and Jianguo Xue, each of Xuejun Xie and Jianguo Xue pledged all of her or his equity interest in Ambow Shida to Ambow Online to secure the performance of Ambow Shida under an exclusive cooperation agreement, dated January 31, 2005, between Ambow Online and Ambow Shida as described below. If Ambow Shida fails to fulfill its obligations under the exclusive cooperation agreement, Ambow Online may dispose of the pledged equity in accordance with the provisions of the Security Law of the People's Republic of China and relevant laws and regulations, and shall have the right to be indemnified for the secured debt and any other relevant expenses out of the proceeds from the disposal of the pledged equity. Each of Xuejun Xie and Jianguo Xue also agreed not to transfer, dispose of or otherwise directly or indirectly create any encumbrance over her or his equity interest in Ambow Shida, or take any actions that may reduce the value of her or his equity interest in Ambow Shida without the prior written consent of Ambow Online. This agreement shall remain in effect until the exclusive cooperation agreement is terminated lawfully and the secured debt is fully repaid pursuant to the terms and conditions under the exclusive cooperation agreement. Without Ambow Online's prior consent, the pledgors shall not be entitled to grant or assign their rights and obligations under the agreement. Ambow Online may assign at any time all or any of its rights and obligations under the exclusive cooperation agreement and the assets transfer and lease agreement to any person (either a natural person or a legal person) it designates. In such case, the assignee shall assume Ambow Online's rights and obligations under this agreement. In the event of any change of the pledgee as a result of transfer, the parties shall enter into a new pledge agreement. The parties shall negotiate in good faith to resolve any disputes arising out of or in connection with this agreement. If the parties cannot reach an agreement on the resolution of such disputes, either party shall submit such disputes to China International Economic and Trade Arbitration Commission ("CIETAC") for arbitration in accordance with its then-effective arbitration rules. The arbitration shall be conducted in Beijing, and the language used in arbitration shall be Chinese. The award of the arbitration shall be final and binding upon the parties. The share pledge has been registered with the local SAIC.

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*Call Option Agreement.* Pursuant to the call option agreement, dated January 31, 2005, among AECL, Xuejun Xie and Jianguo Xue, each a shareholder of Ambow Shida, as amended by the termination agreement dated April 26, 2007 and further amended by the supplementary agreement dated January 4, 2009 entered into by and among AECL, Ambow Online, Xuejun Xie and Jianguo Xue, AECL or its designee has an option to purchase from each of Xuejun Xie and Jianguo Xue, to the extent permitted under PRC laws, all or part of his or her equity interest in Ambow Shida in one or more installments at an aggregate purchase price of RMB 3.0 million unless the applicable laws state otherwise. AECL or its designee shall have sole discretion to decide when to exercise the option, whether in part or in full. Without the written consent of AECL or its designee, Xuejun Xie and/or Jianguo Xue shall not approve or support any equity transfer or capital increase of Ambow Shida, or any resolution approving the capital increase, issuance of additional shares, dilution of the existing shareholdings, or affecting the right of AECL or its designee at any board or shareholders' meetings, or execute or adopt any resolution approving the distribution of the stock dividends, stock awards or profits at any board or shareholders' meetings. Xuejun Xie and Jianguo Xue agreed not to dispose of the equity interest or exercise any related rights in any form without AECL or its designee's written consent. Xuejun Xie and Jianguo Xue agreed that before AECL or its designee exercises the option to obtain all the equity interest and assets, Xuejun Xie and Jianguo Xue shall not engage in and shall not cause Ambow Shida to engage in (i) selling, assigning, mortgaging or otherwise disposing of any assets, lawful income and business revenues of Ambow Shida, or creating security interest on Ambow Shida (other than those made in the ordinary course of business or have been disclosed to and approved by AECL or its designee in writing), (ii) entering into any transactions that may substantially affect Ambow Shida's assets, liabilities, operations, equity and other legitimate interests (other than those made in the ordinary course of business or have been disclosed to and approved by AECL or its designee in writing), (iii) supplementing, altering or modifying Ambow Shida's charter documents in any form, which will substantially affect Ambow Shida's assets, liabilities, operations, equity and other legitimate interests (except the proportional capital increase as required by law), or (iv) appointing any other third party as Ambow Shida's agent or representative. AECL or its designee may assign the option and any rights and interests under the agreement in its sole discretion. Currently, we do not expect to exercise such option in the foreseeable future. Should we decide to exercise such option, we or our designee would affect such purchase through the cancellation of loans owed to us by Xuejun Xie and/or Jianguo Xue unless the then applicable laws require the purchase price to be determined by a valuation or otherwise provided, in which case the transfer price shall be the minimum amount provided by applicable law and we will effect such purchase through, to the extent necessary, a combination of cash and cancellation of loans owed to us by each of Xuejun Xie and Jianguo Xue. This call option is not subject to any time limit and has been effective upon execution by the parties. This agreement shall not terminate until AECL or its designee exercises the call option and the equity interest has been fully vested in AECL or its designee or upon termination by AECL or its designee in writing. If any dispute arises out of the interpretation or performance of this agreement, the parties shall negotiate in good faith to resolve such dispute; if such dispute cannot be resolved within thirty days of the beginning of such negotiations, either party may submit such dispute to CIETAC in Beijing for arbitration in accordance with its then effective arbitration rules.

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*Powers of Attorney.* Pursuant to the powers of attorney, each dated April 26, 2007, each of Xuejun Xie and Jianguo Xue irrevocably entrusted all the rights to exercise her or his voting power of Ambow Shida to Ambow Online for an indefinite period of time, including without limitation, proposing to convene a shareholders' meeting, attending a shareholders' meeting and exercising the voting rights at a shareholders' meeting.

*Loan Agreements.* Pursuant to the loan agreements, each dated January 31, 2005, among AECL, Xuejun Xie and Jianguo Xue, each a shareholder of Ambow Shida, respectively, amended by amendment agreements, dated April 26, 2007, among Ambow Online, AECL and Xuejun Xie and Jianguo Xue, respectively, and further amended by the supplementary agreement dated January 4, 2009 entered into by and among AECL, Ambow Online, Xuejun Xie and Jianguo Xue or renewed by a loan agreement between Ambow Online and Jianguo Xue dated February 1, 2008, as applicable, Ambow Online loaned RMB 2.7 million and RMB 0.3 million to Xuejun Xie and Jianguo Xue, respectively, to fund the registered capital requirements of Ambow Shida. To the extent permitted by PRC laws, each loan shall be deemed to have been repaid upon the transfer of the equity interest in Ambow Shida held by Xuejun Xie and Jianguo Xue, as applicable, to Ambow Online or its designee. These loan agreements shall remain in effect until the loans thereunder are fully repaid. To the extent permitted by the relevant PRC laws, Ambow Online shall determine at its sole discretion the timing and method of the repayment of the loans thereunder and notify the borrowers in writing of such arrangements seven days in advance. The borrowers shall not repay the loans to Ambow Online early unless Ambow Online notifies the borrowers in writing that the loan thereunder has expired or as otherwise provided therein. Any disputes arising in connection with the interpretation or execution of this agreement shall be resolved by the parties through friendly consultations; if such disputes cannot be resolved within thirty days of the beginning of the consultations, either party may submit such disputes to CIETAC in Beijing for arbitration in accordance with its then effective arbitration rules.

*Agreements that provide effective control over Ambow Shanghai and its subsidiaries*

We have entered into a series of agreements with Ambow Shanghai and its shareholders. These agreements provide us substantial ability to control Ambow Shanghai and its shareholders, and we have obtained an exclusive option to purchase all of the equity interests of Ambow Shanghai. These agreements include:

*Share Pledge Agreement.* Pursuant to the share pledge agreement, dated October 31, 2009, and amended by a supplementary agreement dated January 4, 2010, among Ambow Online, Xuejun Xie and Xiaogang Feng, each a shareholder of Ambow Shanghai, each of Xuejun Xie and Xiaogang Feng pledged all of her or his equity interest in Ambow Shanghai to Ambow Online to secure the performance of Ambow Shanghai or its subsidiaries' obligations under a technology service agreement between Ambow Online and Ambow Shanghai dated October 31, 2009 as described below. If Ambow Shanghai fails to fulfill its obligations under the technology service agreement, Ambow Online may dispose of the pledged equity in accordance with the provisions of the Security Law of the People's Republic of China and relevant laws and regulations, and shall have the right to be indemnified for the secured debt and any other relevant expenses out of the proceeds from the disposal of the pledged equity. Without Ambow Online's prior written consent, each of Xuejun Xie and Xiaogang Feng shall not (i) make a proposal to amend the articles of association of Ambow Shanghai or cause the making of such proposal, or increase or reduce Ambow Shanghai's

registered capital, or otherwise change the structure of its registered capital, (ii) create any further security, encumbrances and any third party's rights on the pledged equity in addition to the pledge created under the share pledge agreement, (iii) perform any act that may prejudice any rights of Ambow Online under the share pledge agreement, or any act that may materially affect the assets, business and/or operations of Ambow Shanghai, (iv) distribute dividends to the shareholders in any form (however, upon Ambow Online's request, pledgors shall immediately distribute all of their distributable profits to the shareholders), or (v) transfer or dispose of the pledged equity in any way. The share pledge agreements has been in effect since the date when the authorized representatives of the parties duly execute this agreement and shall remain in effect until the technology service agreement is terminated and the secured debt is fully repaid. The share pledge agreements may be unilaterally terminated by Ambow Online. Neither of Xuejun Xie and Xiaogang Feng is entitled to unilaterally terminate the share pledge agreements. Without Ambow Online's prior written consent, pledgors shall not transfer any of their rights or obligations under the share pledge agreement to any other party. Ambow Online shall have the right to transfer to any third party any of its rights or obligations under the share pledge agreement and any of its rights or obligations under other agreements contemplated by the share pledge agreement without pledgor's prior consent. If any dispute arises between the parties in connection with the interpretation and performance of the provisions thereunder, the parties shall resolve such dispute in good faith through discussions. If no agreement can be reached within sixty days after one party receives the notice of the other party requesting the beginning of discussions or as otherwise agreed, either party shall have the right to submit such dispute to CIETAC for arbitration in accordance with its then-effective rules. The arbitration shall be held in Beijing. The award of the arbitration shall be final and binding upon the parties. The share pledge has been registered with the local SAIC.

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*Call Option Agreement.* Pursuant to the call option agreement, dated October 31, 2009, and amended by a supplementary agreement dated January 4, 2010, among Ambow Online, Xuejun Xie and Xiaogang Feng, each a shareholder of Ambow Shanghai, each of Xuejun Xie and Xiaogang Feng irrevocably granted Ambow Online or its designee an exclusive option to purchase, to the extent permitted under PRC laws, all or part of her or his equity interest in Ambow Shanghai. The exercise price of such option shall be all or part, as applicable, of the initial amount of the registered capital contributed by such shareholder to acquire such equity interest in Ambow Shanghai and may be paid by the cancellation of indebtedness owed by such shareholder to Ambow Online, or the minimum amount of consideration permitted by applicable PRC law at the time when such transfer occurs, in which case we will pay the exercise price through, to the extent necessary, a combination of cash and cancellation of indebtedness owed by such shareholder to Ambow Online. Ambow Online or its designee shall have sole discretion to decide when to exercise the option, whether in part or in full. Currently, we do not expect to exercise such option in the foreseeable future. Without Ambow Online's written consent, each of Xuejun Xie and Xiaogang Feng shall not (i) transfer the equity interest in Ambow Shanghai to any third party, (ii) supplement, alter or modify the articles of association of Ambow Shanghai in any form, or increase or decrease Ambow Shanghai's registered capital, or otherwise change the structure of its registered capital, or (iii) incur, assume, guarantee or allow the existence of any debt other than the debt that (x) arises in the normal or routine course of business rather than out of borrowing or (y) has been disclosed to and approved in writing by Ambow Online. This agreement shall remain effective until the termination of the loan agreement. Ambow Online has the right to early terminate this agreement upon twenty days' prior notice, but neither Xuejun Xie nor Xiaogang Feng may early terminate the agreement. All disputes arising out of or in connection with this agreement shall be settled by the parties through good faith consultations. If no agreement can be reached through consultations within sixty days after one party receives a notice from other party requesting the beginning of such consultations or as otherwise agreed by the parties, either party shall have the right to submit relevant disputes to CIETAC for arbitration in accordance with its then-effective arbitration rules. The arbitration shall be held in Beijing. The award of the arbitration shall be final and binding on both parties.

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*Powers of Attorney.* Pursuant to the powers of attorney, each dated October 31, 2009, each of Xuejun Xie and Xiaogang Feng irrevocably entrusted all the rights to exercise her or his voting power to Ambow Online, including without limitation, the power to sell, transfer or pledge, in whole or in part, such shareholder's equity interests in Ambow Shanghai and to nominate and appoint the legal representative, directors, supervisors, general managers and other senior management of Ambow Shanghai during the term of the share pledge. The powers of attorney have been in effect since the date of execution. Unless terminated as agreed by the shareholders of Ambow Shanghai and Ambow Online, the powers of attorney shall be irrevocable and remain effective during the term of pledge.

*Loan Agreement.* Pursuant to the loan agreement, dated October 31, 2009, and amended by a supplementary agreement dated January 4, 2010, among Ambow Online, Xuejun Xie and Xiaogang Feng, Ambow Online loaned RMB 0.8 million to Xuejun Xie and RMB 0.2 million to Xiaogang Feng to fund the registered capital requirements of Ambow Shanghai. To the extent permitted by PRC laws, each loan shall be deemed to have been repaid upon the transfer of the equity interest in Ambow Shanghai held by each of Xuejun Xie and Xiaogang Feng, as applicable, to Ambow Online or its designee. To the extent permitted by the relevant PRC laws, Ambow Online shall determine at its sole discretion the timing and method of the repayment of the loans under the loan agreement and notify the borrowers in writing of such arrangements seven days in advance. The borrowers shall not repay the loans to Ambow Online early unless Ambow Online notifies the borrowers in writing that the loans have expired or as otherwise provided under the loan agreement. The borrowers shall not assign their rights and obligations under the loan agreement to any third party without Ambow Online's prior written consent. The loan agreement has been in effect since the date of execution by the parties and shall remain effective until the borrowers fully repay the loans under the agreement. If any dispute arises between the parties in connection with the interpretation and performance of the terms, the parties shall negotiate in good faith to resolve such dispute. If no agreement can be reached, either party may submit such dispute to CIETAC for arbitration in accordance with its then-effective arbitration rules. The arbitration shall be held in Chinese in Beijing. The award of the arbitration shall be final and binding on both parties.

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*Agreements that provide effective control over Ambow Sihua and its subsidiaries*

We have entered into a series of agreements with Ambow Sihua and its shareholders. These agreements provide us substantial ability to control Ambow Sihua and its shareholders, and we have obtained an exclusive option to purchase all of the equity interests of Ambow Sihua. These agreements include:

*Share Pledge Agreements.* Pursuant to the share pledge agreement, dated October 31, 2009 and further amended by a supplementary agreement dated March 4, 2010, between Ambow Online and Xuejun Xie, a shareholder of Ambow Sihua, and the share pledge agreement, dated March 4, 2010, between Ambow Online and Xiaogang Feng, a shareholder of Ambow Sihua, each of Xuejun Xie and Xiaogang Feng pledged all of her or his equity interest in Ambow Sihua to Ambow Online to secure the performance of Ambow Sihua or its subsidiaries under a technology service agreement between Ambow Online and Ambow Sihua dated October 31, 2009 as described below. If Ambow Sihua fails to fulfill its obligations under the technology service agreement, Ambow Online may dispose of the pledged equity in accordance with the provisions of the Security Law of the People's Republic of China and relevant laws and regulations, and shall have the right to be indemnified for the secured debt and any other relevant expenses out of the proceeds from the disposal of the pledged equity. Without Ambow Online's prior written consent, each of Xuejun Xie and Xiaogang Feng shall not (i) make a proposal to amend the articles of association of Ambow Sihua or cause the making of such proposal, or increase or reduce Ambow Sihua's registered capital, or otherwise change the structure of its registered capital, (ii) create any further security, encumbrances and any third party's rights on the pledged equity in addition to the pledge created under the share pledge agreements, (iii) perform any act that may prejudice any rights of Ambow Online under the share pledge agreements, or any act that may materially affect the assets, business and/or operations of Ambow Sihua, (iv) distribute dividends to the shareholders in any form (however, upon Ambow Online's request, pledgors shall immediately distribute all of their distributable profits to the shareholders), or (v) transfer or dispose of the pledged equity in any way. The share pledge agreements shall remain in effect until the technology service agreement is terminated and the secured debt is fully repaid. The share pledge agreements may be unilaterally terminated by Ambow Online. Neither of Xuejun Xie and Xiaogang Feng is entitled to unilaterally terminate the share pledge agreements. Without Ambow Online's prior written consent, pledgors shall not transfer any of their rights or obligations under the share pledge agreements to any other party. Ambow Online shall have the right to transfer to any third party any of its rights or obligations under the share pledge agreements and any of its rights or obligations under other agreements contemplated by the share pledge agreements without pledgor's prior consent. If any dispute arises between the parties in connection with the interpretation and performance of the provisions thereunder, the parties shall resolve such dispute in good faith through discussions. If no agreement can be reached within sixty days after one party receives the notice of the other party requesting the beginning of discussions or as otherwise agreed, either party shall have the right to submit such dispute to the CIETAC for arbitration in accordance with its then-effective rules. The arbitration shall be held in Beijing. The award of the arbitration shall be final and binding upon the parties. The share pledge has been registered with the local SAIC.

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*Call Option Agreements.* Pursuant to the call option agreement, dated October 31, 2009 and further amended by a supplementary agreement dated March 4, 2010, between Ambow Online and Xuejun Xie, a shareholder of Ambow Sihua, and the call option agreement, dated March 4, 2010, between Ambow Online and Xiaogang Feng, a shareholder of Ambow Sihua, each of Xuejun Xie and Xiaogang Feng irrevocably granted Ambow Online or its designee an exclusive option to purchase, to the extent permitted under PRC laws, all or part of her or his equity interest in Ambow Sihua. The exercise price of such option shall be all or part, as applicable, of the initial amount of the registered capital contributed by such shareholder to acquire such equity interest in Ambow Sihua and may be paid by the cancellation of indebtedness owed by such shareholder to Ambow Online or the minimum amount of consideration permitted by applicable PRC law at the time when such transfer occurs, in which case we will pay the exercise price through, to the extent necessary, a combination of cash and cancellation of indebtedness owed by such shareholder to Ambow Online. Ambow Online or its designee shall have sole discretion to decide when to exercise the option, whether in part or in full. Currently, we do not expect to exercise such option in the foreseeable future. Without Ambow Online's written consent, each of Xuejun Xie and Xiaogang Feng shall not (i) transfer the equity interest in Ambow Sihua to any third party, (ii) supplement, alter or modify the articles of association of Ambow Sihua in any form, or increase or decrease Ambow Sihua's registered capital, or otherwise change the structure of its registered capital, or (iii) incur, assume, guarantee or allow the existence of any debt other than the debt that (x) arises in the normal or routine course of business rather than out of borrowing or (y) has been disclosed to and approved in writing by Ambow Online. Xuejun Xie and Xiaogang Feng represent and warrant that during the term of the call option agreements, Xuejun Xie, Xiaogang Feng and Ambow Sihua have not engaged in and shall not engage in any act or omission that may cause any losses to Ambow Online and may cause any reduction in value of the equity interests in Ambow Sihua held by Xuejun Xie and Xiaogang Feng. This agreement has been in effect as of the date when the authorized representatives of the parties duly execute the agreement, and shall remain effective until the termination of the loan agreement. Unless otherwise provided therein, Ambow Online shall have the right to terminate this agreement early upon twenty days' prior notice, but neither of Xuejun Xie and Xiaogang Feng shall terminate this agreement early. Ambow Online shall have the right to transfer its rights under the call option agreements and other agreements contemplated by the call option agreements at its sole discretion to any third party without Xuejun Xie and Xiaogang Feng's consent. All disputes arising out of or in connection with this agreement shall be settled by the parties through good faith consultations. If no agreement can be reached through consultations within sixty days after one party receives a notice from other party requesting the beginning of such consultations or as otherwise agreed by the parties, either party shall have the right to submit relevant disputes to CIETAC for arbitration in accordance with its then-effective arbitration rules. The arbitration shall be held in Beijing. The award of the arbitration shall be final and binding on both parties.

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*Powers of Attorney.* Pursuant to the powers of attorney, dated October 31, 2009 and March 4, 2010, respectively, each of Xuejun Xie and Xiaogang Feng irrevocably entrusted all the rights to exercise her or his voting power to Ambow Online, including without limitation, the power to sell, transfer or pledge, in whole or in part, her or his equity interest in Ambow Sihua and nominate and appoint the legal representative, directors, supervisors, general managers and other senior management of Ambow Sihua during the term of the share pledge. The powers of attorney have been in effect since the date of execution. Unless terminated as agreed by the shareholders of Ambow Sihua and Ambow Online, the powers of attorney shall be irrevocable and remain effective during the term of pledge.

*Loan Agreement.* Pursuant to the loan agreement between Ambow Online and Xiaogang Feng, dated March 4, 2010, Ambow Online loaned RMB 40.0 million to Xiaogang Feng to fund the registered capital requirements of Ambow Sihua. To the extent permitted by PRC laws, such loan shall be deemed to have been repaid upon the transfer of the equity interest in Ambow Sihua held by Xiaogang Feng to Ambow Online or its designee. To the extent permitted by the PRC laws, Ambow Online shall determine at its sole discretion the timing and method of the repayment of the loan under the loan agreement and notify the borrower in writing of such arrangements seven days in advance. The borrower shall not repay the loan early to Ambow Online unless Ambow Online notifies the borrower in writing that the loan has expired or as otherwise provided under the loan agreement. The borrower shall not assign his or her rights and obligations under the loan agreement to any third party without Ambow Online's prior written consent. The loan agreement has been in effect since the date of execution by the parties and shall remain effective until the borrower fully repays the loan under the agreement. If any dispute arises between the parties in connection with the interpretation and performance of the terms, the parties shall negotiate in good faith to resolve such dispute. If no agreement can be reached, either party may submit such dispute to CIETAC for arbitration in accordance with its then-effective arbitration rules. The arbitration shall be held in Chinese in Beijing. The award of the arbitration shall be final and binding on both parties.

*Agreements that provide effective control over Suzhou Wenjian*

We have entered into a series of agreements with Suzhou Wenjian and its shareholders. These agreements provide us with the ability to control Suzhou Wenjian and grant us the exclusive option to purchase all of the equity interests of Suzhou Wenjian. These agreements include:

*Share Pledge Agreement.* Pursuant to the share pledge agreement, dated February 25, 2009, among Ambow Online, Xuejun Xie, Xiaogang Feng and Yisi Gu, each a shareholder of Suzhou Wenjian, each of Xuejun Xie, Xiaogang Feng and Yisi Gu pledged all of his or her equity interest in Suzhou Wenjian to Ambow Online to secure the performance of Suzhou Wenjian under a technology service agreement between Ambow Online and Suzhou Wenjian dated February 25, 2009. If (a) Suzhou Wenjian fails to fulfil its payment obligation or other related obligations to pledgee in accordance with the provisions of technology service agreement, or (b) pledgors breach their duties or obligations thereunder, pledgee shall have the right to exercise the pledge in any manner at any time it deems appropriate to the extent permitted by applicable laws during the term of pledge, including without limitation: (a) to negotiate with pledgors to discharge the secured debt with the pledged equity at a discount rate; (b) to sell off the pledged equity and use the proceeds thereof to discharge the secured debt; (c) to retain a relevant agency to auction all or part of the

pledged equity; and/or (d) to otherwise dispose of the pledged equity appropriately to the extent permitted by applicable laws. Each shareholder of Suzhou Wenjian also agreed that, without the prior written consent of Ambow Online, such shareholder shall not transfer, dispose of or otherwise create any encumbrance over his or her equity interest in Suzhou Wenjian. The share pledge will expire three years after all obligations related to the technology service agreement are fully performed. Without Ambow Online's prior written consent, pledgors shall not transfer any of their rights or obligations under the share pledge agreement to any other party. Ambow Online shall have the right to transfer to any third party any of its rights or obligations under the share pledge agreement and any of its rights or obligations under other agreements contemplated by the share pledge agreement without pledgor's prior consent. The share pledge agreement shall remain in effect until the secured debt is fully repaid. The share pledge agreement may be unilaterally terminated by Ambow Online. None of Xuejun Xie, Xiaogang Feng and Yisi Gu is entitled to unilaterally terminate the share pledge agreement. If any dispute arises between the parties in connection with the interpretation and performance of the provisions thereunder, the parties shall resolve such dispute in good faith through discussions. If no agreement can be reached within sixty days after one party receives the notice of the other party requesting the beginning of discussions or as otherwise agreed, either party shall have the right to submit such dispute to CIETAC for arbitration in accordance with its then-effective rules. The arbitration shall be held in Beijing. The award of the arbitration shall be final and binding upon the parties. The share pledge has been registered with the local SAIC.

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*Call Option Agreement.* Pursuant to the call option agreement, dated February 25, 2009, among Ambow Online, Xuejun Xie, Xiaogang Feng and Yisi Gu, each a shareholder of Suzhou Wenjian, each of Xuejun Xie, Xiaogang Feng and Yisi Gu irrevocably granted Ambow Online or its designee an exclusive option to purchase, to the extent permitted under PRC laws, all or part of his or her equity interest in Suzhou Wenjian. The exercise price of such option shall be all or part, as applicable, of the initial amount of the registered capital contributed by such shareholder to acquire such equity interest in Suzhou Wenjian and may be paid by the cancellation of indebtedness owed by such shareholder to Ambow Online, or the minimum amount of consideration permitted by applicable PRC law at the time when such transfer occurs, in which case we will pay the exercise price through, to the extent necessary, a combination of cash and cancellation of indebtedness owed by such shareholder to Ambow Online. Ambow Online or its designee shall have sole discretion to decide when to exercise the option, whether in part or in full. Currently, we do not expect to exercise such option in the foreseeable future. Without Ambow Online's written consent, each of Xuejun Xie, Xiaogang Feng and Yisi Gu shall not transfer his or her equity interest in Suzhou Wenjian to any third party. Xuejun Xie, Xiaogang Feng and Yisi Gu represent and warrant that (i) except for the pledge granted under the share pledge agreement, they have not created or allowed any option, call option, pledge, or other equity interest or security interest on their equity interests in Suzhou Wenjian, and (ii) during the term of the call option agreement, Xuejun Xie, Xiaogang Feng and Yisi Gu and Suzhou Wenjian have not engaged in and shall not engage in any act or omission that may cause any losses to Ambow Online and may cause any reduction in value of the equity interests in Suzhou Wenjian held by Xuejun Xie, Xiaogang Feng and Yisi Gu. This agreement has been in effect since the date when the authorized representatives of the parties duly execute the agreement, and shall remain effective until the termination of the loan agreement. Unless otherwise provided therein, Ambow Online shall have the right to terminate this agreement early upon twenty days' prior notice, but Xuejun Xie, Xiaogang Feng and Yisi Gu shall not terminate this agreement early. Ambow Online shall have the right to transfer its rights under the agreement and other agreements contemplated by the agreement at its sole discretion to any third party without Xuejun Xie, Xiaogang Feng and Yisi Gu's consent. All disputes arising out of or in connection with this agreement shall be settled by the parties through good faith consultations. If no agreement can be reached through consultations within sixty days after one party receives a notice from other party requesting the beginning of such consultations or as otherwise agreed by the parties, either party shall have the right to submit relevant disputes to CIETAC for arbitration in accordance with its then effective arbitration rules. The arbitration shall be held in Beijing. The award of the arbitration shall be final and binding on both parties.

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*Powers of Attorney.* Under powers of attorney, each dated February 25, 2009, each of Xuejun Xie, Xiaogang Feng and Yisi Gu granted to Ambow Online the power to exercise all of his or her voting rights of Suzhou Wenjian during the term of the share pledge. The powers of attorney shall come into effect upon the date of execution. Unless terminated as agreed by the shareholders of Suzhou Wenjian and Ambow Online, the powers of attorney shall remain effective during the term of pledge.

*Loan Agreement.* Pursuant to the loan agreement among Ambow Online, Xuejun Xie, Xiaogang Feng and Yisi Gu dated February 25, 2009, Ambow Online loaned RMB 0.4 million to Xiaogang Feng, RMB 0.3 million to Xuejun Xie and RMB 0.3 million to Yisi Gu to fund the registered capital requirements of a domestic PRC company. Ambow later formed Suzhou Wenjian to serve as this domestic PRC company. To the extent permitted by the relevant PRC laws, Ambow Online shall determine at its sole discretion the timing and method of the repayment of the loans and notify borrowers in writing of such arrangements seven days in advance. Borrowers and Ambow Online further agree that borrowers shall not repay the loan to Ambow Online early unless Ambow Online notifies borrowers in writing that the loans thereunder have expired or as otherwise provided therein. To the extent permitted by PRC laws, each loan shall be deemed to have been repaid upon the transfer of the equity interest held by each of Xuejun Xie, Xiaogang Feng and Yisi Gu in Suzhou Wenjian to Ambow Online. This agreement has been in effect since the date of execution by the parties and shall remain effective until the borrowers fully repay the loans under this agreement. If any dispute arises between the parties in connection with the interpretation and performance of the terms thereof, the parties shall negotiate in good faith to resolve such dispute. If no agreement can be reached, either party may submit such dispute to CIETAC for arbitration in accordance with its then-effective arbitration rules. The arbitration shall be conducted in Chinese in Beijing. The award of the arbitration shall be final and binding upon the disputing parties.

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*Agreements that transfer economic benefits to us*

*Agreements that transfer economic benefits to us from Ambow Shida and its subsidiaries*

*Exclusive Cooperation Agreement.* Pursuant to the exclusive cooperation agreement, dated January 31, 2005 and revised on May 13, 2010, by and between Ambow Online and Ambow Shida, Ambow Online has the exclusive right to provide to Ambow Shida technical support and marketing consulting services relating to online education for primary and middle school and other related services in exchange for certain service fees, which are equal to Ambow Shida's pre-tax profit. Without Ambow Online's written consent, Ambow Shida shall not transfer, pledge or assign to any third party the rights and obligations under this agreement or use such rights and obligations for the benefit of any third party. The initial term of this agreement is twenty years and the term can be renewed upon expiration. The agreement can be terminated by mutual agreement, by written notice from the non-breaching party upon a breaching party's failure to cure its breach, or by either party's written notice upon nonperformance of the agreement for 30 days as a result of any force majeure. In the event of any dispute with respect to the interpretation and implementation of this agreement, the parties shall negotiate in good faith to resolve the dispute. In the event the parties fail to reach an agreement on the resolution of such dispute within 30 days after the negotiation begins, either party may submit such dispute to CIETAC for arbitration in accordance with its then-effective arbitration rules. We have not received any payment of service fees contemplated by this agreement.

Ambow Online has the unilateral right to adjust the level of service fee to be charged to Ambow Shida under this exclusive cooperation agreement at any time. At the time this agreement was originally entered into on January 31, 2005, we set the service fee that could be charged at 65% of Ambow Shida's profits in order to retain sufficient cash in Ambow Shida to fund its operating needs and manage liquidity. We subsequently determined that in the short to medium term we would not charge the service fee available to us in the agreement but on May 13, 2010 we updated the agreement to increase the service fee percentage that could be charged by Ambow Online to Ambow Shida to 100% of profits so as to provide us with more flexibility in the future.

We have not yet received any payment of service fees contemplated by this agreement but retain the flexibility to charge these service fees in the future. In addition to extracting the profits of Ambow Shida through the exclusive cooperation agreement, we also can extract profits from Ambow Shida through dividends to Ambow Online received indirectly through the shareholders of Ambow Shida or through donations directly from Ambow Shida to Ambow Online. The dividends and/or donations can be enacted through the agreements that provide us with effective control over Ambow Shida and its subsidiaries as set out in "Item 7.B —Related Party Transactions — Contractual arrangements with our VIEs and their respective subsidiaries". These two alternative mechanisms are not currently subject to any legal restrictions or limitations.

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As of the date of this report, no distributions have been made to the shareholders of Ambow Shida and so no subsequent distribution has been made to us or Ambow Online. As described above, at our discretion we have decided to retain all of Ambow Shida's profits to date within Ambow Shida for the purpose of managing its liquidity.

*Agreement that transfer economic benefits to us from Ambow Shanghai and its subsidiaries*

*Technology Service Agreement.* Pursuant to the technology service agreement, dated October 31, 2009, by and between Ambow Online and Ambow Shanghai, Ambow Online has the exclusive right to provide to Ambow Shanghai (i) education or training solutions; (ii) employee training and technical support; and (iii) management and consulting services related to Ambow Shanghai's operations, in exchange for certain service fees to be agreed to by the parties from time to time. Ambow Shanghai shall not engage any other third party as its technology service provider without Ambow Online's prior written consent during the term of this agreement, while Ambow Online shall have the right to provide other entities or individuals with the technology service equivalent or similar to that under this agreement and to appoint other entities or individuals to provide the technology service under this agreement. The term of this agreement is indefinite and the agreement may be terminated by Ambow Online upon either 15 days' notice or Ambow Shanghai's failure to cure its breach of the agreement or by mutual written agreement at any time. Ambow Shanghai shall not assign its rights and obligations under this agreement to any third party without Ambow Online's prior written consent, while Ambow Online may assign its rights and obligations under this agreement to any third party at its sole discretion. If any dispute arises in connection with the interpretation and performance of this agreement, the parties shall first resolve such dispute in good faith through discussions. If no agreement can be reached within sixty days after one party receives the notice of the other party requesting the beginning of discussions or any longer period agreed upon separately by the parties, either party shall have the right to submit such dispute to CIETAC for arbitration in accordance with its then-effective rules. The award of the arbitration shall be final and binding upon the parties. We have not received any payment of service fees contemplated by this agreement.

*Agreement that transfer economic benefits to us from Ambow Sihua and its subsidiaries*

*Technology Service Agreement.* Pursuant to the technology service agreement, dated October 31, 2009, by and between Ambow Online and Ambow Sihua, Ambow Online has the exclusive right to provide to Ambow Sihua (i) education or training solutions; (ii) employee training and technical support; and (iii) management and consulting services related to Ambow Sihua's operations, in exchange for certain service fees to be agreed to by the parties from time to time. Ambow Sihua shall not engage any other third party as its technology service provider without Ambow Online's prior written consent during the term of this agreement, while Ambow Online shall have the right to provide other entities or individuals with the technology service equivalent or similar to that under this agreement and to appoint other entities or individuals to provide the technology service under this agreement. The term of this agreement is indefinite and the agreement may be terminated by Ambow Online upon either 15 days' notice or Ambow Sihua's failure to cure its breach of the agreement or by mutual written agreement at any time. Ambow Sihua shall not assign its rights and obligations under this agreement to any third party without Ambow Online's prior written consent, while Ambow Online may assign its rights and obligations under this agreement to any third party at its sole discretion. If any dispute arises in connection with the interpretation and performance of this agreement, the parties

shall first resolve such dispute in good faith through discussions. If no agreement can be reached within sixty days after one party receives the notice of the other party requesting the beginning of discussions or any longer period agreed upon separately by the parties, either party shall have the right to submit such dispute to CIETAC for arbitration in accordance with its then-effective rules. The award of the arbitration shall be final and binding upon the parties. We have not received any payment of service fees contemplated by this agreement.

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*Agreement that transfer economic benefits to us from Suzhou Wenjian*

*Technology Service Agreement.* Pursuant to the technology service agreement, dated February 25, 2009, by and between Ambow Online and Suzhou Wenjian, Ambow Online has the exclusive right to provide to Suzhou Wenjian (i) educational and training solutions and related hardware and software development services, (ii) employee training and technical support, and (iii) management and consulting services related to Suzhou Wenjian's operations, in exchange for certain service fees to be agreed to by the parties from time to time. Suzhou Wenjian shall not engage any other third party as its technology service provider without Ambow Online's prior written consent during the term of this agreement, while Ambow Online shall have the right to provide other entities or individuals with the technology service equivalent or similar to that under this agreement and to appoint other entities or individuals to provide the technology service under this agreement. The term of this agreement is indefinite and the agreement may be terminated by Ambow Online upon either 15 days' notice or Suzhou Wenjian's failure to cure its breach of the agreement or by mutual written agreement at any time. Suzhou Wenjian shall not assign its rights and obligations under this agreement to any third party without Ambow Online's prior written consent, while Ambow Online may assign its rights and obligations under this agreement to any third party at its sole discretion. If any dispute arises in connection with the interpretation and performance of this agreement, the parties shall first resolve such dispute in good faith through discussions. If no agreement can be reached within sixty days after one party receives the notice of the other party requesting the beginning of discussions or any longer period agreed upon separately by the parties, either party shall have the right to submit such dispute to CIETAC for arbitration in accordance with its then effective rules. The award of the arbitration shall be final and binding upon the parties. We have not received any payment of service fees contemplated by this agreement.

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**D. Property, Plant and Equipment**

Our headquarters are located in Beijing, China, where we lease approximately 537 square meters of office space. We own an aggregate of approximately 75,200 square meters for K-12 schools. In addition, we lease certain properties for our tutoring centers, K-12 schools and career enhancement centers.

**Item 4A Unresolved Staff Comments**

Not applicable.

**Item 5. Operating and Financial Review and Prospects**

The following discussion and analysis of financial condition and results of operations should be read in conjunction with our consolidated financial statements for the periods specified including the notes thereto included elsewhere in this annual report on Form 20-F as well as “Item 3.A Key Information—Selected Consolidated Financial Data.” We undertake no obligation to update publicly any forward-looking statements in this annual report on Form 20-F.

**A. Operating Results**

**Overview**

We are a leading national provider of educational and career enhancement services in China. Our business addresses two critical demands in China’s education market, the desire for students to be admitted into top secondary and post-secondary schools, and the desire for graduates of those schools to obtain more attractive jobs. We offer high-quality, individualized services and products through our combined online and offline delivery model powered by our proprietary technologies and robust infrastructure. Our service network, comprised of 157 centers and schools, comprised of 123 tutoring centers, 4 K-12 schools, 10 career enhancement centers, 18 training offices and 2 career enhancement campuses as of December 31, 2014, which are located in 21 provinces and autonomous regions within China.

Our net revenues from continuing operations decreased from RMB 742.1 million in 2012 to RMB 536.5 million in 2013 and further down to RMB 412.0 million (US\$66.4 million) in 2014. The decrease from 2012 to 2014 was

primarily due to the carried-forward negative publicity impact from the period that we were under the supervision of JPL, decreasing student enrollments and increasing requested refund from the students.

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We recorded loss from continuing operations of RMB 1,500.6 million, loss of RMB 563.8 million and loss of RMB 1,024.8 million (US\$165.2 million) in 2012, 2013 and 2014, respectively.

Net revenues from our Better Schools division, which includes tutoring and K-12 schools, accounted for 57.9%, 63.5% and 57.4% of our total net revenues from continuing operations in 2012, 2013 and 2014, respectively. Net revenues from our Better Jobs, which includes continuing operations of Career Enhancements and Colleges (disposed in 2013), accounted for 42.1%, 36.5% and 42.6% of our total net revenues from continuing operations in 2012, 2013 and 2014, respectively. We expect the mix of our net revenues between our Better Schools and Better Jobs divisions to change along with as our strategic shift from tutoring to career enhancement.

Due to certain restrictions and qualification requirements under PRC law that apply to foreign investment in China's education industry, our education business is currently conducted through contractual arrangements among our wholly-owned subsidiaries in China and our consolidated variable interest entities, or VIEs, in China. Our VIEs and their respective subsidiaries hold the licenses and permits necessary to conduct our educational and career enhancement services business in China and directly operate our tutoring centers, K-12 schools and career enhancement centers, develop and distribute educational content, software and other technologies, and operate our online education business. We have entered into Technology Service Agreements or Exclusive Cooperation Agreements with our VIEs pursuant to which we may receive economic benefits in the future. We have, however, entered into additional agreements to sell products and provide services to our VIEs' subsidiaries. The terms of these sales agreements to our VIEs' subsidiaries are the same as sales to third parties described further in this section of the annual report.

## **Factors affecting our results of operations**

### *General factors affecting our results of operations*

We have benefited significantly from the following recent trends in the China educational and career enhancement services market:

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Rapid growth in disposable household income;

Intense competition in the education sector and the job market;

Rapid economic growth;

Increasing hiring needs of existing and new companies doing business in China; and

The increased availability and utilization of advanced learning technologies to supplement the traditional education delivery model.

The overall economic growth and the increase in the GDP per capita in China have led to a significant increase in spending on education in China. In addition, education is a welcomed and supported industry in China, which means that education service providers often get preferential treatment in terms of infrastructure support and tax rates. We anticipate that the demand for private education and career enhancement training in China will continue to increase as the economy in China continues to grow and as disposable income of urban households continues to rise. However, any adverse changes in the economic conditions or regulatory environment in China may have a material adverse effect on the education and career enhancement industries in China, which in turn may harm our business and results of operations. We are subject to a legal regime consisting of regulations governing various aspects of our business such as regulations on education, software, internet, audio-video broadcasting, tax, information security, privacy, copyright and trademark protection and foreign exchange. These regulations are evolving and are subject to frequent changes which may materially adversely affect our business in all aspects such as the operation of our K-12 schools, tutoring centers and career enhancement centers and campuses through the VIE structure, the engagement of public school teachers and the organization of classes with large-size attendance in our tutoring centers, the establishment of new colleges and the offering of our online services. Though we do not possess the land use right certificates or building ownership certificates with respect to some of our owned real properties, and the lessors of some of our leased properties do not have effective ownership certificates, we do not believe that our ability to maintain and obtain or renew our licenses or permits for our business operations will be adversely affected by such issues, except that the failure of our college to possess the required amounts of land may impact its ability to conduct its business if we are not able to address this deficiency by the required compliance period in 2013. However, with the disposal of the Applied Technology College in 2013, the risk of being adversely affected by such issues is remote.

***Specific factors affecting our results of operations***

While our business is influenced by factors affecting the education and career enhancement industries in China generally and by conditions in each of the geographic markets we serve within China, we believe our business is more directly affected by company-specific factors, including, among others:



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*The number of student enrollments.* The number of student enrollments is largely driven by the demand for the educational programs offered by Better Schools and Better Jobs, the amount of fees we charge, the effectiveness of our marketing and brand promotion efforts, the locations and capacity of our tutoring centers, K-12 schools, career enhancement centers and campuses, our ability to maintain the consistency and quality of our teaching, and our ability to respond to competitive pressures, as well as seasonal factors. We plan to continue to add new offerings to better attract students of different needs and provide cross-selling opportunities, and we intend to keep the current K-12 schools student enrollments, which are almost at its full capacity.

*The amount of fees we charge.* We determine course fees for our tutoring and career enhancement services primarily based on demand for our courses, the targeted market for our courses, the geographic location and capacity of the center, costs of delivering our services, and the course fees charged by our competitors for the same or similar courses.

Education services are an investment for the future, especially for children's education, in China. Steady growth of the economy will likely result in the continuous growth of income and higher consumption levels for China's citizens, who will have more capital for the education of their children, especially for after-school tutoring. However, we believe that the tuition fees of tutoring services and K-12 schools and college tuition fees are less impacted by the ups and downs of the overall economy as we believe that people in China generally cut back on other spending before they reduce their spending on their children's education.

The maximum tuition fees that a school or a college can charge vary by locations, but usually the regulations governing these price controls take into consideration China's economic growth in determining whether to approve a tuition increase and in setting the size of the tuition increase. Usually the local governments review and adjust tuition fees every two to three years as necessary to reflect inflation or new educational services that are provided. Price controls by local governments will affect the amount by which we are able to increase our fees charged to students in our K-12 schools and college.

*Our costs and expenses.* We incur costs and expenses at both the headquarter level and at our tutoring centers, K-12 schools, career enhancement centers and campuses. Our most significant costs at our K-12 schools, tutoring centers, college and career enhancement centers are compensation paid to our teachers and for rent expense. A substantial majority of our operating expenses are selling and marketing and general and administrative expenses.

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*Sales to our distributors*

For the years ended December 31, 2012, 2013 and 2014, sales to distributors were RMB 96.6 million, nil, and nil respectively and sales to distributors were approximately 13.0%, 0% and 0%, respectively, of our net revenues from continuing operations. The decrease in sales to our distributors from 2012 to 2014 was mainly due to the suspension of the software sales.

The following are the key terms of sales to our distributors, the nature of support services provided by our distributors to their customers and our basis for estimating returned products from distributors.

Terms of sales

Historically, we generally sold educational services and software products to our distributors on a prepaid basis. From 2010, we started to offer credit terms to certain distributors. We do not give refunds and only offer replacements to the extent of product defaults. We provide secondary support in rare instances when the distributors cannot answer end users' questions.

How distributors provide customers with support services

In addition to the sales of educational services and software products to end users, our distributors may also provide support services to the end users including classroom tutoring, providing facilities for study and on-the-job coaching, where applicable. The distributors determine what other support services, if any, they are going to provide and bear the sole responsibility for these support services.

How we estimate amounts of returned products

We do not give refunds according to the sales agreements with our customers.

In late 2012, Ambow decided to suspend the software sales temporarily and gradually, mostly due to the negative impact of internal independent investigation and negative publicity in the media in the last quarter of 2012.

Management only considers this suspension of the software sales as a temporary strategy, and intends to resume the software sales later when the company's business had recovered and got sufficient funding for rebuilding the R&D team.

There were no software sales to distributors in 2013 and 2014. However, we considered this suspension of the software sales as a temporary strategy, and would resume the software sales later when the company's business had recovered and got sufficient funding for rebuilding the R&D team. Thus we didn't consider this suspension as discontinue of the software business.

Table of Contents*Effects of disposals and other strategic plans*

In 2013, we reverted the operating right for Zhenjiang Foreign Language School back to the original owner. We also disposed of Beijing Century College Group, and part of the interest of 21st School to Xihua Group. By December 2012, the transaction to sell Beijing Century College Group had been completed while the company maintained control and legal title to 21st School for an additional fifteen years. We ultimately returned such rights to its original owner in 2013. In July 2013, we sold our last college, Applied Technology College, to the Kunshan government.

The Company entered into a disposal agreement with a third party to transfer the ownership of Jinghan Group at a consideration of RMB 1,200 million in early 2015, out of which the Company committed to provide necessary funding to the third party for capital injections and settlement of liabilities to ensure Jinghan's continuous operation. It is further confirmed that the said obligations to the Company amounted to RMB 700 million. The disposal has been completed as of April 8, 2015.

Medium Range Online (Beijing) Technology Co., Ltd ("Zhongcheng") is a company focusing on career enhancement. It was incorporated on September 2, 2009 and was 100% owned by Shanghai Ambow Education Information Consulting Co., Ltd ("Ambow Shanghai"). Due to the shortage of working capital, the Company disposed 70% interest of Zhongcheng to a third party. In exchange for the 70% interest in Zhongcheng, the third party assumed certain liabilities of Zhongcheng amounting of RMB 9.09 million. In connection with the disposal, the Company also waived the intercompany receivables and payables with Zhongcheng. The Group did not receive any consideration in the transaction. The deal was not a strategic shift of the business and this transaction will not have major impact on Ambow's business, therefore this transaction was not qualified as discontinued operation.

**Key financial performance indicators**

Our key financial performance indicators consist of our net revenues, cost of revenues, gross profit and operating expenses, which are discussed in greater detail below. The following table sets forth our net revenues from continuing operations, cost of revenues and gross profit, both in absolute amount and as a percentage of net revenues, for the periods indicated.

	For the Year Ended December 31,						
	2012		2013		2014		
	RMB	%	RMB	%	RMB	US\$	%
	(in thousands, except percentages)						
-Educational program and services	675,174	91.0	536,511	100.0	411,998	66,402	100.0

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-Software products	66,886	9.0	-	-	-	-	-
Net revenues	742,060	100.0	536,511	100.0	411,998	66,402	100.0
-Educational program and services	(465,022)	(62.7 )	(361,573)	(67.4 )	(274,036)	(44,167)	(66.5 )
-Software products	(12,177 )	(1.6 )	-	-	-	-	-
Cost of revenues	(477,199)	(64.3 )	(361,573)	(67.4 )	(274,036)	(44,167)	(66.5 )
-Educational program and services	210,152	28.3	174,938	32.6	137,962	22,235	33.5
-Software products	54,709	7.4	-	-	-	-	-
Gross Profit	264,861	35.7	174,938	32.6	137,962	22,235	33.5

Table of Contents*Net revenues*

In 2012, 2013 and 2014, we generated net revenues of RMB 742.1 million, RMB 536.5 million and RMB 412.0 million (US\$66.4 million), respectively from continuing operations.

Revenue decrease from 2012 to 2014 was mainly due to the carried-forward negative publicity impact from the period that we were under the supervision of JPL, decreasing student enrollments and increasing requested refund from the students.

Our total software product revenues were RMB 66.9 million in 2012, which as a percentage of our total net revenues from continuing operations were 9.0%. There were no software products sold in 2013 and 2014. Our product sales include value added tax (“VAT”).

We derived net revenues from our four operating segments in terms of percentages of our overall net revenues from continuing operations as follows in 2012, 2013 and 2014:

	For the Year Ended December 31,		
	2012	2013	2014
	%	%	%
<b>Better Schools:</b>			
Tutoring	32.1	29.3	16.6
K-12 schools	25.8	34.2	40.8
Total Better Schools	57.9	63.5	57.4
<b>Better Jobs:</b>			
Career enhancement	41.7	36.5	42.6
College	0.4	0.0	0.0
Total Better Jobs	42.1	36.5	42.6

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*Tutoring.* We provided educational services in our 123 tutoring centers as of December 31, 2014. These services consist primarily of test preparation courses and tutoring. We recognize revenues from course fees collected for enrollment in the courses we offer at our tutoring centers proportionally as we deliver the instruction over the period of the course. Course fees collected are recorded as deferred revenues until they are recognized as revenues over the period when the course is taught, which typically ranges from one to six months. We also generated revenues in our tutoring segment through sales of software products, which were suspended in the year of 2012. For sales directly to students and to distributors with a proven payment history with us, we recognize these net revenues upon delivery of our software products or education services to our students or distributors. For sales to distributors without a proven payment history, we recognize revenue upon collection of cash if delivery has occurred. The most significant factors that directly affect our net revenues in our tutoring segment are the number of student enrollments in the courses and the amount of course fees. Although similar courses have comparable rates, course fees vary among our numerous courses. Tuition fees in our tutoring centers range from RMB 100 to RMB 13,000 per program. We determine course fees primarily based on demand for our courses, the targeted market for our courses, the geographic location of the tutoring center, the length of time of the course, cost of services and the course fees charged by our competitors for the same or similar programs. Our courses are delivered in large class settings ranging from 15 students to 50 students per class. In addition, we also deliver these services in premium classes, including one-on-one tutoring.

*K-12 schools.* We operated four K-12 schools as of December 31, 2014. We recognize revenues from tuition fees and associated accommodation fees collected for enrollment in our K-12 schools ratably over the corresponding semester or school year. Tuition fees and associated accommodation fees collected from students at our K-12 schools are recorded as deferred revenue until they are recognized as revenues over the semester or school year. Our K-12 schools either collect full year tuition fees once a year, or collect half year tuition fees twice per year. Collections mainly take place between August and October and in February or March. The most significant factors that directly affect our net revenues for our K-12 schools are the number of student enrollments and the tuition fees we charge. Tuition fees and associated accommodation fees range from RMB 2,500 to RMB 60,000 per year. We typically adjust tuition fees and associated accommodation fees based on the market conditions of the city where the particular school is located, subject to the relevant local governmental authority's advance approval, if required. Our K-12 schools have classes that range from 30 students to 50 students per class.

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*Career enhancement.* Our career enhancement services are provided in our 30 career enhancement centers, which include 10 career centers and 18 training offices. In addition, there are two career enhancement campuses as of December 31, 2014. We recognize revenues from course fees collected for enrollment in the courses we offer at our career enhancement centers over the period of the course, which typically ranges from several days to 12 months. Course fees collected in advance are recorded as deferred revenues until the services are provided. We also generate revenues in our career enhancement segment through sales of software products. For distributors with a proven payment history with us, we recognize these revenues upon delivery of our education services and software products to these distributors. For sales to distributors without a proven payment history we recognize revenue upon collection of cash if delivery has occurred. The most significant factors that directly affect our revenues in our career enhancement segment are the number of enrollments in the courses and the amount of course fees. In addition to the specific factors mentioned above, enrollments at our career enhancement centers are affected by the local job markets' specific demand for skills such as soft skills, information technology services and digital art. In addition, we believe many university graduates choose to obtain job-readiness training or acquire supplementary skills to differentiate themselves from their peers in order to get a better job. Tuition fees in our career enhancement centers range from RMB 200 to RMB 20,000 per program with course lengths ranging from several days to 12 months. We determine course fees primarily based on demand for our courses, the targeted market for our courses, the geographic location of the career enhancement center, costs of services delivered, and the course fees charged by our competitors for the same or similar programs. Our career enhancement courses are generally delivered in settings ranging from 15 students to 50 students per class. Prices of software products sold by Career Enhancement segment range from RMB 100 to RMB 32,000. The corporate trainings are all tailor-made according to customer companies' requirements, and normally are delivered to 10 to 30 persons per course.

*College.* We completed the disposal of our only college, Applied Technology College, in 2013 as part of our strategy to focus on organic growth. There was nil business in 2014.

*Cost of revenues*

Cost of revenues for our educational and career enhancement programs and services primarily consists of:

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Teaching fees and performance-linked bonuses paid to our teachers. Our teachers consist of both full-time teachers and part-time teachers. Full-time teachers deliver teaching instruction and may also be involved in management, administration and other functions at our schools, tutoring centers, college and career enhancement centers. Their compensation and benefits primarily consist of teaching fees based on hourly rates, performance-linked bonuses based on student evaluations, as well as base salary, annual bonus and standard employee benefits in connection with their services other than teaching. Compensation of our part-time teachers is comprised primarily of teaching fees based on hourly rates and performance-linked bonuses based on student evaluations and other factors;

Rental payments for the operation of our school and center properties;

Depreciation and amortization of properties and equipment used in the provision of educational and career enhancement services and accommodation facilities;

Utilities used in our schools and center properties and accommodation facilities; and

Amortization of student population intangible assets.

Cost of revenues for software products primarily consists of raw material costs of Compact disks (“CDs”), packaging and shipping, licensing costs, and value added tax and is significantly lower as a percentage of revenues than cost of revenues for services.

*Tutoring.* Cost of revenues for our tutoring segment primarily consists of teaching fees and performance-linked bonuses paid to our teachers, rental payments for our centers, and depreciation and amortization of property and equipment used in the provision of educational services. Cost of revenues for products sold in our tutoring segment primarily consists of materials, packaging and shipping.

*K-12 schools.* Cost of revenues for our K-12 schools segment primarily consists of teaching fees and performance-linked bonuses paid to our teachers and rental payments for our schools, depreciation and amortization of property and equipment used in the provision of educational services and accommodation facilities and, to a lesser extent, costs of course materials.

*Career enhancement.* Cost of revenues for our career enhancement segment primarily consists of teaching fees and performance-linked bonuses paid to our teachers, rental payments for our centers, and depreciation and amortization of property and equipment used in the provision of educational services. Cost of revenues for products sold in our career enhancement segment primarily consists of materials, packaging and shipping.

*College.* Cost of revenues for our college segment primarily consists of teaching fees and performance-linked bonuses paid to our teachers and rental payments for our schools, depreciation and amortization of property and

equipment used in the provision of educational services and accommodation facilities, as well as costs of course materials. There was no business in 2013 and 2014 after the disposal of our only college in 2013.

***Gross profit***

For continuing operations, gross profit as a percentage of our net revenues was 35.7%, 32.6% and 33.5% in 2012, 2013 and 2014, respectively. From 2012 to 2014, the decrease in gross margin (from RMB 264.9 million in 2012 to RMB 174.9 million in 2013 and to RMB 138.0 million (US\$22.2 million) in 2014) was mainly resulted from the carried-forward negative publicity impact from the period that we were under the supervision of JPL, decreasing student enrollments and increasing requested refund from the students

Table of Contents*Operating expenses*

Our operating expenses consist of selling and marketing expenses, general and administrative expenses and research and development expenses. The following table sets forth the components of our operating expenses, both in absolute amounts and as a percentage of revenues, for the periods indicated.

	For the Year Ended December 31,						
	2012		2013		2014		
	RMB	%	RMB	%	RMB	US\$	%
	(in thousands, except percentages)						
Net revenues	742,060	100.0	536,511	100	411,998	66,402	100.0
Operating expenses:							
Selling and marketing	(321,418 )	(43.3 )	(151,480 )	(28.2 )	(80,377 )	(12,954 )	(19.5 )
General and administrative	(632,603 )	(85.2 )	(471,915 )	(88.0 )	(508,544 )	(81,963 )	(123.4 )
Research and development	(31,842 )	(4.3 )	(19,545 )	(3.6 )	(12,259 )	(1,976 )	(3.0 )
Impairment loss	(761,996 )	(102.7 )	(84,246 )	(15.7 )	(292,577 )	(47,155 )	(71.0 )
Total operating expenses	(1,747,859)	(235.5)	(727,186)	(135.5)	(893,757)	(144,048)	(216.9)

*Selling and marketing expenses.* Our selling and marketing expenses primarily consist of expenses relating to advertising, seminars, marketing and promotional trips and other community activities for brand promotion purposes. The decrease in selling and marketing expenses as a percentage of net revenues was primarily due to lower spending on marketing expense.

*General and administrative expenses.* Our general and administrative expenses primarily consist of compensation and benefits of administrative staff, amortization of intangibles, costs of third-party professional services, rental and utilities payments relating to office and administrative functions, and depreciation and amortization of property and equipment used in our general and administrative activities as well as bad debt provision. Our general and administrative expenses as a percentage of net revenues increased from 88.0% in 2013 to 123.4% in 2014 mainly due to higher service fees related to JPL, higher share-based compensation, and higher attorney fee.

*Research and development expenses.* Our research and development expenses primarily consist of compensation, benefits and other headcount-related costs associated with the development of our online education technology platform and courseware and outsourced development costs. Our research and development expenses decreased as a result of reducing the size of the team and suspension of software sales.

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*Impairment loss.* Our impairment loss from continuing operations was related to the impairment of property and equipment, goodwill, intangible assets and other non-current assets. See Note 7, Note 9, Note 10, and Note 11 to financial statements for further detail.

*Share-based compensation expenses.* The following table sets forth the allocation of our share-based compensation expenses, both in absolute amount and as a percentage of total share-based compensation expenses, among our employees based on the nature of work which they were assigned to perform.

	For the Year Ended December 31,							
	2012		2013		2014			
	RMB	%	RMB	%	RMB	US\$	%	
	(in thousands, except percentages)							
Allocation of share-based expenses:								
Selling and marketing	(6,286 )	6.6	(2,658 )	3.5	(351 )	(56 )	0.2	
General and administrative	(88,019)	92.5	(73,108)	95.4	(156,870)	(25,283)	99.7	
Research and development	(872 )	0.9	(829 )	1.1	(144 )	(23 )	0.1	
Total share-based expenses	(95,177)	100.0	(76,595)	100.0	(157,365)	(25,362)	100.0	

Our predecessor entity, Ambow Education Co., Ltd., adopted the 2005 Stock Plan in February 2005. Our 2010 Equity Incentive Plan was adopted by our shareholders in June 2010 and became effective upon completion of our IPO. See “Item 6 — Directors, Senior Management and Employees — Compensation—Equity-based compensation plans.” In 2012, 2013 and 2014, we granted 2,205,250 and nil and nil share options, respectively, to our employees and consultants for services rendered by them. Accordingly, we have adopted the provisions of ASC 718 “Stock Compensation” and ASC 505-50 “Equity Based Payments to Non-Employees” for the share options we granted. For options granted to our employees, we record share-based compensation expenses based on the fair value of the award as of the date of grant and amortize the expenses over the vesting periods of the options. For options granted to our consultants, we record share-based compensation expenses based on the fair value of the award of the earlier of the performance commitment date or the date service is completed. In 2014, the Board of Directors granted the restricted stock to each member of the Board who is not an employee of the company.

On October 26, 2011, Dr. Jin Huang, chief executive officer of the company, and holder of more than 10% interest in the voting power of the company, entered into a participation agreement with, among others, the Baring Asia Private Equity Fund V., L.P. (the “Participation Agreement”). Pursuant to this agreement, Campus Holdings Limited (“Campus”), an affiliate to the Baring Asia Private Equity Fund V., L.P., agreed to invest up to US\$ 50.0 million to purchase Class A Ordinary Shares of the company through a series of private transactions and on the open market through purchases of American Depositary Shares. On August 31st, 2014, China Education International Holdings Limited (“CEIHL”) and New Flourish Holdings Limited (“New Flourish”), a British Virgin Islands company, entered into a Share Interest Assignment Agreement (“Agreement”). According to the agreement, CEIHL agrees to sell 170,368,902 shares to New Flourish at a total consideration of US\$5.8 million. As disclosed in “Item 5.E Off-balance sheet arrangements”. See Note 23 to the financial statements for further details.

***Taxation***

We are a Cayman Islands company and we currently conduct our operations primarily through our subsidiaries in China and our VIEs and their respective subsidiaries. Under the current laws of the Cayman Islands, we and our Cayman Island subsidiaries are not subject to tax on our income or capital gains. In addition, our payment of dividends, if any, is not subject to withholding tax in the Cayman Islands.

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We also have two entities incorporated in Hong Kong which were subject to Hong Kong profit tax at a rate of 17.5% on assessable profits in 2007, and at 16.5% since the beginning of 2008.

As outlined in “Item 4.C — Information on the Company — Organizational Structure,” we operate a number of subsidiaries and through our VIEs, schools, tutoring centers, college and career enhancement centers in China. The following is a summary of the types and rates of taxation to which our China entities are subject to.

*VAT*

Companies are subject to 17% VAT for the revenues from software products sold in the PRC. Companies that fulfill certain criteria set by the relevant authorities including developing their own software products and registering the software product with the relevant authorities in the PRC are entitled to a refund of VAT equivalent to the excess of VAT paid over 3% of net revenues.

For all years presented, Ambow Online and Ambow Yuhua have met these criteria and therefore were entitled to the VAT refund. As of December 31, 2012, 2013 and 2014, the net VAT payable amounted to approximately RMB 1.2 million, RMB 4.9 million and RMB 29.7 million, respectively. The significant increase in net VAT payable was mainly attributable to a provision of RMB 24.8 million against VAT refund. Management considered the collectability of VAT refund was remote as a result of tax dispute between Ambow Online and the tax authority, as disclosed in Note 17c.

The PRC government implemented a value-added tax reform pilot program, which replaced the business tax with value-added tax on selected sectors in Shanghai effective January 1, 2012, in Beijing effective September 1, 2012, in Tianjin effective December 1, 2012. In August 2013, the pilot program was expanded nationwide in certain industries. The value-added tax rates applicable to the subsidiaries and consolidated variable interest entities of the Group ranged from 3% to 6% as compared to the 5% business tax rate which was applicable prior to the reform.

*Business tax*

For those schools and college in China providing degree-oriented education services, they are exempted from paying business tax on revenue generated from both these services and any accommodation revenue associated with degree-oriented education. For all other entities in China, as well as for any revenue generated by schools and college for non-degree-oriented education services, business tax of between 3% and 5% of gross revenues is payable.

*Income tax*

Current income taxes are provided for in accordance with the laws and regulations set out below. Deferred income taxes are recognized when temporary differences exist between the tax bases and their reported amounts in the consolidated financial statements.

*Corporate entities*

Prior to January 1, 2008, our foreign invested enterprises (“FIEs”), were taxed in accordance with “Income Tax Law of China for Enterprises with Foreign Investment and Foreign Enterprises,” and the related implementing rules. Our VIEs, together with any other PRC domestic companies within our group, were taxed in accordance with local income tax laws. These companies were generally subject to an enterprise income tax rate of 33%, except those with preferential tax treatment as described below.

On January 1, 2008, the CIT Law became effective which unified the income tax rate for both domestic and FIEs. Under the CIT Law the standard income tax rate for our subsidiaries and VIEs is 25%.

The CIT Law also imposes a withholding income tax rate of 10% on dividends distributed by an FIE to its immediate holding company outside of China. However, a lower withholding income tax rate of 5% would be applied after the immediate holding company was registered in Hong Kong and could satisfy the criteria of a beneficial owner set out in Circular Guoshuihan (2009) No. 601, a circular issued by the State Administration of Taxation on October 27, 2009 on how to understand and identify a beneficial owner in tax treatments. Such withholding income tax was exempted under the previous income tax laws. A joint circular issued by the Ministry of Finance and State Administration of Taxation on February 22, 2008 clarified that the withholding income tax is only to be paid for earnings generated after January 1, 2008. According to the CIT Law and a circular promulgated by the PRC State Administration of Taxation on December 10, 2009, in addition to the withholding income tax on dividends distributed by an FIE, the immediate holding company of an FIE will also be subject to an income tax at the rate of 10% for capital gain realized from transferring the equity interests in such FIE to third parties, and shall file and pay such tax within seven days after the date of the transferring agreement. Furthermore, when the de facto controlling shareholder who controls an FIE through an intermediate controlling entity, “indirectly transfers” the equity interests in such FIE by selling the intermediate controlling entity, such de facto controlling shareholder shall also file with the PRC tax authorities in some cases and may be subject to the PRC corporate income tax for the capital gain realized in such sale.

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We have determined that our FIEs in China will not declare any dividends on which withholding tax should be paid and therefore no withholding tax has been accrued on the retained earnings of its FIEs in China.

In March 2007, Ambow Online was certified as a “new and high-technology enterprise” and a “software enterprise”, from which Ambow Online was entitled to choose to enjoy preferential tax treatment in either name. Ambow Online chose to apply for preferential tax treatment as a “software enterprise”. As a result, it has been entitled to a two-year income tax exemption since 2008 and was subject to 12.5% corporate income tax for another three years. The “High and New Technology Enterprises” certificate of Ambow Online has been expired in 2014, and the Company has no intention to renew the certificate, Ambow Online was subject to an income tax rate of 25% since 2014. In August 2014, the in charge tax bureau of Ambow Online issued Circular Haiguoshuibatong [2014] 08004, canceling the preferential tax treatment of Ambow Online and wanted to claw back the income tax in 2011 in the amount of RMB 7.3 million and the corresponding late payment interest in the amount of RMB 3.4 million. However, management believed the Company could qualify for the criterion of the preferential tax treatment and we are defending ourselves with the court. Up to the date of the issuance of this financial report the court has not given the final judgement on this case.

*Private schools and college*

Our private schools and college, being privately run non-enterprise institutions, acquired in 2008 and 2009 are registered as private schools that either do or do not require a reasonable return. Prior to January 1, 2008, these private schools and college were subject to income tax determined in accordance with the Law for Promoting Private Education (2003) and the 2004 Implementing Rules, as well as the Notice on Tax Policy for Educational Institutions and Notice on Several Preferential Tax Policy jointly issued by the PRC Ministry of Finance and the State Administration of Taxation, collectively referred to as the 2003 Education Law. Under these laws and regulations, private schools or a college not requiring reasonable returns were treated in a similar manner to public schools and were generally not subject to income tax. While it is indicated in the 2004 Implementing Rules that the relevant authorities under the State Council may consider formulating separate preferential tax treatment policies applicable to private schools requiring reasonable returns, no such tax preferential policy has been promulgated yet. As a result, the tax treatment applied to our schools and college varies among different cities.

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Under the CIT Law there are specific criteria that should be met to qualify as a not-for-profit entity that is exempt from corporate income tax, and the preferential corporate income tax policy for education institutions under the 2003 Education Law has been superseded. No detailed implementation guidance has been provided to local tax authorities on how to apply these changes to schools and college. Some of the schools and college we have acquired have been able to obtain preferential tax treatment from the local tax authorities or to agree with local tax authorities on a fixed amount of income tax payable for prior years. Where such preferential tax treatment or fixed amount payable has not been confirmed by the tax authorities, we have made a full provision for income taxes payable based on our understanding of the 2003 Education Law and the CIT Law. No provision has been made for interest or late payment fees for such provision.

For our schools and college that we have acquired in 2008 and 2009, we have recorded a tax liability for estimated liabilities brought forward at the date of acquisition. At the same time, we have recorded an asset to recognize that all of the sellers of these schools have agreed to indemnify us against any taxes that may be payable for periods prior to the date of acquisition.

The determination of our provision for income taxes, particularly for private schools and college is subject to uncertainty. The strict application of the CIT Law indicates that certain of our private schools and college are subject to income tax of 25% after January 1, 2008. For those private schools and college where the tax authorities have not determined a deemed fixed amount or deemed fixed rate for the purposes of calculating income tax payable, we have assumed that income tax of 25% is payable. However, as of December 31, 2014, no detailed implementation guidance has been provided to local tax authorities on how to apply the CIT Law to private schools and college. It is possible that, upon the introduction of the detailed implementation guidance, we may find ourselves in a position whereby income tax is not payable for periods prior to the release of the detailed guidance.

The amount of income tax payable by our PRC subsidiaries, VIEs, schools and college in the future will depend on various factors, including, among other things, the results of operations and taxable income of, and the statutory tax rate applicable to, such PRC subsidiaries, and our effective tax rate depends partially on the extent of each of our subsidiaries' relative contribution to our consolidated taxable income. If further detailed guidance is issued by the State Administration of Taxation on how to apply the CIT Law to schools and colleges this may also have an impact on the amount of income tax payable by our own schools and college.

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**Critical accounting policies and estimates**

The preparation of financial statements in conformity with U.S. GAAP requires estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities in the consolidated financial statements and accompanying notes. The SEC has defined a company's critical accounting policies as the ones that are most important to the portrayal of the company's financial condition and results of operations, and which require the company to make its most difficult and subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain. Based on this definition, we have identified the critical accounting policies and judgments addressed below. We also have other key accounting policies, which involve the use of estimates, judgments and assumptions that are significant to understanding our results. For other relevant risks under "Risk in relation to the VIE structure", see Note 1 (d) of Notes to consolidated financial statements. Although we believe that our estimates, assumptions and judgments are reasonable, they are based upon information presently available. Actual results may differ significantly from these estimates under different assumptions, judgments or conditions.

*Basis of consolidation*

The consolidated financial statements include the financial statements of the company, its Wholly Owned Foreign Enterprise ("WOFEs") and its VIEs. We have adopted the guidance of accounting for VIEs, which requires VIEs to be consolidated by the primary beneficiary of the entity. The company and its WOFEs have entered into contractual arrangements with the VIEs and their shareholders, which enable the company to (1) have power to direct activities that most significantly affect the economic performance of the VIEs, and (2) receive the economic benefits of the VIEs that could be significant to the VIEs. Accordingly, the company is considered the primary beneficiary of the VIEs and has consolidated the VIEs' financial results of operations, assets and liabilities in the company's consolidated financial statements. All inter-company transactions and balances have been eliminated upon consolidation.

The entities apart from the consolidated VIEs mainly include Ambow, Ambow Online, Ambow Dalian (which is the Dalian Career Enhancement Campus) and two holding companies registered in Hong Kong. Assets and liabilities of these entities mainly include cash, current accounts balances of inter-group financing and transactions and leasehold improvement. Operations of these entities are mainly financing and business management.

The company deconsolidates a subsidiary or derecognizes a group of assets as of the date the company ceases to have a controlling financial interest in that subsidiary or group of assets.

In 2013, the Group deconsolidated 3 schools, including Tianjin Tutoring, Guangzhou ZS Career Enhancement and Guangzhou DP Tutoring. In 2014, the Group deconsolidated Jilin Tutoring. Details see Note 26.



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The separated VIE and Non-VIE net revenue and net income as at December 31, 2012 were as follows (in RMB thousands):

	VIEs Consolidated	Non-VIEs Consolidated	Inter-company Elimination	Group Consolidated
Net Revenue	662,134	147,247	(85,321 )	724,060
Net Income	(852,927 )	(820,626 )	38	(1,673,515 )

The separated VIE and Non-VIE financial information as at December 31, 2013 was as follows (in RMB thousands):

	VIEs Consolidated	Non-VIEs Consolidated	Inter-company Elimination	Group Consolidated
Cash and cash equivalent	90,154	8,808	—	98,962
Inter-Group balances due from VIEs/Non VIEs	194,207	1,644,770	(1,838,977 )	—
Investment to VIEs	—	81,960	(81,960 )	—
Assets classified as held for sale	554,010	—	—	554,010
Other current assets	338,883	98,085	—	436,968
non-current assets	670,989	192,480	—	863,469
Total Assets	1,848,243	2,026,103	(1,920,937 )	1,953,409
Inter-Group balances due to VIEs/Non VIEs	1,650,097	174,708	(1,824,805 )	—
Liabilities classified as held for sale	510,449	—	—	510,449
Other current liabilities	520,562	445,076	—	965,638
non-current liabilities	38,021	41,578	—	79,599
Total Liabilities	2,719,129	661,362	(1,824,805 )	1,555,686
Equity	(870,886 )	1,364,741	(96,132 )	397,723
Net Revenue	534,546	9,061	(7,096 )	536,511
Net Income	(479,323 )	(451,693 )	20,811	(910,205 )

The separated VIE and Non-VIE financial information during the year of 2014 was as follows (in RMB thousands):

	VIEs Consolidated	Non-VIEs Consolidated	Inter-company Elimination	Group Consolidated
Cash and cash equivalent	110,353	69,932	—	180,285
Inter-Group balances due from VIEs/Non VIEs	266,737	1,633,170	(1,899,907 )	—
Investment to VIEs	—	81,960	(81,960 )	—
Assets classified as held for sale	512,422	—	—	512,422
Other current assets	317,579	2,453	—	320,032
non-current assets	324,223	168,726	—	492,949

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Total Assets	1,531,314	1,956,241	(1,981,867 )	1,505,688
Inter-Group balances due to VIEs/Non VIEs	1,589,851	193,726	(1,783,577 )	—
Liabilities classified as held for sale	533,418	—	—	533,418
Other current liabilities	618,265	339,653	—	957,918
non-current liabilities	27,867	39,791	—	67,658
Total Liabilities	2,769,401	573,170	(1,783,577 )	1,558,994
Equity	(1,238,087 )	1,383,071	(198,290 )	(53,306 )
Net Revenue	403,643	11,557	(3,202 )	411,998
Net Income	(550,911 )	(531,644 )	—	(1,082,555 )

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### *Revenue recognition*

Our revenue is primarily generated from delivering educational programs and services and sales of software products. Our customers include mainly students attending classes at our own school or training centers; students attending classes run by our cooperative partners; corporate clients attending our outbound and management training classes; and distributors whom we sell our software products and services to.

Revenue is recognized when persuasive evidence of an arrangement exists, the price is fixed or determinable, service is performed and collectability of the related fee is reasonably assured. Revenues presented in the consolidated financial statements represent revenues from educational program and services, and sales of software products. If any of the aforementioned criteria are not met, we defer recognizing the revenue until such time as all criteria are met.

### *Sales to distributors*

In 2012, management gradually suspended the sales of software products. In 2013 and 2014, no software products were sold.

Before the suspension, the company generated parts of its revenue through sales to distributors, including 1) sales of educational programs and services which mainly consist of career enhancement and corporate training programs where the end user accesses content through the company's server, or 2) sales of software products where the end user accesses content on a compact disk with no further interaction with the company.

We recognize revenues from sales to distributors with a proven historical payment record as described below for the relevant service or product. If collectability cannot be reasonably assured, especially for sales to distributors for which no historical payment record exists, revenue starts to be recognized upon the collection of cash attributable to the revenue.

### *Educational programs and services*

Educational programs and services primarily consist of primary and secondary curriculum education, university curriculum education, tutoring programs that supplement primary and secondary curriculum education and career enhancement and other corporate training programs that are provided directly or indirectly to customers, where we are

responsible for delivery of the programs and services. For the curriculum education programs, the tuition revenue, including accommodation, is recognized on a straight-line basis over the length of the course, which is typically over a period of a semester. For tutoring programs, tuition revenue is recognized on a straight-line basis over the period during which tutoring services are provided to students. Educational materials revenue, which is immaterial and has not been disclosed separately, relates to the sales of books, course materials, course notes for which we recognize revenue when the materials have been delivered to students.

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Education programs and services also include programs offered online which could be accessed through a username and password. Career enhancement services such as CCEP and the Career GPS System have been offered to students and other customers either directly to students or distributors. Collection of these service offerings is also initially recorded as deferred revenue will be amortized and recognized as revenue on the percentage the required services delivered or on a straight-line basis over the length of the course, which are typically one to three months.

In accordance with ASU No.2009 -13, we treat service contracts with multiple deliverable elements as separate units of accounting for revenue recognition purposes and to recognize revenue on a periodic basis during the contract periods when each deliverable service was provided. Since the contract price is for all the deliverables under the contract, we allocate the contract price among all the deliverables at the inception of the arrangement on the basis of their relative selling prices according to the selling price hierarchy established by ASU No.2009 - 13. We use (a) vendor-specific objective evidence of selling price, if it exists; otherwise, (b) third -party evidence of selling price. If neither (a) nor (b) exists, we will use (c) management's best estimate of the selling price for that deliverable.

*Sales of software products*

Software product revenues relate to revenues from the sale of educational CDs either directly to students or to distributors or educational content downloaded through the Internet. Major software products sold include Bopo English and our Practice and Training platform. The sales arrangements do not include post customer support services and we do not provide customers with upgrades. We recognize revenue for these products in accordance with U.S. GAAP guidance on software revenue recognition, (i.e. revenue is recognized from the sale of software products when delivery has occurred based on purchase orders, contracts or other documentary evidence, provided that collection of the resulting receivable is reasonably assured).

Ambow Online and Ambow Yuhua, which are the companies from which we sell our software products, are each subject to 17% VAT for the revenues from software products sold in the PRC. Companies that fulfill certain criteria set by the relevant authorities including developing their own software products and registering the software product with the relevant authorities in the PRC are entitled to a refund of VAT equivalent to the excess of VAT paid over 3% of net revenues.

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For all years presented, Ambow Online has met these criteria and therefore were entitled to the VAT refund. For the balance of VAT refundable as at December 31, 2014, as the recoverability was remote, we fully accrued bad debt provision for the refund amounting to RMB 24.8 million, see Note 5(iii).

We have adopted gross presentation for VAT, by which VAT is included in revenues and cost of revenues, because we consider our VAT obligation and our entitlement to VAT refund as one integrated preferential VAT policy.

In 2012, management gradually suspended the sales of software products, and in 2013 and 2014, no software products were sold.

*Business combinations*

The assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree are recognized at the acquisition date, measured at their fair values as of that date. In a business combination achieved in stages, the identifiable assets and liabilities, as well as the non-controlling interest in the acquiree, are recognized at the full amounts of their fair values.

Deferred tax liability and asset were recognized for the deferred tax consequences of differences between the tax bases and the recognized values of assets acquired and liabilities assumed in a business combination.

Goodwill represents the excess of the fair value of consideration transferred (plus the fair value of the non-controlling interest, if any) over fair value of the net assets acquired (including recognized intangibles).

*Intangible assets, net*

Intangible assets represent software, trade name, student population, corporate agreement, customer relationship, favorable lease, non-compete agreement. The software was initially recorded at historic acquisition costs or cost directly incurred to develop the software during the application development stage that can provide future benefits, and amortized on a straight-line basis over estimated useful lives.

Other finite lived intangible assets are initially recorded at fair value when acquired in a business combination, in which the finite intangible assets are amortized on a straight-line basis except student populations and customer relationships, which are amortized using an accelerated method to reflect the expected departure rate over the remaining useful life of the asset. The company reviews identifiable amortizable intangible assets to be held and used for impairment whenever events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. Determination of recoverability is based on the lowest level of identifiable estimated undiscounted cash flows resulting from use of the asset and its eventual disposition. Measurement of any impairment loss is based on the excess of the carrying value of the asset over its fair value. The intangible assets have original estimated useful lives as follows (see Note 9-“Intangible assets, net” to the financial statements for additional information):

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Software	3 years to 5 years
Student populations	2.8 years to 15 years
Customer relationships	1.8 years to 5.7 years
Cooperative agreements	1.3 years to 10 years
Favorable leases	0.8 years to 20 years
Non compete agreement	3 years to 4.5 years
Trade names	Indefinite

We have determined that trade names have the continued ability to generate cash flows indefinitely. There are no legal, regulatory, contractual, economic or other factors limiting the useful life of the respective trade names. Consequently, the carrying amounts of trade names are not amortized but are tested for impairment annually in the fourth quarter or more frequently if events or circumstances indicate that the assets may be impaired. Such impairment test consists of a comparison of the fair values of the trade names with their carrying amounts and an impairment loss is recognized if and when the carrying amounts of the trade names exceed their fair values.

Starting from 2012, we have performed impairment testing of indefinite-lived intangible assets in accordance with ASC 350, which requires an entity to evaluate events and circumstances that may affect the significant inputs used to determine the fair value of the indefinite-lived intangible assets when performing qualitative assessment. When these events occur, the Group estimates the fair value of these trade names with the Relief from Royalty method (“RFR”), which is one of the income approach. RFR method is generally applied for assets that frequently licensed in exchange for royalty payments. As the owner of the asset is relieved from paying such royalties to a third party for using the asset, economic benefit is reflected by notional royalty savings. An impairment loss is recognized for any excess in the carrying value over the fair value of trade names.

*Goodwill*

Goodwill represents the future economic benefits arising from other assets acquired in a business combination or an acquisition by a not-for-profit entity that are not individually identified and separately recognized. Goodwill acquired in a business combination is tested for impairment at least annually or more frequently when events and circumstances occur indicating that the recorded goodwill may be impaired with the following two-step process. The first step compares the fair values of each reporting unit to its carrying amount, including goodwill. The fair value of each reporting unit is established using a combination of expected present value of future cash flows and income approach valuation methodologies. If the fair value of each reporting unit exceeds its carrying amount, goodwill is not considered to be impaired and the second step will not be required. A reporting unit constitutes a business for which discrete profit and loss financial information is available. If the carrying amount of a reporting unit exceeds its fair value, the second step compares the implied fair value of goodwill to the carrying value of a reporting unit’s goodwill. The implied fair value of goodwill is determined in a manner similar to accounting for a business combination with the allocation of the assessed fair value determined in the first step to the assets and liabilities of the reporting unit. The excess of the fair value of the reporting unit over the amounts assigned to the assets and liabilities is the implied fair value of goodwill. An impairment loss is recognized for any excess in the carrying value of goodwill over the implied fair value of goodwill.



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Determining when to test for impairment, our reporting units, the fair value of a reporting unit and the fair value of assets and liabilities within a reporting unit, requires judgment and involves the use of significant estimates and assumptions. These estimates and assumptions include revenue growth rates and operating margins used to calculate projected future cash flows, risk-adjusted discount rates, future economic and market conditions and determination of appropriate market comparables. We base fair value estimates on assumptions we believe to be reasonable but that are unpredictable and inherently uncertain.

Significant changes in the economic characteristics of components or reorganization of an entity's reporting structure can sometimes result in a re-assessment of the affected operating segment and its components to determine whether reporting units need to be redefined where the components are no longer economically similar.

Future changes in the judgments and estimates underlying the company's analysis of goodwill for possible impairment, including expected future cash flows and discount rate, could result in a significantly different estimate of the fair value of the reporting units and could result in additional impairment of goodwill.

### *Impairment of long-lived assets*

We review our long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may no longer be recoverable. When these events occur, we measure impairment by comparing the carrying value of the long-lived assets to the estimated undiscounted future cash flows expected to result from the use of the assets and their eventual disposition. If the sum of the expected undiscounted cash flow is less than the carrying amount of the assets, we will recognize an impairment loss based on the fair value of the assets, using the expected future discounted cash flows.

### *Income taxes*

Deferred income taxes are recognized for temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements, net of operating loss carry forwards and credits, by applying enacted statutory tax rates applicable to future years. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not some portion or all of the deferred tax assets will not be realized. Income taxes are provided for in accordance with the laws of the relevant taxing authorities. The Group recognizes interest as income tax and penalties as income tax.

We do not record PRC withholding tax expense for foreign earnings which we plan to reinvest to expand our PRC operations. We considered business plans, planning opportunities and expected future outcomes in assessing the needs for future expansion and support of our operations. If our business plans change or our future outcomes differ from our expectations, PRC withholding tax expense and our effective tax rate could increase or decrease in that period.

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We adopted the guidance on accounting for uncertainty in income taxes as of January 1, 2007. The guidance prescribes a more likely than not threshold for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Guidance was also provided on de-recognition of income tax assets and liabilities, classification of current and deferred income tax assets and liabilities, accounting for interest and penalties associated with tax positions, accounting for income taxes in interim periods and income tax disclosures. Significant judgment is required in evaluating the uncertain tax positions and determining its provision for income taxes. We establish reserves for tax-related uncertainties based on estimates of whether, and the extent to which, additional taxes will be due. These reserves are established when we believe that certain positions might be challenged despite our belief that our tax return positions are in accordance with applicable tax laws. We adjust these reserves in light of changing facts and circumstances, such as the closing of a tax audit, new tax legislation or the change of an estimate. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will affect the provision for income taxes in the period in which such determination is made. The provision for income taxes includes the effect of reserve provisions and changes to reserves that are considered appropriate, as well as the related net interest and penalties where applicable. For the years ended December 31, 2012 and 2013, we did not have any material interest and penalties associated with tax positions. In 2014, the Group received a document from the tax bureau cancelling Ambow Online's preferential tax treatment. The Group has taken legal action to defend ourselves, but it is still too early to determine the impact on our results of operations, see Note 17 for details of the Group's tax position as of December 31, 2014.

*Share-based compensation*

We grant share options to our employees, directors and non-employees. Cost of employee services received is measured at the grant-date using the fair value of the equity instrument issued net of an estimated forfeiture rate, and therefore only recognizes compensation costs for those shares expected to vest over the service period of the award. Share-based compensation expense is recorded on a straight-line basis over the requisite service period, generally four years.

Cost of services received from non-employees is measured at fair value at the earlier of the performance commitment date or the date service is completed and recognized over the period the service is provided. To the extent we recognize any cost of service prior to the time the non-employees complete their performance, any interim measurements that we make during the performance period are made at the then current fair values of equity instruments at each of those interim financial reporting dates.

Forfeitures are estimated at the time of grant and revised in the subsequent periods if actual forfeitures differ from those estimates.

*Foreign currency translation and transactions*

We use RMB as our reporting currency. The functional currency of our company and the subsidiaries incorporated in the Cayman Islands, Hong Kong and the British Virgin Islands is US\$, while the functional currency of the other entities of our company is RMB. An entity's functional currency is the currency of the primary economic environment in which it operates, normally that is the currency of the environment in which it primarily generates and expends cash. We considered various indicators, such as cash flows, sales price, market expenses, financing and inter-company transactions and arrangements in determining an entity's functional currency.

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In the consolidated financial statements, the financial information of our company and its subsidiaries, which use US\$ as their functional currency, has been translated into RMB. Assets and liabilities are translated from each subsidiary's functional currency at the exchange rates on the balance sheet date, equity amounts are translated at historical exchange rates, and revenues, expenses, gains, and losses are translated using the average rate for the year. Translation adjustments are reported as cumulative translation adjustments and are shown as a separate component of other comprehensive income or loss in the statement of shareholders' equity and comprehensive income.

Foreign currency transactions denominated in currencies other than functional currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are re-measured at the applicable rates of exchange in effect at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from re-measurement at year-end are recognized in foreign currency exchange gain/loss, net on the consolidated statement of operations.

*Long-lived assets to be disposed of*

For a long-lived asset to be disposed of other than by sale we continue to classify such long-lived asset as held and used until it is disposed of. When a long-lived asset ceases to be used, the carrying amount of the asset is written down to its salvage value, if any.

We classify a long-lived asset or disposal group to be sold as held for sale in the period in which all six criteria are met: (1) a plan to sell the asset has been committed to by management; (2) the asset can be sold in its current condition; (3) an active plan has been initiated to find a buyer; (4) it is probable that the asset will be sold and the sale will be completed within one year and will qualify as a complete sale; (5) the sales price is reasonable relative to the asset's current fair value and the entity is actively marketing the asset; and (6) it is unlikely that the plan to sell the asset will be withdrawn or changed significantly.

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A long-lived asset or disposal group classified as held for sale is measured at the lower of its carrying amount or fair value less cost to sell, and it is presented separately in the balance sheets. Long-lived assets reclassified as held for sale are not depreciated or amortized.

*Discontinued Operations*

A discontinued operation may include a component of an entity or a group of components of an entity, or a business or nonprofit activity. A disposal of a component of an entity or a group of components of an entity is required to be reported in discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results when any of the following occurs: (1) the component of an entity or group of components of an entity meets the criteria to be classified as held for sale; (2) the component of an entity or group of components of an entity is disposed of by sale; (3) the component of an entity or group of components of an entity is disposed of other than by sale (for example, by abandonment or in a distribution to owners in a spinoff).

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The following table sets forth a summary of our consolidated statements of operations for the periods indicated. This information should be read together with our consolidated financial statements and related notes included elsewhere in this annual report. We believe that period-to-period comparisons of results of operations should not be relied upon as indicative of future performance.

**Summary of Consolidated Statements of Operations**

	For the Year Ended December 31,			
	2012	2013	2014	2014
	RMB	RMB	RMB	US\$
	(in thousands)			
Consolidated Statement of Operations Data:				
NET REVENUES:				
Educational programs and services	675,174	536,511	411,998	66,402
Software products	66,886	—	—	—
Total net revenues	742,060	536,511	411,998	66,402
COST OF REVENUES:				
Educational programs and services	(465,022 )	(361,573)	(274,036 )	(44,167 )
Software products	(12,177 )	—	—	—
Total cost of revenues	(477,199 )	(361,573)	(274,036 )	(44,167 )
GROSS PROFIT	264,861	174,938	137,962	22,235
Operating expenses:				
Selling and marketing (1)	(321,418 )	(151,480)	(80,377 )	(12,954 )
General and administrative (1)	(632,603 )	(471,915)	(508,544 )	(81,963 )
Research and development (1)	(31,842 )	(19,545 )	(12,259 )	(1,976 )
Impairment loss	(761,996 )	(84,246 )	(292,577 )	(47,155 )
Total operating expenses	(1,747,859)	(727,186)	(893,757 )	(144,048)
OPERATING INCOME/(LOSS)	(1,482,998)	(552,248)	(755,795 )	(121,813)
OTHER INCOME (EXPENSE)	(6,739 )	(21,932 )	(267,861 )	(43,172 )
Income/(Loss) before income tax, non-controlling interest, and discontinued operations	(1,489,737)	(574,180)	(1,023,656)	(164,985)
Income tax benefit (expense)	(10,893 )	10,424	(1,135 )	(183 )
INCOME/(LOSS) FROM CONTINUING OPERATIONS	(1,500,630)	(563,756)	(1,024,791)	(165,168)
Income/(Loss) from and on sale of discontinued operations, net of income tax (1)	(172,885 )	(346,449)	(57,764 )	(9,310 )
NET INCOME/(LOSS)	(1,673,515)	(910,205)	(1,082,555)	(174,478)
Add: Net loss contributable to non-controlling interest	52,349	3,387	5,742	925
	(1,621,166)	(906,818)	(1,076,813)	(173,553)

NET INCOME/(LOSS) ATTRIBUTABLE TO AMBOW  
EDUCATION HOLDING LTD.

NET INCOME/(LOSS) ATTRIBUTABLE TO ORDINARY SHAREHOLDERS	(1,621,166)	(906,818)	(1,076,813)	(173,553)
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(1) Includes depreciation and amortization of RMB 138.6 million, RMB 129.8 million and RMB 86.6 million (US\$14.0 million) for the years ended December 31, 2012, 2013 and 2014, respectively.

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*Year ended December 31, 2014 compared with year ended December 31, 2013*

*Net revenues.* Our net revenues decreased by 23.2% from RMB 536.5 million in 2013 to RMB 412.0 (US\$66.4 million) in 2014. This decrease was primarily due to the carried-forward negative publicity impact from the period that we were under the supervision of JPL, decreasing student enrollments and increasing requested refund from the students

*Cost of revenues.* Our cost of revenues decreased by 24.2% from RMB 361.6 million in 2013 to RMB 274.0 million (US\$44.2 million) in 2014. The decrease was consistent with the drop of revenue generated business.

*Gross profit.* Gross profit as a percentage of our net revenues increased from 32.6% in 2013 to 33.5% in 2014. The increase was primarily driven by lower employee cost due to reduction of headcounts and the effective expense control.

*Operating expenses.* Our total operating expenses increased by 22.9% from RMB 727.2 million in 2013 to RMB 893.8 million (US\$144.0 million) in 2014. This increase was mainly due to higher general and administrative expenses and higher impairment loss in 2014 compared to 2013 partially offset by the decreases in selling, marketing, research and development expenses.

*Selling and marketing expenses.* Our selling and marketing expenses decreased by 46.9% from RMB 151.5 million in 2013 to RMB 80.4 million (US\$13.0 million) in 2014. The decreases were mainly due to the change of marketing strategy and the decrease of advertising expense.

*General and administrative expenses.* Our general and administrative expenses increased by 7.8% from RMB 471.9 million in 2013 to RMB 508.5 million (US\$82.0 million) in 2014. The increase was mainly due to higher service fees related to JPL, higher share-based compensation, and higher attorney fee in 2014.

*Research and development expenses.* Our research and development expenses decreased by 37.3% from RMB 19.5 million in 2013 to RMB 12.3 million (US\$2.0 million) in 2014. This decrease was primarily due to the reducing of the team size and the suspension of software sales.

*Impairment loss.* The impairment loss of RMB 292.6 million (US\$47.2 million) in 2014 was mainly due to the impairment loss recognized in intangible assets and goodwill.

*Other income (expense), net.* We recorded net other expenses of RMB 267.9 million (US\$43.2 million) in 2014, compared to net other expenses of RMB 21.9 million in 2013. The increase was mainly due to higher interest expenses and loss in extinguishment of debt related to the convertible loans.

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*Income tax benefit (expense).* Our income tax benefit decreased from RMB 10.4 million benefit in 2013 to RMB 1.1 million (US\$0.2 million) expense in 2014. This decrease was primarily related to tax penalty of Ambow Online.

*Income/(loss) from continuing operations.* Our loss from continuing operations increased from loss of RMB 563.8 million in 2013 to loss of RMB 1,024.8 million (US\$165.2 million) in 2014. This change was primarily due to higher impairment charges and loss in extinguishment of debt in 2014.

*Income/(loss) from and on sale of discontinued operations, net of income tax.* Our loss from and on sale of discontinued operation, net of income tax was RMB 57.8 million (US\$9.3 million) in 2014, compared to loss from and on sale of discontinued operations, net of income tax of RMB 346.4 million in 2013. The loss from and on sale of discontinued operation in 2013 was mainly due to the sales of Taishidian Holding and 21st School.

*Net income / (Loss).* According to above mentioned factors, our net loss increased from RMB 910.2 million in 2013 to RMB 1,082.6 million (US\$174.5 million) in 2014.

***Year ended December 31, 2013 compared with year ended December 31, 2012***

*Net revenues.* Our net revenues decreased by 27.7% from RMB 724.1 million in 2012 to RMB 536.5 (US\$88.6 million) in 2013. This decrease was primarily due to the suspension of software sales to focus company's resources on educational programs and services as part of the strategic business development.

*Cost of revenues.* Our cost of revenues decreased by 24.2% from RMB 477.2 million in 2012 to RMB 361.6 million (US\$59.7 million) in 2013. The decrease was consistent with the drop of revenue generated business and the suspension of software sales.

*Gross profit.* Gross profit as a percentage of our net revenues decreased from 35.7% in 2012 to 32.6% in 2013. The decrease was primarily due to the suspension of software sales, and it takes a longer period of time for the newly acquired centers to be integrated and to become a higher contribution to the company's profit.

*Operating expenses.* Our total operating expenses decreased by 58.4% from RMB 1,747.9 million in 2012 to RMB 727.2 (US\$120.1 million) in 2013. This decrease was mainly due to less impairment loss in 2013 compared to 2012 and due to the deconsolidation of certain entities and the decreases was in all of our operating cost and expense line

items.

*Selling and marketing expenses.* Our selling and marketing expenses decreased by 52.9% from RMB 321.4 million in 2012 to RMB 151.5 million (US\$25.0 million) in 2013. The decreases were mainly due to the change of marketing strategy and the decrease of advertising expense.

*General and administrative expenses.* Our general and administrative expenses decreased by 25.4% from RMB 632.6 million in 2012 to RMB 471.9 million (US\$78.0 million) in 2013. The decreases were mainly due to the lower bad debt provision in 2013.

*Research and development expenses.* Our research and development expenses decreased by 38.6% from RMB 31.8 million in 2012 to RMB 19.5 million (US\$3.2 million) in 2013. This decrease was primarily due to the reducing of the team size and the business focus' strategic shift to organic growth.

*Impairment loss.* The impairment loss of RMB 84.2 million (US\$13.9 million) in 2013 related to the impairment of long-term investment on the deconsolidated entities. The impairment loss of RMB 762.0 million in 2012 related to fixed assets, tradenames and goodwill.

*Other income (expense), net.* We recorded net other expenses of RMB 21.9 million (US\$3.6 million) in 2013, compared to net other expenses of RMB 6.7 million in 2012. The increase was mainly due to higher interest expense imputed based on more short-term liability and the increase disposal loss of long-live assets.

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*Income tax benefit (expenses).* Our income tax benefit increased from RMB 10.9 million expense in 2012 to RMB 10.4 million (US\$1.7 million) benefit in 2013. This increase was primarily related to less impairment charges.

*Income/(loss) from continuing operations.* Our loss from continuing operations decreased from loss RMB 1,500.6 million in 2012 to loss RMB 563.8 million (US\$93.1 million) in 2013. This change was primarily due to the split of loss to discontinued and deconsolidated entities, as well as less impairment charges in 2013.

*Income/(loss) from and on sale of discontinued operations, net of income tax.* Our loss from and on sale of discontinued operation, net of income tax was RMB 346.4 million (US\$57.2 million) in 2013, compared to loss from and on sale of discontinued operations, net of income tax was RMB 172.9 million in 2012. The loss from and on sale of discontinued operation reflected the financial position of discontinued entities during the year.

*Net income / (Loss).* According to above mentioned factors, our net loss decreased from RMB 1,673.5 million in 2012 to RMB 910.2 (US\$150.4 million) in 2013.

**Discussion of segment operations**

The following table lists our net revenues, cost of revenues, gross profit and gross margin by our reportable segments for the periods indicated:

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	For the Year Ended December 31,			
	2012 RMB (in thousands)	2013 RMB	2014 RMB	2014 US\$
<b>Consolidated Statement of Operations Data:</b>				
<b>Net revenues:</b>				
Tutoring	238,194	157,401	68,203	10,992
K-12 schools	191,155	183,675	168,244	27,116
Better Schools net revenues	429,349	341,076	236,447	38,108
Career enhancement	310,016	195,435	175,551	28,294
College	2,695	-	-	-
Better Jobs net revenues	312,711	195,435	175,551	28,294
Total net revenues of reportable segments and the company	742,060	536,511	411,998	66,402
<b>Cost of revenues:</b>				
Tutoring	(163,980)	(126,247)	(52,728 )	(8,498 )
K-12 schools	(124,342)	(120,793)	(115,416)	(18,602)
Better Schools Cost of revenues	(288,322)	(247,040)	(168,144)	(27,100)
Career enhancement	(185,698)	(114,533)	(105,892)	(17,067)
College	(3,179 )	-	-	-
Better Jobs Cost of revenues	(188,877)	(114,533)	(105,892)	(17,067)
Total costs of revenues of reportable segments and the company	(477,199)	(361,573)	(274,036)	(44,167)
<b>Gross profit</b>				
Tutoring	74,214	31,154	15,475	2,494
K-12 schools	66,813	62,882	52,828	8,514
Better Schools gross profit	141,027	94,036	68,303	11,008
Career enhancement	124,318	80,902	69,659	11,227
College	(484 )	-	-	-
Better Jobs gross profit	123,834	80,902	69,659	11,227
Total gross profit of reportable segments and the company	264,861	174,938	137,962	22,235
<b>Gross margin</b>				
Tutoring	31.2	% 19.8	% 22.7	% 22.7 %
K-12 schools	35.0	% 34.2	% 31.4	% 31.4 %
Better Schools gross margin	32.8	% 27.6	% 28.9	% 28.9 %
Career enhancement	40.1	% 41.4	% 39.7	% 39.7 %
College	-18.0	% -	-	-
Better Jobs gross margin	39.6	% 41.4	% 39.7	% 39.7 %
Total gross margin of reportable segments and the company	35.7	% 32.6	% 33.5	% 33.5 %

***Year ended December 31, 2014 compared with year ended December 31, 2013****Tutoring*

Net revenues from our tutoring segment decreased from RMB 157.4 million in 2013 to RMB 68.2 million (US\$11.0 million) in 2014. The decrease was primarily due to carried-forward negative publicity impact from the period that we were under the supervision of JPL, decreasing student enrollments and increasing requested refund from the students.

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Cost of revenues from our tutoring segment decreased from RMB 126.2 million in 2013 to RMB 52.7million (US\$8.5 million) in 2014. This decrease was aligned with the decreased revenue in 2014.

Gross profit as a percentage of our net revenues from our tutoring segment was 19.8% in 2013 and 22.7 % in 2014. The increase was mainly driven by lower employee cost due to reduction of headcounts and better expense control in 2014.

*K-12 schools*

Net revenues from our K-12 schools segment decrease from RMB 183.7 million in 2013 to RMB 168.2 million (US\$27.1 million) in 2014. The decrease was primarily due to the decreasing student enrollments constrained by local population structure.

Cost of revenues from our K-12 schools segment decreased from RMB 120.8 million in 2013 to RMB 115.4 million (US\$18.6 million) in 2014. The decreased was insignificant and consistent with the decrease of net revenue.

Gross profit as a percentage of our net revenues from our K-12 schools segment was 34.2% in 2013 and 31.4% in 2014. The decrease in the gross profit margin was mainly due to declining revenue resulting from decreasing student enrollments.

*Career enhancement*

Net revenues from our career enhancement segment decreased from RMB 195.4 million in 2013 to RMB 175.6 million (US\$28.3 million) in 2014. The decrease was primarily due to decreasing student enrollments as a result of the carried-forward negative publicity impact from the period that we were under the supervision of JPL, decreasing student enrollments and increasing requested refund from the students.

Cost of revenues in our career enhancement segment decreased from RMB 114.5million in 2013 to RMB 105.9 million (US\$17.1 million) in 2014, which was insignificant and consistent with the decrease of net revenue.

Gross profit as a percentage of our net revenues from our career enhancement segment was 41.4% in 2013 and 39.7% in 2014. The decrease in gross margin was mainly due to the lower net revenues resulting from decreasing student enrollments.

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*College*

There was no business in the college segment in 2013 and 2014.

***Year ended December 31, 2013 compared with year ended December 31, 2012***

*Tutoring*

Net revenues from our tutoring segment decreased from RMB 238.2 million in 2012 to RMB 157.4 million (US\$26.0 million) in 2013. The decrease was primarily due to higher refund impacted by the negative publicity in media.

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Cost of revenues from our tutoring segment decreased from RMB 164.0 million in 2012 to RMB 126.2 million (US\$20.8 million) in 2013. This decrease was consistent with the decreasing revenues.

Gross profit as a percentage of our net revenues from our tutoring segment was 31.2% in 2012 and 19.8% in 2013. The decrease was mainly due to the suspension of software sales as well as higher cost of revenue for business growth.

*K-12 schools*

Net revenues from our K-12 schools segment decrease from RMB 191.2 million in 2012 to RMB 183.7 million (US\$30.3 million) in 2013. The decrease was primarily due to more refund as a result of the negative media impact during the year.

Cost of revenues from our K-12 schools segment decreased from RMB 124.3 million in 2012 to RMB 120.8 million (US\$ 20.0 million) in 2013. The decreased was insignificant.

Gross profit as a percentage of our net revenues from our K-12 schools segment was 35.0% in 2012 and 34.2% in 2013. Decrease in the gross profit margin was mainly due to higher headcount-related costs and depreciation.

*Career enhancement*

Net revenues from our career enhancement segment decreased from RMB 310.0 million in 2012 to RMB 195.4 million (US\$32.3 million) in 2013. The decrease was primarily due to the suspension of software sales and more refund as a result of the negative media impact during the year.

Cost of revenues in our career enhancement segment decreased from RMB 185.7 million in 2012 to RMB 114.5 million (US\$18.9 million) in 2013, which was consistent with the decrease of net revenue.

Gross profit as a percentage of our net revenues from our career enhancement segment was 40.1% in 2012 and 41.4% in 2013. The increase was insignificant.



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*College*

Net revenues from our college segment decreased from RMB 2.7 million in 2012 to nil in 2013. The decrease was mainly due to the disposal of the Applied Technology College. Net revenues in 2012 were from the software sales through Taishidian Holding.

Cost of revenues in our college segment decreased from RMB 3.2 million in 2012 to nil in 2013. Cost of revenues in 2012 was due to the software sales through Taishidian Holding.

Gross profit as a percentage of our net revenues from our college segment was gross profit of gross loss of 18.0% in 2012 and 0% in 2013.

**B. Liquidity and Capital Resources**

The company incurred a net loss of RMB 910.2 million and RMB 1,082.6 million for the years ended December 31, 2013 and 2014, respectively, which included a non-cash impairment charge of RMB 462.4 million related to the provision of receivables, disposal loss of subsidiaries, and loss on de-consolidation of certain subsidiaries in 2013 and a non-cash impairment charge of RMB 443.7 million related to provision of receivables, and the write-down of receivables, impairment loss of fixed assets, goodwill, intangible assets and de-consolidation of certain subsidiary, and a non-cash expense of RMB 242.6 million related to the loss from extinguishment of debt and the total interest expense of convertible loan in 2014. The Company's operating results for future periods are subject to numerous uncertainties and it is uncertain if the company will be able to reduce or eliminate its net losses for the foreseeable future. If management is not able to increase revenue and/or manage operating expenses in line with revenue forecasts, the company may not be able to achieve profitability.

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Our principal sources of liquidity have been cash generated from operating activities and financing activities. Our financing activities consist primarily of our private placements of preferred shares to investors, bank loans we started to borrow in 2009 and the issuance of ordinary shares in our IPO. As of December 31, 2014, we had RMB 180.3 million (US\$29.1 million) in unrestricted cash and cash equivalents. Our cash and cash equivalents consist of cash on hand and liquid investments that are unrestricted as to withdrawal or use, have maturities of three months or less and are placed with banks and other financial institutions. Although we consolidate the results of our VIEs and their respective subsidiaries, we do not have direct access to the cash and cash equivalents or future earnings of our VIEs or their respective subsidiaries. However, a portion of the cash balances of our VIEs and their respective subsidiaries is paid to us pursuant to our contractual arrangements with our VIEs and their respective subsidiaries. See “Item 7.B —Related Party Transactions—Contractual arrangements with our VIEs and their respective subsidiaries and shareholders.” As of December 31, 2014, we had RMB 110.4 million (US\$17.8 million) in unrestricted cash and cash equivalents from our VIEs.

The company’s consolidated current liabilities exceeded its consolidated current assets by approximately RMB 478.6 million as of December 31, 2014. The Group’s consolidated net liabilities were amounting to RMB 53.3 million as of December 31, 2014. In addition the company has lease commitment of RMB 303.4 million as of December 31, 2014, of which RMB 95.7 million was within one year.

Historically, management has addressed liquidity requirements through a series of cost reduction initiatives, debt borrowings and the sale of subsidiaries and other non-performing assets. Management anticipates that the impact from the negative publicity in the media during the past three years may continue to impact the Company’s businesses in the near term.

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As disclosed in Note 30, the Company entered into a disposal agreement with a third party to transfer the ownership of Jinghan Group at a consideration of RMB 1,200 million in early 2015, out of which the Company committed to provide necessary funding to the third party for capital injections and settlement of liabilities to ensure Jinghan's continuous operation. It is further confirmed that the said obligations to the Company amounted to RMB 700 million. The disposal has been completed as of April 8, 2015. The net proceed was RMB 500 million, of which RMB 135 million has been received by December 31, 2014 and the remaining RMB 365 million has been received by the end of March, 2015. Besides, the Company derecognized the operating lease commitment associated with Jinghan Group in April 2015, amounting to RMB 175.4 million, of which RMB 77.7 million was within one year.

As disclosed in Note 30, on the date of February 6, 2015, the Company entered into an agreement to transfer the consideration related to disposal of Taishidian Holding to Suzhou Hezhijia Investment Management Limited with RMB 70,000, of which RMB 40,000 was received in February 2015 and the rest will be received by end of 2015 pursuant to the agreement.

As disclosed in Note 6, the Company has a receivable balance of RMB 50,000 representing the funding due from CEIHL pursuant to the Restructuring Plan. The entire balance has been collected in February 2015.

With the opportunity provided by the above mentioned plan and action, the Group will continue to remain focused on cash flow while accessing a range of strategic options for the purpose of maximizing shareholder value, including the re-alignment of group resources, reduction of R&D department, enhancing expense control and improving our relationship with our creditors and third parties. The Group has also significantly lowered its spending on capital expenditures and focused on improving the management of its working capital.

The Group believes that available cash and cash equivalents, cash provided by operating activities, together with cash available from the activities mentioned above, should enable the Group to meet presently anticipated cash needs for at least the next 12 months and the Group has prepared the consolidated financial statements on a going concern basis. However, the Group continues to have ongoing obligations and it expects that it will require additional capital in order to execute its longer-term business plan. If the Group encounters unforeseen circumstances that place constraints on its capital resources, management will be required to take various measures to conserve liquidity, which could include, but not necessarily be limited to, curtailing the Group's business development activities, suspending the pursuit of its business plan, controlling overhead expenses and seeking to further dispose of non-core assets. Management cannot provide any assurance that the Group will raise additional capital if needed.

Table of Contents**Condensed summary of our cash flows**

	For the Years Ended December 31,			
	2012	2013	2014	2014
	RMB	RMB	RMB	US\$
	(in thousands)			
Net cash provided by/(used in) operating activities	(32,004 )	(160,544)	(160,367)	(25,846)
Net cash provided by/(used in) investing activities	(457,855)	65,862	112,013	18,053
Net cash provided by/(used in) financing activities	76,838	82,885	87,003	14,022
Cash and cash equivalents included in assets held for sale	(71,120 )	(78,333 )	(36,063 )	(5,812 )
Effects of exchange rate changes on cash and cash equivalents	(7,559 )	(109 )	404	65
Net change in cash and cash equivalents	(75,080 )	(19,119 )	81,323	13,107
Cash and cash equivalents at beginning of period	193,161	118,081	98,962	15,950
Cash and cash equivalents at end of year	118,081	98,962	180,285	29,057

***Operating activities***

Net cash used in operating activities amounted to RMB 160.4 million (US\$25.8 million) in the year ended December 31, 2014, as compared to net cash used in operating activities of RMB 160.5 million in the year ended December 31, 2013 and net cash used in operating activities of RMB 32.0 million in the year ended December 31, 2012.

Net cash used in operating activities in the year ended December 31, 2014 was primarily attributable to net loss of RMB 1,082.6 million (US\$174.5 million), an increase in prepaid and other current assets of RMB 65.0 million (US\$10.5 million), an increase in amount of accrued and other liabilities of RMB 15.0 million (US\$2.4 million), and deferred tax of RMB 28.1 million (US\$4.5 million), partially offset by depreciation and amortization of RMB 86.6 million (US\$14.0 million), a loss in extinguishment of debt of RMB 143.9 million (US\$23.2 million), an increase in interest expense of RMB 121.8 million (US\$19.6 million), an increase in share-based compensation of RMB 157.4 million (US\$25.4 million), an increase in impairment loss of RMB 292.6 million (US\$47.2 million), an increase in amount of bad debt provision of RMB 151.1 million (US\$24.4 million), an increase in other non-current assets of RMB 10.2 million (US\$1.6 million), an increase of deferred revenue of RMB 39.8 million (US\$6.4 million) and an increase in accounts receivable of RMB 25.3 million (US\$4.1 million), due to the allowance for doubtful accounts.

Net cash used in operating activities in the year ended December 31, 2013 was primarily attributable to net loss of RMB 910.2 million, an increase in prepaid and other current assets of RMB 56.7 million, deferred tax of RMB 32.1 million, an increase in other non-current assets of RMB 19.8 million, and an increase in accounts receivable of RMB 64.1 million due to the allowance for doubtful accounts, partially offset by disposal loss of RMB 249.6 million, depreciation and amortization of RMB 129.8 million, an increase in amount of bad debt provision of RMB 128.6 million, an increase in amount accrued and other liabilities of RMB 226.9 million, an increase of deferred revenue of

RMB 12.2 million.

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***Investing activities***

Net cash provided by investing activities amounted to RMB 112.0 million (US\$18.1 million) in the year ended December 31, 2014 as compared to RMB 65.9 million net cash inflow in the year ended December 31, 2013 and RMB 457.9 million net cash outflow in the year ended December 31, 2012.

Net cash provided by investing activities in the year ended December 31, 2014 was mainly from disposal of subsidiaries of RMB 135.0 million (US\$21.8 million), partially offset by the purchase of property and equipment of RMB 6.5 million (US\$1.0 million), placement of term deposits of RMB 10.2 million (US\$1.6 million), and prepayment of leasehold improvement of RMB 8.1 million (US\$1.3 million).

Net cash provided by investing activities in the year ended December 31, 2013 primarily related to the proceed from disposal of subsidiaries of RMB 39.7 million, proceed from transferring financial assets of RMB 35.0 million, and maturity of term deposit of RMB 26.8 million, partially offset by purchase of property and equipment of RMB 23.2 million and prepayment of leasehold improvement of RMB 8.5 million.

***Financing activities***

Our financing activities consist primarily of short-term and long-term borrowings. Net cash provided by financing activities amounted to RMB 87.0 million (US\$14.0 million) in the year ended December 31, 2014, as compared to RMB 82.9million in the year ended December 31, 2013 and RMB 76.8 million in the year ended December 31, 2012.

Net cash provided by financing activities in the year ended December 31, 2014 was attributable to proceeds from convertible loan of RMB 109.3 million (US\$17.6 million), and proceeds from short-term borrowings of RMB 54.4 million (US\$8.8 million), partially offset by repayments on short-term borrowings of RMB 77.0 million (US\$12.4 million).

Net cash provided by financing activities in the year ended December 31, 2013 was attributable to proceeds from issuance of ordinary shares, net of expenses of RMB 62.7 million, and proceeds from short-term borrowings of RMB 146.5 million, partially offset by repayments on short-term borrowings of RMB 108.1 million and repayments of convertible loan of RMB 18.3 million.



Table of Contents***Cash and cash equivalents included in assets held for sale***

Cash and cash equivalents included in assets held for sale amounted to RMB 71.1 million in the year ended December 31, 2012, which is the cash balance of Taishidian Holding, 21st School and Jinghan Group. Cash and cash equivalents included in assets held for sale amounted to RMB 78.3 million and RMB 36.1 million (US\$5.8 million) in the year ended December 31, 2013 and 2014, which are the cash balance of Jinghan Group.

**Short-term borrowings**

During 2012, 2013 and 2014, we and our affiliated entities entered into various short-term loan agreements in the aggregate amount of RMB 60 million, RMB 92.4 million and RMB 39.6 million (US\$6.4 million), respectively, with terms less than one year.

Short-term borrowings consisted of the following:

		As of December 31	
		2013	2014
		RMB	RMB
	Maturities		
Secured short-term borrowings from third party		50,000	-
Unsecured short-term borrowings from third parties	February 2014 to September 2015	20,800	11,800
Unsecured short-term borrowings from individuals	October 2013 to November 27, 2015	21,630	27,833
Total Short-term borrowings		92,430	39,633

The weighted average interest rate of short-term loans outstanding was 19.99% per annum as of December 31, 2013 and was 14.80 % per annum for the borrowings outstanding from third parties and individuals as of December 31, 2014. The fair values of the short-term loans approximate their carrying amounts. The weighted average short-term borrowings for the years ended December 31, 2013 and 2014 was RMB 65.0 million and RMB 82.0 million, respectively.

The short-term borrowings incurred interest expenses for the years ended December 31, 2012, 2013 and 2014 amounting to RMB 4.4 million, RMB 6.2 million and RMB 25.1 million, respectively. There was neither capitalization as additions to construction in progress nor guarantee fees for each of three years ended December 31, 2014.

As of the date of the issuance of the financial statements, amounting to RMB 33.6 million of short-term borrowing has been repaid and none of the remaining short-term borrowing has been overdue for repayment.

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**Convertible Loans**

On June 12, 2012 and October 24, 2012, the Group finalized a loan agreement amounting to RMB 125.7 million (US\$ 20 million) (“Loan Agreement”) with International Finance Corporation (“IFC”), in which IFC granted the Group a convertible loan (“IFC C Loan”). IFC may at its option convert a minimum of \$1,000,000 or its integral multiple of IFC C Loan in whole or in part, at any time prior to the fifth anniversary of the date of the first disbursement of the IFC C Loan, into Class A Ordinary Shares at the conversion price of \$10 per ADS (\$5 per ordinary share), subject to dilution protection adjustment and registration or an exemption from registration under the Securities Act.

IFC C Loan bears variable rate of 4.5% per annum above 6-month LIBOR, subject to step down provision as follow:

(i) Within 12 months from the date of the Loan Agreement, 3.5% for future IFC C Loan interest payments if the Borrower’s ADSs trade at an average trading price of US\$7.0 or above for any 3 consecutive months period; and

At any time prior to the fifth anniversary of the date of the first disbursement of the IFC C Loan, 3% for future IFC (ii) C Loan interest payments if the Borrower’s ADSs trade at an average trading price of US\$ 12.0 or above for any 4 consecutive months period.

The IFC C Loan was disbursed to the Group on October 22, 2012, with repayment schedule of 2 equal semi-annual installments starting on November 15, 2017. The IFC C Loan was not allowed to pay back in advance of the payment schedule.

Management has determined that the conversion feature embedded in the convertible loan should not be bifurcated and accounted for as a derivative, since the embedded conversion feature is indexed to the Company’s own stock and would have been classified in shareholders’ equity if it was a free-standing derivative instrument.

Since the conversion price of the IFC C Loan exceeds the market price of the Company’s ordinary shares on the date of issuance, no portion of the proceeds from the issuance was accounted for as the beneficial conversion feature, and was treated solely as a liability since the embedded conversion feature has no intrinsic value and accordingly does not meet the requirements of an equity component. Costs incurred by the Company that were directly attributable to the issuance of IFC C Loan amounting to approximately RMB 3.4 million (US\$0.6 million), were deferred over loan period and being charged to the consolidated statements of operations and other comprehensive loss using the effective interest rate method. The issuance cost was fully charged as of December 31, 2014 as the IFC C loan was expired due to the Company triggering default event as mentioned below. The front fee paid to IFC amounting to RMB 4.9 million, were deferred over loan period and being treated as debt discount deducting the proceeds at inception and accretion during the loan period with effective interest method. The amortization of front fee was RMB

4.9 million, RMB 0.1 million and nil for the years ended December 31, 2012, 2013 and 2014, respectively.

Management further determined that the interest rate change feature (“IRCF”) embedded in the convertible loan is required to be bifurcated and accounted for as a derivative asset. The fair value of the IRCF as of issuance date was RMB 0.4 million (US\$0.1 million) and bifurcated from the Loan of RMB 121.1 million (US\$20 million) and included in debt discount, which is amortized over the loan period, using the effective interest rate method. The change in the fair value of the embedded derivative assets was recognized as interest expense from revaluation of embedded derivative in the consolidated statements of operations and comprehensive income (loss). By the end of December 31, 2013, the IRCF was cancelled due to the Company triggering default event as mentioned below.

In connection with the Loan Agreement, the Company signed a Registration Rights Agreement, which requires a liquidated damages in the amount of 0.5% of the aggregate outstanding principal amount of the IFC C Loan for each 30 day period subject to a liquidated damages cap of 6.0% of the aggregate outstanding principal amount of the IFC C Loan, should the Company fail to comply with the following significant terms:

Requires registration statement to be declared effective within 30 days of disbursement of the IFC C Loan in the (i) event there are no SEC comments, and within 90 days of disbursement of the IFC C Loan in the event there are SEC comments (the “Effectiveness Deadline”).

(ii) Requires the Company to maintain the effectiveness of the registration statement until the earlier of (a) the date when all registrable securities have been resold, (b) the date when all registrable securities may be resold under Rule 144 without regard to information, volume or manner of sale requirements or (c) the date one year after the IFC C Loan is converted into ordinary shares.

As stated below, the Registration Rights Agreement was terminated and that no party to the Registration Rights Agreement will have any liability in respect of any breach of that agreement on or before the effective date. As of December 31, 2013, no such liability was accrued accordingly.

On April 29, 2013, the Company signed an Amendment Agreement with IFC (the “First Amendment”), pursuant to which, the disbursed IFC C Loan will be repaid based on an agreed schedule before September 30, 2013. Management believes that the First Amendment was not qualified as debt extinguishment in accordance with ASC Topic 470, since the present value of the cash flows under the terms of the amended debt instrument was less than 10 percent different from the present value of the remaining cash flows under the terms of the original instrument.

On the third payment date, specified as at June 30, 2013, the Company failed to pay principal and interest, which triggered one of the Default Events defined in the Loan Agreement.

Subsequently, IFC transferred its participation in the loans to Sir Leslie Porter & Son Limited on August 20, 2013 and Sir Leslie Porter & Son Limited transferred its participation in the loans to the CEIHL on September 17, 2013. No any amendment was made in these two transfers.

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The Company accrued a penalty interest on the amount of the payment due and unpaid with 2% per annum above the interest rate. As of December 31, 2013, the penalty interest was RMB 1.1 million.

On March 9, 2014, JPLs executed an exclusivity agreement with CEIHL, the secured creditor of the company. In return for continued forbearance under the loan facility between the company and IFC, which was transferred ultimately to the benefit of CEIHL (“the Loan Facility”), the company granted CEIHL a period of exclusivity to negotiate and implement a restructuring plan designed to, inter alia, return the company to solvency and to allow for the discharge of the JPLs by the Grand Court of the Cayman Islands. A non-binding term sheet was subsequently executed by the JPLs with CEIHL on March 30, 2014.

On May 5, 2014, the Company entered into Restructuring Agreement with CEIHL, according to which, CEIHL, will provide for funding for the Company approximately RMB 290.6 million (US\$48 million) in total, comprising the amounts paid, or procured to be paid, by CEIHL or its nominee in satisfaction of and/or discharge of and/or to purchase certain onshore debt with estimated pay off value of approximately RMB 80 million; and the remaining as defined in USD Facility Loan Agreement, which was agreed by both parties in Second Amendment and Restated Loan Agreement. To the extent that the onshore debt is less than the expected pay off value, CEIHL shall lend a corresponding additional amount of funds to the Group offshore and the total amount paid under this Restructuring Agreements thus equals US\$48 million (and no less), in exchange for a right to convert the principal outstanding under the USD Facility Agreement (as may be increased in accordance with this clause, but not taking into account any principal that relates to capitalized interest) into an aggregate of not more than an 85% economic interest in the Company, with 50.1 % of the voting rights in the Company.

In connection with the restructuring plan, on May 13, 2014, the Group signed Amendment and Restatement Agreement to the Loan Agreement (“the Loan Agreement”) with CEIHL. The parties to the Loan Agreement have agreed to amend and restate the terms and conditions of the IFC C Loan as set out in this Agreement. Pursuant to the Loan Agreement, 1) the Registration Rights Agreement under IFC C Loan was terminated; 2) CEIHL agrees that it shall advance by way of an IFC D Loan to the Group, which was defined in the Second Amendment and Restated Loan Agreement signed by the same parties on the same day with the Loan Agreement.

Subject to the Second Amendment and Restated Loan Agreement, the IFC C Loan consisting of a principal amount of RMB 104.0million(US\$17.0 million); and the IFC D Loan consisting of a principal amount of approximately RMB 85.5 million (US\$14.0 million); and the other loans consisting of a principal amount of approximately RMB 104.1 million (US\$17.0 million). The entire amount of the Convertible Loan (consisting of an aggregate principal amount of US\$48 million which is convertible into an aggregate of 972,782,696 Class A Ordinary Shares. Accordingly, the conversion rate is US\$ 0.0493 per share.

The Maturity Date of these loans is 3 years after the date of the Effective Date, which is defined as the date of the discharge of the JPLs in accordance with the Restructuring Agreement. The interest rate is 3% per annum for any

interest period and applied to the both loans. Under the Second Amendment and related financing documents, and under the IFC D Loan Facility, CEIHL assigned approximately RMB 30.6 million (US\$5 million) each of its commitments to Baring Private Equity Asia V Holding (4) limited (“Baring”) and SummitView.

According to the Second Amendment, the IFC C Loan was substantially amended by decreasing the conversion rate from US\$5 per share to US\$ 0.0493 per share. As a result, the fair value of the embedded conversion option (calculated as the difference between the fair value of the embedded conversion option immediately before and after the modification or exchange) was substantially changed. According to ASC Topic 470, if it is determined that the original and new debt instruments are substantially different, and the new debt instrument shall be initially recorded at fair value, and that amount shall be used to determine the debt extinguishment gain or loss to be recognized and the effective rate of the new instrument. Therefore, the amended IFC C loan was initially recorded at fair value, amounting to RMB 254.2 million (US\$41.5 million) as of May 13, 2014. As comparing to the carrying value of original IFC C Loan consisting of a principal amount of RMB 104.0 million (US\$17.0 million) and accrued interest payable amounting to RMB 6.9 million (US\$1.1 million), a loss from extinguishment of debt with amounting to RMB 143.9 million (US\$23.4 million) was recognized in 2014.

Due to the fact that the Company was under provisional liquidation at the time of restructuring, favorable convertible loans, which were reflected in a lower conversion price as compared to the fair value of the Company’s ordinary share at the commitment date, was granted to new investors for the purpose of obtaining necessary funding to solve the liquidity issues. As of the commitment date, the fair value of the Company’s ordinary share in a fully diluted basis was US\$ 0.1155, while the conversion price was US\$ 0.0493. Accordingly, it had a beneficial conversion feature (“BCF”) that is in the money at the commitment date. According to ASC Topic 470, the BCF was measured initially at its intrinsic value, which was calculated at the commitment date as the difference between the conversion price (see paragraph 470-20-30-5) and the fair value of the common stock or other securities into which the security is convertible, multiplied by the number of shares into which the security is convertible. The intrinsic value of the BCF was recorded as loan discount and credited to additional paid-in capital at the initial recognition and amortized as interest expense from the date of issuance to the earliest conversion date.

In addition, if the intrinsic value of the BCF is greater than the proceeds allocated to the convertible instrument, the amount of the discount assigned to the BCF shall be limited to the amount of the proceeds allocated to the convertible instrument. As a result, the discount of the convertible loan was limited to the proceeds of RMB300.6 million (US\$49.1 million).

On August 31, 2014, CEIHL entered a Share Interest Assignment Agreement (“Assignment Agreement”) with New Flourish Holding Limited (“New Flourish”), an entity control by CEO of the Company. Pursuant to the Assignment Agreement, CEIHL agreed to sell 170,368,902 shares at a favorable consideration of US\$5.8 million with payment schedule of 3 equal annual installments starting on August 31, 2016. The Company recorded it as share-based compensation expenses in the year 2014 amounting to RMB 94.4 million (see note 23).

On September 5, 2014, RMB 224.5 million (US\$ 36.7 million) of the Convertible Loan was converted into ordinary shares by CEIHL and SummitView, and the total 755,462,293 converted shares were issued. At the same date, CEIHL

transferred 170,368,902 shares to New Flourish according to the Assignment Agreement. After that, CEIHL became the registered holder of 501,508,621 Class A Ordinary Shares, and SummitView became the registered holder of 83,584,770 Class A Ordinary Shares, while New Flourish became the registered holder of 170,368,902 Class A Ordinary Shares. At the conversion date, the converted portion of the remaining unamortized loan discount (loan premium) was recognized as interest expense, and the loan discount (loan premium) of the unconverted portion will continue to be amortized after the conversion. Nominal interest accrued but not paid was credited to the Company's equity at the time of the conversion. The interest expenses from Convertible Loan, including the amortization of BCF, amounting to RMB 98.7 million were recorded in the year ended December 31, 2014.

On March 5, 2015, CEIHL converted US\$6.3 million of the Convertible Loan and became the registered holder of 133,735,632 Class A Ordinary Shares. In total, CEIHL owns 635,244,253 Class A Ordinary Shares, representing 56.05% ownership interest. On the same date, Baring converted US\$5 million of the Convertible Loan and became the registered holder of 83,584,770 Class A Ordinary Shares. In total, Baring owns 98,413,450 Class A Ordinary Shares, representing 8.68% ownership interest.

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### **Capital expenditures**

Our capital expenditures were RMB 204.9 million, RMB 23.2 million and RMB 6.5 million (US\$1.0 million) in the fiscal years ended December 31, 2012, 2013 and 2014, respectively. These capital expenditures were incurred primarily for investments in facilities, leasehold improvements, equipment and technology.

### **Holding company structure**

We conduct our operations primarily through our wholly-owned subsidiary in China, Beijing Ambow Online Software Co. Ltd., or Ambow Online, and its affiliated PRC entities, which we collectively refer to as our VIEs and their respective subsidiaries.

As a result, our ability to pay dividends and to finance any debt we may incur depends primarily upon dividends paid by Ambow Online and fees paid by Ambow Sihua, Ambow Shanghai and Ambow Shida and their subsidiaries to Ambow Online for sales of services and products. Fees paid by VIEs and subsidiaries are mainly for sales of services and products and management consulting fees. The aggregate amount that VIEs and subsidiaries had paid to Ambow Online were RMB 81.1 million, RMB 0.04 million and nil for the years ended December 31, 2012, 2013 and 2014, respectively, and the aggregate amount of fees payable from the VIE and subsidiaries to Ambow Online were RMB 88.2 million, RMB 0.04 million and nil, as of December 31, 2012, 2013 and 2014, respectively.

If our subsidiaries or any newly formed subsidiaries incur debt on their own behalf in the future, the instruments governing their debt may restrict their ability to pay dividends to us. In addition, our subsidiaries are permitted to pay dividends to us only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. Under PRC law, each of our subsidiaries incorporated as companies may only distribute dividends after they have made allowances to fund certain statutory reserves. Although the statutory reserves can be used, among other ways, to increase the registered capital and eliminate future losses in excess of retained earnings of the respective companies, the reserve funds are not distributable as cash dividends except in the event of liquidation of the companies.

Ambow Sihua, Ambow Shanghai and Ambow Shida own and/or operate private schools, tutoring and career enhancement centers in China. At the end of each fiscal year, every private school in China is required to allocate a certain amount to its development fund for the construction or maintenance of the school or procurement or upgrade of educational equipment. In the case of a private school that requires reasonable returns, this amount shall be no less than 25% of the annual net income of the school, while in the case of four of our private schools that do not require reasonable returns, this amount shall be equivalent to no less than 25% of the annual increase in the net assets of the school (as determined under the generally accepted accounting principles of the PRC), if any. See “Item 3.D —Key

Information—Risk Factors—Risks related to regulation of our business and our corporate structure—Our VIEs and their respective subsidiaries may be subject to significant limitations on their ability to operate private schools or make payments to related parties or otherwise be materially and adversely affected by changes in PRC laws and regulations.”

## **Inflation**

Inflation in China has not materially impacted our results of operations in recent years. Although we were not materially affected by inflation in the past, we can provide no assurance that we will not be affected in the future by higher rates of inflation in China.

## **Recent accounting pronouncements**

See Note 3(hh) of Notes to consolidated financial statements for recent accounting pronouncements that could have an effect on us.

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

We have an in-house research and development team with 57 full-time software and educational professionals as of December 31, 2014 help to develop and update our educational content based on the latest official local government curriculum of each of our specific subjects. We integrate the best content from our acquired schools, tutoring centers, college and career enhancement centers into our qualified content database and then introduce it to our nationwide student user base. In 2012, 2013 and 2014, we spent RMB 31.8 million, RMB 19.5 million and RMB 12.3 million (US\$2.0 million), respectively, on research and development expenses.

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**D. Trend Information**

For a discussion of significant recent trends in our financial condition and results of operations, please see “Item 5.A Operating and Financial Review and Prospects—Operating Results” and “5.B Operating and Financial Review and Prospects—Liquidity and Capital Resources.”

**E. Off-balance sheet arrangements**

We have not entered into any financial guarantees or other commitments to guarantee the payment obligations of any third parties. We have not entered into any derivative contracts that are indexed to our shares and classified as shareholders’ equity, or that are not reflected in our consolidated financial statements. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. We do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing, hedging or research and development services with us.

On October 26, 2011, Dr Jin Huang, chief executive officer of the company, and holder of more than 10% interest in the voting power of the company, entered into a participation agreement with, among others, The Baring Asia Private Equity Fund V., L.P. (the “Participation Agreement”). Pursuant to this agreement, Campus Holdings Limited (“Campus”), an affiliate to The Baring Asia Private Equity Fund V., L.P., agreed to invest up to USD50.0 million to purchase Class A Ordinary Shares of the company through a series of private transactions and on the open market through purchases of American Depositary Shares. See Note 23 to the financial statements for further details.

On August 31st, 2014, China Education International Holdings Limited (“CEIHL”) and New Flourish Holdings Limited (“New Flourish”), a British Virgin Islands company, entered into a Share Interest Assignment Agreement (“Agreement”). According to the agreement, CEIHL agrees to sell 170,368,902 shares to New Flourish at a total consideration of US\$5.8 million. See Note 23 to the financial statements for further details.

**F. Contractual Obligations**

The following table presents a summary of our contractual obligations and payments, by period, as of December 31, 2014.

Payments Due by Period		
Total	1-3 Years	3-5 Years

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	Less than 1 Year				More than 5 Years
	RMB	RMB	RMB	RMB	RMB
	(in millions)				
Short-term borrowings	39.6	39.6	-	-	-
Operating lease obligations*	303.4	95.8	102.4	33.3	71.9
Consideration payable for acquisitions and others	15.9	15.9	-	-	-
Total	358.9	151.3	102.4	33.3	71.9

\* Includes RMB 175.36 million for Jinghan Group, which was disposed of in early April 2015.

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As of December 31, 2014, our cash consideration obligations related to our past acquisitions were RMB 15.9 million (US\$2.6 million).

**Item 6. Directors, Senior Management and Employees**

**A. Directors and Senior Management**

The table below sets forth the certain information relating to our directors and executive officers as of December 31, 2014.

Name	Age	Position
Jin Huang	49	President, Chief Executive Officer and Chairman of the Board
Kia Jing Tan	42	Acting Chief Financial Officer
Senlei Huang	45	Vice President, Sales
Xuejun Xie	49	Vice President, Human Resources and Administration
Jianguo Xue	49	Vice President, Sales
Yanhui Ma*(2)	55	Director
Yigong Justin Chen (1)	45	Director
Ping Wu (2)	50	Director
Winston Sim(1)	43	Director
John Robert Porter (3)	62	Director
R. Ralph Parks(3)	71	Director

\* Yanhui Ma has been appointed as our third Audit Committee member since February 2015.

(1) Member of the audit committee

(2) Member of the compensation committee

(3) Corporate governance committee

*Jin Huang* has served as our President and Chief Executive Officer and as a member of our board of directors since our inception in August 2000. Dr. Huang has over 15 years of academic and industry experience in Silicon Valley. Prior to founding Ambow, Dr. Huang was a founding engineer at Avant!, where she was responsible for product design and engineering management. Dr. Huang holds a bachelor's degree in Computer Science, a master's degree in Computer Science and a Ph.D. in Electronic Engineering from the University of Electronic Science & Technology of China. From 1990 to 1993, Dr. Huang was doing research and completed her Ph.D. dissertation at the University of California, Berkeley.

*Kia Jing Tan* joined Ambow as its Corporate Controller in December 2008. In March 2011, Kia Jing Tan was promoted to the position of Vice President, Finance. In July 2012, Kia Jin Tan was further promoted to the position of Acting Chief Financial Officer. Kia Jing Tan has more than ten years' working experience with Big Four accounting firms in both China and Singapore. He was with KPMG Shanghai from December 2002 to September 2005 and with PricewaterhouseCoopers Shanghai from October 2005 to November 2008. Prior to joining Ambow, he worked as a Senior Audit Manager in PricewaterhouseCoopers' Shanghai office. Kia Jing Tan holds a Bachelor of Commerce degree in accounting from Deakin University, Australia. Kia Jing Tan is a Chartered Accountant with the Institute of Singapore Chartered Accountants and Certified Practicing Accountant (CPA) with CPA Australia.

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*Senlei Huang* has served as our Vice President, Sales in charge of our tutoring services since July 2007. Prior to joining Ambow, Mr. Huang served as an Executive Principal at the online school of the High School of Peking University, or HSPU, and Managing Director of PKU School and Lenovo Distance Education Company from December 2000 to July 2007. Mr. Huang holds a bachelor's degree majoring in public management and administration from Peking University and an EMBA from Tsinghua University.

*Xuejun Xie* has served as our Vice President, Human Resources and Administration since 2000. Prior to joining Ambow, Ms. Xie taught biology at Sichuan Normal University from July 1988 to October 1999. Ms. Xie holds a bachelor's degree in biology from East China Normal University.

*Jianguo Xue* has served as our Vice President, Sales in charge of degree schools since December 2003. Prior to joining Ambow, Mr. Xue served as a Managing Director of Clever Software Group and Executive President of Heilongjiang Clever Networks Co., Ltd., a software company listed in China, from July 1993 to November 2003. Mr. Xue holds a bachelor's degree in English Language and Literature from Beijing Foreign Studies University and a master's certificate in English linguistics from Beijing Normal University.

*Yanhui Ma* has joined the board of directors in May 2014. Dr. Ma is an independent non-executive director of the Company. Dr. Ma has been involved in the creation, funding and development of several healthcare companies, especially joint venture corporations between China and the United States. Dr. Ma also served on the board of directors of several healthcare related corporations he founded or co-founded in the US and China, including Sinocare and SinoMed. Dr. Ma organized and co-founded the International Drug Delivery Society and served as Vice Chairman of the Society previously. He also served as the Vice President of US Silicon Valley Chinese Business Association.

*Mr. Justin Chen* has served a member of our board of directors since March, 2013. Mr. Justin Chen is a counsel at PacGate Law Group. He is a California licensed attorney and is qualified to practice before the United States Patent and Trademark Office. Justin Chen graduated from the University of Iowa, College of Law in 1998, with a Juris Doctor degree and graduated from Peking University, Department of Biochemistry with a bachelor's degree in 1992 and obtained his Master of Biochemistry and Juris Doctor degrees, both from University of Iowa in 1995 and 1998, respectively.

*Ping Wu* has served a member of our board of directors since June, 2013. Dr. Ping Wu is the co-founder of Summitview Capital China Venture Capital Funds and has invested in more than 30 start-up companies since 2010. Prior to co-founding Summitview Capital, he was the co-founder and has served as President, Chief Executive Officer and Chairman of board of directors of Spreadtrum Communications Inc, a Nasdaq listed leading fables semiconductor provider in China with Advanced technology in 2G,3G and 4G wireless communications standards, since its inception in April 2001. Dr. Ping Wu served as Senior Director at Mobilink Telecon Inc. from 1997 until 2001. Prior to 1997, Dr. Wu served as Sr. Design Manager of Trident Microsystems, Inc. Dr. Wu holds a Bachelor of Science degree in electrical engineering from Tsinghua University and a master degree and Ph.D. degree in electrical engineering from

the China Academy of Aerospace Aerodynamics.

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*Mr. Winston Sim* has served as a member of our board of directors since June, 2013. Mr. Winston Sim has been a managing partner of WS Associates, a Singapore accounting firm, since 2003. Prior to that, he worked with KPMG Singapore as an audit assistant/senior audit associate from 1997 to 1999 and an audit manager/senior audit manager from 2000 to 2003. Mr. Winston Sim is a Certified Public Accountant in Singapore (CPA), a Chartered Accountant (CA) and a fellow of the Association of Chartered Certified Accountants (FCCA).

*Mr. John Robert Porter* has served as a member of our board of directors since May 2014. Mr. Porter is an independent non-executive director of the Company. Mr. Porter is also a director of China Education Investment Holding Limited (“CEIHL”). Mr. Porter is an English billionaire businessman and philanthropist, best known as the grandson of Sir Jack Cohen, Founder of Tesco and son of Dame Shirley Porter. Mr. Porter obtained degrees from Oxford, the Institute d’Etudes Politiques in Paris, and Stanford University Business, where he is also on the advisory council.

*Mr. R. Ralph Parks* has served as a member of our board of directors since May 2014. Mr. Parks is a former managing director of Merrill Lynch and general partner of Goldman Sachs. Mr. Parks is an independent non-executive director of the Company. Mr. Parks is currently a managing director and Co-Founder of Gobi Capital, and a non-executive director of Siam Commercial Bank, Thailand, and Asia American Gas Limited, PRC.

The business address of each of our executive officers and directors is Ambow Education Holding Ltd., 18th Floor, Building A, Chengjian Plaza, No.18, BeiTaiPingZhuang Road, Haidian District, Beijing 100088, China.

There are no family relationships among any of our directors and executive officers.

None of our non-executive directors has any employment or service contract with our company.

**Terms of executive officers**

Our executive officers are appointed by, and serve at the discretion of, our board of directors.

**B.**

**Compensation**

During 2014, the aggregate cash compensation that we paid to our executive officers as a group was RMB 5.0 million (US\$0.8million), which includes bonuses, salaries and other benefits that were earned in 2013 and paid in 2014. During 2014, we did not pay any cash compensation to our non-employee directors. Our full-time employees in the PRC, including our executive officers, participate in a government-mandated multi-employer defined contribution plan pursuant to which certain pension benefits, medical care, unemployment insurance, employee housing fund and other welfare benefits are provided to qualified employees. We do not provide our directors with any pension, retirement or similar benefits on termination.

As of December 31, 2014, options to purchase an aggregate of 6,049,475 Class B Ordinary Shares under our 2005 Stock Plan had been granted to our executive officers, options to purchase an aggregate of 231,280 Class A Ordinary Shares under 2010 Equity Incentive Plan had been granted to our executive officers. The exercise prices of such equity awards range from US\$0.00033 to US\$4.63 per ordinary share and have expiration dates ranging from February 3, 2015 to August 22, 2021.

As of December 31, 2013 and 2014, options granted to employees to purchase 11,476,476 and 10,774,581 shares of ordinary shares and to non-employees to purchase 2,043,625 and 2,043,625 shares of ordinary shares were outstanding, and options to purchase 22,326,994 and 23,028,889 ordinary shares were still available for future grants. It is the Company's policy to issue new shares upon share option exercise. We recorded share-based compensation expenses of RMB 5.1 million during the years ended December 31, 2014. As of December 31, 2014, there was RMB 2.3 million of total unrecognized compensation expense related to non-vested share-based compensation arrangements. That cost is expected to be recognized over a weighted-average period of 0.60 years.

On October 14, 2014, the Board of Directors granted 24,340,771 shares of the restricted stock to the Board members who are not employees of the company. We recorded share-based compensation expenses of RMB 3.6 million for the restricted stock as of December 31, 2014 and the unrecognized share-based compensation expenses was amounting to RMB 13.6 million as of December 31, 2014 with a weighted average remaining contractual term of 2.63 years. For share-based compensation of directors and executive officers, please refer to Note 16.

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**Employment agreements**

*Service agreement with Dr. Jin Huang*

We entered into a service agreement dated August 28, 2007 with Dr. Jin Huang, our Chief Executive Officer. The initial employment term under this service agreement is two years, which will automatically be extended by successive periods of twelve months, unless we or Dr. Huang gives the other party a written notice three months prior to the commencement of the next twelve month period indicating that the notifying party does not wish to extend the employment term, in which case the employment term will expire at the end of such three month notice period.

In the event that we terminate Dr. Huang's employment for cause, or if Dr. Huang voluntarily resigns (other than a resignation for good cause following a change of control), Dr. Huang will not be entitled to receive any severance benefits; provided, that Dr. Huang will be able to exercise any vested and unexercised awards under our equity incentive plans in accordance with the terms set forth therein.

In the event that we terminate Dr. Huang's employment under circumstances other than a change of control and for any reason other than for cause or voluntary termination, or if within 24 months after a change of control Dr. Huang is involuntarily terminated (other than for cause) or voluntarily resigns for good cause, Dr. Huang will be entitled to certain severance benefits, including:

A lump sum payment consisting of: (i) an amount equal to one time Dr. Huang's then annual salary; (ii) a prorated bonus based on target opportunity for the year; and (iii) an amount equal to 12 months' housing allowance;

The right to exercise any and all unexercised stock options granted under our equity incentive plans in accordance with their terms, as if all such unexercised stock options were fully vested, within one year of the effective date of such termination; and

- Any other bonus amounts or benefits to which Dr. Huang may be entitled under any of our benefit plans.

Pursuant to the service contract, Dr. Huang also has agreed to certain non-competition undertakings during the term of her employment and for a period of one-year following any termination of her employment. These non-competition undertakings include that Dr. Huang may not, during the one-year period following any termination of her employment, (i) solicit or entice away any of our clients or prospective clients, (ii) have any business dealings with any of our clients or prospective clients, (iii) solicit or entice away any individual who is employed by us as a director or in a managerial, executive or technical capacity, or employ or engage any such individual, or (iv) carry on, set up,

be employed, engaged or interested in a business anywhere in the PRC which is in competition with our business as of the termination date. These non-competition undertakings will not prohibit Dr. Huang from seeking or doing any business that is not in direct or indirect competition with our business, nor will they prevent Dr. Huang from holding shares or other capital not amounting to more than 5% of the total issued share capital of any company which is listed on a regulated market. Dr. Huang is entitled to receive one-half her annual base salary over the post-termination non-competition period as consideration for her non-competition undertakings, which are subject to our making such payments.

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“Cause” means that Dr. Huang habitually neglects her duties to us or engages in gross misconduct during the term of the service agreement and “gross misconduct” means her misappropriation of funds, securities fraud, insider trading, unauthorized possession of corporate property, the sale, distribution, possession or use of a controlled substance, conviction of any criminal offense or entry of a plea of nolo contendere (or similar plea) to a charge of such an offense or a breach of the service agreement and failure to cure such breach within ten days after written notice thereof.

“Good cause” means, without Dr. Huang’s express prior written consent, (i) she is assigned duties materially inconsistent with her position, duties, responsibilities, or status with the company which substantially vary from that which existed immediately prior to the change of control, and such reassignment is not directly related to her incapacity, disability or any “cause”; (ii) she experiences a change in her reporting levels, titles, or business location (more than 50 miles from her current business location or residence, whichever is closer to the new business location) which substantially varies from that which existed immediately prior to the change of control, and such change is not directly related to her incapacity, disability or any “cause”; (iii) she is removed from any position held immediately prior to the change of control, or if she fails to obtain reelection to any position held immediately prior to the change of control, which removal or failure to reelect is not directly related to her incapacity or disability, “cause” or death; (iv) she experiences a reduction in salary of more than ten percent below that which existed immediately prior to the change of control, and such reduction is not directly related to her incapacity, disability or any “cause”; (v) she experiences an elimination or reduction of any employee benefit, business expenses, reimbursement or allotment, incentive bonus program, or any other manner or form of compensation available to her immediately prior to the change of control and such change is not otherwise applied to others in the company with her position or title and is not directly related to her incapacity, disability or any “cause”; or (vi) we fail to obtain from any successor, before the succession takes place, a written commitment obligating the successor to perform the service agreement in accordance with all of its terms and conditions.

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“Change in control” means (i) any merger, consolidation, or sale of the company such that any individual, entity or group acquires beneficial ownership of 50 percent or more of our voting capital stock, (ii) any transaction in which we sell substantially all of our material assets, (iii) our dissolution or liquidation, (iv) any change in the control of the composition of our board of directors such that the shareholders who as of the date of the service agreement controlled the composition of our board of directors shall cease to have such control, or (v) there has occurred a “change of control,” as such term (or any term of like import) is defined in any of the following documents which is in effect with respect to us at the time in question: any note, evidence of indebtedness or agreement to lend funds to us, any option, incentive or employee benefit plan of us or any employment, severance, termination or similar agreement with any person who is then our employee.

*Employment Agreements with our other Executive Officers*

We have entered into employment agreements with each of our executive officers. Under these agreements, each of our executive officers is employed for a specified time period subject to renewal. We may terminate employment with or without cause in accordance with the Labor Contract Law of the PRC and the applicable PRC regulations. As stipulated under the applicable laws, we may be required to provide severance compensation as expressly required by applicable law. In certain cases, in the event of termination without cause, we are also required to provide severance compensation in accordance with the terms of the applicable employment agreement.

*Confidential information and invention assignment agreements*

We have also entered into a confidential information and invention assignment agreement with each of our executive officers. We require all of our employees to execute the same confidential information and invention assignment agreement or an agreement on substantially similar terms. Under the terms of the agreement, each executive officer has agreed to hold, both during and after such executive officer’s term of employment, in strictest confidence and not to use, except for our benefit, or to disclose to any person, firm or corporation without written authorization, any confidential information. Confidential information does not include any information which has become publicly known and made generally available through no wrongful act of our executive officers. Each executive officer has also agreed during such officer’s term of employment not to improperly use or disclose any proprietary information or trade secrets of any former or current employer or other person or entity unless consented to in writing by such employer, person or entity. In addition, each executive officer has agreed to disclose to us, hold in trust for the sole right and benefit of us and assign to us, all right, title and interest in and to, any and all inventions, original works of authorship, developments, concepts, improvements or trade secrets, whether or not patentable or registrable under copyright or similar laws, which such executive officer may solely or jointly conceive, develop or reduce to practice or cause to be conceived, developed or reduced to practice, during the period of employment. Furthermore, each executive officer has agreed to not directly or indirectly solicit, induce, recruit or encourage any employees to leave their employment during the 12 month period immediately following such executive officer’s termination of employment.



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**Equity-based compensation plans**

***2005 Stock Plan***

Our 2005 Stock Plan was initially adopted by the board of directors and shareholders of Ambow Education Co., Ltd. in February 2005. In connection with our restructuring and the formation of Ambow, we assumed and adopted the 2005 Stock Plan, and all options outstanding thereunder, on July 18, 2007.

Our 2005 Stock Plan provides for the grant of incentive stock options (“ISOs”), within the meaning of Section 422 of the Internal Revenue Code of 1986, or Code, to our employees and any of our parent and subsidiary corporations’ employees, and for the grant of nonstatutory stock options, or NSOs, and shares to our employees, directors and consultants and any of our parent and subsidiary corporations’ employees and consultants. Following our IPO, we no longer grant any awards under the 2005 Stock Plan. Instead, we will grant awards under our 2010 Equity Incentive Plan. However, the 2005 Stock Plan will continue to govern the terms and conditions of any outstanding awards previously granted thereunder.

*Administration.* Our board of directors or a committee appointed by our board administers our 2005 Stock Plan. Under our 2005 Stock Plan, the administrator has the power to determine the terms of the awards, including the fair market value, the service providers who will receive awards, the number of shares subject to such award, the exercise price, the vesting schedule and exercisability of awards and the form of consideration payable upon exercise.

*Options.* The administrator may grant ISOs or NSOs under our 2005 Stock Plan. With respect to ISOs, the exercise price must be at least equal to the fair market value of our ordinary shares on the date of grant. With respect to all NSOs, the exercise price must be equal to at least 85% of the fair market value of our ordinary shares on the date of grant. The term of any option may not exceed ten years, except that with respect to any participant who owns more than 10% of the total combined voting power of all classes of our outstanding shares, or of certain of our parent or subsidiary corporations, the term of an ISO must not exceed five years and the exercise price must equal at least 110% of the fair market value on the grant date. The administrator determines the term of all options, subject to the above limitations.

After termination of an employee, director or consultant, he or she may exercise his or her option, to the extent vested as of such date of termination, for the period of time stated in the option agreement. If termination is due to death or disability, the option will remain exercisable for at least 12 months. If termination is for cause, the option will terminate on the termination date or such later date as our board of directors may determine. In all other cases, the option will remain exercisable for at least 90 days. However, in no event may an option be exercised later than the expiration of its term.



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*Transferability.* Our 2005 Stock Plan does not allow for the transfer of awards other than by beneficiary designation, will or the laws of descent and distribution and only the recipient of an award may exercise an award during his or her lifetime.

*Certain adjustments.* In the event of a subdivision of the outstanding shares, declaration of a share dividend, combination or consolidation of the outstanding shares into a lesser number of shares, recapitalization, spin-off, reclassification or similar occurrence, the administrator shall make appropriate adjustments in the number of shares available for issuance under the 2005 Stock Plan, the number of shares covered by each outstanding option and/or the exercise price of each outstanding option.

*Merger and consolidation.* In the event of our merger or consolidation, each outstanding option shall be subject to the agreement of merger or consolidation, which may provide for the continuation, assumption or substitution of outstanding options. Such agreement may also provide for the cancellation of each outstanding option for a payment to the optionee of an amount in cash or cash equivalents equal to the fair market value of each option less its aggregate exercise price. Unless provided otherwise in the applicable award agreement, if the repurchase right for each outstanding award is not assigned to the entity or its parent or subsidiary that employs the participant immediately after the change in control, as defined in the 2005 Stock Plan, the award shall fully vest upon such change in control.

***2010 Equity Incentive Plan***

Our board of directors adopted our 2010 Equity Incentive Plan in March 2010 and our shareholders approved such plan in June 2010. Our 2010 Equity Incentive Plan became effective upon completion of our IPO.

Our 2010 Equity Incentive Plan provides for the grant of ISOs to our employees and any parent and subsidiary corporations' employees, and for the grant of NSOs, restricted shares, restricted share units, share appreciation rights, performance units and performance shares to our employees, directors and consultants and any of our parent and subsidiary corporations' employees and consultants.

*Share reserve.* The maximum aggregate number of our ordinary shares that may be issued under our 2010 Equity Incentive Plan is 19,000,000 Class A Ordinary Shares plus (i) any shares that, as of the completion of our IPO, have been reserved but not issued pursuant to awards granted under our 2005 Stock Plan and are not subject to any awards granted thereunder, and (ii) any shares subject to awards granted under the 2005 Stock Plan that expire or otherwise terminate without having been exercised in full, and shares issued pursuant to awards granted under the 2005 Stock Plan that are forfeited to or repurchased by the company, with the maximum number of shares to be added to the 2010 Equity Incentive Plan pursuant to clauses (i) and (ii) above equal to 10,000,000 Class A Ordinary Shares. In addition, our 2010 Equity Incentive Plan provides for annual increases in the number of shares available for issuance thereunder

on the first day of each fiscal year, beginning with our 2011 fiscal year, equal to the least of:

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· 5% of our outstanding ordinary shares on the last day of the immediately preceding fiscal year;

· 25,000,000 Class A Ordinary Shares; or

· Such lesser number as our board of directors may determine.

Shares issued pursuant to awards under the 2010 Equity Incentive Plan that we repurchase or that are forfeited, as well as shares used to pay the exercise price of an award or to satisfy the tax withholding obligations related to an award, will become available for future grant under the 2010 Equity Incentive Plan. In addition, to the extent that an award is paid out in cash rather than shares, such cash payment will not reduce the number of shares available for issuance under the 2010 Equity Incentive Plan.

*Administration.* Our board of directors or a committee of our board of directors administers our 2010 Equity Incentive Plan. Different committees with respect to different groups of service providers may administer our 2010 Equity Incentive Plan. In the case of awards intended to qualify as “performance based compensation” within the meaning of Code Section 162(m), the committee will consist of two or more “outside directors” within the meaning of Code Section 162(m). Subject to the provisions of our 2010 Equity Incentive Plan, the administrator has the power to determine the terms of the awards, including the recipients, the exercise price, the number of shares subject to each such award, the vesting schedule applicable to the awards, together with any vesting acceleration, and the form of consideration payable upon exercise. The administrator also has the authority to modify or amend awards, to prescribe rules and to construe and interpret the 2010 Equity Incentive Plan and to institute an exchange program whereby the exercise prices of outstanding awards may be reduced, outstanding awards may be surrendered in exchange for awards with a higher or lower exercise price, or outstanding awards may be transferred to a third party.

*Options.* The administrator may grant ISOs or NSOs under our 2010 Equity Incentive Plan. The exercise price of options granted under our 2010 Equity Incentive Plan must at least be equal to the fair market value of our ordinary shares on the date of grant and its term may not exceed ten years, except that with respect to any participant who owns more than 10% of the total combined voting power of all classes of our outstanding shares, or of certain of our parent or subsidiary corporations, the term of an ISO must not exceed five years and the exercise price of such ISO must equal at least 110% of the fair market value on the grant date. The administrator determines the term of all other options.

After termination of an employee, director or consultant, he or she may exercise his or her option, to the extent vested as of such date of termination, for the period of time stated in the option agreement. In the absence of a specified period of time in the option agreement, the option will remain exercisable for a period of three months following termination (or twelve months in the event of a termination due to death or disability). However, in no event may an option be exercised later than the expiration of its term.



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*Share appreciation rights.* Share appreciation rights may be granted under our 2010 Equity Incentive Plan. Share appreciation rights allow the recipient to receive the appreciation in the fair market value of our ordinary shares between the exercise date and the date of grant. The exercise price of share appreciation rights granted under our 2010 Equity Incentive Plan must at least be equal to the fair market value of our ordinary shares on the date of grant. The administrator determines the terms of share appreciation rights, including when such rights vest and become exercisable and whether to settle such awards in cash or with our ordinary shares, or a combination thereof. Share appreciation rights expire under the same rules that apply to options.

*Restricted shares.* Restricted shares may be granted under our 2010 Equity Incentive Plan. Restricted share awards are ordinary shares that are subject to various restrictions, including restrictions on transferability and forfeiture provisions. Restricted shares will vest and the restrictions on such shares will lapse, in accordance with terms and conditions established by the administrator. The administrator will determine the number of restricted shares granted to any employee. The administrator may impose whatever conditions to vesting it determines to be appropriate. For example, the administrator may set restrictions based on the achievement of specific performance goals and/or continued service to us. Recipients of restricted share awards generally will have voting and dividend rights with respect to such shares upon grant without regard to vesting, unless the administrator provides otherwise. Restricted shares that do not vest for any reason will be forfeited by the recipient and will revert to us.

*Restricted share units.* Restricted share units may be granted under our 2010 Equity Incentive Plan. Each restricted share unit granted is a bookkeeping entry representing an amount equal to the fair market value of an ordinary share. Restricted share units are similar to awards of restricted shares, but are not settled unless the award vests. The awards may be settled in shares, cash, or a combination of both, as the administrator may determine. The administrator determines the terms and conditions of restricted share units including the vesting criteria and the form and timing of payment.

*Performance units and performance shares.* Performance units and performance shares may be granted under our 2010 Equity Incentive Plan. Performance units and performance shares are awards that will result in a payment to a participant only if performance goals established by the administrator are achieved or the awards otherwise vest. The administrator will establish organizational or individual performance goals in its discretion, which, depending on the extent to which they are met, will determine the number and/or the value of performance units and performance shares to be paid out to participants. Performance units will have an initial dollar value established by the administrator prior to the grant date. Performance shares will have an initial value equal to the fair market value of our ordinary shares on the grant date. Payment for performance units and performance shares may be made in cash or in our ordinary shares with equivalent value, or in some combination, as determined by the administrator.

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*Transferability.* Unless the administrator provides otherwise, our 2010 Equity Incentive Plan does not allow for the transfer of awards other than by will or the laws of descent and distribution and only the recipient of an award may exercise an award during his or her lifetime.

*Certain adjustments.* In the event of certain changes in our capitalization, to prevent diminution or enlargement of the benefits or potential benefits available under the 2010 Equity Incentive Plan, the administrator will make adjustments to one or more of the number and class of shares that may be delivered under the plan and/or the number, class and price of shares covered by each outstanding award and the numerical share limits contained in the plan. In the event of our proposed liquidation or dissolution, the administrator will notify participants as soon as practicable and all awards will terminate immediately prior to the consummation of such proposed transaction.

*Change in control transactions.* Our 2010 Equity Incentive Plan provides that in the event of our merger or change in control, as defined in the 2010 Equity Incentive Plan, each outstanding award will be treated as the administrator determines, except that if the successor corporation or its parent or subsidiary does not assume or substitute an equivalent award for each outstanding award, then such award will fully vest, all restrictions on such award will lapse, all performance goals or other vesting criteria applicable to such award will be deemed achieved at 100% of target levels and such award will become fully exercisable, if applicable, for a specified period prior to the transaction. The award will then terminate upon the expiration of the specified period of time.

*Amendment and Termination.* Our 2010 Equity Incentive Plan will automatically terminate in 2020, unless we terminate it sooner. Our board of directors has the authority to amend, suspend or terminate the 2010 Equity Incentive Plan provided such action does not impair the rights of any participant with respect to any outstanding awards.

The following table summarizes, as of December 31, 2014, the share options and other equity awards granted to our executive officers under our 2005 Stock Plan and 2010 Equity Incentive Plan or pursuant to other arrangements approved by our board of directors:

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Name	Ordinary Shares Underlying Options Granted	Exercise Price (US\$/Share)	Date of Grant	Date of Expiration
Dr. Jin Huang	2,957,000	US\$ 4.63	02/25/10	02/24/20
Yigong Chen		* US\$ 0.00	02/04/05	02/03/15
Tan Kia Jing		* US\$ 3.73	02/10/09	02/09/19
		* US\$ 4.63	02/25/10	02/24/20
		* US\$ 3.90	02/25/11	24/02/21
Senlei Huang		* US\$ 1.95	04/08/08	04/07/18
		* US\$ 3.73	02/10/09	02/09/19
		* US\$ 4.63	02/25/10	02/24/20
		* US\$ 2.71	08/23/11	08/22/21
Xuejun Xie		* US\$ 0.00	02/04/05	02/03/15
		* US\$ 0.12	08/04/06	08/03/16
		* US\$ 1.95	08/26/08	08/25/18
		* US\$ 4.63	02/25/10	02/24/20
Jianguo Xue		* US\$ 0.00	02/04/05	02/03/15
		* US\$ 1.95	08/26/08	08/25/18
		* US\$ 4.63	02/25/10	02/24/20

\* Less than 1% of the outstanding ordinary shares

Our non-employee directors have received share options.

***Restricted Stock Awards***

On October 14, 2014, the Board of Directors granted 24 million shares of the restricted stock to the Board members who are not employees of the company. The number of shares of restricted stock subject to each award shall be determined by dividing US\$ 200 by the Cayman Court approved price per share of the Group's ordinary shares on May 14, 2014. The awards shall vest at a rate of 1/36th per month on the 14th day of each month during the first three anniversaries of May 14, 2014, subject to continued service on the Board.

**C.**

**Board Practices**

As of December 31, 2014, our board of directors consisted of seven directors.

Under our Fourth Amended and Restated Articles of Association, our board of directors shall consist of up to seven members divided into three classes, each with a term of three years. In 2013 and 2014, as a result of the resignation of certain Board members and due to the appointment of the JPLs, as fully described in Item 4A, we were unable to comply with this structure. As previously disclosed, upon the satisfaction of conditions and deliverables under the Restructuring Agreement and associated agreements to implement the Restructuring Plan, the Cayman Court approved the return of management to the our Board of Directors as reconstituted pursuant to the Restructuring Plan. The reconstitution of the Board occurred on May 13, 2014, which resulted from the resignation of two directors and the appointment of three new directors (two of whom are independent directors). The new Board consists of four existing directors: Dr. Jin Huang, Mr. Justin Chen, Mr. Ping Wu, and Mr. Winston Sim; and three new directors: Mr. John Porter, Mr. Ralph Parks and Dr. Yan Hui-Ma.

We believe that each of the non-executive members of our board of directors is an “independent director” as that term is used in the NYSE corporate governance rules.

No shareholder has the contractual right to designate persons to be elected to our board of directors, and our memorandum and articles of association provides that directors will be elected upon a resolution passed at a duly convened shareholders meeting by holders of a majority of our outstanding shares being entitled to vote in person or by proxy at such meeting, to hold office until the expiration of their respective terms. There is no minimum shareholding or age limit requirement for qualification to serve as a member of our board of directors.

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We have a staggered board. The Directors are divided into Class I, Class II and Class III, respectively and are assigned to each class in accordance with a resolution or resolutions adopted by the Board of Directors.

· At the first annual general meeting of Members (a person whose name is entered in the Register of Members as the holder of a share or shares) following the initial meeting, the term of office of the Class I Directors shall expire and Class I Directors shall be elected for a full term of three years.

· At the second annual general meeting of Members following the initial meeting, the term of office of the Class II Directors shall expire and Class II Directors shall be elected for a full term of three years.

· At the third annual general meeting of Members following the initial meeting, the term of office of the Class III Directors shall expire and Class III Directors shall be elected for a full term of three years.

· At each succeeding annual general meeting of Members, Directors shall be elected for a full term of three years to succeed the Directors of the class whose terms expire at such annual general meeting.

After the restructuring of the company happened in May 2014, we will review and re-elect the directors for another full term of three years.

The following table sets forth the names and classes of our directors as of the date of this annual report:

Class I	Class II	Class III
R. Ralph Parks	Ping Wu Winston Sim	Jin Huang
Yigong Justin Chen	John Robert Porter	Yanhui Ma

A director may be removed for negligence or other reasonable cause at any time before the expiration of his or her term by a special resolution passed at a duly convened shareholder meeting by the holders of at least two-thirds of our outstanding shares being entitled to vote in person or by proxy at such meeting or by a unanimous written consent of our shareholders. Vacancies on our board of directors created by such a removal or by resignation may be filled by resolution passed at a duly convened shareholder meeting by the holders of a majority of our outstanding shares

entitled to vote in person or by proxy at such meeting or by a majority vote of the remaining directors in office. A director so elected or appointed shall hold office until the next succeeding annual shareholder meeting and may be nominated for reelection at that time.

A director may vote on a proposal, arrangement or contract in which the director is interested, provided that such director has disclosed his interest in such matter to the board of directors at a meeting of the board of directors.

In addition, our board of directors may exercise all the powers of the company to borrow money, mortgage or charge its undertaking, property and uncalled capital, and issue debentures, debenture stock and other securities whenever money is borrowed or as a security for any debt, liability or obligation of the company or of any third party.

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*Duties of directors*

In general, under Cayman Islands law, our directors have a duty of loyalty to act honestly, in good faith and in our best interests. Our directors also have a duty to exercise the care, diligence and skills that a reasonably prudent person would exercise in comparable circumstances. In fulfilling their duty of care to us, our directors must ensure compliance with our memorandum and articles of association then in effect. In certain limited circumstances, our shareholders have the right to seek damages through a derivative action in the name of the company if a duty owed by our directors is breached.

**Committees of our board of directors**

We have established an audit committee, a compensation committee. We have adopted a charter for each of these committees. These committees' members and functions are briefly described below. As a Cayman Islands company, we are not required to and we have not formed a separate nominating or corporate governance committee of the board, but we have one in place. Our full board of directors will perform the functions performed by such committee.

*Audit committee*

Our audit committee consists of Yigong Justin Chen and Winston Sim, each of whom meets the independence standards of the NYSE and the SEC. Yigong Justin Chen is the Chairperson of our audit committee. Mr. Winston Sim serves as our audit committee financial expert. We appointed Yanhui Ma as our third audit committee member in February 2015. The responsibilities of our audit committee include, among other things:

Appointing, and overseeing the work of our independent auditors, approving the compensation of our independent auditors, and, if appropriate, discharging our independent auditors;

Pre-approving engagements of our independent auditors to render audit services and/or establishing pre-approval policies and procedures for such engagements and pre-approving any non-audit services proposed to be provided to us by our independent auditors;

Discussing with management and our independent auditors significant financial reporting issues raised and judgments made in connection with the preparation of our financial statements;

Reviewing and discussing reports from our independent auditors on (1) the major critical accounting policies to be used, (2) significant alternative treatments of financial information within the U.S. generally accepted accounting principles, or GAAP, that have been discussed with management, (3) ramifications of the use of such alternative disclosures and treatments, and (4) other material written communications between our independent auditors and management;

· Resolving any disagreements between management and our independent auditors regarding financial reporting;

Establishing procedures for receiving, retaining and treating any complaints we receive regarding accounting, internal accounting controls or auditing matters and procedures for the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters; and

· Reporting regularly to the full board of directors.

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*Compensation committee*

Our compensation committee consists of Dr. Yanhui Ma and Dr. Ping Wu, each of whom is an “independent director” as that term is used in the NYSE corporate governance rules. Ping Wu is the Chairperson of our compensation committee. Our compensation committee assists the board of directors in reviewing and approving the compensation structure of our directors and officers, including all forms of compensation to be provided to our directors and officers. The responsibilities of our compensation committee include, among other things:

Reviewing and recommending to our board of directors with respect to the total compensation package for our executive officers;

Reviewing and recommending to our board of directors with respect to director compensation, including equity-based compensation; and

Reviewing periodically and recommending to the board of directors with respect to any long term incentive compensation or equity plans, programs or similar arrangements, annual bonuses, employee pension and welfare benefit plans.

**D.**

**Employees**

As of December 31, 2014, we and our subsidiaries had 4,754 full-time employees, and 863 part-time employees, respectively. As of December 31, 2014, we had the following numbers of full-time employees by department: 909 in selling and marketing, 1,246 in general and administrative functions, 57 in research and development, and 2,542 teachers. None of our employees are represented by collective bargaining arrangements. We consider our relations with our employees to be good.

**E.**

**Share Ownership**

The following table sets forth information regarding the beneficial ownership of our ordinary shares on March 31, 2015 by:

Each of our directors and executive officers; and

Each person known by us to own more than 5% of our ordinary shares.



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We have determined beneficial ownership in accordance with the rules of the SEC. Except as indicated in the footnotes below, we believe, based on the information furnished to us, that the persons named in the following table have sole voting and investment power with respect to all ordinary shares that they beneficially own, subject to applicable community property laws.

Our ordinary shares are divided into Class A Ordinary Shares and Class B Ordinary Shares. Holders of Class A Ordinary Shares are entitled to one vote per share, while holders of Class B Ordinary Shares are entitled to ten votes per share. We issued Class A Ordinary Shares represented by our ADSs in our IPO in August 2010. Holders of Class B Ordinary Shares may convert their Class B Ordinary Shares into the same number of Class A Ordinary Shares at any time.

On January 21, 2015, Spin-Rich Ltd., a British Virgin Islands company that is wholly owned by Dr. Jin Huang, converted all of its 12,600,000 Class B Ordinary Shares into Class A Ordinary Shares on a one for one basis. As an affiliate of Spin-Rich, Ltd., upon the conversion of Spin-Rich, Ltd.'s Class B Ordinary Shares, Dr. Huang's ownership of Class B Ordinary Shares was reduced below 5%. As a result, in accordance with the Company's Memorandum & Articles of Association, all of the outstanding Class B Ordinary Shares held by shareholders other than Spin-Rich, Ltd., were automatically converted into Class A Ordinary Shares on a one-for-one basis. As a result, we now only have Class A Ordinary Shares issued and outstanding.

The percentage of shares beneficially owned and votes held by each listed person is based upon 1,133,425,382 ordinary shares outstanding as of March 31, 2015, all of which are Class A Ordinary Shares. In computing the number of ordinary shares beneficially owned by a person and the percentage ownership of that person, we deemed outstanding ordinary shares subject to options or warrants held by that person that are currently exercisable or exercisable within 60 days of March 31, 2015. We did not deem these shares outstanding, however, for the purpose of computing the percentage ownership of any other person.

Unless otherwise indicated, the principal address of each of the shareholders below is c/o Ambow Education Holding Ltd., 18th Floor, Building A, Chengjian Plaza, No. 18, BeiTaiPingZhuang Road, Haidian District, Beijing 100088, China.

Table of Contents**PRINCIPAL SHAREHOLDERS**

The following table sets forth, as of March 31, 2015, certain information concerning the beneficial ownership of the Class A Shares by (i) each shareholder known by the Company to own beneficially five percent or more of the outstanding Class A Shares; (ii) each director and the nominee for director of the Company; (iii) each executive officer of the Company; and (iv) all executive officers and directors of the Company as a group, and their percentage ownership and voting power.

Unless otherwise indicated, the address of such individual is c/o Ambow Education Holding Ltd., 18th Floor, Building A, Chengjian Plaza, No. 18, BeiTaiPingZhuang Road, Haidian District, Beijing 100088, China.

Name	# of Class A Shares	Percentage of Total Class A Shares (%)
Jin Huang (2)	133,132,402	11.75
Kia Jing Tan	-	-
Senlei Huang	-	-
Xuejun Xie	-	-
Jianguo Xue	-	-
Yigong Justin Chen	-	-
Ping Wu (3)	98,251,973	8.67
Winston Sim	-	-
John Porter (4)	635,244,253	56.05
Ralph Parks	-	-
Yan Hui-Ma	-	-
All executive officers and directors of the Company as a group (11 persons)(5)	891,666,623	78.67

5% and Greater Shareholders	# of Class A Shares	Percentage of Total Class A Shares (%)
China Education Investment Holding Ltd.(6)	635,244,253	56.05
Jin Huang (2)	133,132,402	11.75
Summitview Investment Fund I, L.P. (7)	98,251,973	8.67
Investment entities affiliated with Baring Private Equity (8)	98,413,450	8.68

(1) In computing the number of Shares beneficially owned by a person and the percentage ownership of a person, Shares subject to options, warrants or other derivative securities held by that person that are currently exercisable or exercisable within 60 days are deemed outstanding. Such Shares, however, are not deemed outstanding for

purposes of computing the percentage ownership of each other person. Except as indicated in the footnotes to this table and pursuant to applicable community property laws, the persons named in the table have sole voting and investment power with respect to all Shares.

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- (2) Dr. Huang owns 133,132,402 Class A Shares, out of which 12,600,000 was converted from Class B Shares on January 21, 2015.

(3) The Class A Shares are held by SummitView Investment Fund I, L.P. Mr. Wu disclaims beneficial ownership of all Shares held by SummitView Investment Fund I, L.P., except to the extent of his pecuniary interest therein. The business address of Mr. Wu is Room 1101, Block E of Poly Plaza, No. 18 Dongfang Road, Shanghai 200120, China.

(4) Mr. Porter is the sole director of China Education Investment Holding Limited. As the sole director, he has sole voting and dispositive power over the 501,508,621 Class A Shares, which represent in the aggregate approximately 54.6% of the Class A Shares deemed outstanding, under Rule 13d-3 pursuant to the terms of the Loan Agreement described in Item 4 of CEIHL's Schedule 13D filed on September 9, 2014. Pursuant to Rule 13d-3, the entire amount of the Convertible Loan (consisting of an aggregate principal amount of US\$48 million which is convertible into an aggregate of 972,782,696 Class A Shares pursuant to the Loan Agreement following approval by the Issuer's shareholders of an increase of 149,339,530 Class A Shares in the authorized share capital of the Issuer) of which to date 501,508,621 shares have been converted and issued, was deemed to be converted for purposes of calculating the total amount of outstanding Class A Shares and percentages of the Class A Shares owned by the Reporting Person. Consequently, all Class A Share amounts and percentages have been determined by assuming full conversion of the Convertible Loan into Class A Shares.

On September 5, 2014, CEIHL converted US\$31.7 million of the Convertible loans and became the registered holder of 501,508,621 Class A Ordinary Shares.

On March 5, 2015, CEIHL converted US\$6.3 million of the Convertible Loan and became the registered holder of 133,735,632 Class A Ordinary Shares. In total, CEIHL owns 635,244,253 Class A Ordinary Shares, representing 56.05% ownership interest.

- (5) Includes Class A Shares and options to purchase Class A Shares held by all of our directors and executive officers as a group.

(6) China Education Investment Holding Limited owns 501,508,621 Class A Shares, which represent in the aggregate approximately 54.6% of the Class A Shares deemed outstanding, under Rule 13d-3 pursuant to the terms of the Loan Agreement described in Item 4 of CEIHL's Schedule 13D filed on September 9, 2014. Pursuant to Rule 13d-3, the entire amount of the Convertible Loan (consisting of an aggregate principal amount of US\$48 million which is convertible into an aggregate of 972,782,696 Class A Shares pursuant to the Loan Agreement following approval by our shareholders of an increase of 149,339,530 Class A Shares in the authorized share capital of the Issuer) of which to date, 501,508,621 Shares have been converted and issued, was deemed to be converted for purposes of calculating the total amount of outstanding Class A Shares and percentages of the Class A Shares owned by the Reporting Person. Consequently, all Class A Share amounts and percentages have been determined by assuming full conversion of the Convertible Loan into Class A Shares. Mr. John Porter, is the sole director of CEIHL and is deemed to be the beneficial owner of the Shares.

On September 5, 2014, CEIHL converted US\$31.7 million of the Convertible loans and became the registered holder of 501,508,621 Class A Ordinary Shares.

On March 5, 2015, CEIHL converted US\$6.3 million of the Convertible Loan and became the registered holder of 133,735,632 Class A Ordinary Shares. In total, CEIHL owns 635,244,253 Class A Ordinary Shares, representing 56.05% ownership interest.

SummitView Investment Fund I, L.P. owns 98,251,973 Class A Shares.

(7)

Includes 3,411,650 Class A Ordinary Shares held by Baring Private Equity Asia V Holding (4) Limited, and 11,417,030 Class A Ordinary Shares held by Campus Holdings Limited. Baring Private Equity Asia V Holding (4) Limited and Campus Holdings Limited each has its principal office at Columbus Center, 2nd Floor, Suite 210, Road Town, Tortola, British Virgin Islands. The Baring Asia Private Equity Fund V, L.P. and The Baring Asia Private Equity Fund V Co-Investment L.P. as the joint shareholders of Baring Private Equity Asia V Holding (4) Limited and Campus Holdings Limited, may be deemed to have acquired beneficial ownership of an aggregate of 14,828,680 Class A Ordinary Shares. Baring Private Equity Asia GP V Limited, as the general partner of Baring Private Equity Asia GP V, L.P., and Baring Private Equity Asia GP V, L.P., which in turn acts as the general partner of The Baring Private Asia Private Equity Fund V, L.P. and The Baring Asia Private Equity Fund V Co-Investment L.P., each may be deemed to have acquired beneficial ownership of an aggregate of 14,828,680 Class A Ordinary Shares. The Baring Asia Private Equity Fund V, L.P., The Baring Asia Private Equity Fund V (8)Co-Investment L.P., Baring Private Equity Asia GP V, L.P. and Baring Private Equity Asia GP V Limited each has its principal office at P.O. Box 309, Uglan House Grand Cayman, KY 1-1104, Cayman Islands. Jean Eric Salata, as the sole shareholder of Baring Private Equity Asia GP V Limited, may be deemed to have acquired beneficial ownership of an aggregate of 14,828,680 Class A Ordinary Shares. Mr. Salata disclaims beneficial ownership of such shares except to the extent of his economic interest. Mr. Salata's principal office is at 3801 Two International Finance Center, 8 Finance Street, Central, Hong Kong.

On March 5, 2015, Baring converted US\$5 million of the Convertible Loan and became the registered holder of 83,584,770 Class A Ordinary Shares. In total, Baring owns 98,413,450 Class A Ordinary Shares, representing 8.68% ownership interest.

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Three shareholders of the VIEs, namely Yisi Gu, Xuejun Xie and Jianguo Xue are also beneficial owners of the company. As of March 31, 2015, the aggregated beneficial ownership of the three individuals was less than 2% of the company.

Except as disclosed in this annual report, including contractual control arrangements and VIE shareholders' beneficial ownership in us and equity interest in VIEs, there are no relationships between the parties. Other than the voting proxies given to Dr. Jin Huang, and the contractual control arrangements disclosed in this annual report, our officers, directors or shareholders do not have any written or oral agreement with the VIE shareholders. We are not aware of any relationship or arrangement between or among any shareholders that would enable any of them to control, in substance or contractually, any other shareholder's vote.

We believe that under our current corporate structure, where the shareholders of the VIEs are also our shareholders and officers, the interests of the VIEs and their shareholders largely are aligned with us and our shareholders as a practical matter. In addition, each shareholder of the VIEs has signed a power of attorney for Ambow Online to exercise his or her voting power. If shareholders of VIEs attempt to revoke the powers of attorney, the company will instruct AECL, one of our subsidiaries, to exercise its exclusive option to designate other PRC persons to acquire the equity interests in such VIE from its current shareholders pursuant to call option agreements. Before the current shareholders transfer the equity interests of the VIE to other PRC persons designated by AECL, it is prohibited from transferring the equity interests of the VIE to anyone else without the AECL' prior written consent under the equity pledge agreements. Moreover, pursuant to call option agreements, VIEs' shareholders agree not to, and shall cause VIEs not to, sell, assign, mortgage or otherwise dispose of any assets, lawful income and business revenues of VIEs, or enter into any transactions that may substantially affect the company's assets, liabilities, operations, equity and other legitimate interests (other than those made in the ordinary course of business or have been disclosed to and approved by AECL in writing) before AECL or an entity designated by AECL in writing exercises call option to obtain all the equity interest and assets. As a cumulative result of the foregoing, we are of the view that shareholders of VIEs are unable to effectively revoke the powers of attorney under the VIE agreements. For the risk relating to potential conflicts of interests between shareholders of VIE with us, please also refer to the risk factor captioned. The shareholders of our VIEs may have potential conflicts of interest with us, which may harm our business and financial condition.

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As of March 31, 2015, approximately 1,133,425,382 of our ordinary shares were issued and outstanding. Citibank, N.A., the depository, has advised us that, as of March 31, 2015, 1,183,648 ADSs, representing 2,367,296 underlying ordinary shares, were held of record by DTC, the Depository Trust Company, under the nominee name of Cede & Co., on behalf of DTC participants. The number of beneficial owners of our ADS in the United States is likely to be much larger than the number of record holders of our ordinary shares in the United States.

**Item 7. Major Shareholders and Related Party Transactions**

**A. Major Shareholders**

Please refer to “Item 6.E Directors, Senior Management and Employees — Share Ownership.”

**B. Related Party Transactions**

Contractual arrangements with our VIEs and their respective subsidiaries and shareholders

PRC laws and regulations prohibit foreign ownership of primary and middle schools for students in grades one to nine and foreign ownership of Internet content business in China.

We conduct our education business in China primarily through contractual arrangements among our subsidiaries in China and VIEs. Our VIEs and their respective subsidiaries hold the requisite licenses and permits necessary to conduct our education business in China and operate our tutoring and training centers, K-12 schools, career enhancement training centers and college. These contractual arrangements enable us to:

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Exercise effective control over our VIEs and their respective subsidiaries;

Receive a substantial portion of the economic benefits from our VIEs and their respective subsidiaries in consideration for products sold and technical support, marketing and management consulting services provided by Ambow Online to our VIEs and their respective subsidiaries; and

Have an exclusive option to purchase all or part of the equity interests in our VIEs, in each case when and to the extent permitted by applicable PRC law.

Our subsidiaries and VIEs' subsidiaries have engaged, during the ordinary course of business, in a number of customary transactions with each other. All of these inter-company balances have been eliminated in consolidation.

In addition, Ambow Online entered into a service agreement with the Applied Technology College effective as of August 1, 2009 pursuant to which Ambow Online, in exchange for service fee payments from the Applied Technology College, shall provide to the Applied Technology College: (i) consulting services regarding, among other things, business planning, mergers and acquisitions, development, accounting, tax and finance, human resources management and legal compliance; (ii) faculty training services; (iii) student career orientation services; and (iv) marketing services. The term of this service agreement is indefinite unless terminated by either party upon 30 days' notice or by mutual agreement. As of the date of this annual report, Applied Technology College has not yet made any payments under this service agreement.

See "Item 4.C — Information on the Company — Organizational Structure" for a summary of these contractual arrangements.

As of December 31, 2014, we had RMB 2.8 million due from certain related parties and owed RMB 8.5 million to certain related parties. For a list of these transactions we have entered into with and the outstanding balances to and from such related parties for the years ended December 31, 2012, 2013 and 2014, see Note 23 in our Notes to consolidated financial statements. We do not believe that such transactions with the related parties require approval from the government.

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**Employment agreements**

We have entered into a service contract with our Chief Executive Officer as well as employment agreements and confidential information and invention assignment agreements with each of our executive officers. See “Item 6.B—Directors, Senior Management and Employees—Compensation—Employment agreements.”

**Indemnification agreements**

We have entered into indemnification agreements with each of our directors and executive officers that provide our directors and executive officers with additional protection regarding the scope of the indemnification set forth in our memorandum and articles of association. Pursuant to these agreements, we indemnify each of our directors and executive officers (to the fullest extent permitted by Cayman Islands law) against all costs and expenses, including expense advances, incurred in connection with any claim by reason or arising out of any event or occurrence relating to the fact that such person is our director or executive officer or is serving at our request at another corporation or entity, or by reason of any activity or inactivity while serving in such capacity. We are not, however, obligated to indemnify any such person:

For expenses resulting from matters for which such person is prohibited from being indemnified under our memorandum and articles of association then in effect or applicable laws;

In respect of any claim initiated or brought voluntarily by such person (other than in limited specified circumstances);  
or

For expenses incurred in relation to any proceedings to enforce the agreement in which material assertions in such proceedings made by such person are finally determined by a court to be not made in good faith or to be frivolous.

**Registration rights**

Some of our shareholders, including our former preferred shareholders, are parties to an amended and restated investor rights agreement, or the investor rights agreement, that provides for customary registration rights with respect to the ordinary shares issued upon the conversion of our preferred shares. We refer to these ordinary shares below as the registrable securities.

*Demand registration rights.* Holders of at least 40% of the registrable securities may require us to register or qualify for sale all or part of the registrable securities that such holders request to be registered. We are not obligated to effect any such registration:

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If the anticipated aggregate proceeds from such registration are less than US\$10.0 million;

In any particular jurisdiction in which we would be required to execute a general consent to service of process in effecting such registration, qualification or compliance (unless we are already subject to service in such jurisdiction and except as may be required by the Securities Act);

After we have initiated three such registrations; or

During the period starting with the date 60 days prior to our good faith estimate of the date of filing of, and ending 180 days after the effective date of, a registration initiated by us (provided that we are actively employing in good faith commercially reasonable efforts to cause such registration to become effective).

If we are qualified to do so, holders of registrable securities may also require us, on one occasion in any 12-month period, to register their securities on Form F-3 as long as the anticipated aggregate offering price of the registrable securities to be sold, net of underwriting discounts and commissions, equals or exceeds \$2,000,000.

We also have the right to defer a requested registration for a period of not more than 180 days if our board of directors determines in its good faith judgment that the filing of a registration statement covering the registrable securities would be materially detrimental to us and that it is in our best interests to defer the filing of such registration statement. We may not exercise this deferral right more than twice in any 12-month period.

*Piggyback registration rights.* Holders of registrable securities also have “piggyback” registration rights, which require us to include their registrable securities when we register our securities.

*Underwriters’ cutback.* The number of registrable securities that our shareholders may register pursuant to their demand and “piggyback” registration rights in an underwritten offering may be limited by the underwriters on a pro rata basis based on marketing factors, provided that the aggregate of the registrable securities to be included in such registration may not be reduced to less than 25% of the total value of all securities included in such registration. No registrable securities that are issued or issuable pursuant to conversion of Series B preferred shares, Series C preferred shares or Series D preferred shares may be reduced until all other securities (other than ordinary shares issued by us in such public offering) are excluded from such public offering.

*Expenses of registration.* We are generally required to bear all registration expenses relating to demand and piggyback registration rights. However, we are not required to bear the expenses of any demand registration if the request is subsequently withdrawn by the requesting shareholders unless the requesting shareholders agree to forfeit their right to one demand registration.

*Indemnification.* The investor rights agreement contains customary cross-indemnification provisions pursuant to which we and the requesting shareholders are obligated to provide indemnification to each other and in certain circumstances contribute to payments that we or such shareholders may be required to make in the event of material misstatements or omissions in a registration statement or other filing attributable to the indemnifying party.

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*Termination of registration rights.* The registration rights described above will terminate as to any holder of registrable securities on the earlier of:

The date on which all shares of registrable securities held or entitled to be held upon conversion by such holder may immediately be sold under Rule 144 promulgated under the Securities Act during any 90-day period; or

The five-year anniversary of the completion of our IPO.

We also entered into a registration rights agreement with Campus, Dr. Huang and Spin-Rich Ltd., which entitles them certain registration rights, including demand registration rights, Form F-3 registration rights, and piggyback registration, such registration rights are similar to the registration rights granted to our former preferred shareholders.

In addition, the company has signed Registration Rights Agreements in connection with IFC Loan in 2012, which was terminated in 2014. For details, please refer to “Item 5. B. Liquidity and Capital Resources - Long-term and short-term borrowings”.

**C. Interests of Experts and Counsel**

Not applicable.

**Item 8. Financial Information**

**A. Consolidated Financial Statements and other Financial Information**

Please see “Item 18. Financial Statements.”

**Legal Proceedings**

From time to time, we are subject to legal proceedings, investigations and claims incidental to the conduct of our business.

In April 2012, Skillsoft Asia Pacific Pty Ltd. (“Skillsoft”) filed a statement of claim (HCCL19/2013) against the company in the High Court of the Hong Kong Special Administrative Region Court of First Instance alleging breach of contract. The complaint seeks a declaration that the contract between the company and Skillsoft remains in full force and effect as well as monetary damages, interest and costs. On 12 December 2013, the Hong Kong court has ordered a summary judgment in favor of Skillsoft for US\$0.6 million with interest from October 2011. In addition, Skillsoft filed two claims: a) HCCL20/2013 on June 7, 2013, seeking a payment of US\$2.5 million for breach of the contract and US\$2.0 million in respect of invoices for pre-paid licensing fees; b) HCCL31/2013 on October 21, 2013 seeking a payment of US\$2.0 million for breach of the contract. A without prejudice offer for settlement was made on 18 June 2014: the Company pays to Skillsoft the sum of US\$0.6 million with interest (US\$0.1 million as at 12 June 2014) and costs (estimated at HK\$0.4 million). Subsequently the offer of settlement was not accepted by Skillsoft prior to expiry on 3 July 2014 and has accordingly lapsed. On March 20, 2015, the Honorable Mr Justice Anthony Chan ordered that HCCL19, 20 and 31/2013 be consolidated and proceed as a single action. The claim will now be made by Skillsoft for a consolidated sum of US\$7.3 million. As of December 31, 2014, the company has paid US\$0.8 million to settle the judgment of HCCL19/2013 made on December 12, 2013. On April 17, 2015 a Re-Amended Statement of Claim was served by Skillsoft in the consolidated action. Additionally, Skillsoft now seeks indemnity for breaches (1) that Ambow failed to use reasonable commercial efforts to market, demonstrate and distribute Skillsoft’s products (2) indemnity for the appointment, by Ambow of re-sellers, sub-distributors and agents without Skillsoft’s express prior permission and (3) an order for specific performance for Ambow to provide Sales Reports for each month in 2012 and 2013 and make available for inspection and audit all accounting, sales, and customer service books and records. The company also believes that it is too early to assess the potential outcome of these claims as no particulars of these claims have been provided by Skillsoft yet.

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In February 2013, Changsha K-12 Experimental School was involved in a civil lawsuit in Hunan Province High Court, a cooperation dispute on host right of Changsha K-12 Experimental School, amounting to RMB 168.0 million as the plaintiff's claim. On November 13th, 2014, Hunan Province High Court made the decision that all the claims of the plaintiff were overruled. The case has been appealed to the Supreme Court of PRC. Now the company is waiting for the court notice of the second instance.

In November 2014, Beijing Ambow Online Software Company Ltd. filed an administrative lawsuit to Beijing Haidian District Court, with the Eighth Tax Office of National Tax Bureau in Beijing Haidian District as the defendant. The defendant made a tax notice on August 18th, 2014 that the company's preferential tax qualification was cancelled because of tax evasion in 2011 and the company needed to pay the enterprise income tax already exempted, which was RMB 7.3 million. Until December 31st, 2014, the overdue fee has been accrued to RMB 3.4 million and the total amount to be paid has been accrued to RMB 10.7 million, the claim is to revoke the tax notice. On March 13th, 2015, the court ruled that the lawsuit was rejected. If the plaintiff refuses to accept the ruling, appeal can be filed within 10 days of the receipt of the ruling. On March 20, 2015, the Company has filed an appeal on Beijing First Intermediate People's Court. Now the Company is waiting for the court notice of the second instance. An income tax payable of RMB 10.7 million has been recognized for the loss contingency as of December 31, 2014.

On June 11, 2012, the Company was named as a defendant in a putative securities class action filed in the U.S. District Court for the Central District of California. The complaint also named as defendants current officer of Ambow, Jin Huang, and former officer Paul Chow. On June 22, 2012, a second putative securities class action complaint was filed in the Central District of California against Ambow, Chow and Huang. On November 19, 2012, the Judge issued an order consolidating the two cases and appointing Tianqing Zhang as lead plaintiff. On February 18, 2013, plaintiffs filed a consolidated amended complaint against Ambow and eight individual defendants, sought recovery on behalf of all persons and entities that purchased or otherwise acquired Ambow's American Depositary Shares on the New York Exchange from the date of its initial public offering on August 5, 2010 through July 5, 2012 for allegedly false and misleading statements concerning Ambow's operations and financial results in the Company's public filings with the U.S. Securities and Exchange Commission. On May 3, 2013, plaintiffs filed a second consolidated amended Complaint. On March 17, 2014, plaintiffs filed a third amended complaint asserting the same claims against the same defendants. On March 24, 2014, Judge entered a scheduling order pursuant to which defendants' motions to dismiss the third amended complaint are due by May 19, 2014. On or around May 12, 2014, counsel for the parties agreed upon the principal terms of a settlement. The settlement provides for a total payment of RMB 9.1 million (US\$ 1.5 million) by the Company's insurer to the plaintiff class, in exchange for complete dismissal and release of all claims that were or could have been asserted in the action against the Company and named defendants. At the final approval hearing, held on March 16, 2015, Plaintiffs reported that they had not received any objections to the proposed settlement, not any request from individuals to be excluded from the settlement class. At March 16 hearing, the Court granted Plaintiffs' motion for final approval of the class action settlement and attorney fees and costs, thereby terminating this litigation subject to the payment of the settlement amount. By the date of issuance of this report, the Company has not received the full dismissal and release letter from the court yet.

## **Dividends**

Since our inception, we have not declared or paid any dividends on our shares. We intend to retain any earnings for use in our business and do not currently intend to pay cash dividends on our ordinary shares. Dividends, if any, on our outstanding ordinary shares will be declared by and subject to the discretion of our board of directors, and subject to Cayman Islands law.

Our ability to pay cash dividends will also depend upon the amount of distributions, if any, received by us from our PRC subsidiaries, which must comply with the laws and regulations of the PRC and their respective articles of association in declaring and paying dividends to us. Under the applicable requirements of PRC law, our PRC subsidiaries incorporated as companies may only distribute dividends after they have made allowances to fund certain statutory reserves. If they record no net income for a year as determined in accordance with generally accepted accounting principles in the PRC, they generally may not distribute dividends for that year.

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Any dividend we declare will be paid to the holders of ADSs, subject to the terms of the deposit agreement, to the same extent as holders of our ordinary shares, to the extent permitted by applicable law and regulations, less the fees and expenses payable under the deposit agreement. Any dividend we declare will be distributed by the depository bank to the holders of our ADSs. Cash dividends on our ordinary shares, if any, will be paid in U.S. dollars.

**B. Significant Changes**

Except as disclosed elsewhere in this annual report, we have not experienced any significant changes since the date of our audited consolidated financial statements included in this annual report.

**Item 9. The Offer and Listing**

**A. Offer and Listing Details**

See “—C. Markets.”

**B. Plan of Distribution**

Not applicable.

**C. Markets**

On October 6, 2014, our ADSs (each representing two Class A Ordinary Shares) were removed from listing on the New York Stock Exchange LLC (the “NYSE”). Prior to that time, our ADSs were traded on the NYSE under the symbol AMBO since August 5, 2010 until March 25, 2013, when trading in our ADSs was halted.

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**D.** **Selling Shareholders**

Not applicable.

**E.** **Dilution**

Not applicable.

**F.** **Expenses of the Issue**

Not applicable.

**Item 10. Additional Information**

**A.** **Share Capital**

Not applicable.

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**B. Memorandum and Articles of Association**

Our fifth amended and restated memorandum and articles of association were adopted by our shareholders at an extraordinary general meeting held on March 5, 2015. A copy of the fifth amended and restated memorandum and articles of association are filed as Exhibit 4.37 to this Annual Report on Form 20-F. We incorporate by reference into this annual report the description of the summary of the significant differences between the provisions of the Cayman Islands Companies Law applicable to our company and the laws applicable to Delaware corporations and their shareholders contained in our Registration Statement on Form F-1 (File No. 333-168096) originally filed with the SEC on July 14, 2010.

**C. Material Contracts**

We have not entered into any material contracts other than in the ordinary course of business and other than those described in “Item 7.B Related Party Transactions” or elsewhere in this annual report on Form 20-F.

**D. Exchange Controls**

See “Item 4.B Information on the Company—Business Overview—Regulation—Regulations on Foreign Exchange.”

**E. Taxation**

The following summary of the material Cayman Islands, People’s Republic of China and United States federal income tax consequences of any investment in our ADSs or ordinary shares is based upon laws and relevant interpretations thereof in effect as of the date of this annual report, all of which are subject to change. This summary does not deal with all possible tax consequences relating to an investment in our ADSs or ordinary shares, such as the tax consequences under state, local and other tax laws. Prospective investors should consult their professional advisers on the possible tax consequences of buying, holding or selling any ADSs or ordinary shares under the laws of their country of citizenship, residence or domicile.

**Cayman Islands taxation**

The following is a discussion on certain Cayman Islands income tax consequences of an investment in the ADSs or ordinary shares. The discussion is a general summary of present law, which is subject to prospective and retroactive change. It is not intended as tax advice, does not consider any investor’s particular circumstances, and does not

consider tax consequences other than those arising under Cayman Islands law.

No stamp duty, capital duty, registration or other issue or documentary taxes are payable in the Cayman Islands on the creation, issuance or delivery of the ADSs or ordinary shares. The Cayman Islands currently have no form of income, corporate or capital gains tax and no estate duty, inheritance tax or gift tax. There are currently no Cayman Islands' taxes or duties of any nature on gains realized on a sale, exchange, conversion, transfer or redemption of the ADSs or ordinary shares. Payments of dividends and capital in respect of the ADSs or ordinary shares will not be subject to taxation in the Cayman Islands and no withholding will be required on the payment of interest and principal or a dividend or capital to any holder of the ADSs or ordinary shares, nor will gains derived from the disposal of the ADSs or ordinary shares be subject to Cayman Islands income or corporation tax as the Cayman Islands currently have no form of income or corporation taxes.

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We have been incorporated under the laws of the Cayman Islands as an exempted company with limited liability and, as such, have applied for and obtained an undertaking from the Governor of the Cayman Islands that no law enacted in the Cayman Islands during the period of 20 years from the date of the undertaking imposing any tax to be levied on profits, income, gains or appreciation shall apply to us or our operations and no such tax or any tax in the nature of estate duty or inheritance tax shall be payable (directly or by way of withholding) on the ADSs or ordinary shares, debentures or other obligations of ours.

**People's Republic of China taxation**

The CIT Law and the implementing regulations for the CIT Law issued by the PRC State Council, became effective as of January 1, 2008. The CIT Law provides that enterprises established outside of China whose “de facto management bodies” are located in China are considered “resident enterprises” and are generally subject to the uniform 25% corporate income tax rate as to their worldwide income. Under the implementing regulations for the CIT Law issued by the PRC State Council, a “de facto management body” is defined as a body that has material and overall management and control over the manufacturing and business operations, personnel and human resources, finances and treasury, and acquisition and disposition of properties and other assets of an enterprise. Currently no interpretation or application of the CIT Law and its implementing rules is available for non-Chinese enterprise or group enterprise controlled entity. Therefore, it is unclear whether PRC tax authorities would require (or permit) us to be treated as a PRC resident enterprise.

Under the CIT Law and implementing regulations issued by the State Council, PRC income tax at the rate of 10% is applicable to dividends payable to investors that are “non-resident enterprises”, which do not have an establishment or place of business in the PRC, or which have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such dividends have their sources within the PRC. Similarly, any gain realized on the transfer of ADSs or shares by such investors is also subject to 10% PRC income tax if such gain is regarded as income derived from sources within the PRC. However, under a new PRC tax law that became effective in January 2008 and the Arrangement between the PRC and the Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion, or the Double Taxation Arrangement, which became effective on January 1, 2007, dividends from our PRC subsidiaries paid to us through our Hong Kong subsidiary may be subject to a withholding tax at a rate of 5%. If we are considered a PRC “resident enterprise”, it is unclear whether dividends we pay with respect to our ordinary shares or ADSs, or the gain you may realize from the transfer of our ordinary shares or ADSs, may be treated as income derived from sources within the PRC and would be subject to PRC tax. It is unclear whether, if we are considered a PRC “resident enterprise”, holders of our ordinary shares or ADSs might be able to claim the benefit of income tax treaties entered into between the PRC and other countries.

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**United States federal income taxation**

The following discussion describes certain material U.S. federal income tax considerations under present law of the ownership and disposition of the ADSs or our ordinary shares. This summary applies only to investors that hold the ADSs or ordinary shares as capital assets and that have the U.S. dollar as their functional currency. This discussion is based on the tax laws of the United States as in effect on the date of this Registration Statement and on U.S. Treasury regulations in effect, or, in some cases, proposed, as of the date of this Registration Statement, as well as judicial and administrative interpretations thereof available on or before such date. All of the foregoing authorities are subject to change, which change could apply retroactively and could affect the tax consequences described below.

The following discussion does not deal with the tax consequences to any particular investor or to persons in special tax situations, including, without limitation:

Banks and certain other financial institutions;

Dealers in securities or currencies;

Insurance companies, regulated investment companies and real estate investment trusts;

Brokers and/or dealers;

Traders that elect the mark-to-market method of accounting;

Tax-exempt entities;

Persons liable for alternative minimum tax;

Persons holding an ADS or ordinary shares as part of a straddle, hedging, constructive sale, conversion transaction or integrated transaction;

Persons that actually or constructively own 10% or more of our voting stock; or

Persons holding ADSs or ordinary shares through partnerships or other pass-through entities.



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The discussion below of the U.S. federal income tax consequences to “U.S. Holders” will apply if you are the beneficial owner of ADSs or ordinary shares and you are, for U.S. federal income tax purposes,

A citizen or resident of the United States;

A corporation or other entity taxable as a corporation for U.S. federal income tax purposes organized under the laws of the United States, any state thereof or the District of Columbia (or treated as such for U.S. federal income tax purposes);

An estate whose income is subject to United States federal income taxation regardless of its source; or

A trust that (1) is subject to the supervision of a court within the United States and the control of one or more United States persons or (2) has a valid election in effect under applicable U.S. Treasury regulations to be treated as a United States person.

If a partnership (including any entity that is treated as a partnership for U.S. federal income tax purposes) holds ADSs or ordinary shares, the tax treatment of a partner in such partnership will depend on the status of the partner and the activities of the partnership. If you are a partner of a partnership holding ADSs or ordinary shares, you should consult your own tax advisors.

The discussion below assumes that the representations contained in the deposit agreement are true and that the obligations in the deposit agreement and any related agreement will be complied with in accordance with their terms. If you hold ADSs, for U.S. federal income tax purposes, you generally will be treated as the owner of the underlying ordinary shares represented by such ADSs. Accordingly, the conversion of ADSs into ordinary shares will not be subject to U.S. federal income tax.

***Taxation of dividends and other distributions on ADSs or ordinary shares***

Subject to the passive foreign investment company, or PFIC, rules discussed below, the gross amount of our distributions to you with respect to our ADSs or ordinary shares will be included in your gross income as dividend income on the date of receipt either by the depositary, in the case of ADSs, or by you, in the case of ordinary shares, but only to the extent that the distribution is paid out of our current or accumulated earnings and profits (computed under U.S. federal income tax principles). The dividends will not be eligible for the dividends-received deduction allowed to corporations in respect of dividends received from other U.S. corporations.

With respect to non-corporate U.S. Holders, including individual U.S. Holders, under current law, dividends generally may be taxed at the applicable long-term capital gains rate (“qualified dividend income”) provided that (1) the ADSs or ordinary shares are readily tradable on an established securities market in the United States; (2) we are not a PFIC (as discussed below) for either our taxable year in which the dividend was paid or the preceding taxable year; and (3) certain holding period requirements are met. Under published Internal Revenue Service guidance, our ADSs should be considered for purpose of clause (1) above to be readily tradable on an established securities market in the United States upon listing on the New York Stock Exchange. You should consult your own tax advisors regarding the applicable rate for dividends paid with respect to our ADSs or ordinary shares.

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In general, dividends will constitute foreign source income for foreign tax credit limitation purposes. Subject to the discussion below concerning the CIT Law, a U.S. Holder may be eligible, subject to a number of complex limitations, to claim a foreign tax credit with respect to any foreign withholding taxes on dividends received on our ADSs or ordinary shares. A U.S. Holder that does not elect to claim a foreign tax credit for foreign income tax withheld may instead claim a deduction with respect to such withheld taxes, but only for a year in which such holder elects to do so for all creditable foreign income taxes. The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. For this purpose, dividends distributed by us with respect to ADSs or ordinary shares will generally constitute “passive category income” but could, in the case of certain U.S. Holders, constitute “general category income.”

If we are treated as a resident enterprise for PRC tax purposes, we may be required under the CIT Law to withhold PRC income taxes on any dividends paid to U.S. Holders of our ADSs or ordinary shares. For more information regarding the CIT Law, see “—People’s Republic of China taxation.” U.S. Holders should consult their own tax advisors regarding the availability of, and limitations on, foreign tax credits with respect to any PRC withholding taxes on dividends received on our ADSs or ordinary shares.

To the extent that the amount of the distribution exceeds our current and accumulated earnings and profits, it will be treated first as a tax-free return of your tax basis in your ADSs or ordinary shares, and to the extent the amount of the distribution exceeds your tax basis, the excess will be taxed as capital gain. We do not intend to calculate our earnings and profits for U.S. federal income tax purposes. Therefore, a U.S. Holder should expect that a distribution with respect to our ADSs or ordinary shares will be reported as a dividend.

### ***Taxation of disposition of ADSs or ordinary shares***

Subject to the PFIC rules discussed below, you will recognize taxable gain or loss on any sale, exchange or other taxable disposition of an ADS or an ordinary share equal to the difference between the amount realized (in U.S. dollars) for the ADS or the ordinary share and your adjusted tax basis (in U.S. dollars) in the ADS or the ordinary share. The gain or loss will be capital gain or loss. If you are a non-corporate U.S. Holder, including an individual U.S. Holder, who has held the ADS or ordinary share for more than one year, you will be eligible for long-term capital gains tax rates. The deductibility of capital losses is subject to limitations. Any gain or loss that you recognize, including for foreign tax credit purposes, will be treated as United States source income or loss.

### ***Passive foreign investment company***

Based on the market value of our ADSs and ordinary shares, the composition of our assets and income and our operations, we believe that for our taxable year ended December 31, 2013 we were not a PFIC for U.S. federal income

tax purposes. However, our PFIC status for the year ending December 31, 2014 will not be determinable until the close of the year ending December 31, 2014, and, accordingly, there is no guarantee that we will not be a PFIC for the current taxable year.

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A non-U.S. corporation is considered a PFIC for any taxable year if either:

At least 75% of its gross income is passive income (the “income test”), or

At least 50% of the value of its assets (generally based on an average of the quarterly values of the assets during a taxable year) is attributable to assets that produce or are held for the production of passive income (the “asset test”).

We will be treated as owning our proportionate share of the assets and earning our proportionate share of the income of any other corporation in which we own, directly or indirectly, more than 25% (by value) of the stock. In applying this “look-through” rule, we intend to include our proportionate share of the assets and income of our VIEs. In the event that the Internal Revenue Service successfully challenges this position, our classification as a non-PFIC could be adversely affected.

A separate determination must be made each year as to whether we are a PFIC. As a result, our PFIC status may change. In particular, because we currently hold a substantial amount of cash or cash equivalents, which are generally treated as passive assets, and because the calculation of the value of our assets for purposes of the asset test generally will take into account the market price of our ADSs, which is likely to fluctuate (and may fluctuate considerably given that market prices of technology companies have been especially volatile), fluctuations in the market price of the ADSs may result in our being a PFIC for any taxable year. If we are a PFIC for any year during which you hold ADSs or ordinary shares, we generally will continue to be treated as a PFIC for all succeeding years during which you hold ADSs or ordinary shares.

If we are a PFIC for any taxable year during which you hold ADSs or ordinary shares, you will be subject to special tax rules with respect to any “excess distribution” that you receive and any gain you realize from a sale or other disposition (including a pledge) of the ADSs or ordinary shares, unless you make a “mark-to-market” election as discussed below. Distributions you receive in a taxable year that are greater than 125% of the average annual distributions you received during the shorter of the three preceding taxable years or your holding period for the ADSs or ordinary shares will be treated as an excess distribution. Under these special tax rules:

The excess distribution or gain will be allocated ratably over your holding period for the ADSs or ordinary shares,

The amount allocated to the current taxable year, and any taxable year prior to the first taxable year in which we became a PFIC, will be treated as ordinary income, and

The amount allocated to each other year will be subject to the highest tax rate in effect for that year and the interest charge generally applicable to underpayments of tax will be imposed on the resulting tax attributable to each such

year.

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The tax liability for amounts allocated to years prior to the year of disposition, or “excess distribution,” cannot be offset by any net operating losses for such years, and gains (but not losses) realized on the sale of the ADSs or ordinary shares cannot be treated as capital and will be subject to the “excess distribution” regime described above, even if you hold the ADSs or ordinary shares as capital assets.

A U.S. Holder of “marketable stock” (within the meaning of Section 1296 of the Internal Revenue Code of 1986, as amended, or the Code) in a PFIC may make a mark-to-market election for such stock of a PFIC to elect out of the “excess distribution” and gain recognition treatment discussed in the preceding paragraphs. If you make a mark-to-market election for the ADSs or ordinary shares, you will include in income each year an amount equal to the excess, if any, of the fair market value of the ADSs or ordinary shares as of the close of your taxable year over your adjusted basis in such ADSs or ordinary shares. You are allowed a deduction for the excess, if any, of the adjusted basis of the ADSs or ordinary shares over their fair market value as of the close of the taxable year. However, deductions are allowable only to the extent of any net mark-to-market gains on the ADSs or ordinary shares included in your income for prior taxable years. Amounts included in your income under a mark-to-market election, as well as gain on the actual sale or other disposition of the ADSs or ordinary shares, are treated as ordinary income. Ordinary loss treatment also applies to the deductible portion of any mark-to-market loss on the ADSs or ordinary shares, as well as to any loss realized on the actual sale or disposition of the ADSs or ordinary shares, to the extent that the amount of such loss does not exceed the net mark-to-market gains previously included for such ADSs or ordinary shares. Your basis in the ADSs or ordinary shares will be adjusted to reflect any such income or loss amounts. The tax rules that apply to distributions by corporations which are not PFICs would apply to distributions by us.

The mark-to-market election is available only for “marketable” stock that is traded in other than de minimis quantities for at least 15 days during each calendar quarter on a qualified exchange, including the New York Stock Exchange, or other market, as defined in applicable U.S. Treasury regulations. Because the ADSs will be listed on the New York Stock Exchange, the mark-to-market election would be available to a holder of ADSs if we were to be or become a PFIC, as long as our stock is traded in other than de minimis quantities for at least 15 days during each calendar quarter.

Alternatively, the “excess distribution” rules described above may generally be avoided by electing to treat us as a “qualified electing fund” under Section 1295 of the Code. This option is not available to you, however, because we do not intend to comply with the requirements necessary to permit you to make this election.

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If you hold ADSs or ordinary shares in any year in which we were a PFIC, you will be required to file Internal Revenue Service Form 8621 regarding any distributions received on the ADSs or ordinary shares and any gain realized on the disposition of the ADSs or ordinary shares, and additional reporting requirements may apply.

You should consult with your tax advisors regarding the U.S. federal income tax consequences of holding ADSs or ordinary shares if we are considered to be a PFIC in any taxable years as well as your eligibility for a “mark-to-market” election and whether making such an election would be advisable to you in your particular circumstances.

***Information reporting and backup withholding***

Dividend payments with respect to ADSs or ordinary shares and proceeds from the sale, exchange or redemption of ADSs or ordinary shares may be subject to information reporting to the Internal Revenue Service and possible U.S. backup withholding at a current rate of 28%, which rate is scheduled to increase to 31% for payments made on or after January 1, 2013. Backup withholding will not apply, however, to a U.S. Holder who furnishes a correct taxpayer identification number and makes any other required certification, or who is otherwise exempt from backup withholding. U.S. Holders who are required to establish their exempt status must provide such certification on Internal Revenue Service Form W-9. U.S. Holders should consult their tax advisors regarding the application of the United States information reporting and backup withholding rules.

Backup withholding is not an additional tax. Amounts withheld as backup withholding may be credited against your U.S. federal income tax liability, and you generally may obtain a refund of any excess amounts withheld under the backup withholding rules by timely filing the appropriate claim for refund with the Internal Revenue Service and furnishing any required information.

YOU SHOULD CONSULT WITH YOUR OWN TAX ADVISORS REGARDING THE APPLICATION OF THE U.S. FEDERAL INCOME TAX LAWS TO YOUR PARTICULAR CIRCUMSTANCES, AS WELL AS ANY ADDITIONAL TAX CONSEQUENCES RESULTING FROM AN INVESTMENT IN THE ADSs OR ORDINARY SHARES, INCLUDING THE APPLICABILITY AND EFFECT OF THE TAX LAWS OF ANY STATE, LOCAL OR FOREIGN JURISDICTION, INCLUDING ESTATE, GIFT AND INHERITANCE LAWS.

**F. Dividends and Paying Agents**

Not applicable.

**G.**

**Statements by Experts**

Not applicable.

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**H. Documents on Display**

The documents concerning our company referred to in this document and required to be made available to the public are available at our principal executive offices located at 18th Floor, Building A, Chengjian Plaza, No.18, BeiTaiPingZhuang Road, Haidian District, Beijing 100088, People's Republic of China.

In addition, we previously filed with the SEC our registration statement on Form F-1 (Registration No. 333-168096, as amended) and prospectus under the Securities Act of 1933, with respect to our ordinary shares. We have also filed with the SEC a related registration statement on F-6 (Registration No. 333-168238) to register the ADSs.

We are subject to the periodic reporting and other informational requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Under the Exchange Act, we are required to file reports and other information with the SEC. Specifically, we are required to file annually a Form 20-F within four months after the close of each fiscal year. Copies of reports and other information, when so filed, may be inspected without charge and may be obtained at prescribed rates at the public reference facilities maintained by the Securities and Exchange Commission at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. The public may obtain information regarding the Washington, D.C. Public Reference Room by calling the Commission at 1-800-SEC-0330. The SEC also maintains a web site at [www.sec.gov](http://www.sec.gov) that contains reports, proxy and information statements, and other information regarding registrants that make electronic filings with the SEC using its EDGAR system. As a foreign private issuer, we are exempt from the rules under the Exchange Act prescribing the furnishing and content of quarterly reports and proxy statements, and officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act.

**I. Subsidiary Information**

See “Item 4.C Information on the Company—Organizational Structure” for information about our subsidiaries.

**Item 11. Quantitative and Qualitative Disclosures About Market Risk**

*Interest rate risk.* The primary objective of our investment activities is to preserve principal while maximizing the income we receive from our investments without significantly increasing the risk of loss. We currently invest in time deposits. As such, we are exposed to minimal market risks associated with interest rate changes. Our current cash management policy does not allow us to purchase or hold derivative or commodity instruments or other financial instruments for trading purposes.



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At December 31, 2013 and 2014, we had RMB 195.3 million and RMB 53.1million (US\$8.6 million), respectively, of borrowings outstanding. The interest rates on our borrowings are fixed as defined in respective loan agreements. A hypothetical 10% increase in interest rates in 2014 would have resulted in an increase of approximately RMB 2.5 million (US\$0.4million) in our interest expense for 2014.

*Foreign exchange risk.* Substantially all of our revenues and most of our expenses are denominated in RMB. Our exposure to foreign exchange risk primarily relates to cash and cash equivalents denominated in U.S. dollars as a result of investment fund. We do not believe that we currently have any significant direct foreign exchange risk and have not hedged exposures denominated in foreign currencies or any other derivative financial instruments. Although in general, our exposure to foreign exchange risks should be limited, the value of an investment in our ADSs will be affected by the foreign exchange rate between U.S. dollars and RMB because the value of our business is effectively denominated in RMB, while the ADSs are traded in U.S. dollars.

The value of the RMB against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in China's political and economic conditions. The conversion of RMB into foreign currencies, including U.S. dollars, has been based on rates set by the PBOC. On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the RMB to the U.S. dollar. Under the policy, the RMB is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy resulted in an approximately 21.3% appreciation of the RMB against the U.S. dollar between July 21, 2005 and December 31, 2009. In June 2010, the PBOC announced it has decided to proceed further with reform of the RMB exchange regime and to enhance the RMB exchange rate flexibility. From 2010 to 2014, the appreciation of the RMB against the U.S. dollar reached 11.0% in total. There remains significant international pressure on the PRC government to adopt an even more flexible currency policy, which could result in a further and more significant appreciation of the RMB against the U.S. dollar. To the extent that we need to convert U.S. dollar denominated financial assets into RMB for our operations, appreciation of the RMB against the U.S. dollar would have an adverse effect on the RMB amount we receive from the conversion. We have not used any forward contracts or currency borrowings to hedge our exposure to foreign currency exchange risk. A hypothetical 10% appreciation of the RMB against the U.S. dollar would have resulted in a decrease of approximately RMB 0.2 million (US\$ 0.04 million) in the value of our U.S. denominated cash and cash equivalents as of December 31, 2014.

**Item 12. Description of Securities Other Than Equity Securities**

**A.**

**Debt Securities**

Not applicable.

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**B. Warrants and Rights**

Not applicable.

**C. Other Securities**

Not applicable.

**D. American Depository Shares**

***Fees and Charges Our ADS Holders May Have to Pay***

Our ADS holders will be required to pay the following service fees to the depository bank for our ADSs:

<b>Service</b>	<b>Fees</b>
Issuance of ADSs	up to U.S. 5¢ per ADS issued
Cancellation of ADSs	up to U.S. 5¢ per ADS canceled
Distribution of cash dividends or other cash distributions	up to U.S. 5¢ per ADS held
Distribution of ADSs pursuant to stock dividends, free stock distributions or exercise of rights	up to U.S. 5¢ per ADS held
Distribution of securities other than ADSs or rights to purchase additional ADSs	up to U.S. 5¢ per ADS held
Depository Services	up to U.S. 5¢ per ADS held on the applicable record date(s) established by the depository

An ADS holder you will also be responsible to pay certain fees and expenses incurred by the depository and certain taxes and governmental charges such as:

Fees for the transfer and registration of ordinary shares charged by the registrar and transfer agent for the ordinary shares in the Cayman Islands (i.e., upon deposit and withdrawal of ordinary shares);

· Expenses incurred for converting foreign currency into U.S. dollars;

· Expenses for cable, telex and fax transmissions and for delivery of securities;

Taxes and duties upon the transfer of securities (i.e., when ordinary shares are deposited or withdrawn from deposit);  
and

· Fees and expenses incurred in connection with the delivery or servicing of ordinary shares on deposit.

Depository fees payable upon the issuance and cancellation of ADSs are typically paid to the depository by the brokers (on behalf of their clients) receiving the newly issued ADSs from the depository and by the brokers (on behalf of their clients) delivering the ADSs to the depository for cancellation. The brokers in turn charge these fees to their clients. Depository fees payable in connection with distributions of cash or securities to ADS holders and the depository services fee are charged by the depository to the holders of record of ADSs as of the applicable ADS record date.

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The depositary fees payable for cash distributions are generally deducted from the cash being distributed. In the case of distributions other than cash (i.e., stock dividend, rights), the depositary charges the applicable fee to the ADS record date holders concurrent with the distribution. In the case of ADSs registered in the name of the investor (whether certificated or uncertificated in direct registration), the depositary sends invoices to the applicable record date ADS holders. In the case of ADSs held in brokerage and custodian accounts (via DTC), the depositary generally collects its fees through the systems provided by DTC (whose nominee is the registered holder of the ADSs held in DTC) from the brokers and custodians holding ADSs in their DTC accounts. The brokers and custodians who hold their clients' ADSs in DTC accounts in turn charge their clients' accounts the amount of the fees paid to the depositaries.

In the event of refusal to pay the depositary fees, the depositary may, under the terms of the deposit agreement, refuse the requested service until payment is received or may set off the amount of the depositary fees from any distribution to be made to the ADS holder.

Note that the fees and charges you may be required to pay may vary over time and may be changed by us and by the depositary. You will receive prior notice of such changes.

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

The depositary has agreed to reimburse us for certain expenses incurred by us in respect of our ADR program and investor relations program. For the year ended December 31, 2014, there was nil to be received from Citibank, the depositary bank for our ADS program.

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**PART II**

**Item 13. Defaults, Dividend Arrearages and Delinquencies**

Not applicable.

**Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds**

None.

**Item 15. Controls and Procedures**

**Evaluation of Disclosure Controls and Procedures**

The company's management, under the supervision and with the participation of its Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2014, the end of the period covered by this Report. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports, such as this Form 20-F, that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the company's disclosure controls and procedures were not effective as of December 31, 2014.

The company's disclosure controls and procedures are designed to provide reasonable, not absolute, assurance that the objectives of its disclosure control system are met. Because of inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, if any, within a company have been detected.

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

Management of the company is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) promulgated under the Exchange Act). Internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. GAAP, and that our receipts and expenditures are being made only in accordance with authorizations of our management or our board of directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on our interim or annual consolidated financial statements.

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The company's management, with the participation of the company's Chief Executive Officer and Chief Financial Officer assessed the effectiveness of the company's internal control over financial reporting as of the end of the most recent fiscal year, December 31, 2014. In making this assessment, the company's management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO 2013) in Internal Control-Integrated Framework. Based on its assessment, the Chief Executive Officer and Chief Financial Officer concluded that the company's internal controls over financial reporting were not effective as of December 31, 2014 and that the following material weaknesses existed in internal control over financial reporting existed as of December 31, 2014:

The company's oversight of complex transactions is not effective. Specifically, the analysis by management of certain transactions and the supporting documentation generated are not sufficiently detailed and timely provided to allow the Board of Directors to effectively review and approve the transactions. Besides, the number of Audit Committee should no less than 3 members but the company currently has only two members till the date December 31, 2014.

- One of our K-12 schools, Shenyang Xiangyu K12, lacked internal controls on timely depositing the cash tuition collected from its students into corporate banks, resulting in the significant cash misappropriation by its minority shareholder, Shenyang Hanwen Educational Training School (the "Hanwen Group").

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. The above material weaknesses could result in misstatements of accounting for significant transactions and certain financial statement accounts, including, but not limited to, the aforementioned accounts and disclosures that would result in a material misstatement in the company's annual or interim consolidated financial statements that would not be prevented or detected in a timely manner.

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**Attestation Report of the Registered Public Accounting Firm**

Not applicable.

**Previously Identified Material Weaknesses**

As of December 31, 2014, the company has made some improvements to address material weaknesses in internal control over financial reporting that was included in “Item 15—Controls and Procedures” contained in the company’s Annual Report on Form 20-F for the fiscal year ended December 31, 2013.

The company has:

Strengthen the level of communication between the legal departments and the finance department of the company to ensure that disposal of certain significant assets are clearly communicated and effectively reported to the Board of directors in advance.

Maintain responsibility for all accounting decisions for unusual and non-routine transactions above a certain threshold in one central location and ensure that documentation is reviewed by appropriate individuals with significant U.S. GAAP experience before a significant decision or accounting judgment is made;

Provide sufficient training to the finance staff so that they can conduct and document appropriate research prior to making accounting decisions, especially for new or complex transactions; and

Thoroughly evaluate the staffing needs in all areas of finance to ensure that staff sizes are appropriate given the company’s risks, continue to hire more people with sufficient knowledge of U.S. GAAP to be responsible for understanding and addressing U.S. GAAP issues across the company.

Strengthen the level of communication between the commercial departments of the company and the finance department to ensure that all aspects of a proposed transaction are clearly communicated to the finance department for assessment in advance.

The company’s improvements were under the direction of its Chief Executive Officer and Chief Financial Officer. The status of the improvements was reviewed by the audit committee of the board of directors of the company, who were

advised of issues encountered and key decisions made by the management.

### **Remediation of Existing Material Weaknesses**

In order to address the material weaknesses identified as of December 31, 2014, the company:

Plans to enforce an enhanced documentation policy to assist the formal sign-off of all significant transactions prior to execution;

Has engaged a big-four consulting firm to enhance the corporate governance of the company; The consulting firm is drafting a recommendation report to enhance the controls and procedures regarding the Governance;

- Has appointed Dr. Yanhui Ma as a third AC member to facilitate the Board to better monitor the company;

Plans to get back of the money misappropriated by Hanwen Group and enhance the treasury monitor and controls of Shenyang Xiangyu K12 to make sure the safety of its assets;

- Has adjusted the financial booking of Shenyang Xiangyu K12 to make the fairness of its financial statements;

Plans to provide sufficient training to the finance staff so that they can conduct and document appropriate accounting treatment, and encourage any report if a staff has a concern regarding questionable accounting or internal controls.

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Management believes that the measures described above will satisfactorily address the referenced material weaknesses. Under the direction of the Audit Committee, management will continue to review and make necessary changes to the system of internal controls and the control environment, as well as policies and procedures to improve the overall effectiveness of internal control over financial reporting.

Notwithstanding the conclusion that its internal control over financial reporting was not effective as of the end of the period covered by this report, our Chief Executive Officer and Chief Financial Officer believe that the financial statements and other information contained in this report present fairly, in all material respects, its financial condition, results of operations and cashflows. Nothing has come to the attention of management that causes them to believe that any material inaccuracies or errors exist in the company's financial statements as of December 31, 2014.

### **Changes in Internal Control over Financial Reporting**

Other than as described above, there were no changes in our internal controls over financial reporting identified in connection with the evaluation required by Rules 13a-15 or 15d-15 that occurred during the period covered by this annual report that has materially affected, or is reasonably likely to materially affect our internal control over financial reporting.

### **Limitations on the Effectiveness of Controls**

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures or internal control over financial reporting will prevent or detect all errors and all fraud. A control system cannot provide absolute assurance due to its inherent limitations; it is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. A control system also can be circumvented by collusion or improper management override. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of such limitations, disclosure controls and procedures and internal control over financial reporting cannot prevent or detect all misstatements, whether unintentional errors or fraud. However, these inherent limitations are known features of the financial reporting process, therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

Table of Contents**Item 16A Audit Committee Financial Expert**

Our board of directors has determined that Winston Sim, an independent director (under the standards set forth in Section 303A of the NYSE Listed Company Manual and Rule 10A-3 under the Exchange Act) is our audit committee financial expert.

**Item 16B Code of Ethics**

Our Code of Conduct and Ethics, or Code, summarizes the ethical standards and key policies that guide our business conduct and applies to our directors, executive officers and employees. The purpose of the Code is to promote ethical conduct and deter wrongdoing. The policies outlined in the Code are designed to ensure that our directors, executive officers and employees act in accordance with not only the letter but also the spirit of the laws and regulations that apply to our business. We expect our directors, executive officers and employees to exercise good judgment, to uphold these standards in their day-to-day activities, and to comply with all applicable policies and procedures in the course of their relationship with the company. A copy of our Code is posted on our website at [www.ambow.net](http://www.ambow.net).

**Item 16C Principal Accountant Fees and Services**

The following table sets forth the aggregate fees by categories specified below in connection with certain professional services rendered by MarcumBP our independent registered public accounting firm for 2012, 2013 and 2014, and Shandong Haoxin for 2010 and 2011. We did not pay any other fees to our independent registered public accounting firm during the periods indicated below.

	For the year ended December 31,	
	2013	2014
	(U.S. dollars in millions)	
Audit fees (1)	1.4	1.5
Tax fees (2)	0.2	-
Other (3)	0.1	-
Total fees	1.7	1.5

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“Audit fees” means the aggregated fees billed for professional services rendered by our independent registered public (1) accounting firm for the audit of our annual financial statements and the review of our comparative interim financial statements.

(2) “Tax fees” represents the aggregated fees billed for professional services rendered by our independent registered public accounting firm for tax compliance, tax advice, and tax planning.

(3) “Other” represents the aggregated fees billed for professional services rendered by our independent registered public accounting firm for permissible services to review and comment on internal control design over financial reporting.

The policy of our audit committee is to pre-approve all audit services provided by MarcumBP, other than those for de minimis services which are approved by the audit committee prior to the completion of the audit.

**Item 16D Exemptions from the Listing Standards for Audit Committees**

Not applicable.

**Item 16E Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

Not applicable.

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**Item 16F Change in Registrant’s Certifying Accountant**

On May 15, 2014, the audit committee engaged Shandong Haoxin solely to re-audit the company’s financial statements as of and for the fiscal years ended December 31, 2011 and December 31, 2010 (the “2011 and 2010 Financials”). The decision to engage Shandong Haoxin to audit the 2011 and 2010 Financials was to allow the company to quickly complete and file their 2013 and 2012 Reports. Upon completion of the audit of the 2011 and 2010 Reports Shandong Haoxin’s engagement terminated.

**Item 16G Corporate Governance**

As a foreign private issuer, we were permitted to follow corporate governance practices in accordance with Cayman Islands law in lieu of most of the NYSE corporate governance rules in the NYSE Listed Company Manual, or the NYSE Standards. As a result, our corporate governance practices differ in some respects from those required to be followed by U.S. companies listed on the New York Stock Exchange. As of October 6, 2014, our ADSs were removed from listing and trading on the New York Stock Exchange LLC (the “NYSE”).

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**Item 16H Mine Safety Disclosure**

Not applicable.

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**PART III**

**Item 17. Financial Statements**

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

**Item 18. Financial Statements**

The consolidated financial statements of Ambow are included at the end of this annual report.

**Item 19. Exhibits**

**Exhibit  
No. Description**

- 1.1 Amended and Restated Memorandum and Articles of Association (incorporated by reference to Exhibit 3.2 of our F-1 registration statement (File No. 333- 168096), as amended, initially filed with the Commission on July 14, 2010 (the “**F-1 Registration Statement**”)
- 2.1 Specimen American Depositary Receipt (incorporated by reference to Exhibit (a) of our F-6 registration statement (File No. 333-168238), initially filed with the Commission on July 21, 2010 (the “**F-6 Registration Statement**”)
- 2.2 Specimen Certificate for Class A Ordinary Shares (incorporated by reference to Exhibit 4.2 of the F-1 Registration Statement)
- 2.3 Form of Deposit Agreement among the company, the depositary and holders of the American Depositary Receipts (incorporated by reference to Exhibit (a) of the F-6 Registration Statement)
- 2.4 Third Amended and Restated Investor Rights Agreement, among the company and the other parties therein (incorporated by reference to Exhibit 4.4 of the F-1 Registration Statement)
- 2.5 Registration Rights Agreement, dated as of October 26, 2011, by and among Campus Holdings Limited, Spin-Rich Ltd., Dr. Jin Huang and Ambow Education Holding Ltd. (incorporated by reference to Exhibit 2.5 of the 20F filing of the year of 2011)
- 4.1 2005 Stock Plan (incorporated by reference to Exhibit 10.1 of the F-1 Registration Statement)
- 4.2 2010 Equity Incentive Plan (incorporated by reference to Exhibit 10.2 of the F-1 Registration Statement)
- 4.3 Form of Indemnification Agreement with the company’s directors and executive officers (incorporated by reference to Exhibit 10.3 of the F-1 Registration Statement)
- 4.4 English Translation of Exclusive Cooperation Agreement between Beijing Ambow Online Software Co., Ltd. and Beijing Ambow Shida Education Technology Co., Ltd., dated January 31, 2005, amended May 13, 2010

- (incorporated by reference to Exhibit 10.5 of the F-1 Registration Statement)
- 4.5 English Translation of Share Pledge Agreement by and among Ambow Education Co., Ltd., Beijing Ambow Online Software Co., Ltd., Xuejun Xie and Jianguo Xue, dated January 31, 2005, amended on January 4, 2009 (incorporated by reference to Exhibit 10.6 of the F-1 Registration Statement)
- 4.6 English Translation of Call Option Agreement by and among Ambow Education Co., Ltd., Beijing Ambow Online Software Co., Ltd., Xuejun Xie and Jianguo Xue, dated January 31, 2005, amended on April 26, 2007 and further amended on January 4, 2009 (incorporated by reference to Exhibit 10.7 of the F-1 Registration Statement)
- 4.7 English Translation of Powers of Attorney, each dated April 26, 2007 (incorporated by reference to Exhibit 10.8 of the F-1 Registration Statement)
- 4.8 English Translation of Loan Agreement by and among Ambow Education Co., Ltd., Beijing Ambow Online Software Co., Ltd., and Xuejun Xie, dated January 31, 2005, amended on April 26, 2007 and further amended on January 4, 2009 (incorporated by reference to Exhibit 10.9 of the F-1 Registration Statement)
- 4.9 English Translation of Loan Agreement by and between Beijing Ambow Online Software Co., Ltd. and Jianguo Xue, dated February 1, 2008 (incorporated by reference to Exhibit 10.10 of the F-1 Registration Statement)
- 4.10 English Translation of Technology Service Agreement by and between Beijing Ambow Online Software Co., Ltd. and Beijing Sihua Education and Technology Co., Ltd., dated October 31, 2009 (incorporated by reference to Exhibit 10.11 of the F-1 Registration Statement)
- 4.11 English Translation of Share Pledge Agreement by and between Beijing Ambow Online Software Co., Ltd. and Xuejun Xie, dated October 31, 2009, amended on March 4, 2010 (incorporated by reference to Exhibit 10.12 of the F-1 Registration Statement)
- 4.12 English Translation of Share Pledge Agreement by and between Ambow Online Software Co., Ltd. and Xuejun Xie, dated October 31, 2009, amended on March 4, 2010 (incorporated by reference to Exhibit 10.13 of the F-1 Registration Statement)

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- English Translation of Call Option Agreement by and between Beijing Ambow Online Software Co., Ltd. and
- 4.13 Xuejun Xie, dated October 31, 2009, amended on March 4, 2010 (incorporated by reference to Exhibit 10.14 of the F-1 Registration Statement)
- 4.14 English Translation of Call Option Agreement by and between Beijing Ambow Online Software Co., Ltd. and Xiaogang Feng, dated March 4, 2010 (incorporated by reference to Exhibit 10.15 of the F-1 Registration Statement)
- 4.15 English Translation of Powers of Attorney, dated October 31, 2009 and March 4, 2010, respectively (incorporated by reference to Exhibit 10.16 of the F-1 Registration Statement)
- 4.16 English Translation of Loan Agreement with Xiaogang Feng, dated March 4, 2010 (incorporated by reference to Exhibit 10.17 of the F-1 Registration Statement)
- 4.17 English Translation of Technology Service Agreement by and among Beijing Ambow Online Software Co., Ltd. and Shanghai Ambow Education Information Consulting Co., Ltd., dated October 31, 2009 (incorporated by reference to Exhibit 10.18 of the F-1 Registration Statement)
- 4.18 English Translation of Share Pledge Agreement by and among Beijing Ambow Online Software Co., Ltd., Xiaogang Feng and Xuejun Xie, dated October 31, 2009 (incorporated by reference to Exhibit 10.19 of the F-1 Registration Statement)
- 4.19 English Translation of Call Option Agreement by and among Beijing Ambow Online Software Co., Ltd., Xiaogang Feng and Xuejun Xie, dated October 31, 2009 (incorporated by reference to Exhibit 10.20 of the F-1 Registration Statement)
- 4.20 English Translation of Powers of Attorney, each dated October 31, 2009 (incorporated by reference to Exhibit 10.21 of the F-1 Registration Statement)
- 4.21 English Translation of Loan Agreement by and among Beijing Ambow Online Software Co., Ltd., Xiaogang Feng and Xuejun Xie, dated October 31, 2009 (incorporated by reference to Exhibit 10.22 of the F-1 Registration Statement)
- 4.22 English Translation of Technology Service Agreement between Beijing Ambow Online Software Co., Ltd. and Suzhou Wenjian Venture Investment Management Consulting Co., Ltd., dated February 25, 2009 (incorporated by reference to Exhibit 10.23 of the F-1 Registration Statement)
- 4.23 English Translation of Share Pledge Agreement by and among Beijing Ambow Online Software Co., Ltd., Xiaogang Feng, Xuejun Xie and Yisi Gu, dated February 25, 2009 (incorporated by reference to Exhibit 10.24 of the F-1 Registration Statement)
- 4.24 English Translation of Call Option Agreement by and among Beijing Ambow Online Software Co., Ltd., Xiaogang Feng, Xuejun Xie and Yisi Gu, dated February 25, 2009 (incorporated by reference to Exhibit 10.25 of the F-1 Registration Statement)
- 4.25 English Translation of Powers of Attorney, each dated February 25, 2009 (incorporated by reference to Exhibit 10.26 of the F-1 Registration Statement)
- 4.26 English Translation of Loan Agreement by and among Beijing Ambow Online Software Co., Ltd., Xiaogang Feng, Xuejun Xie and Yisi Gu, dated February 25, 2009 (incorporated by reference to Exhibit 10.27 of the F-1 Registration Statement)
- 4.27 English Translation of amendment dated May 13, 2010 to certain Exclusive Cooperation Agreement between Beijing Ambow Online Software Co., Ltd. and Beijing Ambow Shida Education Technology Co., Ltd., dated January 31, 2005 (incorporated by reference to Exhibit 10.28 of the F-1 Registration Statement)
- 4.28 Loan Agreement among the company as Borrower and subsidiaries as Co-Borrowers, and International Finance Corporation as Lender dated June 12, 2012 (“IFC Loan Agreement”) (incorporated by reference to Exhibit 4.28 of the 20F filing of the year of 2012)
- 4.29 Amendment and Restatement Agreement to the IFC Loan Agreement among the company as Borrower and subsidiaries as Co-Borrowers, and International Finance Corporation as Lender dated October 24, 2012 (incorporated by reference to Exhibit 4.29 of the 20F filing of the year of 2012)
- 4.30

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Amendment Agreement to the IFC Loan Agreement (as amended and restated on October 24, 2012) among the company as Borrower and subsidiaries as Co-Borrowers, and International Finance Corporation as Lender dated April 29, 2013(incorporated by reference to Exhibit 4.30 of the 20F filing of the year of 2012)

4.31 Restructuring Agreement dated May 4, 2014 (incorporated by reference to Exhibit 4.31 of the 20F filing of the year of 2012)

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4.32	Share Purchase Agreement between Ambow Holding and SummitView Investment Limited dated April 28, 2013 (incorporated by reference to Exhibit 4.32 of the 20F filing of the year of 2013)
4.33	Share Purchase Agreement amended among the company, SummitView Investment Limited and SummitView Investment Fund I, L.P. (the “Fund”) on May 24, 2013 (incorporated by reference to Exhibit 4.33 of the 20F filing of the year of 2013)
4.34	A supplementary agreement dated May 31, 2013 to the Share Purchase Agreement (Exhibit 4.32 and 4.33) (incorporated by reference to Exhibit 4.34 of the 20F filing of the year of 2013)
4.35	Registration Rights Agreement between the company and SummitView Investment Fund I, L.P. dated May 31, 2013 (incorporated by reference to Exhibit 4.35 of the 20F filing of the year of 2013)
4.36	Amendment to Share Purchase Agreement dated May 5, 2014 (incorporated by reference to Exhibit 4.36 of the 20F filing of the year of 2013)
4.37	Fifth Amended and Restated Memorandum and Articles of Association*
8.1	List of Subsidiaries and Consolidated Affiliated Entities (incorporated by reference to Exhibit 8.1 of the 20F filing of the year of 2013)
12.1	Certification by Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
12.2	Certification by Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
13.1	Certification by Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*
13.2	Certification by Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*
101.INS	XBRL Instance Document*
101.SCH	XBRL Taxonomy Extension Schema Document*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document*
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document*
101.LAB	XBRL Taxonomy Extension Label Linkbase Document*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase*

\*

Filed with this annual report on Form 20-F.

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**SIGNATURE**

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

AMBOW EDUCATION HOLDING  
LTD.  
(Registrant)

By: /s/ Jin Huang

Dr. Jin Huang  
President and Chief Executive Officer

By: /s/ Kia Jing Tan

Kia Jing Tan  
Acting Chief Financial Officer

Date: April 21, 2015

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**AMBOW EDUCATION HOLDING LTD.**

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Audit Committee of the  
Board of Directors and Shareholders  
of Ambow Education Holding Ltd.

We have audited the accompanying consolidated balance sheets of Ambow Education Holding Ltd. (the “Company”) as of December 31, 2014 and 2013, and the related consolidated statements of operations and comprehensive loss, changes in equity (deficit) and cash flows for the years ended December 31, 2014, 2013 and 2012. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Ambow Education Holding Ltd., as of December 31, 2014 and 2013, and the results of its consolidated operations and its cash flows for the years ended December 31, 2014, 2013 and 2012 in conformity with accounting principles generally accepted in the United States of America.

/s/Marcum Bernstein & Pinchuk llp

Marcum Bernstein & Pinchuk llp

New York, New York  
April 21, 2015

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**AMBOW EDUCATION HOLDING LTD.****CONSOLIDATED BALANCE SHEETS****(All amounts in thousands, except for share and per share data)**

		As of December 31,		
	Note	2013	2014	2014
		RMB	RMB	US\$
				Note 3(a)
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents		98,962	180,285	29,057
Restricted cash		2,240	2,048	330
Term deposits		1,000	1,000	161
Accounts receivable, net	4	44,223	13,525	2,180
Amounts due from related parties	23	-	2,780	448
Deferred tax assets	17	6,491	19,003	3,063
Prepaid and other current assets, net	5	192,148	147,876	23,833
Consideration receivable, net	6	190,866	133,800	21,565
Assets classified as held for sale	24(d)	554,010	512,422	82,587
Total current assets		1,089,940	1,012,739	163,224
Non-current assets:				
Property and equipment, net	7	195,382	149,272	24,058
Land use rights, net	8	2,025	1,981	319
Intangible assets, net	9	176,954	122,157	19,688
Goodwill	10	333,138	84,541	13,626
Deferred tax assets, net	17	24,111	14,001	2,257
Other non-current assets	11	131,859	120,997	19,501
Total non-current assets		863,469	492,949	79,449
Total assets		1,953,409	1,505,688	242,673

**AMBOW EDUCATION HOLDING LTD.****CONSOLIDATED BALANCE SHEETS (CONTINUED)****(All amounts in thousands, except for share and per share data)**

	Note	As of December 31,		2014
		2013	2014	US\$
		RMB	RMB	Note 3(a)
<b>LIABILITIES</b>				
Current liabilities:				
Short-term borrowings (including consolidated VIE amount without recourse to the company of RMB 62,430 and RMB 22,133 as of December 31, 2013 and 2014, respectively)	13	92,430	39,633	6,388
Convertible loan (including consolidated VIE amount without recourse to the company of RMB nil and RMB nil as of December 31, 2013 and 2014, respectively)	14	102,905	13,470	2,171
Deferred revenue (including consolidated VIE amount without recourse to the company of RMB 96,952 and RMB 97,523 as of December 31, 2013 and 2014, respectively)		108,290	116,959	18,850
Accounts payable (including consolidated VIE amount without recourse to the company of RMB 29,201 and RMB 29,061 as of December 31, 2013 and 2014, respectively)		40,912	39,966	6,441
Accrued and other liabilities (including consolidated VIE amount without recourse to the company of RMB 225,110 and RMB 341,788 as of December 31, 2013 and 2014, respectively)	12	370,800	486,634	78,431
Income taxes payable (including consolidated VIE amount without recourse to the company of RMB 89,563 and RMB 110,705 as of December 31, 2013 and 2014, respectively)		219,522	230,659	37,175
Amounts due to related parties (including consolidated VIE amount without recourse to the company of RMB 6,635 and RMB 6,493 as of December 31, 2013 and 2014, respectively)	23	8,635	8,453	1,362
Amount due to deconsolidated subsidiaries (including consolidated VIE amount without recourse to the company of RMB 10,670 and RMB 10,562 as of December 31, 2013 and 2014, respectively)	26	22,144	22,144	3,569
Liabilities classified as held for sale (including consolidated VIE amount without recourse to the company of RMB 510,449 and RMB 533,418 as of December 31, 2013 and 2014, respectively)	24(d)	510,449	533,418	85,972
Total current liabilities		1,476,087	1,491,336	240,359
Non-current liabilities:				
Deferred tax liabilities (including consolidated VIE amount without recourse to the company of RMB 38,021 and RMB 27,867 as of December 31, 2013 and 2014, respectively)	17	79,599	67,658	10,905
Total liabilities		1,555,686	1,558,994	251,264

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

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**AMBOW EDUCATION HOLDING LTD.****CONSOLIDATED BALANCE SHEETS (CONTINUED)****(All amounts in thousands, except for share and per share data)**

		As of December 31,		
	Note	2013	2014	2014
		RMB	RMB	US\$
				Note 3(a)
Commitments and contingencies	19			
<b>EQUITY</b>				
<b>Preferred shares</b> (US\$ 0.0001 par value; 50,000,000 shares authorized, nil issued and outstanding as of December 31, 2013 and 2014)		-	-	-
<b>Ordinary shares</b> (US\$0.0001 par value; 1,200,000,000 and 1,200,000,000 shares authorized, 176,776,612 and 916,104,980 shares issued and outstanding as of December 31, 2013 and 2014, respectively)	15	122	574	93
Additional paid-in capital		2,706,621	3,325,288	535,939
Statutory reserve	21	80,731	80,777	13,019
Accumulated deficit		(2,375,099)	(3,451,958)	(556,355)
Accumulated other comprehensive deficit		(15,877 )	(3,740 )	(603 )
Total Ambow Education Holding Ltd.'s equity (deficit)		396,498	(49,059 )	(7,907 )
Non-controlling interests	27	1,225	(4,247 )	(684 )
Total equity (deficit)		397,723	(53,306 )	(8,591 )
Total liabilities and equity		1,953,409	1,505,688	242,673

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

**AMBOW EDUCATION HOLDING LTD.****CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS**

(All amounts in thousands, except for share and per share data)

	Note	Years ended December 31,			
		2012	2013	2014	2014
		RMB	RMB	RMB	US\$
<b>NET REVENUES</b>					
- Educational program and services		675,174	536,511	411,998	66,402
- Software products		66,886	-	-	-
Total net revenues	20	742,060	536,511	411,998	66,402
<b>COST OF REVENUES</b>					
- Educational program and services		(465,022)	(361,573)	(274,036)	(44,167)
- Software products		(12,177)	-	-	-
Total cost of revenues	20	(477,199)	(361,573)	(274,036)	(44,167)
<b>GROSS PROFIT</b>		264,861	174,938	137,962	22,235
<b>OPERATING EXPENSES</b>					
Selling and marketing		(321,418)	(151,480)	(80,377)	(12,954)
General and administrative		(632,603)	(471,915)	(508,544)	(81,963)
Research and development		(31,842)	(19,545)	(12,259)	(1,976)
Impairment loss	7,9,10,11,26	(761,996)	(84,246)	(292,577)	(47,155)
Total operating expenses		(1,747,859)	(727,186)	(893,757)	(144,048)
<b>OPERATING LOSS</b>		(1,482,998)	(552,248)	(755,795)	(121,813)
<b>OTHER INCOME (EXPENSE)</b>					
Interest expenses, net	13,14	(10,293)	(13,673)	(121,794)	(19,630)
Loss from extinguishment of debt	14	-	-	(143,901)	(23,193)
Foreign exchange loss, net		(1,229)	(109)	(580)	(93)
Other income (loss), net		4,783	(8,150)	(8,989)	(1,449)
Gain on disposal of subsidiary	25	-	-	7,403	1,193
Total other expenses		(6,739)	(21,932)	(267,861)	(43,172)
<b>LOSS BEFORE INCOME TAX, NON-CONTROLLING INTERESTS, AND DISCONTINUED OPERATIONS</b>		(1,489,737)	(574,180)	(1,023,656)	(164,985)
Income tax (expense) benefit	17	(10,893)	10,424	(1,135)	(183)
<b>LOSS FROM CONTINUING OPERATIONS</b>		(1,500,630)	(563,756)	(1,024,791)	(165,168)
Loss from and on sale of discontinued operations, net of income tax	24	(172,885)	(346,449)	(57,764)	(9,310)

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NET LOSS		(1,673,515 )	(910,205 )	(1,082,555 )	(174,478 )
Less: Net loss attributable to non-controlling interests from continuing operations		(57,448 )	(4,606 )	(6,244 )	(1,006 )
Less: Net income attributable to non-controlling interests from discontinued operations		5,099	1,219	502	81
<b>NET LOSS ATTRIBUTABLE TO AMBOW EDUCATION HOLDING LTD.</b>		<b>(1,621,166 )</b>	<b>(906,818 )</b>	<b>(1,076,813 )</b>	<b>(173,553 )</b>
NET LOSS		(1,673,515 )	(910,205 )	(1,082,555 )	(174,478 )
Foreign translation adjustments		4,401	1,239	12,137	1,956
<b>TOTAL COMPREHENSIVE LOSS</b>		<b>(1,669,114 )</b>	<b>(908,966 )</b>	<b>(1,070,418 )</b>	<b>(172,522 )</b>
Net loss from continuing operations per share - basic and diluted	18	(9.91 )	(3.41 )	(2.44 )	(0.39 )
Net loss from discontinued operations per share - basic and diluted	18	(1.22 )	(2.12 )	(0.14 )	(0.02 )
Weighted average shares used in calculating basic and diluted net loss per share	18	145,659,940	163,942,809	417,841,426	417,841,426
Share-based compensation expense included in:					
- Selling and marketing		6,286	2,658	351	56
- General and administrative		88,019	73,108	156,870	25,283
- Research and development		872	829	144	23

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

**AMBOW EDUCATION HOLDING LTD.****CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (DEFICIT)**

(All amounts in thousands, except for share and per share data)

	Note	Attributable to Ambow Education Holding Ltd's Equity								
		Ordinary shares (note 15) Shares	Amount RMB	Additional paid-in capital RMB	Statutory reserves RMB	Warrants RMB	Retained Earnings (Accumulated deficit) RMB	Accumulated other comprehensive income(deficit) RMB	Non- controlling interest RMB	Total Equity RMB
Balance as of January 1, 2012		144,481,064	102	2,498,162	122,199	1,219	111,417	(21,517)	54,881	2,766,463
Issuance of ordinary shares on exercise of options	16	1,494,420	1	7,751	-	-	-	-	-	7,752
Disposal of equity interest in 21st school	27(a)	-	-	(102,036)	-	-	-	-	285,713	183,677
Share-based compensation	16	-	-	34,971	-	-	-	-	-	34,971
Share-based compensation to Huang for Baring transactions	23(c)	-	-	60,206	-	-	-	-	-	60,206
Reclassification of warrants to share options	-	-	-	1,219	-	(1,219)	-	-	-	-
Appropriation to statutory reserves	21	-	-	-	2,147	-	(2,147)	-	-	-
Foreign currency translation adjustment	-	-	-	-	-	-	-	(3,357)	-	(3,357)
Disposal of subsidiaries	-	-	-	-	(7,940)	-	7,940	7,758	-	7,758
Net loss	-	-	-	-	-	-	(1,621,166)	-	(52,349)	(1,673,515)
Balance as of December 31, 2012		145,975,484	103	2,500,273	116,406	-	(1,503,956)	(17,116)	288,245	1,383,955



**AMBOW EDUCATION HOLDING LTD.****CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (DEFICIT) (CONTINUED)**

(All amounts in thousands, except for share and per share data)

	Note	Attributable to Ambow Education Holding Ltd's Equity								
		Ordinary shares (note 15) Shares	Additional paid-in capital RMB	RMB	Statutory reserves RMB	Retained Earnings (Accumulated earnings deficit) RMB	Accumulated other comprehensive income (deficit) RMB	Non- controlling interest RMB	Total Equity RMB	
Balance as of January 1, 2013		145,975,484	103	2,500,273	116,406	-	(1,503,956)	(17,116)	288,245	1,383,955
Disposal of financial controlling interest in 21st school	27(a)	-	-	-	-	-	-	-	(235,664)	(235,664)
Investment from Summit View	15	30,801,128	19	129,753	-	-	-	-	-	129,772
Share-based compensation	16	-	-	22,826	-	-	-	-	-	22,826
Share-based compensation to Huang for Baring transactions	23(c)	-	-	53,769	-	-	-	-	-	53,769
Appropriation to statutory reserves	21	-	-	-	1,277	-	(1,277)	-	-	-
Foreign currency translation adjustment	-	-	-	-	-	-	-	(4,299)	-	(4,299)
Deconsolidation of subsidiaries	-	-	-	-	-	-	-	5,538	(2,534)	3,004
Disposal of subsidiaries	-	-	-	-	(36,952)	36,952	-	-	-	-