Ambow Education Holding Ltd.
Form 20-F
April 05, 2019

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

12th Floor, Tower 1, Financial Street,

Chang'an Center, Shijingshan District, Beijing

100043

People's Republic of China
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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: **Class A Ordinary Shares**

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

None

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

None

Indicate the number of outstanding shares of each of the issuer's classes of capital stock as of the close of the period covered by this report.

38,756,289 Class A Ordinary Shares and

4,708,415 Class C Ordinary Shares,

par value $0.003 per share, as of December 31, 2018

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

¨ Yes x 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 x No

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

x Yes ¨ No

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

¨ Yes x No

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

Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer x
Emerging Growth Company ¨

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards† provided pursuant to Section 13(a) of the Exchange Act. ¨

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

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

U.S. GAAP x	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 x 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", "the Group", "our" and "Ambow" refer to Ambow Education Holding Ltd. and i subsidiaries and, 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 expres phrases 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.

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.

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 years ended December 31, 2016, 2017 and 2018 and as of December 31, 2017 and 2018 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, 2014 and 2015 and as of December 31, 2014, 2015 and 2016, have been derived from our audited consolidated financial statements for the years ended December 31, 2014, 2015 and 2016, which are not included in this annual report.

On August 31, 2017, we sold the 100% equity interest in Ambow Online to a third party for nil consideration. After the disposal, Ambow Online and its remaining VIE Suzhou Wenjian Venture Investment Management Consulting Co., Ltd. (“Suzhou Wenjian”) were no longer consolidated with the Group. On September 30, 2017, we sold the 100% equity interest in 21st Century Training Center to a third party, with a consideration of RMB 1 yuan. After the disposal, 21st Century Training Center was no longer consolidated with the Group. Please refer to Note 25 for details.

We established IValley Beijing in September 2017. IValley Beijing is a 100% subsidiary of IValley, a Taiwanese company. IValley is a VIE subsidiary of Ambow Education Management (Hong Kong) Ltd. ("Ambow Education Management"). IValley and IValley Bejing’s business is to provide intellectualized operational services.

	For the Years Ended December 31,					
	2014 RMB	2015 RMB	2016 RMB	2017 RMB	2018 RMB	2018 US$
	(in thousands, except share, per share and per ADS information)					
Consolidated Statement of Operations Data:						
NET REVENUES:						
- Educational programs and services	411,998	395,715	412,016	432,754	525,134	76,378
- Intellectualized operational services	-	-	-	11,170	6,374	927
Total net revenues	411,998	395,715	412,016	443,924	531,508	77,305
COST OF REVENUES						
- Education programs and services	(274,036)	(245,945)	(238,742)	(249,400)	(331,939)	(48,279)
- Intellectualized operational services	-	-	-	(6,995)	(6,204)	(902)
Total costs of revenues	(274,036)	(245,945)	(238,742)	(256,395)	(338,143)	(49,181)
GROSS PROFIT	137,962	149,770	173,274	187,529	193,365	28,124
Operating expenses:						
Selling and marketing (1)	(80,377)	(55,511)	(41,818)	(36,710)	(43,751)	(6,363)
General and administrative (1)	(508,544)	(280,634)	(145,513)	(142,252)	(132,718)	(19,303)
Research and development (1)	(12,259)	(7,308)	(7,572)	(6,262)	(1,513)	(220)
Impairment loss from continuing operations	(292,577)	(162,351)	(22,402)	-	-	-
Total operating expenses	(893,757)	(505,804)	(217,305)	(185,224)	(177,982)	(25,886)
OPERATING (LOSS)/INCOME	(755,795)	(356,034)	(44,031)	2,305	15,383	2,238
OTHER (EXPENSE)/INCOME	(267,861)	(39,371)	12,924	53,234	33,055	4,808
(LOSS)/INCOME BEFORE INCOME TAX, NON-CONTROLLING INTEREST, AND	(1,023,656)	(395,405)	(31,107)	55,539	48,438	7,046

DISCONTINUED OPERATIONS						
Income tax benefit/(expense)	(1,135)	118,963	(5,911)	(9,614)	(3,498)	(509)
(LOSS)/INCOME FROM CONTINUING OPERATIONS	(1,024,791)	(276,442)	(37,018)	45,925	44,940	6,537
(Loss)/Income from and on sale of discontinued operations, net of income tax	(57,764)	340,798	-	-	-	-
NET (LOSS)/INCOME	(1,082,555)	64,356	(37,018)	45,925	44,940	6,537
Less: Net (loss)/income contributable to non-controlling interest from continuing operating	(5,742)	617	(1,318)	(538)	(50)	(7)
NET (LOSS)/INCOME ATTRIBUTABLE TO AMBOW EDUCATION HOLDING LTD.	(1,076,813)	63,739	(35,700)	46,463	44,990	6,544
NET (LOSS)/INCOME ATTRIBUTABLE TO ORDINARY SHAREHOLDERS	(1,076,813)	63,739	(35,700)	46,463	44,990	6,544
Net (loss)/income from continuing operations per ordinary share: (2)						
Basic	(73.13)	(7.52)	(0.93)	1.20	1.09	0.16
Diluted	(73.13)	(7.52)	(0.93)	1.18	1.08	0.16
Net (loss)/income from discontinued operations per ordinary share: (2)						
Basic	(4.18)	9.25	-	-	-	-
Diluted	(4.18)	9.25	-	-	-	-
Net (loss)/income from continuing operations per ADS: (2)						
Basic	(146.26)	(15.04)	(1.86)	2.40	2.18	0.32
Diluted	(146.26)	(15.04)	(1.86)	2.36	2.16	0.32
Net (loss)/income from discontinued operations per ADS: (2)						
Basic	(8.36)	18.50	-	-	-	-
Diluted	(8.36)	18.50	-	-	-	-
Weighted average shares used in calculating net income/(loss) per share (2)						
Basic	13,928,048	36,848,816	38,469,234	38,826,800	41,342,597	41,342,597

Diluted	13,928,048	36,848,816	38,469,234	39,303,760	41,671,763	41,671,763

(1) Share-based compensation expense included in:

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	For the Years Ended December 31,					
	2014	2015	2016	2017	2018	2018
	RMB	RMB	RMB	RMB	RMB	US$
	(in thousands)					
Selling and marketing	(351)	(457)	-	-	-	-
General and administrative	(156,870)	(49,371)	(7,828)	(4,640)	(8,121)	(1,181)
Research and development	(144)	(289)	-	-	-	-

(2) Basic and diluted net income/(loss) from continuing operations per ordinary share is computed by dividing net income/(loss) from continuing operations by the weighted average number of shares outstanding for the period. Basic and diluted net 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 options and restricted shares 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. All per share amounts and shares outstanding for all periods have been retroactively restated to reflect Ambow Education Holding Ltd.'s 1-for-30 reverse stock split, which was effective on September 4, 2015.

	As of December 31,					
	2014	2015	2016	2017	2018	2018
	(in thousands)					
	RMB	RMB	RMB	RMB	RMB	US$
Consolidated Balance Sheet Data:						
Cash and cash equivalents	180,285	246,303	196,900	195,303	211,436	30,752
Total current assets	993,736	682,624	616,527	572,723	555,400	80,779
Total assets	1,472,684	982,204	953,023	977,420	910,219	132,386
Total current liabilities	1,491,336	839,381	838,002	762,552	645,147	93,833
Total liabilities	1,525,990	839,381	838,002	811,461	647,448	94,167
Total equity/(deficit)	(53,306)	142,823	115,021	165,959	262,771	38,219

	For the Years Ended December 31,					
	2014	2015	2016	2017	2018	2018
	RMB	RMB	RMB	RMB	RMB	US$
	(in thousands)					
Consolidated Statement of Cash Flow Data:						
Net cash (used in)/provided by operating activities	(160,367)	(40,119)	17,535	20,210	25,445	3,699
Net cash provided by/(used in) investing activities	110,221	58,214	(65,218)	(61,078)	(28,520)	(4,148)
Net cash provided by/(used in) financing activities	87,003	12,830	(1,504)	39,205	46,872	6,817

Exchange Rates

Our business is primarily conducted in China and substantially most of our revenues are denominated in RMB. This annual report contains translations of certain RMB amounts into U.S. dollars at specified rates solely for the convenience of the reader. All translations from RMB to U.S. dollars were made at the noon buying rate as set forth in the H.10 statistical release of the U.S. Federal Reserve Board. Unless otherwise stated, the translation of RMB into U.S. dollars has been made at the noon buying rate on December 31, 2018, which was RMB 6.8755 to US$ 1.00. We make no representation that the RMB or U.S. dollar amounts referred to in this annual report could have been converted into U.S. dollars or RMB, as the case may be, at any particular rate or at all. The PRC government imposes control over its foreign currency reserves in part through direct regulation of the conversion of RMB into foreign exchange and through restrictions on foreign trade. On February 28, 2019, the daily exchange rate reported by the Federal Reserve Board was RMB 6.6912 to US$ 1.00.

The following table sets forth information concerning exchange rates between the RMB and the U.S. dollar for the periods indicated. These rates are provided solely for your convenience and are not necessarily the exchange rates that we used in this annual report or will use in the preparation of our periodic reports or any other information to be provided to you. The source of these rates is the Federal Reserve Board.

Period	Average (1)
2014	6.1704
2015	6.2827
2016	6.6400
2017	6.7595
2018	6.6090

Period	High (1)	Low (1)
2018		
September	6.8880	6.8270
October	6.9737	6.8680
November	6.9558	6.8894
December	6.9077	6.8343
2019		
January	6.8708	6.6958
February	6.7907	6.6822

(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 fees that our students are willing to pay for our courses. Therefore, our ability to continue to attract students to enroll in our programs without significantly decreasing 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, expanding our geographic reach, managing our growth while maintaining the consistency of our teaching quality, effectively marketing our programs to a broader base of prospective students, developing and licensing additional high-quality educational content and responding to competitive pressures. It also depends on macroeconomic factors like unemployment and the resulting lower confidence in job prospects, and many of the regulatory risks discussed as below. Our enrollment in future years will be affected by legislative uncertainty, regulatory activity, and macroeconomic conditions. It is likely that legislative, regulatory, and economic uncertainties will continue for the foreseeable future, and thus it is difficult to assess our long-term growth prospects. Our partner schools are 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 partner schools or restrict the programs we offer at our partner schools or the methods by which we recruit new students. If we are unable to continue to attract students to enroll in our programs without significantly decreasing 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.

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 who 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 primary and secondary schools from teaching, on a part-time basis, in schools or in out-of-school learning centers during the work week or at any time. Public school teachers may join private schools only after ending their employment with public schools. 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 may not 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 have 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 our existing brands and those 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.

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 create 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.

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 expenditures than previously required.

Post-secondary education in the United States is highly competitive. Our Boston-based subsidiary, Bay State College, competes with traditional public and private two-year and four-year colleges, other for-profit schools, and alternatives to higher education, such as employment and military service. Public colleges may offer programs similar to those of Bay State College at a lower tuition level as a result of government subsidies, government and foundation grants, tax-deductible contributions, and other financial sources not available to proprietary institutions. Some of our competitors in both the public and private sectors have substantially greater financial and other resources than we do. Congress, the Department of Education, and other agencies have required increasing disclosure of information to consumers. While we believe that Bay State College provides valuable education to its students, we may not always accurately predict the drivers of a student or potential students' decisions to choose among the range of educational and other options available to them. This strong competition could adversely affect our business.

Competition could result in loss of market share and revenue, 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.

We may have acquisitions in the future, which involve risks and uncertainties, and if we don't manage those risks well, it may harm our business.

In the future, we may 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 typically would perform due diligence on each entity that we acquire before the acquisition, some of the acquired entities may not maintain their historical documents and records properly and such documents and records may be unavailable for our review. As such, there may be hidden liabilities and risks relating to the business and operation of such entities that we fail to identify before the acquisition. If we acquire such entity and 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.

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 for 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.

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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.

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 increased from RMB 412.0 million in 2016 to RMB 443.9 million in 2017, and increased to RMB 531.5 million (US$ 77.3 million) in 2018. 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.

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 industry changes in curriculum, testing materials and standards could cause our services and products to be less attractive to our students.

Our success depends in part on our ability to continually update and expand the content, curriculum and test preparation materials of our academic programs, develop new programs and our teaching methods in a cost-effective manner, and meet students' needs in a timely manner. Any inability to track and respond to the industry 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.

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, 2018 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 were unable to obtain financing in the future on terms acceptable to us, our business operations and our growth plans would be materially harmed.

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 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 or 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 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.

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.

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.

Approximately half of our servers and routers including backup servers are currently hosted by third-party service providers within China, and the rest are currently hosted by us. Bay State College self-hosts all of its production and backup servers in Boston and its Disaster Recovery location in Taunton. A growing number of services are SAAS and these servers are hosted by a third party in different locations inside and outside the United States. 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.

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 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 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. No impairment loss was made against the capital lease in 2018.

We do not possess 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. 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, 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 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.

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 2018, we did not recognize any impairment loss. 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 an equity incentive plan in 2010, the 2010 Equity Incentive Plan, which was amended and restated in November 2018, the Amended and Restated 2010 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, which 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. During the year ended December 31, 2018, we recorded share-based compensation expenses of RMB 8.1 million for the restricted stock and the unrecognized share-based compensation expenses amounted to RMB 4.7 million as of December 31, 2018. 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 standards 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 standards 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 standards or taxation rules, such as FASB Interpretation No. 48 "Accounting for Uncertainty in Income Taxes", or FIN 48 (now codified as ASC 740), the Enterprise Income Tax Law in China which was effective January 1, 2008, or the EIT Law, and various interpretations of accounting standards 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, value-added 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.

Private schools or colleges 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 EIT 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 January 2014 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, 2013. 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 EIT 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 the slowdown in China's economy continues or worsens, it may adversely impact our business.

The growth rate of China's domestic product in 2018 was 6.6%, compared to a growth rate of 6.9% in 2017 and 6.7% in 2016. A number of factors contributed to this slowdown in China's economy, including 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 most 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.

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. As a non-accelerated filer, we are not required to have an independent registered public accounting firm issue an attestation report on the effectiveness of our internal control over financial reporting. However, we are still required to include a report of management on the effectiveness of our company's internal control over financial reporting in our annual report. Our management has performed an evaluation of the effectiveness of our internal controls over financial reporting as of December 31, 2018 and concluded that our internal control over financial reporting was effective as of December 31, 2018. See "Item 15. Control and Procedures."

Nevertheless, we cannot assure you that we will maintain effective internal control over financial reporting on an ongoing basis. If we fail to maintain effective internal controls over financial reporting in the future, our management may not be able to conclude that we have effective internal control over financial reporting at a reasonable assurance level. Any failure to maintain effective internal control over financial reporting could result in the loss of investor confidence in the reliability of our financial statements, which in turn could have a material and adverse effect on the trading price of our ADSs. Furthermore, we have incurred and anticipate that we will continue to incur considerable costs, management time and other resources in an effort to comply with Section 404 and other requirements of the Sarbanes-Oxley Act.

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 non-Chinese citizens in China and may not admit any children of Chinese citizens.

We conduct our K-12 school and tutoring business and provide online services in China primarily through contractual arrangements between Beijing Ambow Shengying Education and Technology Co., Ltd. (“Ambow Shengying”) and Beijing Ambow Chuangying Education and Technology Co., Ltd. (“Ambow Chuangying”), our principal operating subsidiaries 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. NDRC and MOFCOM promulgated The Foreign Investment Industries Guidance Catalog on June 28, 2017, which will come into effect on July 28, 2017, and the abovementioned policy does not change. 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, 2018, we had a total of 48 centers and schools, comprised of 10 tutoring centers, 3 K-12 schools, 8 career enhancement centers, 1 career enhancement college, 25 training offices and 1 career enhancement campus. We conduct our education business in China primarily through contractual arrangements among our subsidiaries in China and VIEs. The majority of 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.

We conduct our intellectualized operational services business in China through IValley Beijing. IValley Beijing is a foreign invested entity controlled by a Taiwanese entity IValley Co., Ltd. ("IValley"). IValley is operated through contractual arrangements between Ambow Education Management and its respective shareholders. Foreign investment is encouraged to participate in the intellectualized operational service business in the Foreign Investment Catalog.

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, the Ministry of Civil Affairs ("MCA") 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; or
- Requiring us or our PRC subsidiaries and affiliated entities to restructure the relevant ownership structure or operations;
- Restricting or prohibiting the use of any proceeds from our additional public offering to finance our business and operations in China;

Similar ownership structure and contractual arrangements have been used by many China-based companies listed overseas, including in the United States. However, we cannot assure you that 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.

We may be classified as "organization of the Mainland Area" under the Act Governing Relations between the People of the Taiwan Area and the Mainland Area, which may prohibit us from investing or conducting business in Taiwan.

Under the Act Governing Relations Between The People Of The Taiwan Area And The Mainland Area issued by the Taiwan Executive Yuan in July 31, 1992 and revised in June 17, 2015, together with the Method Allowing Investment In Taiwan From People Of The Mainland Area, any individual, organization, or other institution of the Mainland Area, or any company it invests in any third area may not engage in any investment activity in the Taiwan Area unless permitted by the competent authorities. Hong Kong is considered a third area under Taiwan law. Any company in the third area with over 30% direct or indirect shareholding from the Mainland Area or substantially controlled by people from the Mainland Area is treated as an "organization of the Mainland Area". Therefore Ambow Education Management is not qualified to engage in any investment activities in Taiwan without approval. We set up a VIE structure to obtain necessary licenses and permits to establish a Taiwan company that is currently subject to PRC investment restrictions for future business development in Taiwan. However we still face uncertainties as to whether we can maintain our VIE structure in the future. If we are classified as "organization of the Mainland Area", there may be a material impact to the viability to our current corporate structure, corporate governance and business operations. We may potentially be subject to fines and/or administrative or criminal liabilities.

We have chosen to operate the business in PRC through a Taiwan company because the technology and resources of intellectualized operational services are much more developed in Taiwan. Most of the designers and engineers are from Taiwan and we have purchased some of the equipment and materials from Taiwan to perform our services. We therefore believe that setting up a Taiwan company is very convenient for the company to recruit professionals, make procurement and settle payment accordingly.

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.

On March 15, 2019, the new Foreign Investment Law of PRC (the “2018 Foreign Investment Law”)was passed by the Second Session of the thirteenth National People's Congress and will come into force on January 1, 2020. The 2018 Foreign Investment Law does not mention concepts including “de facto control”, “controlling through contractual arrangements” or “variable interest entity”, nor does it specify the regulation on controlling through contractual arrangements or variable interest entity. Furthermore, the 2018 Foreign Investment Law does not specifically stipulate rules on the education industry. Therefore, we believe that the 2018 Foreign Investment Law will not have any material adverse effect on our VIE structure and our business operations.

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. See “Regulations - Foreign investment in education service industry” and “Regulations - Regulations on Chinese-foreign cooperation in operating schools”.

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 affect 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 or Taiwan 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 Shengying, Ambow Chuangying and Ambow Education Management, 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.

In addition, these contractual arrangements are governed by PRC or Taiwan law and provide for the resolution of disputes through arbitration in the PRC or Taiwan. Accordingly, these contracts would be interpreted in accordance with PRC or Taiwan law and any disputes would be resolved in accordance with PRC or Taiwan legal procedures. The legal environment in the PRC and Taiwan may not be as developed as in some other jurisdictions, such as the United States. As a result, uncertainties in the PRC and Taiwan 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 VIEs, 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 the vice president of 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, PRC and Taiwan, 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 and The Implementing Rules for the Law for Promoting Private Education, or 2004 Implementing Rules. Under the current 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. According to 2004 Implementing Rules, 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.

The Standing Committee of the National People's Congress promulgated an amendment to The Law for Promoting Private Education on November 7, 2016, which went into effect on September 1, 2017. Pursuant to this amendment,

sponsors of private schools may choose to establish schools as either non-profit or for-profit schools. Sponsors are not permitted to establish for-profit schools that provide compulsory education services, which covers grades one to nine and accounted for a significant portion of our students as well as revenue during the reporting period. Sponsors of for-profit private schools are entitled to retain the profits from their schools and the operating surplus may be allocated to the sponsors pursuant to the PRC company law and other relevant laws and regulations. Sponsors of non-profit private schools are not entitled to any distribution of profits from their schools and all revenue must be used for the operation of the schools.

We cannot predict the timing and effects of any 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, 2018, we had a total of 31 schools that were registered as private schools as opposed to companies. Of the 31 schools, 4 schools were registered as schools not requiring reasonable returns. The other 27 schools were registered as schools requiring reasonable returns. The total net revenue of the schools requiring reasonable returns accounted for 66.1% of our consolidated total net revenue for the year ended December 31, 2018. The total net revenue of the schools not requiring reasonable returns accounted for 1.8% of our consolidated total net revenue for the year ended December 31, 2018. Both schools requiring reasonable returns and not requiring reasonable returns reported a net loss position for the period ending December 31, 2018.

Regulatory agencies may commence investigations of the tutoring centers, K-12 schools and career enhancement centers 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 and career enhancement centers. As the provision of these services is heavily regulated in China, especially primary and 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, the MOE may impose limitation on the annual enrollment quota or even suspend recruiting by 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 and Taiwan 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 and Taiwan 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 and Taiwan tax authorities. We could face material adverse tax consequences if the PRC or Taiwan tax authorities determine that the contractual arrangements between Ambow Shengying, Ambow Chuangying, Ambow Education Management 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 or Taiwan tax purposes, increased tax liabilities for our VIEs or any of their respective subsidiaries. In addition, the PRC and Taiwan 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. 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.

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.

We are highly dependent upon revenue generated from our three K-12 schools which was 50.4%, 52.4% and 52.3% for the year ended December 31, 2016, 2017 and 2018, respectively. 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 is 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 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 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.

Beijing Ambow Shida Education Technology Co., Ltd. ("Ambow Shida") held an ICP license issued by Beijing Communications Administration, the local counterpart of the MIIT. Ambow Shida is now in the process of reapplying its ICP license. Due to the uncertainties of implementation of relevant regulations by different authorities, we cannot assure you that Ambow Shida could satisfy or will be able to satisfy all the requirements for a PRC Internet content provider.

If we fail to reapply our ICP license, we may be required to cease providing relevant online materials, which would harm our net revenues and results of operations. 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.

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 most of our operations are conducted in China, and substantially most 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.

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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.

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 Shengying, Ambow Chuangying and our other wholly-owned subsidiaries in China are generally subject to PRC laws and regulations, in particular, laws applicable to foreign invested 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, 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.

We have implemented various measures to control the location and usage of the chops, as well as new mechanisms for retaining control over the chops used by the VIEs, such as: (i) centralizing the chop monitoring procedure through our President's office in our headquarters located in Beijing, PRC, where we maintain a ledger to strictly monitor and review the usage of the chops; (ii) employed new management teams to individual schools to replace management positions previously governed by the former owners of the deconsolidated entities; (iii) centralizing the operations of each school and tutoring center by (x) setting up Financial Share Service Centers across the company and standardizing the company's Finance and Operation Policies throughout the company, and (y) Implementing new ERP systems to standardize operations, enhance central controls, and create synergy of the company's resources; and (iv) streamlining the internal control structure with effective communication channels and regular management meetings. 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. There were entities deconsolidated in 2013 and 2014 due to loss of control and the company has lost the custody of the company chops and other important company legal documents, which was regained by December 31, 2015.

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 EIT Law, which became effective on January 1, 2008 and its implementation rules, 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. Pursuant to an amendment to The Law for Promoting Private Education on November 7, 2016, which went into effect on September 1, 2017, sponsors of for-profit private schools are entitled to retain the profits from their schools and the operating surplus may be allocated to the sponsors pursuant to the PRC company law and other relevant laws and regulations.

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.

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 shall be registered with or 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 became effective on June 1, 2015. Circular 19 facilitates foreign-invested enterprises' domestic equity investment with the amount obtained from foreign exchange settlement. Other than to transfer equity investment funds in the original currencies, 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 Shengying, Ambow Chuangying or our other subsidiaries wholly owned by equities is 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 Shengying, Ambow Chuangying and our other subsidiaries as increased registered capital, we may 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.

If we use our capital for the business of Ambow Shengying, Ambow Chuangying 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 EIT 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 EIT 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 EIT 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. Circular 82 further provides that, among other things, an entity that is classified as a "resident enterprise" in accordance with the circular shall file the application for classifying its status of residential enterprise with the local tax authorities where its main domestic investors are registered. From the year in which the entity is determined as a "resident enterprise," any dividend, profit and other equity investment gain shall be taxed in accordance with the Enterprise Income Tax Law and its implementing rules. 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".

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 EIT 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.

We face uncertainties with respect to indirect transfers of the equity interests in PRC resident enterprises by their non-PRC holding companies.

Pursuant to the Notice on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-PRC Resident Enterprises, or Circular 698, issued by the State Administration of Taxation on December 10, 2009, where a non-PRC resident enterprise transfers its equity interests in a PRC resident enterprise to its related parties at a price lower than the fair market value, the competent tax authority has the power to make a reasonable adjustment to the taxable income of the transaction. Circular 698 is retroactively effective from January 1, 2008. There is uncertainty as to the application of Circular 698. For example, while the term "indirect transfer" is not clearly defined, it is understood that the relevant PRC tax authorities have jurisdiction regarding requests for information over a wide range of foreign entities having no direct contact with China. Moreover, the relevant authority has not yet promulgated any formal provisions or formally declared or stated how to calculate the effective tax rates in foreign tax jurisdictions, and the process and format of the reporting of an Indirect Transfer to the competent tax authority of the relevant PRC resident enterprise remain unclear. In addition, there are no formal declarations with regard to how to determine whether a foreign investor has adopted an abusive arrangement in order to reduce, avoid or defer PRC tax.

The State Administration of Taxation issued Bulletin on Several Issues concerning the Enterprise Income Tax on the Indirect Transfers of Properties by Non-Resident Enterprises, or Bulletin 7, on February 3, 2015, which replaced or supplemented certain previous rules under Circular 698. Under Bulletin 7, an "indirect transfer" of assets, including equity interests in a PRC resident enterprise, by non-PRC resident enterprises may be re-characterized and treated as a direct transfer of PRC taxable assets, if such arrangement does not have a reasonable commercial purpose and was established for the purpose of avoiding payment of PRC enterprise income tax. As a result, gains derived from such indirect transfer may be subject to PRC enterprise income tax. According to Bulletin 7, "PRC taxable assets" include assets attributed to an establishment in China, immoveable properties in China, and equity investments in PRC resident enterprises. In respect of an indirect offshore transfer of assets of a PRC establishment, the relevant gain is to be regarded as effectively connected with the PRC establishment and therefore included in its enterprise income tax filing, and would consequently be subject to PRC enterprise income tax at a rate of 25.0%. Where the underlying transfer relates to the immoveable properties in China or to equity investments in a PRC resident enterprise, which is not effectively connected to a PRC establishment of a non-resident enterprise, a PRC enterprise income tax at 10.0% would apply, subject to available preferential tax treatment under applicable tax treaties or similar arrangements, and the party who is obligated to make the transfer payments has the withholding obligation. There is uncertainty as to the implementation details of Bulletin 7. If Bulletin 7 was determined by the tax authorities to be applicable to some of our transactions involving PRC taxable assets, our offshore subsidiaries conducting the relevant transactions might be required to spend valuable resources to comply with Bulletin 7 or to establish that the relevant transactions should not be taxed under Bulletin 7.

As a result, we and our non-PRC shareholders may have the risk of being taxed for the disposition of our ordinary shares or ADS and may be required to spend valuable resources to comply with Circular 698 and Bulletin 7 or to establish that we or our non-PRC shareholders should not be taxed as an indirect transfer, which may have a material adverse effect on our financial condition and results of operations or the investment by non-PRC investors in us.

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

Because substantially most 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.

In November 2017, we acquired 100% of the outstanding shares of common stock of Bay State College in the United States to expand our career-oriented international education portfolio. In 2017, the review and approval process from SAFE with respect to obtaining foreign currency denominated borrowings and making direct overseas investment became more stringent in China. The review and approval from SAFE takes a longer period of time, and more supporting files are required. As a result, the new restrictions on foreign exchange for capital expenditure prevented us from raising enough US dollars for the acquisition of Bay State College. In order to fund the current acquisition costs and the operational needs of the company, we borrowed a one-year interest-free US dollar loan of US$ 6.0 million from Sino Accord Investments Limited ("Sino Accord"), a non-affiliated third party lender. At the same time, we provided a one-year interest-free RMB loan of RMB 42.7 million to Suzhou Zhixinliren Investment Co., Limited ("Suzhou Zhixinliren"), another non-affiliated party finance company. It is the understanding among the parties that the US dollar loan is correlated to the RMB loan, and when the US dollar loan is repaid, the RMB loan will similarly be collected. Without providing an RMB loan to Suzhou Zhixinliren, we would not be able to obtain the US dollar loan from Sino Accord in compliance with applicable regulations, mainly the Regulations for the Implementation of Foreign Exchange Management in People's Republic of China. In light of the capital from US dollar loan and its operational cash flow, Bay State College is able to generate enough liquidity to support its future operations in the near term. Therefore we do not currently intend to rely on US dollar borrowings to continue funding Bay State College's operations. On March 7, 2018, we mutually agreed with Sino Accord and Suzhou Zhixinliren to extend the maturity date for repayment of the loans for an additional year. Accordingly, both loans are now due in April 2019. With the extended maturity date of the loans, or if there are other significant overseas capital expenditures in the future requiring currencies other than RMB, we may either apply for a permit from the SAFE to purchase foreign currencies or pursue other offerings resulting in US dollar proceeds to obtain enough US dollars to meet such shortage in foreign currency. We have not been a lender of funds to non-affiliated parties historically, and we do not intend to do so in the future.

If we fail to settle our RMB and US dollar loans properly, it may be considered as unauthorized currency exchange arrangement and we may face penalties from local authorities.

In order to fund the acquisition costs and working capital needs in US dollars, on April 5, 2017, we entered into an agreement to receive a one-year interest-free US dollar loan from Sino Accord. This short-term loan is considered correlated to our one-year interest-free RMB loan to Suzhou Zhixinliren, and when we repay the US dollar loan, the RMB loan will be repaid. Without providing an RMB loan to Suzhou Zhixinliren, we would not be able to obtain the US dollar loan from Sino Accord in compliance with applicable regulations, mainly the Regulations for the Implementation of Foreign Exchange Management in People's Republic of China. On March 7, 2018, we mutually agreed with Sino Accord and Suzhou Zhixinliren to extend the maturity date for repayment of the loans for an additional year. Accordingly, both loans are now due in April 2019. Please refer to Note 8 and Note 14 to consolidated financial statements for details.

The loan agreements are not individually regulated by the foreign currency exchange and cross border guarantee rules of China. However if we fail to repay the US dollar loan to Sino Accord or collect the RMB loan from Suzhou Zhixinliren when the agreements due, these transactions may be considered as unauthorized foreign exchange arrangements by the SAFE. The regulatory authority may deem the transactions as, in substance, a currency exchange arrangement or an onshore guarantee for an offshore loan, and we may be subject to severe monetary penalties under such circumstances. According to Regulations for the Implementation of Foreign Exchange Management in People's Republic of China, the upper limits of the monetary penalties can range from 30 to 100 percent of the deemed illegal loan amounts. On March 7, 2018, we mutually agreed with Sino Accord and Suzhou Zhixinliren to extend the maturity date for repayment of the loans for an additional year. Accordingly, both loans are now due in April 2019. With the extended maturity date of the loans, we shall either apply for a permit from the SAFE for our purchase of US dollars or pursue other future offerings resulting in US dollar proceeds to obtain enough US dollars to repay Sino Accord.

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.

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.

SAFE promulgated the Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents' Off-shore Investment and Financing and Roundtrip Investment through Special Purpose Vehicles, or SAFE Circular 37, on July 4, 2014, which replaced the former circular commonly known as "SAFE Circular 75" promulgated by SAFE on October 21, 2005. SAFE Circular 37 requires PRC residents to register with local branches of SAFE in connection with their direct establishment or indirect control of an off shore entity, for the purpose of overseas investment and financing, with such PRC residents' legally owned assets or equity interests in domestic enterprises or off shore assets or interests, referred to in SAFE Circular 37 as a "special purpose vehicle." SAFE Circular 37 further requires amendment to the registration in the event of any significant changes with respect to the special purpose vehicle, such as increase or decrease of capital contributed by PRC individuals, share transfer or exchange, merger, division or other material event. In the event that a PRC resident holding interests in a special purpose vehicle fails to fulfill the required SAFE registration, the PRC subsidiaries of that special purpose vehicle may be prohibited from making profit distributions to the off-shore parent and from carrying out subsequent cross-border foreign exchange activities, and the special purpose vehicle may be restricted in its ability to contribute additional capital into its PRC subsidiary. Moreover, failure to comply with the various SAFE registration requirements described above could result in liability under PRC law for evasion of foreign exchange controls. SAFE promulgated the Notice of SAFE on Further Simplifying and Improving Policies for the Foreign Exchange Administration of Direct Investment, or SAFE Circular 13, on February 13, 2015, which was effective on June 1, 2015. SAFE Circular 13 cancels two administrative approval items: foreign exchange registration under domestic direct investment and foreign exchange registration under overseas direct investment, instead. Banks shall directly examine and handle foreign exchange registration under domestic direct investment and foreign exchange registration under overseas direct investment, and SAFE and its branch shall indirectly regulate the foreign exchange registration of direct investment through banks.

We cannot provide any assurances that all of our shareholders who are PRC residents will comply with 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—SAI regulations on employee share options."

The failure to comply with PRC regulations relating to mergers and acquisitions of domestic enterprises by off shore special purpose vehicles may subject the combined company to severe fines or penalties and create other regulatory uncertainties regarding the combined company's corporate structure.

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 ("M&A Rules"), which became effective on September 8, 2006 and was amended by the MOFCOM on June 22, 2009. The M&A Rules, among other things, has certain provisions that require off-shore companies formed for the purpose of acquiring PRC domestic companies and controlled directly or indirectly by PRC individuals and companies which are the related parties with the PRC domestic companies, to obtain the approval of MOFCOM prior to engaging in such acquisitions and to obtain the approval of the CSRC prior to publicly listing special purpose vehicles' securities on an overseas stock market. 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.

There remains some uncertainty as to how this regulation will be interpreted or implemented in the context of an overseas offering. If the MOFCOM, CSRC or another PRC regulatory agency subsequently determines that the MOFCOM, CSRC approvals were required for our listings, we may face sanctions by the MOFCOM, 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 listings 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.

PRC laws and regulations have established more complex procedures for certain acquisitions of Chinese companies by foreign investors, which could make it more difficult for the combined company to pursue growth through acquisitions in China.

M&A Rules established additional procedures and requirements that could make merger and acquisition activities by foreign investors more time-consuming and complex. Further to the M&A Rules, the Anti-monopoly Law of the PRC, the Rules of Ministry of Commerce on Implementation of Security Review System of Mergers and Acquisitions of Domestic Enterprises by Foreign Investors , or the MOFCOM Security Review Rules, was promulgated by MOFCOM in August 2011, which establishes additional procedures and requirements that are expected to make merger and acquisition activities in China by foreign investors more time-consuming and complex, including requirements in some instances that MOFCOM be notified in advance of any change of control transaction in which a foreign investor takes control of a PRC enterprise, or that the approval from MOFCOM be obtained in circumstances where overseas companies established or controlled by PRC enterprises or residents acquire affiliated domestic companies. PRC laws and regulations also require certain merger and acquisition transactions to be subject to merger control review and/or security review. The MOFCOM Security Review Rules, effective from September 1, 2011, which implements the Notice of the General Office of the State Council on Establishing the Security Review System for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors promulgated on February 3, 2011, further provides that, when deciding whether a specific merger or acquisition of a domestic enterprise by foreign investors is subject to the security review by MOFCOM, the principle of substance over form should be applied and foreign investors are prohibited from bypassing the security review requirement by structuring transactions through proxies, trusts, indirect investments, leases, loans, control through agreements control or off shore transactions. Further, if the business of any target company that the combined company seek to acquire falls into the scope of security review, the combined company may not be able to successfully acquire such company either by equity or by asset acquisition, capital contribution or through any VIE Agreement. The combined company may grow its business in part by acquiring other companies operating in its industry. Complying with the requirements of the relevant regulations to complete such transactions could be time consuming, and any required approval processes, including approvals from MOFCOM, may delay or inhibit its ability to complete such transactions, which could affect its ability to maintain or expand its market share.

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.

Risks Related to Regulations of Bay State College

If we fail to comply with the extensive U.S. regulatory requirements related to operating a US higher education institution, we could face significant monetary liabilities, fines and penalties, including loss of access to federal student loans and grants for our students.

As a provider of higher education in the United States at Bay State College, we are subject to extensive regulation on both the federal and state levels. In particular, the Higher Education Act and related regulations subject Bay State College and all other higher education institutions that participate in the various Title IV programs to significant regulatory scrutiny.

The Higher Education Act mandates specific regulatory responsibilities for each of the following components of the higher education regulatory triad: (1) the federal government through the Department of Education; (2) the accrediting agencies recognized by the Secretary of Education; and (3) state education regulatory bodies. In addition, other federal agencies such as the Consumer Financial Protection Bureau and Federal Trade Commission, and various state agencies and state attorneys general enforce consumer protection laws applicable to post-secondary educational institutions.

The regulations, standards, and policies of these regulatory agencies frequently change, and changes in, or new interpretations of, applicable laws, regulations, standards, or policies could have a material adverse effect on our accreditation, authorization to operate in various states, permissible activities, receipt of funds under Title IV programs, or costs of doing business.

Title IV requirements are enforced by the Department of Education and, in some instances, by private plaintiffs. If we are found not to be in compliance with these laws, regulations, standards, or policies, we could lose our access to Title IV program funds, which would have a material adverse effect on Bay State College's operations. Findings of noncompliance also could result in our being required to pay monetary damages, or being subjected to fines, penalties, injunctions, restrictions on our access to Title IV program funds, or other censure that could have a material adverse effect on our business.

Our failure to comply with the Department of Education's gainful employment regulations could result in heightened disclosure requirements and loss of Title IV eligibility.

To be eligible for Title IV funding, academic programs offered by proprietary institutions of higher education must prepare students for gainful employment in a recognized occupation. On October 31, 2014, the Department of Education published the final regulations on gainful employment, which, with the exception of certain disclosure requirements, generally became effective July 1, 2015. The regulations include two debt-to-earnings measures, consisting of an annual income rate and a discretionary income rate. The annual income rate measures student debt in relation to earnings, and the discretionary income rate measures student debt in relation to discretionary income.

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A program passes if the program's graduates:

· Have an annual income rate that does not exceed 8%; **or**

· Have a discretionary income rate that does not exceed 20%.

A program that does not pass either of the debt-to-earnings metrics, and that has an annual income rate between 8% and 12%, or a discretionary income rate between 20% and 30%, is considered to be in a warning zone. A program fails if the program's graduates have an annual income rate of 12% or greater and a discretionary income rate of 30% or greater. A program would become Title IV-ineligible for three years if it failed both metrics for two out of three consecutive years, or fails to pass at least one metric for four consecutive award years. The regulations provide a means by which an institution may challenge the Department of Education's calculation of any of the debt metrics prior to loss of Title IV eligibility.

The requirements associated with the gainful employment regulations may substantially increase our administrative burdens and could affect our program offerings, student enrollment, persistence, and retention. Further, although the regulations provide opportunities for an institution to correct any potential deficiencies in a program prior to the loss of Title IV eligibility, the continuing eligibility of our academic programs will be affected by factors beyond management's control, such as changes in our graduates' employment and income levels, changes in student borrowing levels, increases in interest rates, and various other factors. Even if we were able to correct any deficiency in the gainful employment metrics in a timely manner, the disclosure requirements associated with a program's failure to meet at least one metric may adversely affect student enrollments in that program and may adversely affect the reputation of our institution.

On August 10, 2018, the Department of Education announced a notice of proposed rulemaking that proposes to rescind the gainful employment regulations. The notice states that these regulations would be replaced with other regulations designed to require all higher education institutions provide useful, transparent data to students. We cannot predict what regulations will be proposed or ultimately adopted.

Congressional examination of for-profit post-secondary education could lead to legislation or other governmental action that may negatively affect the industry.

Since 2010, Congress has increased its focus on for-profit higher education institutions, including regarding participation in Title IV programs and oversight by the Department of Defense of tuition assistance and by the Veterans Administration of veterans education benefits for military service members and veterans, respectively,

attending for-profit colleges. The Senate HELP Committee and other congressional committees have held hearings into, among other things, the proprietary education sector and its participation in Title IV programs, the standards and procedures of accrediting agencies, credit hours and program length, the portion of federal student financial aid going to proprietary institutions, and the receipt of veterans and military education benefits by students enrolled at proprietary institutions. A number of legislators have requested the Government Accountability Office to review and make recommendations regarding, among other things, recruitment practices, educational quality, student outcomes, the sufficiency of integrity safeguards against waste, fraud, and abuse in Title IV programs, and the percentage of proprietary institutions' revenue coming from Title IV and other federal funding sources.

This activity may result in legislation, further rulemaking affecting participation in Title IV programs, and other governmental actions. In addition, concerns generated by congressional activity may adversely affect enrollment in, and revenues of for-profit educational institutions. Limitations on the amount of federal student financial aid for which our students are eligible under Title IV could materially and adversely affect our business.

We are dependent on the renewal and maintenance of Title IV programs.

The Higher Education Act, which is the law authorizing Title IV programs, is subject to periodic reauthorization. Congress completed the most recent reauthorization through multiple pieces of legislation and may reauthorize the HEA in a piecemeal manner in the future. Additionally, Congress determines the funding level for each Title IV program on an annual basis. Any action by Congress that significantly reduces funding for Title IV programs or the ability of our school or students to participate in these programs could materially harm our business. A reduction in government funding levels could lead to lower enrollments at our school and require us to arrange for alternative sources of financial aid for our students. Lower student enrollments or our inability to arrange such alternative sources of funding could adversely affect our business.

We are subject to compliance reviews, which, if they resulted in a material finding of noncompliance, could affect our ability to participate in Title IV programs.

Because we operate in a highly regulated industry, we are subject to compliance reviews and claims of noncompliance and related lawsuits by government agencies, accrediting agencies, and third parties, including claims brought by third parties on behalf of the federal government. For example, the Department of Education regularly conducts program reviews of educational institutions that are participating in Title IV programs, and the Office of Inspector General of the Department of Education regularly conducts audits and investigations of such institutions. The Department of Education could limit, suspend, or terminate our participation in Title IV programs or impose other penalties such as requiring us to make refunds, pay liabilities, or pay an administrative fine upon a material finding of noncompliance.

For the year ended December 31, 2018, no material isolated issues were found during regulatory reviews of Bay State College.

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If we fail to maintain our institutional accreditation or if our institutional accrediting body loses recognition by the Department of Education, we would lose our ability to participate in Title IV programs.

The loss of Bay State College's accreditation by New England Association of Schools and Colleges, or New England Association's loss of recognition by the Department of Education would render Bay State College ineligible to participate in Title IV programs and would have a material adverse effect on our US educational business. In addition, an adverse action by the New England Association other than loss of accreditation, such as issuance of a warning, could have a material adverse effect on our business. In November 2015, the Department of Education announced a set of executive actions and legislative proposals to increase transparency and rigor in accreditation. On January 20, 2016, the Department of Education issued additional recommendations related to accreditation.

On July 31, 2018, the Department of Education issued a public notice of proposed rulemaking on several topics, one of which is accreditation. Pursuant to such notice, public hearings were held on these topics, including accreditation, on September 6, September 11 and 13, 2018. On December 19, 2018, the Department of Education hosted a summit on rethinking career and technical education the focus of which was to consider alternatives ways in which to educate students for jobs of the future.

If we fail to maintain any of our state authorizations, we would lose our ability to operate in that state and to participate in Title IV programs there.

Each Bay State College campus is authorized to operate and to grant degrees, diplomas, or certificates by the Massachusetts Department of Higher Education. Such state authorization is required for students at the campus to participate in Title IV programs. The loss of state authorization would, among other things, render Bay State College ineligible to participate in Title IV programs at least at those state campus locations, limit Bay State College's ability to operate in that state and could have a material adverse effect on our business.

Effective July 1, 2011, Department of Education regulations provide that an institution is considered legally authorized by a state if the state has a process to review and appropriately act on complaints concerning the institution, including enforcing applicable state laws, and the institution complies with any applicable state approval or licensure requirements consistent with the new rules. If the Commonwealth of Massachusetts fails to comply in the future with the provisions of the new rule or fails to provide Bay State College with legal authorization, it could limit Bay State College's ability to operate in that state and have a material adverse effect on our US operations.

On December 19, 2016, the Department of Education published final regulations addressing, among other issues, state authorization of programs offered through distance education. The final regulations, which are effective July 1, 2018,

require an institution offering distance education programs to be authorized by each state in which the institution enrolls students, if such authorization is required by the state, in order to award Title IV aid to such students. An institution could obtain such authorization directly from the state or through a state authorization reciprocity agreement. On January 30, 2017, the Department of Education announced that it intends to take unspecified regulatory actions regarding certain regulations that have been published but have not yet taken effect, including regulations related to state authorization of distance education. As of February 2018, the Department had taken no action with respect to the state authorization of distance education regulations. If we fail to obtain or maintain required state authorization to provide post-secondary distance education in a specific state, the institution could lose its ability to award Title IV aid to online students in that state and could lose its ability to provide distance education in that state.

On May 25, 2018, the Department of Education announced that it proposed to delay until July 1, 2020, the effective date of regulations requesting distance education. The subject of distance education is one of the topics included in the Department of Education's proposed rulemaking of July 31, 2018.

Bay State College participates in the State Authorization Reciprocity Agreement ("SARA"), which allows Bay State College to enroll students in distance education programs in each SARA member state. Bay State College applies separately to non-SARA member states for authorization to enroll students, if such authorization is required by the state. If Bay State College failed to comply with the requirements to participate in SARA or state licensing or authorization requirements to provide distance education in a non-SARA state, Bay State College could lose its ability to participate in SARA or may be subject to the loss of state licensure or authorization to provide distance education in that non-SARA state, respectively.

If we fail to obtain recertification by the Department of Education when required, we would lose our ability to participate in Title IV programs.

An institution generally must seek recertification from the Department of Education at least every six years and possibly more frequently depending on various factors, such as whether it is provisionally certified. The Department of Education may also review an institution's continued eligibility and certification to participate in Title IV programs, or scope of eligibility and certification, in the event the institution undergoes a change in ownership resulting in a change of control or expands its activities in certain ways, such as the addition of certain types of new programs, or, in certain cases, changes to the academic credentials that it offers. In certain circumstances, the Department of Education must provisionally certify an institution. The Department of Education may withdraw our certification if it determines that we are not fulfilling material requirements for continued participation in Title IV programs. If the Department of Education does not renew, or withdraws our certification to participate in Title IV programs, our students would no longer be able to receive Title IV program funds, which would have a material adverse effect on our business.

Each institution participating in Title IV programs must enter into a Program Participation Agreement with the Department of Education. Under the agreement, the institution agrees to follow the Department of Education's rules and regulations governing Title IV programs. On March 1, 2018, the Department and Bay State College executed a new Provisional Program Participation Agreement, approving Bay State College's continued participation in Title IV programs with full certification through December 31, 2020.

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Student loan defaults could result in the loss of eligibility to participate in Title IV programs.

In general, under the Higher Education Act, an educational institution may lose its eligibility to participate in some or all Title IV programs if, for three consecutive federal fiscal years, 30% or more of its students who were required to begin repaying their student loans in the relevant federal fiscal year default on their payment by the end of the second federal fiscal year following that fiscal year. Institutions with a cohort default rate equal to or greater than 15% for any of the three most recent fiscal years for which data are available are subject to a 30-day delayed disbursement period for first-year, first-time borrowers.

If we lose eligibility to participate in Title IV programs because of high student loan default rates, it would have a material adverse effect on our business. Bay State College's most recent three-year cohort default rate for federal fiscal year 2015 published by the Department of Education was 7%.

Bay State College could lose its eligibility to participate in federal student financial aid programs or be provisionally certified with respect to such participation if the percentage of our revenues derived from those programs were too high.

A proprietary institution may lose its eligibility to participate in the federal Title IV student financial aid program if it derives more than 90% of its revenues, on a cash basis, from Title IV programs for two consecutive fiscal years. A proprietary institution of higher education that violates the 90/10 Rule for any fiscal year will be placed on provisional status for up to two fiscal years. Using the formula specified in the Higher Education Act, Bay State College derived approximately 63%, of its cash-basis revenues from these programs in 2018, which was our first full year operating Bay State College. Certain members of Congress have proposed to revise the 90/10 Rule to count tuition assistance provided by the Department of Defense and veterans education benefits, along with Title IV revenue, toward the 90% limit and to reduce the limit to 85% of total revenue. Such proposals could make it difficult for us to comply with the 90/10 rule. If we were to violate the 90/10 Rule, the loss of eligibility to participate in the federal student financial aid programs would have a material adverse effect on our business.

Our failure to demonstrate financial responsibility or administrative capability may result in the loss of eligibility to participate in Title IV programs.

All Title IV Institutions are subject to meeting financial and administrative standards. These standards are assessed through annual compliance audits, periodic renewal of institutional PPAs, periodic program reviews and ad hoc events which may lead the Department of Education to evaluate an institution's financial responsibility or administrative capability. The administrative capability criteria require, among other things, that our institution (1) has an adequate

number of qualified personnel to administer Title IV programs, (2) has adequate procedures for disbursing and safeguarding Title IV funds and for maintaining records, (3) submits all required reports and consolidated financial statements in a timely manner, and (4) not has significant problems that affect the institution's ability to administer Title IV programs.

A financial responsibility test is required for continued participation by an institution's students in U.S. federal financial assistance programs. The test is based upon a composite score of three ratios: an equity ratio that measures the institution's capital resources; a primary reserve ratio that measures an institution's ability to fund its operations from current resources; and a net income ratio that measures an institution's ability to operate profitably. A minimum score of 1.5 is necessary to meet ED's financial standards. Institutions with scores of less than 1.5 but greater than or equal to 1.0 are considered financially responsible, but require additional oversight. These schools are subject to heightened cash monitoring and other participation requirements. An institution with a score of less than 1.0 is considered not financially responsible. However, a school with a score of less than 1.0 may continue to participate in the Title IV programs under provisional certification. In addition, this lower score typically requires that the school be subject to heightened cash monitoring requirements and post a letter of credit (equal to a minimum of 10% of the Title IV aid it received in the institution's most recent fiscal year). For the fiscal year of 2018, Bay State College had a composite score equal to 1.7.

If the Department of Education determines, in its judgment, that Bay State College has failed to demonstrate either financial responsibility or administrative capability, we could be subject to sanctions, including, among other things, a requirement to post a letter of credit, fines, suspension or termination of our eligibility to participate in Title IV programs or repayment of funds received under Title IV programs, any of which could have a material adverse effect on our business, financial condition, results of operation and cash flows and result in the imposition of significant restrictions on us and our ability to operate. The Department of Education has considerable discretion under the regulations to impose the foregoing sanctions and, in some cases, such sanctions could be imposed without advance notice or any prior right of review or appeal.

Our failure to comply with the Department of Education's incentive compensation rules could result in sanctions and other liability.

If we pay a bonus, commission, or other incentive payment in violation of applicable Department of Education rules or if the Department of Education or other third parties interpret our compensation practices as such, we could be subject to sanctions or other liability, which could have a material adverse effect on our business.

Our failure to comply with the Department of Education's misrepresentation rules could result in sanctions and other liability.

The Higher Education Act prohibits an institution that participates in Title IV programs from engaging in "substantial misrepresentation" of the nature of its educational program, its financial charges, or the employability of its graduates. The 's Program Integrity Regulations, which took effect July 1, 2011, interpret this provision to prohibit any statement on those topics made by the institution or a third party that provides educational programs, marketing, advertising, recruiting, or admissions services to the institution that has the likelihood or tendency to confuse. The U.S. Court of Appeals for the District of Columbia held on June 5, 2012, that the term "substantial misrepresentation" could not include true, nondeceitful statements that are merely confusing. Final regulations to expand the definition of misrepresentation to include "any statement that has the likelihood or tendency to mislead under the circumstances" were scheduled to take effect July 1, 2017. The definition also would have been expanded to include "any statement that omits information in such a way as to make the statement false, erroneous, or misleading." On June 16, 2017, the Department of Education announced that it had decided to postpone indefinitely the implementation of certain provisions, including the revised definition. The Department has delayed implementation until July 1, 2019.

In the event of substantial misrepresentation, the Department of Education may revoke an institution's program participation agreement, limit the institution's participation in Title IV programs, deny applications from the institution, such as to add new programs or locations, initiate proceedings to fine the institution or limit, suspend, or terminate its eligibility to participate in Title IV programs. If the Department of Education or other third parties interpret statements made by us or on our behalf to be in violation of the new regulations, we could be subject to sanctions and other liability, which could have a material adverse effect on our business.

Our failure to comply with the Department of Education's credit hour rule could result in sanctions and other liability.

Effective July 1, 2011, Title IV regulations define the term "credit hour" and require accrediting agencies and state authorization agencies to review the reliability and accuracy of an institution's credit hour assignments. If an accreditor does not comply with this requirement, its recognition by the Department of Education could be jeopardized. If an accreditor identifies systematic or significant noncompliance in one or more of an institution's programs, the accreditor must notify the Secretary of Education. If the Department of Education determines that an institution is out of compliance with the credit hour definition, the Department of Education could impose liabilities or other sanctions, which could have a material adverse effect on our business.

Our failure to comply with the Jeanne Clery Disclosure of Campus Security Policy and Campus Crime Statistics Act or Title IX of the Education Amendments of 1972 could result in sanctions and other liability.

Bay State College must comply with the campus safety and security reporting requirements as well as other requirements in the Jeanne Clery Disclosure of Campus Security Policy and Campus Crime Statistics Act ("Clery Act"), including changes made to the Clery Act by the Violence Against Women Reauthorization Act of 2013. On October 20, 2014, the Department of Education promulgated final regulations implementing amendments to the Clery Act. In addition, the Department of Education has interpreted Title IX to categorize sexual violence as a form of prohibited sex discrimination and to require institutions to follow certain disciplinary procedures with respect to such offenses. Failure to comply with the Clery Act or Title IX requirements or regulations thereunder could result in action by the Department of Education to require corrective action, fine Bay State College, or limit or suspend its participation in Title IV programs, which could lead to litigation and could harm the Bay State College's reputation.

Our failure to comply with the Borrower Defense to Repayment Regulations could result in sanctions and other liability.

On July 25, 2018, the Department of Education issued proposed regulations to change the borrower defense to repayment regulations. Under the proposed regulations, mandatory and discretionary triggers exist which would allow the Department of Education to impose a letter of credit on an institution prior to their submission or annual financial statements in the event of certain negative events. The regulations were subject to a thirty-day comment period and need to be issued in final form prior to November 1, 2018 to be effective as of July 1, 2019. On October 2, 2018, the Department of Education indicated that the proposed regulations will not be issued by the November 1, 2018 federal calendar deadline and the Department of Education is still committed to issuing the regulations. However, the Department of Education was sued for delaying the borrower defense to repayment regulations and a federal judge ruled on October 12, 2018 that the borrower defense to repayment regulations are effective immediately. Bay State College is in process of determining the impact on the institution and any further guidance in regard to implementation which may be forthcoming from the Department of Education.

We are subject to sanctions if we fail to calculate accurately and make timely payment of refunds of Title IV program funds for students who withdraw before completing their educational program.

The Higher Education Act and Department of Education regulations require us to calculate refunds of unearned Title IV program funds disbursed to students who withdraw from their educational program before completing it. If refunds are not properly calculated or timely paid, we may be required to post a letter of credit with the Department of Education or be subject to sanctions or other adverse actions by the Department of Education, which could have a material adverse effect on our business.

Investigations, legislative and regulatory developments, and general credit market conditions related to the student loan industry may result in fewer lenders and loan products and increased regulatory burdens and costs.

The Higher Education Act regulates relationships between lenders to students and post-secondary education institutions. In 2009, the Department of Education promulgated regulations that address these relationships, and state legislators have also passed or may be considering legislation related to relationships between lenders and institutions. In addition, new procedures introduced and recommendations made by the Consumer Financial Protection Bureau create uncertainty about whether Congress will impose new burdens on private student lenders. These developments, as well as legislative and regulatory changes, such as those relating to gainful employment and repayment rates, creating uncertainty in the industry and general credit market conditions, may cause some lenders to decide not to provide certain loan products and may impose increased administrative and regulatory costs. Such actions could reduce demand for, and/or availability of private education loans, decrease Bay State College's non-Title IV revenue, and thereby increase Bay State College's 90/10 ratio, and have a material adverse effect on our business.

The Bay State College business operations could be harmed if we experience a disruption in our ability to process student loans under the Federal Direct Loan Program.

Any processing disruptions by the Department of Education may affect our students' ability to obtain student loans on a timely basis. If we experience a disruption in our ability to process student loans through the Federal Direct Loan Program, either because of administrative challenges on our part or the inability of the Department of Education to process the volume of direct loans on a timely basis, our business, financial condition, results of operations, and cash flows related to Bay State College could be adversely and materially affected.

Bay State College's business operations could be harmed if Congress makes changes to the availability of Title IV funds.

We collected 26.3% of the consolidated net revenue in our Career Enhancement segment from receipt by Bay State College of Title IV financial aid program funds, principally from federal student loans under the Federal Direct Loan Program. Changes in the availability of these funds or a reduction in the amount of funds disbursed may have a material adverse effect on our enrollment, financial condition, results of operations, and cash flows. Congress eliminated further federal direct subsidized loans for graduate and professional students as of July 1, 2012. On August 9, 2013, Congress passed legislation that ties interest rates on Title IV loans to the rate paid on U.S. Treasury bonds. Interest rates are set every July 1 for loans taken out from July 1 to June 30 of the following year. In July 2012, Congress reduced eligibility for Pell Grants from 18 semesters to 12 semesters. To date, these changes have not had a material impact on our business, but future changes in the availability of Title IV funds could impact students' ability to fund their education and thus may have a material adverse effect on our enrollment, financial condition, results of operations, and cash flows.

Enforcement of laws related to the accessibility of technology continues to evolve, which could result in increased information technology development costs and compliance risks.

Bay State College's online education programs are made available to students through personal computers and other technological devices. For each of these programs, the curriculum makes use of a combination of graphics, pictures, videos, animations, sounds, and interactive content. Federal agencies, including the Department of Education and the Department of Justice, have considered or are considering how electronic and information technology should be made accessible to persons with disabilities. For example, Section 504 of the Rehabilitation Act of 1973, or Section 504, prohibits discrimination against a person with a disability by any organization that receives federal financial assistance. The Americans with Disabilities Act, or the ADA, prohibits discrimination based on disability in several areas, including public accommodations. In 2010, the Department of Education's Office for Civil Rights, which enforces Section 504, together with the Department of Justice, asserted that requiring the use of technology in a classroom environment when such technology is inaccessible to individuals with disabilities violates Section 504, unless those individuals are provided accommodations or modifications that permit them to receive all the educational benefits provided by the technology in an equally effective and integrated manner. If Bay State College is found to have violated Section 504, it may be required to modify existing content and functionality of its online classroom or other uses of technology, including through adoption of specific technical standards. As a result of such enforcement action, or as a result of new laws and regulations that require greater accessibility, Bay State College may have to modify its online classrooms and other uses of technology to satisfy applicable requirements, which could require substantial financial investment. As with all nondiscrimination laws that apply to recipients of federal financial assistance, an institution may lose access to federal financial assistance if it does not comply with Section 504 requirements. In addition, private parties may file or threaten to file lawsuits alleging failure to comply with laws that prohibit discrimination on the basis of disability, such as the ADA, and defending against such actions may require Bay State College to incur costs to modify its online classrooms and other uses of technology and costs of litigation.

Risks related to ownership of our ADSs

We cannot assure you that the ADSs will not be delisted from the NYSE American, which could negatively impact the price of the ADSs and our ability to access the capital markets.

In June 2018, we completed our public offering of 2,070,000 ADSs at US$4.25 per ADS. Each ADS comprises two Class A ordinary shares of the company. On June 1, 2018, the company's ADSs commenced trading on the NYSE American under the symbol "AMBO". We cannot give you any assurance that a broader or more active public trading market for the ADSs will develop on the NYSE American or be sustained, or that current trading levels in ADSs will be sustained. In addition, if we fail to meet the criteria set forth in SEC regulations, by law, various requirements would be imposed on broker-dealers who sell our securities to persons other than established customers and accredited investors. Consequently, such regulations may deter broker-dealers from recommending or selling the ADSs, which may further affect the liquidity of the ADSs.

The listing standards of the NYSE American provide that a company, in order to qualify for continued listing, must maintain a minimum share price of $1.00 and satisfy standards relative to minimum shareholders' equity, minimum market value of publicly held shares and various additional requirements. If we fail to comply with all listing standards applicable to issuers listed on the NYSE American, the ADSs may be delisted. If the ADSs are delisted, it could reduce the price of the ADSs and the levels of liquidity available to our shareholders. In addition, the delisting of the ADSs could materially and adversely affect our access to the capital markets and any limitation on liquidity or reduction in the price of the ADSs could materially and adversely affect our ability to raise capital. Delisting from the NYSE American could also result in other negative consequences, including the potential loss of confidence by suppliers, customers and employees, the loss of institutional investor interest and fewer business development opportunities.

The market price of our ordinary shares and the ADSs could be subject to volatility.

The market price of our ordinary shares and the ADSs is likely to be highly volatile and subject to wide fluctuations in response to factors such as:

- variations in our actual and perceived operating results;
- announcements of new products or services by us or our competitors;
- technological breakthroughs by us or our competitors;
- news regarding gains or losses of customers or partners by us or our competitors;
- news regarding gains or losses of key personnel by us or our competitors;
- announcements of competitive developments, acquisitions or strategic alliances in our industry by us or our competitors;
- changes in earnings estimates or buy/sell recommendations by financial analysts;
- potential litigation;
- general market conditions or other developments affecting us or our industry; and
- the operating and stock price performance of other companies, other industries and other events or factors beyond our control.

In addition, the securities markets have from time to time experienced significant price and volume fluctuations that are not related to the operating performance of particular companies. These market fluctuations may also materially and adversely affect the market price of the ordinary shares and the ADSs.

We may not be able to pay any dividends on our Class A ordinary shares and, correspondingly, the ADSs.

Under China law, we may only pay dividends subject to our ability to service our debts as they become due and provided that our assets will exceed our liabilities after the dividend. Our ability to pay dividends will therefore depend on our ability to generate sufficient profits.

We can give no assurance that we will declare dividends of any amounts, at any rate or at all in the future. Our historical dividend payments are not indicative of the amount or timing of the payment of dividends that may be payable in the future and should not be used as a reference or basis to determine the amount of such dividends. The declaration of future dividends, if any, will be at the discretion of our board of directors and will depend upon our future operations and earnings, capital requirements, general financial conditions, legal and contractual restrictions and other factors that our board of directors may deem relevant.

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

Under our Sixth Amended and Restated Memorandum and Articles of Association, our ordinary shares are divided into Class A Ordinary Shares and Class C Ordinary Shares. Holders of Class A Ordinary Shares are entitled to one vote per share, while holders of Class C Ordinary Shares are entitled to ten votes per share. 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 Sixth 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 Sixth 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.

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.

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:

- 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.

We may be classified as a passive foreign investment company, which could result in adverse U.S. 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 U.S. federal income tax purposes for our taxable year ended December 31, 2018. 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, 2018 or any future taxable year. A foreign (non-U.S.) 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, we may be a PFIC for any taxable year. If we were treated as a PFIC for any taxable year during which a U.S. Holder (as defined in the section entitled "Taxation – U.S. Federal Income Taxation – General") held an ADS or an ordinary share, certain adverse U.S. federal income tax consequences could apply to such U.S. Holder. See "Item 10.E—Taxation—United States federal income taxation—Passive foreign investment company."

Anti-takeover provisions in our Sixth Amended and Restated Memorandum and Articles of Association may discourage, delay or prevent a change in control.

Some provisions of our Sixth 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 Sixth Amended and Restated Memorandum and Articles of Association, by the Companies Law (as amended) 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.”

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.

Most 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.

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 Sixth 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.

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

Your ADSs are transferable on the books of the depositary. However, the depositary may close its transfer books at any time or from time to time when it deems expedient in connection with the performance of its duties. In addition, the depositary may refuse to deliver, transfer or register transfers of ADSs generally when our books or the books of the depositary are closed, or at any time if we or the depositary 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 Shengying, Ambow Chuangying, Tianjin Ambow Yuhua Software Information Co., Ltd. ("Ambow Yuhua"), 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.

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 publicly 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.

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.

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 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. In 2017, we have established IValley in Taiwan and use its subsidiaries in China to conduct the intellectualized operational services.

From 2008 to 2012, we made a total of 31 separate acquisitions through business combinations and one acquisition of long-term operating rights. On November 20, 2017, we acquired 100% of the outstanding shares of common stock of Bay State College Inc. (“Bay State College”). Bay State College is a Massachusetts corporation that owns and operates Bay State College, a higher education institution offering career-focused post-secondary education with Associates and Bachelor’s programs in Business, Information Technology, Healthcare, Criminal Justice and Fashion. Bay State College was founded in 1946, is accredited by the New England Association of Schools and Colleges, Commission on Institutions of Higher Education and eligible to participate in federal student aid programs under Title IV of the U.S. Higher Education Act. Bay State College’s academic programs are delivered at its main campus in Boston, Massachusetts, a branch campus in Taunton, Massachusetts and online. Please refer to Note 22 to the audited consolidated financial statements for details.

On August 31, 2017, we sold the 100% equity interest in Ambow Online to a third party, with nil consideration, and the third party assumed all assets and liabilities of Ambow Online as of August 31, 2017. In connection with the disposal, we offset the payables to Ambow Online with Ambow Online’s net assets attributable to us as of August 31, 2017. After the offset, the payable balance due to Ambow Online by us was RMB 171.1 million. Through further negotiation with the buyer, the payable balance due to Ambow Online by us was reduced to RMB 137.5 million. The difference of RMB 33.6 million was recognized as disposal gain. Obligations in the aggregate amount of RMB 137.5 million will be paid by December 31, 2018. The deal was not a strategic shift of the business and this transaction would not have major impact on Ambow’s business, therefore this transaction was not qualified as discontinued operation. As of December 31, 2018, we have paid RMB 112.0 million to Ambow Online. On December 24, 2018, we entered into a supplementary agreement with Ambow Online and the third party to extend the payable due date to March 31, 2019. The extended payable in RMB 25.5 million was fully paid subsequently to the date of our 2018 20-F.

Joint Provisional Liquidators ("JPLs") appointment and dismissal

In 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.

On June 7, 2013, 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").

On September 23, 2013, the 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 Piper LLP ("DLA") and Deloitte Financial Advisory Services LLP ("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 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).

The JPLs appointment has caused significant disruptions to the operations of the company. The company has since enhanced its corporate governance structure and internal control procedures. It is quite likely that the company is able to realize certain financial gains from its previous business with the strengthening of the company's operations policy and procedures in the near future.

As of December 31, 2018, our Board consists of five members: Dr. Jin Huang, Mr. Justin Chen, Mr. Ping Wu, Mr. John Porter and Dr. Yanhui Ma.

Principal Executive Office

Our principal executive offices are located at 12th Floor, Tower 1, Financial Street, Chang'an Center, Shijingshan District, Beijing 100043, 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.

B. Business Overview

Our business addresses three critical demands in China's education market: the desire for students to be admitted into top secondary and post-secondary schools, the desire for graduates of those schools to obtain more attractive jobs and the need for schools and corporate clients to optimizing their teaching and operating environment. We offer high quality, individualized services and products through our integrated online and offline delivery model powered by our proprietary technologies and infrastructure.

We have three business divisions, "Better Schools", "Better Jobs" and "Others", and four operating segments, which are K-12 schools, tutoring, career enhancement and others. Our K-12 schools and tutoring segments are within our Better Schools division and career enhancement segment is within our Better Jobs division. The segment of others represents the intellectualized operational services provided, and is classified under the Others division.

We currently deliver a 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 and individualized curricula with consistent high-quality across our schools, tutoring centers, career enhancement centers, training offices and campus.

As of December 31, 2018, we had a total of 48 learning centers and schools, including:

- 3 directly-operated K-12 schools
- 10 tutoring centers
- 25 training offices
- 8 career enhancement centers
- 1 career enhancement campus
- 1 career enhancement college (in Boston U.S.)

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The following map sets forth the service coverage and the geographic coverage of our K-12 schools and tutoring centers (included under Better Schools), and our career enhancement centers, career enhancement campus and training offices (included under Better Jobs) as of December 31, 2018:

Revenues from our Better Schools division accounted for 65.7%, 64.8% and 61.1% of our total net revenues in the fiscal years of 2016, 2017 and 2018, respectively. Revenues from our Better Jobs division accounted for 34.3%, 32.7% and 37.7% of our total net revenues in 2016, 2017 and 2018, respectively. Revenues from our Others division accounted for 2.5% and 1.2% of our total net revenues in 2017 and 2018, respectively. We recorded total net revenues of RMB 412.0 million, RMB 443.9 million and RMB 531.5 million (US$ 77.3 million) in 2016, 2017 and 2018, respectively.

Our services and products

We offer a variety of educational and career enhancement services and products to students, recent graduates, corporate employees and management in China. Our educational services cover K-12 programs and tutoring services that provide test preparation and tutoring programs, which are offered in our tutoring centers as part of our primary educational services and product offerings to help students enroll in better schools. Our K-12 schools also help to support our tutoring programs by providing strong local brand names and reputations, local educational content expertise and potential student customers. In addition, we offer international education programs, which are designed to prepare students to study abroad while specifically addressing the study needs in terms of both language and academics. Our career enhancement services designed to assist students and graduates in obtaining better jobs are offered through our dedicated career enhancement centers and training offices on campus, as well as through our online programs. Our corporate training services that are designed to improve employees and management's soft skills are typically offered in our training offices, the corporate clients' offices or hotel conference centers. Furthermore, in order to support our educational and career enhancement services and products, we also provide a cloud-based learning engine to accommodate our students' individual learning habits and enrich their learning experience.

Better Schools

Our Better Schools division provides educational services covering K-12 programs and tutoring services that provide test preparation programs. We provide results-oriented services and products customized to regional curriculum requirements and individual student's needs to help students enhance their academic results, including ZhongKao and

GaoKao scores, which are the primary factor in determining admission into top high school and university programs in China. We also offer international education programs that provide curricula mandated by the PRC regulatory authorities, as well as curricula with a focus on preparing students to study abroad. We have designed our international education programs to specifically address the study needs of students in terms of both language and academics.

We have three directly-operated K-12 schools located in the following locations: one in the Hunan province in central China; one in the Liaoning province in northeast China; and, one in the Jiangsu province in eastern China, all of which are accredited by the Chinese Ministry of Education. As of December 31, 2018, there were approximately 1,200 full-time teaching faculty and support staff supporting over 16,000 students.

Our K-12 schools provide full-subject national curricula, including mathematics, language, history, sciences and arts. Students are required to take our admission tests to enroll in our K-12 schools. To graduate from our K-12 schools, students must pass the exams required by the local MOE, upon which, they will earn a certificate recognized by the local public school system. Our international education programs provide curricula mandated by the PRC regulatory authorities and in addition, curricula with a focus on preparing students to study abroad. We intend to enhance our international education programs to capitalize on students' growing demand to study abroad, while addressing the study needs of students in terms of both language and academics.

Our tutoring centers are designed to help students perform better in school and prepare for important tests, specifically high school and university entrance exams, namely ZhongKao and GaoKao in China. In addition to our classroom-based teaching services, we offer educational curriculum on our web-based applications to provide our students access to our tutoring services from anywhere at any time. Powered by our proprietary cloud-based "learning engine", our web-based applications feature a variety of functions such 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 instructions for K-12 level students. Our web-based applications complement our in-person classes and offer individualized services and tailored content based on each student's specific learning needs. Our tutoring centers offer the classroom instruction, small class and one-on-one tutoring.

Our strategy for our educational services is to establish a service network covering populated and economically-developed cities in China. We intend to continue to improve our educational quality and strengthen brands of our schools, which we leverage to support our Better Schools division.

Better Jobs

Our Better Jobs division provides career enhancement services targeting students at universities and 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. Our Better Jobs programs are mainly offered through our career enhancement service networks, which are strategically located in key economic centers across China where there is a high concentration of companies in high-growth industries.

Our Genesis Career Enhancement ("Genesis") business provides outbound and in-house management trainings for corporate clients. These corporate training programs are jointly designed with our corporate partners to specifically tailor the training for their employees. We had provided training services to approximately 4,000 corporate clients. Genesis has 25 training centers across China and more than 200 professional trainers.

We operate three-year polytechnic joint programs and four-year degree joint programs with universities and colleges to provide career enhancement services to students, primarily focusing on majors related to computer software outsourcing management. Under the joint programs, we provide and update courseware content, recruit and provide highly qualified teachers, as well as offer job placement channels, while our partnering universities and colleges ensure student enrollment, provide teaching facilities, and offer program degrees. As such, the joint programs will bring us a large base of customers to whom we can offer our services and products. Certain courses or classes of the joint programs will take place at our career enhancement centers and campus, and our students can also earn credits towards the degree programs from these courses or classes.

Our career enhancement centers currently focus on IT majors, including software engineering, graphic design, digital media, communication technology, big data analysis and Internet technology. The curriculum provides students with hands-on training in professional skills, including case studies, job environment simulation and specific technical skills needed to succeed in jobs, as well as “soft skills” training, including courses on time management, presentation, leadership and interview techniques. We design our career enhancement curriculum based on the understanding of the target industries and the actual recruiting needs of the employers. In addition, we intend to partner with universities and establish joint colleges to offer educational and training programs to extend our current career enhancement curriculum to additional subject areas.

We currently operate one career enhancement campus, namely Kunshan Ambow Service Outsourcing Industrial Park, or Kunshan Park, which is located in the Yangtze River Delta. Students of partner universities will receive career-oriented training in Kunshan Park during their last year of study within the three-year polytechnic joint programs or four-year degree joint programs. Kunshan Park offers teaching facilities, laboratories, dormitories, grocery stores and other community infrastructure in order to accommodate students’ educational and recreational activities. These facilities are able to hold up to an aggregate of 5,000 people for training at the same time. In addition, Kunshan Park cooperates with CISCO Certified Network Associate (“CCNA”) certification system to provide convenient registration access and study materials for students of the joint programs. Built by the local government and with a layout of office park, the career enhancement campus focuses on providing training programs for information technology outsourcing and business process outsourcing.

On November 20, 2017, the company acquired Bay State College, a higher education institution offering career-focused post-secondary education with Associates and Bachelor’s programs in Business, Information Technology, Healthcare, Criminal Justice and Fashion. Bay State College was founded in 1946, is accredited by the New England Association of Schools and Colleges, Commission on Institutions of Higher Education and eligible to participate in federal student aid programs under Title IV of the U.S. Higher Education Act. Bay State College’s academic programs are delivered at its main campus in Boston, Massachusetts, a branch campus in Taunton, Massachusetts and online.

In November 2018, we announced the launch of a new Cross-Border College Program between Chinese and U.S. colleges. This program is based on a model instituted at Bay State College, which will allow Chinese students to receive a three-year diploma from a Chinese college, equivalent to an associate degree from a U.S. college, and continue with a two-year advanced education program at Bay State College or another U.S. college.

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In early 2015, we signed a strategic agreement with Synopsys, Inc., the world's largest integrated circuit design software provider, and formed an exclusive partnership to establish the Synopsys-Ambow School. In 2017, aligning with the Chinese government's new initiative of transforming the engineering education system, we further partnered with Synopsys to establish college-enterprise cooperation programs, which aim to cooperate with career-oriented universities and colleges to cultivate technical and skilled talents with high qualities, who will serve in the front line of production, infrastructure and management for advanced microelectronics industry. These programs combine our professional-grade IT professional education courses and career enhancement services with practical training, teacher training, career-oriented education and recruitment services to foster talent of China's Integrated Circuit(IC) industry. In 2018, we continued the partnership with Synopsys to provide a guideline for the development of China's microelectronics industry while grooming talent in this field.

In September 2018, for the second consecutive year, we jointly published a Whitepaper *titled 2017-2018 Professionals for China's Integrated Circuit (IC) Industry*, and co-sponsored the Global Semiconductor Talents conference in collaboration with China Electronics Information Industry Development Research Institution ("CCID") and the National Software and Integrated Circuit Promotion Center ("CSIP"). The Whitepaper provides a comprehensive study and analysis on the supply and demand of professionals in China's IC industry. The report aims to lay a solid foundation for the reform and development of the educational requirements and training for this fast-growing industry.

Others

Ambow initiated a new business to provide intellectualized operational services to corporate clients, colleges and universities in 2017. Our intellectualized operational services integrate electronic equipment and devices with software applications, data analytics and wireless technology to transform operational networks enhancing efficiency, lower costs and improving experiences. The services consist of advisory services such as design and architecture, implementation services such as hardware deployment and application development, as well as optimization services. The services aim to leverage smart technologies to enhance the management experience with facilities, lighting, security, and staff. We developed mobile applications for users to punch time clocks, open and close lockers, turn on and off office gates, lights, air conditioners, set up remote visual conferences and manage other office administrative services through the applications.

Intelligent technology is changing education as students are no longer restricted by the traditional learning environment. Intelligent campuses and classes are becoming the trend leading to efficiency improvement, cost savings and enhanced experiences for students and staff. We will proactively introduce our intellectualized operational services to more universities and colleges to provide students access to educational resources regardless of the location or device, increasing the potential for learning and teaching through cooperation with peers and experts worldwide and optimizing facilities to create a sustainable campus.

Student recruitment and retention

We employ a variety of marketing and recruiting methods to attract students and increase student enrollment in 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 while recruiting students to our career enhancement centers nationally throughout China. We recruit returning students from our tutoring centers and K-12 schools to our career enhancement programs by leveraging our vast student and corporate resources. We believe prospective students are attracted to our learning centers and schools due to our strong brand name, innovative teaching and learning models and practices, and high-quality, individualized services. Our proprietary cloud-based learning engine technology combined with offline teacher instruction ensures that students to receive individualized orientation, instruction and progress assessment in a student-centered environment. By analyzing the accumulated data stored in each student's learning records, our learning engine optimizes learning strategies and methods, and provides personalized educational content for each student. The longer and more frequently a student uses our services and products, the more effective and efficient services and content we are able to provide, thus enhancing the students' stickiness 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 and we believe this has enhanced our reputation and increased our word-of-mouth referrals in the markets that we participate in. 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.

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 services and product 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 joint college programs. The development and deployment platform support our educational services platform and operational management platform, and standardize the development of and communication among 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 cloud-based 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 customized based on each student's knowledge level, goals and learning needs. Our platform provides video streaming, PowerPoint and interactive testing functions, via an open interface and multi-language channels. We have received a patent for our innovative Adaptive Computer-Assisted Learning System and Method platform from the United States Patent and Trademark Office, making us the first China-based education company to receive a U.S. patent in the field of adaptive learning methods.

Continued tracking

As part of the cloud-based learning engine, our learning tracking system comprehensively records a student's progress and achievements throughout the learning cycle. The system assesses a student's knowledge and competency level at the beginning of the learning cycle, and continually monitors the interactions between the student and our system, 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, which gives the student a clear understanding of his or her current learning status, and helps them to adapt accordingly with course materials and feedback.

Individualized learning experience to students

Our interactive learning engine customizes each student's learning experience, then 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 highest quality and relevance for students. This means that wherever students live, in urban centers or rural villages across China, they can be ensured to receive 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 through sub-segments within our operating segments. This will allow us to have better period-to-period insights into the underlying drivers of our business within our distinct operating segments.

In 2016, we established an integrated service center to support the operation team by sharing resources across finance, human resources and IT departments. We also built up an Enterprise Resource Planning (ERP) system to standardize operating procedures. The establishment of the service center and the on-going integration of our Company-wide ERP system and continued enhancements to our Standard Operating Procedure and transparent Vendor Evaluation System will provide an efficient platform to maximize internal resources, lower costs and integrate Standard Operating Procedures, while unifying the Ambow brand and corporate culture. In 2017 and 2018, we expanded the integrated service center across the Group wide. In addition, we have integrated Internet of Things (IoTs) technology into our facility modernization and development programs. This supports our intelligent classroom concept, boosts resource utilization efficiency and promotes greener energy usage.

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 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 the 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.

We have been awarded by the United States Patent and Trademark Office a patent (with No. US 8838016B2) for our innovative Adaptive Computer-Assisted Learning System and Method platform for enhancing learning outcomes.

Our main website is www.ambow.com. In addition, we have registered certain domain names, including 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 properties. 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 implement a standard corporate identity across all Ambow schools, tutoring centers, career enhancement centers and campus. Our marketing efforts, which include national marketing by our corporate headquarters and local marketing by individual schools, tutoring centers, career enhancement centers and campus, 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 on billboards and buses to raise the awareness of our educational and career enhancement services and programs;
- Hosting industry summits with key corporate partners and participating in prestigious education conferences and events;
- Partnering with local governments to provide positive support for local schools and the local job market; and
- Further enhancing the brand promotion through Internet search engines and mobile social media platform like Wechat, Weibo and QQ to keep close interactions with potential users.

Partner schools and corporate entities

We have business relationships with colleges and universities not directly owned or operated by us. Our direct partnerships are primarily with colleges and universities, which send their students to our career enhancement centers. These colleges and universities that we have direct partnerships with are under no contractual obligation to recommend our services or products. We also partner with corporate clients, including Fortune 500 enterprises, which send their employees to our career enhancement centers for training purposes.

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. The 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 in K-12 education and career enhancement services in China. Our core proprietary technology, “Learning Engine” is unique to the industry. Having received a patent for our innovative Adaptive Computer-Assisted Learning System and Method platform from the United States Patent and Trademark Office, we are the first China-based education company to receive a U.S. patent in the field of adaptive learning methods. We are also recognized by our ability to deliver standards-based, individualized curriculum with consistently high quality across our schools, tutoring centers, training offices, career enhancement centers and campus. 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 more responsive to changes in student preferences in these markets.

In addition, the spread of the Internet and advancement 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 are lower during the first quarter due to school closures in January or February for Chinese New Year and winter break, and during the third quarter due to summer break. Our tutoring and our career enhancement segments are affected by seasonal variations in the first quarter due to Chinese New Year and winter break, although this seasonal impact is to a lesser extent than the impact on our K-12 schools.

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 and The Implementing Rules for the Law for Promoting Private Education 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. According to the revision of the Education Law on December 27, 2015, schools and other educational institutions which are founded totally or partly by the government's appropriation or donated assets shall not be established as profit-making organizations. However, according to the Law for Promoting Private Education revised on November 7, 2016, private schools may be operated as nonprofit schools or profit-making schools, but the nine-year compulsory education schools cannot be operated as profit-making schools.

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

The Law for Promoting Private Education ("the Amendment") became effective on September 1, 2003 and was revised on November 7, 2016, effective on September 1, 2017 and the Implementing Rules for the Law for Promoting Private Education 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 one year to eight 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 with permission for renewal upon expiration.

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 need to be approved by the governmental pricing authority and are required to be publicly disclosed.

Private schools are divided into three categories: private schools established with donated funds; profit-making private schools and nonprofit private schools. Investors of profit-making schools may require profit from the annual net balance of the school according to the Company Law of PRC and other regulations.

The establishment and operation of profit-making private schools shall be in accordance with the Rules for the implementation of supervision and administration of profit-making private schools promulgated and became effective on December 30, 2016.

According to the Company Law of PRC, where a profit-making school distributes its annual net balance for the current financial year, it shall draw 10% of its annual net balance as the school's statutory common reserve, provided that a school with an aggregate common reserve of more than 50% of the school's registered capital may elect not to draw any statutory common reserve any more. Where the aggregate balance of the school's statutory common reserve is insufficient to cover any loss the school made in the previous financial year, the current financial year's annual net balance shall first be used to cover the loss before any statutory common reserve is drawn therefrom in accordance with the provisions of the preceding paragraph. Where losses have been covered and the statutory and discretionary common reserves have been drawn, any remaining annual net balance shall be distributed to investors.

Nonprofit private schools shall be entitled to the same preferential tax treatment as public schools, while the preferential tax treatment policies applicable to profit-making private schools shall be formulated by the relevant PRC authorities. However, ever since then, no such regulations in respect of tax preferential policy for profit-making private schools have been promulgated.

As of December 31, 2018, we had, across our four reportable segments, a total of 31 schools that are registered as private schools as opposed to companies, of which 4 schools are registered as schools not requiring reasonable returns, while all other schools are registered as schools requiring reasonable returns.

A. K-12 schools

According to the Amendment, the term “reasonable return” is no longer used and sponsors of private schools may choose to establish non-profit or for-profit private schools at their own discretion. School sponsors are not allowed to establish for-profit private schools that are engaged in compulsory education. We have three K-12 schools, consisting of kindergarten, primary schools, middle schools and high schools education. Currently all of the three schools are requiring reasonable returns.

i. Primary and middle schools' education is considered compulsory education, which will be transitioned to be operated as non-profit schools to comply with the Amendment.

ii. The kindergarten and high schools are not compulsory education and we will elect for those schools to be for-profit schools.

The detailed implementation methods for transitioning of K-12 schools to non-profit schools have not been issued by local government authorities. We are communicating with local authorities regarding the impact on the operation and registration of the schools. Since we can still maintain control over the daily operation of the schools and have the right to appoint key management, we believe there will not be any significant impact on the operation of these schools before any official reply is issued by local authorities. Although turning into non-profit schools will prohibit the distribution of retained earnings as dividends from these schools, we can still control and allocate the financial resources of the schools in its daily operation. Therefore we believe there will be no significant financial impact to us as of the date of this report.

B. Tutoring and career enhancement centers

Our tutoring and career enhancement centers including training offices are not compulsory education, the Company intends to elect those currently requiring reasonable returns to be for-profit for the schools; and to elect those currently not requiring reasonable returns to be non-profit.

Generally, if a private school chooses to register as a non-profit school, it shall amend its articles of association, continue its operation and complete the new registration process. If a private school chooses to register as a for-profit school, it shall conduct a financial liquidation process, have the property rights of its assets such as land, school buildings authenticated by relevant government authorities, they shall pay up relevant taxes, apply for a new Permit for Operating a Private School, re-register as a for-profit school and continue operation. Specific provisions related to this process have not yet been introduced by the people's governments at the provincial level. The Company does not expect its operations to be impacted materially if all the registration requirements are met and the procedures are fully performed.

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 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, 2018, we had a total of 48 centers and schools, comprised of 10 tutoring centers, 3 K-12 schools, 8 career enhancement centers, 1 career enhancement college, 25 training offices and 1 career enhancement campus. We conduct our education business in China primarily through contractual arrangements among our subsidiaries in China and VIEs. The majority of 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.

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 in 2003 and revised in 2013 by the State Council 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.

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 February 3, 2016, the State Council promulgated the Decision of the State Council on Cancelling the Second Group of 152 Administrative Approval Items Designated by the Central Government for Implementation by Local Governments, which has cancelled the approvals of the

education administrative department for online education schools and the educational websites.

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.

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 1, 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. The New Measures was repealed in May 26, 2016 by the MITT. As such, from May 26, 2016, all software products operated or sold in China are not required to be registered or recorded by the relevant authorities.

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.

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, 2018, we have been issued 86 registration certificates for computer software copyrights, of which we use 51 of such registration certificates to operate our business.

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.

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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.

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.

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.

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, 2018, we have registered 19 domain names with the Internet Corporation for Assigned Names and Numbers and the China Internet Network Information Center.

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, 2018, we have registered 6 website names which are used in connection with our 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 address the problem of copyright infringement related to the content posted or transmitted over the Internet, the National Copyright Administration and MIIT jointly promulgated the Administrative Measures for Copyright Protection Related to the Internet on April 29, 2005. These measures became effective on May 30, 2005.

Trademark . The PRC Trademark Law, adopted in 1982 and revised in 2001 and 2013, protects the proprietary rights to registered trademarks. The Trademark Office under the SAIC handles trademark registrations and grants a term of ten years to registered trademarks and another ten years to trademarks as requested upon expiry of the prior term. Trademark license agreements must be filed with the Trademark Office for record. “Ambow”, “”, “”, “”, “”, “”, “”, “”, “”, “”, “” , “” , “” , “” , “” , “” ,“” and “” are our registered trademarks with the Trademark Office of the SAIC in China.

Regulation of foreign exchange

The PRC government imposes restrictions on the convertibility of the RMB and on the collection and use of foreign currency by PRC entities. Under current regulations, the RMB is convertible for current account transactions, which include dividend distributions, and the import and export of goods and services. Conversion of RMB into foreign currency and foreign currency into RMB for capital account transactions, such as direct investment, portfolio investment and loans, however, is still generally subject to the prior approval of or registration with SAFE.

Under current PRC regulations, foreign-invested enterprises such as our PRC subsidiaries are required to apply to SAFE for a Foreign Exchange Registration Certificate for Foreign-Invested Enterprise. With such a certificate (which is subject to review and renewal by SAFE on an annual basis), a foreign-invested enterprise may open foreign exchange bank accounts at banks authorized to conduct foreign exchange business by SAFE and may buy, sell and remit foreign exchange through such banks, subject to documentation and approval requirements. Foreign-invested enterprises are required to open and maintain separate foreign exchange accounts for capital account transactions and current account transactions. In addition, there are restrictions on the amount of foreign currency that foreign-invested enterprises may retain in such accounts.

Regulation of foreign exchange in certain onshore and offshore transactions

In October 2005, SAFE issued the Notice on Issues Relating to the Administration of Foreign Exchange in Fund-Raising and Return Investment Activities of Domestic Residents Conducted via Offshore Special Purpose Companies, or SAFE Circular 75, which became effective as of November 1, 2005. In July 2014, SAFE issued a new notice to replace Circular 75, Circular of the State Administration of Foreign Exchange on Issues concerning Foreign Exchange Administration over the Overseas Investment and Financing and Round-trip Investment by Domestic Residents via Special Purpose Vehicles. According to SAFE Circular 75 and Circular 37, prior 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.

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 exempted 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.

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.

Regulation of overseas listings

On August 8, 2006, six PRC regulatory agencies, including 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, 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 connection with our IPO and listing on a national securities exchange because we established our PRC subsidiaries by means of direct investment rather than merger or acquisition of PRC domestic companies.

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 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.

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, 2018.

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 schools whose sponsors require reasonable returns are entitled to receive profit distribution from the school while sponsors of schools whose sponsors do not require reasonable returns cannot.

(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. Pursuant to an amendment to The Law for Promoting Private Education on November 7, 2016, which will go into effect on September 1, 2017, sponsors of for-profit private schools are entitled to retain the profits from their schools and the operating surplus may be allocated to the sponsors pursuant to the PRC company law and other relevant laws and regulations.

Notes:

(1) Registered shareholders of Ambow Shida are Xuejun Xie, one of our officers, and Jianguo Xue, one of our officers, who own 90% and 10% of Ambow Shida, respectively.

(2) Registered shareholders of Ambow Sihua are Xuejun Xie and Gang Huang, one of our employees, who own 57.38% and 42.62% of Ambow Sihua, respectively.

(3) Registered shareholders of Ambow Shanghai are Xuejun Xie and Gang Huang, who own 64% and 36% of Ambow Shanghai, respectively.

(4) Registered Shareholders of Ambow Zhixin are Xuejun Xie and Gang Huang, one of our employees, who own 60% and 40% of Ambow Zhixin, respectively.

(5) Registered Shareholders of Ambow Rongye are Xuejun Xie and Gang Huang, one of our employees, who own 60% and 40% of Ambow Rongye, respectively.

(6) Registered Shareholders of IValley are Chiao-ling Hsu, one of our officers, and Shu Hui Cai, one of our employees, who own 60% and 40% of IValley, respectively.

(7) Certain non-performing entities' legal status included in the table above are to be cancelled which do not have significant business.

Table 1: Entities owned by Shanghai Ambow Education Information Consulting Co., Ltd. (9)

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Table 2: Entities owned by Ambow Sihua Education and Technology Co., Ltd. (8)

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Table 3: Entities owned by Ambow Rongye Education and Technology Co., Ltd. (33)

Ambow Zhixin Education and Technology Co., Ltd. (33)

Table 4: Entities owned by Ambow Rongye Education and Technology Co., Ltd. (1)

Ambow Zhixin Education and Technology Co., Ltd. (8)

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Table 5: Entities owned by Beijing Ambow Shida Education Technology Co., Ltd. (7)

Ambow Shengying, Ambow Chuangying, IValley Beijing and the acquired schools and learning centers are the principal operating entities for our business operations within China. Their functional currency is RMB. Ambow and Ambow BSC Inc., our investment holding companies, as well as Bay State College, are the principal operating entity for operations relating to non-Chinese partners. Their functional currency is US$. IValley and GTE Twai Wan Holding Co., Ltd. are our investment holding companies in Taiwan and their functional currency is TWD.

Ambow Shengying, Ambow Chuangying and Ambow Education Management have entered into a series of contractual arrangements with each of the above domestic PRC companies or Taiwan company 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 Chuangying, Ambow Shengying and Ambow Education Management and, through powers of attorney, entrust all the rights to exercise their voting power over these VIEs to Ambow Chuangying, Ambow Shengying and Ambow Education Management. There is no limitation on Ambow Chuangying, and Ambow Shengying'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 Chuangying and Ambow Shengying's rights to obtain and dispose of the pledged equity interests in the VIEs holding the K-12 schools by exercise of its call option or share pledge are subject to Ambow Chuangying and Ambow Shengying'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;

- Receive economic benefits from the pre-tax profits of our VIEs and their respective subsidiaries in consideration for technical support, marketing and management consulting services provided by Ambow Chuangying, Ambow Shengying and Ambow Education Management to our VIEs and their respective subsidiaries. Such economic benefits earned by Ambow Chuangying, Ambow Shengying and Ambow Education Management were insignificant for the reporting period (which have been eliminated upon consolidation) in consideration of the 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 or Taiwan law.

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. Majority of these domestic PRC

companies and their subsidiaries hold the requisite licenses and permits necessary to conduct our education business in China.

Each of Ambow Shanghai, Ambow Sihua, Ambow Rongye and Ambow Zhixin has executed a series of control agreements with Ambow Shengying. Ambow Shida has executed a series of control agreements with Ambow Chuangying. They are described in more detail below through which agreements Ambow Shengying and Ambow Chuangying exercise effective contractual control over Ambow Shida, Ambow Shanghai, Ambow Sihua, Ambow Rongye and Ambow Zhixin. IValley has executed a series of control agreements with Ambow Education Management.

Ambow Shida, Ambow Sihua, Ambow Shanghai, Ambow Rongye and Ambow Zhixin each is a controlling entity operating one of our business lines, including tutoring centers, K-12 schools, career enhancement service centers, college and campus and each owns certain interest in a number of schools and entities. Below is the detailed description of their interests as of December 31, 2018:

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 2013 due to loss of control. By December 31, 2015, the company regained control of Tianjin Tutoring and reconsolidated the entities in its consolidated financial statements;

(2) 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 2014 due to loss of control. By December 31, 2015, the company regained control of Jilin Tutoring and reconsolidated the entity in its consolidated financial statements;

(3) Ambow Shida owns the 100% equity interest in Zhenjiang Ambow Education Training Center, which operates one tutoring center currently and is in the process of having its legal status cancelled;

(4) Ambow Rongye owns the 100% equity interest in Beijing YZ Tutoring, which operates one tutoring center;

(5) Ambow Rongye and Ambow Zhixin own the 100% equity interest in Changsha Tutoring, which operates four tutoring centers;

(6) Ambow Sihua owns the 100% equity interest in Guangzhou DP Tutoring, which has been deconsolidated in 2013 due to loss of control. By December 31, 2015, the company regained control of Guangzhou DP Tutoring and reconsolidated the entity in its consolidated financial statements;

(7) Ambow Rongye and Ambow Zhixin own the 100% equity interest in Beijing Xin Gan Xian Tutoring, which operates one tutoring center;

(8) Ambow Rongye and Ambow Zhixin own the 100% equity interest in Lanzhou Anning Ambow English Training School, which operates one tutoring center;

(9) Ambow Zhixin owns the 100% equity interest in Lanzhou Chengguan Ambow English Training School, which operates one tutoring center; and

(10) Ambow Zhixin owns the 100% equity interest in Lanzhou Ambow Extracurricular Training School, which operates one tutoring center.

2. Career Enhancement Centers, College and Campus

(1) Ambow Rongye and Ambow Zhixin owns the 100% equity interest in Shanghai Huanyu Liren Education Training Co., Ltd, which operates 3 career enhancement service centers;

(2) Ambow Zhixin owns the 100% equity interest in Kunshan Ambow Education Technology Co., Ltd., or Ambow Kunshan, which operates one career enhancement campus and one career enhancement service center;

(3) Ambow Shanghai owns the 100% equity interest in Jinan WR Career Enhancement, which operates two career enhancement service centers;

(4) Ambow Shanghai owns the 100% equity interest in Hebei YL Career Enhancement, which operates one career enhancement service center and is in the process of having its legal status cancelled;

(5) Ambow Rongye and Ambow Zhixin owns the 100% equity interest in Chongqing XT Career Enhancement, which operates one career enhancement service center;

(6) Ambow BSC Inc. owns the 100% equity interest in Bay State College Inc., which operates one career enhancement college;

(7) Ambow Shanghai owns the 100% equity interest in Guangzhou ZS Career Enhancement, which has been deconsolidated in 2013 due to loss of control. By December 31, 2015, the company regained control of Guangzhou ZS Career Enhancement and reconsolidated the entity in its consolidated financial statements.

In addition, Ambow Rongye and Ambow Zhixin also owns 100% equity interest in Genesis Career Enhancement (Shanghai Renzhongren), a group of three companies which provide outbound and in-house management training tailored for employees and management teams through their 25 training offices.

3. Schools

(1) K-12 Schools

- Ambow Shida owns the 100% equity interest in Zhenjiang Ambow International School, which is in the process of having its legal status cancelled;
- Ambow Shida owns the 100% equity interest in Shuyang K-12 School;
- Ambow Shida owns a 100% equity interest in Changsha K-12 Experimental School and Changsha Kindergarten; and
- Ambow Shida owns a 100% equity interest in Shenyang K-12 school.

In addition to the operational entities described above, on July 20, 2009, we formed an RMB fund, Wenjian Gongying, which was owned by us, our Hong Kong subsidiary, Ambow Education (Hong Kong) Ltd., and Ambow Shengying. No business operations were conducted by Wenjian Gongying. As a result, we closed Wenjian Gongying through deregistration procedures of local governmental and corporate service institutions, which was completed in January 2019.

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 or Ambow Chuangying. These agreements include:

Share Pledge Agreement . Ambow Online, Xuejun Xie and Jianguo Xue, each a shareholder of Ambow Shida, entered into a share pledge agreement on January 31, 2005. AECL, Ambow Online, Xuejun Xie and Jianguo Xue entered into a supplementary agreement on January 4, 2009, pursuant to which 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. The share pledge was registered with the local SAIC and then was cancelled. AECL, Ambow Online, Xuejun Xie and Jianguo Xue terminated the abovementioned share pledge agreement and the supplementary agreement by entering into a termination agreement on June 29, 2017. Ambow Chuangying, Xuejun Xie and Jianguo Xue entered into a new share pledge agreement on June 29, 2017, pursuant to which each of Xuejun Xie and Jianguo Xue pledged all of her or his equity interest in Ambow Shida to Ambow Chuangying to secure the performance of Ambow Shida under the technology service agreement dated June 29, 2017 between Ambow Shida and Ambow Chuangying as described below. If Ambow Shida and its subsidiaries fail to fulfill their obligations under the technology service agreement, or Ambow Shida and its subsidiaries breach their duties or obligations hereunder, Ambow Chuangying shall have the right to exercise the pledge in any manner at any time to the extent permitted by applicable laws during the term of pledge. 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 Chuangying. The pledge shall be terminated automatically upon termination of the technology service agreement and full discharge of the secured debt. Without Ambow Chuangying's prior consent, the pledgors shall not be entitled to grant or assign their rights and obligations under the agreement. Ambow Chuangying may assign at any time all or any of its rights and obligations hereunder and other agreements contemplated hereby to any person (either a natural person or a legal person) it designates. In such case, the assignee shall assume Ambow Chuangying's rights and obligations under this agreement. This agreement shall be binding upon the parties and their respective successors and permitted assigns. 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 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 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.

Call Option Agreement . Xuejun Xie and Jianguo Xue, each a shareholder of Ambow Shida, entered into a call option agreement on January 31, 2005, which was 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, Ambow Online, Xuejun Xie and Jianguo Xue terminated the abovementioned call option agreement and supplementary agreement by entering into a termination agreement on June 29, 2017. Ambow Chuangying, Xuejun Xie and Jianguo Xue entered into a new call option agreement on June 29, 2017, pursuant to which Ambow Chuangying 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 at any time during the term of the agreement. Ambow Chuangying or its designee shall have sole discretion to decide when to exercise the option, whether in part or in full. Xuejun Xie and Jianguo Xue agreed not to dispose of the equity interest or exercise any related rights in any form without Ambow Chuangying or its designee's written consent. Xuejun Xie and Jianguo Xue agreed that before Ambow Chuangying or its designee exercises the option to obtain all the equity interest and assets, Xuejun Xie and Jianguo Xue (i) shall not create or allow any option, call option, pledge, or other equity interest or security interest on equity in Ambow Shida without Ambow Chuangying's written consent, (ii) shall irrevocably waive the preemptive right to purchase the equity in Ambow Shida to which it is entitled under the Chinese laws and the bylaws of Ambow Shida , (iii) shall not transfer the equity in Ambow Shida to any third party without Ambow Chuangying's written consent, (iv) shall neither supplement, alter or modify the Articles of Association of Ambow Shida in any form, nor increase or decrease its registered capital, or otherwise change the structure of its registered capital without Ambow Chuangying's written consent, (v) during the term of this agreement, have not engaged in and shall not engage in any act or omission that may cause any losses to Ambow Chuangying or cause any reduction in value of the equity in Ambow Shida , (vi) without Ambow Chuangying's written consent, shall not incur, assume, guarantee or allow the existence of any debt other than the debt that (a) arises in the normal or routine course of business rather than out of borrowing, and (b) has been disclosed to and approved in writing by Ambow Chuangying. Ambow Shida has the right to operate all business activities within the approved business scope which it is operating or it expects to operate in the future. To the fullest extent permitted by the Chinese laws, the transfer price of the equity in Ambow Shida (or any part thereof) shall be equal to each of Xuejun Xie and Jianguo Xue's initial contribution to the registered capital of Ambow Shida in exchange for such Equity in Ambow Shida (or any part thereof). 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 the termination of the loan agreement. Ambow Chuangying shall have the right to early terminate this agreement. 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.

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. Xuejun Xie and Jianguo Xue terminated the powers of attorney and entered into new powers of attorney on June 19, 2017, pursuant to which each of Xuejun Xie and Jianguo Xue irrevocably entrusted all the rights to exercise her or his voting power of Ambow Shida to Ambow Chuangying 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 AECL, Xuejun Xie and Jianguo Xue, each a shareholder of Ambow Shida, respectively, entered into loan agreements on January 31, 2005, which were 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. AECL, Ambow Online, Xuejun Xie and Jianguo Xue terminated the abovementioned loan agreements by entering into a termination agreement on June 29, 2017. Ambow Chuangying, Xuejun Xie and Jianguo Xue entered into a new loan agreement on June 29, 2017, pursuant to which Ambow Chuangying loaned RMB 2.7 million and RMB 0.3 million to Xuejun Xie and Jianguo Xue, respectively. 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 Chuangying or its designee. This loan agreement shall remain in effect until the loans thereunder are fully repaid. To the extent permitted by the relevant PRC laws, Ambow Chuangying 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 Chuangying early unless Ambow Chuangying 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 . Ambow Online, Xuejun Xie and Xiaogang Feng, each a shareholder of Ambow Shanghai, entered into a share pledge agreement on October 31, 2009 and a supplementary agreement on January 4, 2010. The share pledge was registered with the local SAIC and then was cancelled. Whereas Wenjian Fund and Xiaogang Feng transferred their shares to Gang Huang in June 2017. Ambow Online, Xuejun Xie and Xiaogang Feng terminated the abovementioned share pledge agreement and the supplementary agreement by entering into a termination agreement on June 29, 2017. Ambow Shengying, Xuejun Xie and Gang Huang entered into a share pledge agreement on June 29, 2017 to secure the performance of Ambow Shanghai or its subsidiaries' obligations under a new technology service agreement dated June 29, 2017 between Ambow Shanghai and Ambow Shengying. If Ambow Shanghai and its subsidiaries fail to fulfill their obligations under the technology service agreement, or Ambow Shanghai and its subsidiaries breach their duties or obligations hereunder, Ambow Shengying shall have the right to exercise the pledge in any manner at any time to the extent permitted by applicable laws during the term of pledge. Ambow Shengying 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 Shengying's prior written consent, pledgors 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 Shengying 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 Shengying'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 have 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 Shengying. Neither of pledgors is entitled to unilaterally terminate the share pledge agreements. Without Ambow Shengying's prior written consent, pledgors shall not transfer any of their rights or obligations under the share pledge agreement to any other party. Ambow Shengying 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.

Call Option Agreement . Ambow Online, Xuejun Xie and Xiaogang Feng entered into a call option agreement on October 31, 2009 and a supplementary agreement on January 4, 2010. Gang Huang, as the new shareholder, and Xuejun Xie entered into a new call option agreement with Ambow Shengying on June 29, 2017, which irrevocably granted Ambow Shengying or its designee an exclusive option to purchase, to the extent permitted under PRC laws, all or part of their 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 Shengying, 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 Shengying. Ambow Shengying 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 Shengying's written consent, each of Xuejun Xie and Gang Huang 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 Shengying. This agreement shall remain effective until the termination of the loan agreement. Ambow Shengying has the right to early terminate this agreement upon twenty days' prior notice, but neither Xuejun Xie nor Gang Huang may early terminate the agreement without Ambow Shengying's written 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.

Powers of Attorney . Each of Xuejun Xie and Xiaogang Feng entered into a powers of attorney on October 31, 2009. Each of Gang Huang, as the new shareholder, and Xuejun Xie entered into a new powers of attorney on June 29, 2017, to irrevocably entrust all the rights to exercise his voting power to Ambow Shengying, 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 Shengying, 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. Ambow Online, Xuejun Xie and Xiaogang Feng terminated the abovementioned loan agreement by entering into a termination agreement on June 29, 2017. Ambow Shengying, Xuejun Xie and Gang Huang entered into a new loan agreement on June 29, 2017, where Ambow Shengying loaned RMB 0.8 million to Xuejun Xie and RMB 0.45 million to Gang Huang. 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 Gang Huang, as applicable, to Ambow Shengying or its designee. To the extent permitted by the relevant PRC laws, Ambow Shengying 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 Shengying early unless Ambow Shengying 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 Shengying'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.

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 . Ambow Online and Xuejun Xie, a shareholder of Ambow Sihua, entered into a share pledge agreement on October 31, 2009, which was amended by a supplementary agreement dated March 4, 2010 between Ambow Online and Xiaogang Feng, a shareholder of Ambow Sihua. The share pledge was registered with the local SAIC and then was cancelled. Ambow Online, Xuejun Xie and Xiaogang Feng terminated the abovementioned share pledge agreement and the supplementary agreement by entering into a termination agreement on June 29, 2017. Whereas Xiaogang Feng transferred his shares to Gang Huang in June 2017, Ambow Shengying, Xuejun Xie and Gang Huang entered into a new share pledge agreement on June 29, 2017, pursuant to which each of Xuejun Xie and Gang Huang pledged all of her or his equity interest in Ambow Sihua to Ambow Shengying to secure the performance of Ambow Sihua under the technology service agreement dated June 29, 2017 between Ambow Sihua and Ambow Shengying as described below. If Ambow Sihua and its subsidiaries fail to fulfill their obligations under the technology service agreement, or Ambow Sihua and its subsidiaries breach their duties or obligations hereunder, Ambow Shengying shall have the right to exercise the pledge in any manner at any time to the extent permitted by applicable laws during the term of pledge. Without Ambow Shengying's prior written consent, each of Xuejun Xie and Gang Huang 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 Shengying 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 Shengying'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 Shengying. Neither of Xuejun Xie and Gang Huang is entitled to unilaterally terminate the share pledge agreements. Without Ambow Shengying's prior written consent, pledgors shall not transfer any of their rights or obligations under the share pledge agreements to any other party. Ambow Shengying 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.

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. Ambow Online, Xuejun Xie and Xiaogang Feng terminated the abovementioned call option agreements and supplementary agreements by entering into a termination agreement on June 29, 2017. Ambow Shengying, Xuejun Xie and Gang Huang entered into a new call option agreement on June 29, 2017, pursuant to which Ambow Shengying or its designee has an option to purchase from each of Xuejun Xie and Gang Huang, to the extent permitted under PRC laws, all or part of his or her equity interest in Ambow Sihua at any time during the term of the agreement. 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 Shengying, 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 Shengying. Ambow Shengying 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 Shengying's written consent, each of Xuejun Xie and Gang Huang 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 Shengying. Xuejun Xie and Gang Huang represent and warrant that during the term of the call option agreements, Xuejun Xie, Gang Huang and Ambow Sihua have not engaged in and shall not engage in any act or omission that may cause any losses to Ambow Shengying and may cause any reduction in value of the equity interests in Ambow Sihua held by Xuejun Xie and Gang Huang. 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 Shengying shall have the right to terminate this agreement early upon twenty days' prior notice, but neither of Xuejun Xie and Gang Huang shall terminate this agreement early. Ambow Shengying 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 Gang Huang'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.

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. Xuejun Xie and Xiaogang Feng terminated these powers of attorney on June 29, 2017. Xuejun Xie and Gang Huang entered into new powers of attorney on June 29, 2017, pursuant to which each of Xuejun Xie and Gang Huang irrevocably entrusted all the rights to exercise her or his voting power to Ambow Shengying, 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 Shengying, the powers of attorney shall be irrevocable and remain effective during the term of pledge.

Loan Agreement . Ambow Online and Xiaogang Feng entered into a loan agreement on March 4, 2010, in which Ambow Online loaned RMB 40.0 million to Xiaogang Feng to fund the registered capital requirements of Ambow Sihua. Ambow Online and Xiaogang Feng terminated the abovementioned loan agreement by entering into a termination agreement on June 29, 2017. Ambow Shengying, Gang Huang entered into a new loan agreement on June 29, 2017, pursuant to which Ambow Shengying loaned RMB 40 million to Gang Huang. 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 Gang Huang to Ambow Shengying or its designee. To the extent permitted by the PRC laws, Ambow Shengying 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 Shengying unless Ambow Shengying 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 Shengying’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 Ambow Rongye

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

Share Pledge Agreement . Pursuant to the share pledge agreement, dated September 8, 2015, among Ambow Shengying, Xuejun Xie and Gang Huang, each a shareholder of Ambow Rongye, each of Xuejun Xie and Gang Huang pledged all of their equity interest in Ambow Rongye to Ambow Shengying to secure the performance of

Ambow Rongye under a technology service agreement between Ambow Shengying and Ambow Rongye dated September 8, 2015. If (a) Ambow Rongye fails to fulfill its payment obligation or other related obligations to pledgee in accordance with the provisions of technology service agreement, or (b) the pledgors breach their duties or obligations thereunder, the pledgee shall have the right to exercise the pledge in any manner at any time it deems appropriate to the extent permitted by applicable law during the term of pledge, including without limitation: (a) to negotiate with the 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 law. Each shareholder of Ambow Rongye also agreed that, without Ambow Shengying's prior written consent, each of Xuejun Xie and Gang Huang shall not (i) make a proposal to amend the articles of association of Ambow Rongye or cause the making of such proposal, or increase or reduce Ambow Rongye'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 Shengying under the share pledge agreements, or any act that may materially affect the assets, business and/or operations of Ambow Rongye, (iv) distribute dividends to the shareholders in any form (however, upon Ambow Shengying's request, the 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. Without Ambow Shengying's prior written consent, the pledgors shall not transfer any of their rights or obligations under the share pledge agreement to any other party. Ambow Shengying 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 the 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 Shengying. None of Xuejun Xie or Gang Huang 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.

Call Option Agreement . Pursuant to the call option agreement, dated September 8, 2015, among Ambow Shengying, Xuejun Xie, and Gang Huang, each a shareholder of Ambow Rongye, each of Xuejun Xie and Gang Huang irrevocably granted Ambow Shengying 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 Ambow Rongye. 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 Rongye and may be paid by the cancellation of indebtedness owed by such shareholder to Ambow Shengying, 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 Shengying. Ambow Shengying 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 Shengying's written consent, each of Xuejun Xie and Gang Huang shall not transfer his or her equity interest in Ambow Rongye to any third party. Xuejun Xie and Gang Huang 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 Ambow Rongye without Ambow Shenying's written consent, and (ii) during the term of the call option agreement, Xuejun Xie, Gang Huang and Ambow Rongye have not engaged in and shall not engage in any act or omission that may cause any losses to Ambow Shengying and may cause any reduction in value of the equity interests in Ambow Rongye held by Xuejun Xie and Gang Huang. 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 Shengying shall have the right to terminate this agreement early upon twenty days' prior notice, but Xuejun Xie and Gang Huang shall not terminate this agreement early. Ambow Shengying 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 and Gang Huang'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.

Powers of Attorney . Under powers of attorney, each dated September 8, 2015, each of Xuejun Xie and Gang Huang granted to Ambow Shengying the power to exercise all of his or her voting rights of Ambow Rongye 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 Ambow Rongye and Ambow Shengying, the powers of attorney shall remain effective during the term of pledge.

Loan Agreement . Pursuant to the loan agreement among Ambow Shengying, Xuejun Xie and Gang Huang dated September 8, 2015, Ambow Shengying loaned RMB 6 million to Xuejun Xie and RMB 4 million to Gang Huang to fund the registered capital requirements of a domestic PRC company. Ambow later formed Ambow Rongye to serve as this domestic PRC company. To the extent permitted by the relevant PRC laws, Ambow Shengying 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 Shengying further agree that borrowers shall not repay the loan to Ambow Shengying early unless Ambow Shengying 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 and Gang Huang in Ambow Rongye to Ambow Shengying. 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.

Agreements that provide effective control over Ambow Zhixin

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

Share Pledge Agreement . Pursuant to the share pledge agreement, dated October 14, 2015, among Ambow Shengying, Xuejun Xie and Gang Huang, each a shareholder of Ambow Zhixin, each of Xuejun Xie and Gang Huang pledged all of their equity interest in Ambow Zhixin to Ambow Shengying to secure the performance of Ambow Zhixin under a technology service agreement between Ambow Shengying and Ambow Zhixin dated October 14, 2015. If (a) Ambow Zhixin fails to fulfill its payment obligation or other related obligations to the pledgee in accordance with the provisions of technology service agreement, or (b) the pledgors breach their duties or obligations thereunder, the pledgee shall have the right to exercise the pledge in any manner at any time it deems appropriate to the extent permitted by applicable law during the term of pledge, including without limitation: (a) to negotiate with the 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 law. Each shareholder of Ambow Zhixin also agreed that, without Ambow Shengying's prior written consent, each of Xuejun Xie and Gang Huang shall not (i) make a proposal to amend the articles of association of Ambow Zhixin or cause the making of such proposal, or increase or reduce Ambow Zhixin'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 Shengying under the share pledge agreements, or any act that may materially affect the assets, business and/or operations of Ambow Zhixin, (iv) distribute dividends to the shareholders in any form (however, upon Ambow Shengying's request, the 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. Without Ambow Shengying's prior written consent, the pledgors shall not transfer any of their rights or obligations under the share pledge agreement to any other party. Ambow Shengying 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 the 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 Shengying. None of Xuejun Xie or Gang Huang 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 October 14, 2015, among Ambow Shengying, Xuejun Xie and Gang Huang, each a shareholder of Ambow Zhixin, each of Xuejun Xie and Gang Huang irrevocably granted Ambow Shengying 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 Ambow Zhixin. 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 Zhixin and may be paid by the cancellation of indebtedness owed by such shareholder to Ambow Shengying, 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 Shengying. Ambow Shengying 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 Shengying's written consent, each of Xuejun Xie and Gang Huang shall not transfer his or her equity interest in Ambow Zhixin to any third party. Xuejun Xie and Gang Huang 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 Ambow Zhixin without Ambow Shengying's written consent, and (ii) during the term of the call option agreement, Xuejun Xie, Gang Huang and Ambow Zhixin have not engaged in and shall not engage in any act or omission that may cause any losses to Ambow Shengying and may cause any reduction in value of the equity interests in Ambow Zhixin held by Xuejun Xie and Gang Huang. 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 Shengying shall have the right to terminate this agreement early upon twenty days' prior notice, but Xuejun Xie and Gang Huang shall not terminate this agreement early. Ambow Shengying 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 and Gang Huang'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.

Powers of Attorney . Under powers of attorney, each dated October 14, 2015, each of Xuejun Xie and Gang Huang granted to Ambow Shengying the power to exercise all of his or her voting rights of Ambow Zhixin 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 Ambow Zhixin and Ambow Shengying, the powers of attorney shall remain effective during the term of pledge.

Loan Agreement . Pursuant to the loan agreement among Ambow Shengying, Xuejun Xie and Gang Huang dated October 14, 2015, Ambow Shengying loaned RMB 6 million to Xuejun Xie and RMB 4 million to Gang Huang to fund the registered capital requirements of a domestic PRC company. Ambow later formed Ambow Zhixin to serve as this domestic PRC company. To the extent permitted by the relevant PRC laws, Ambow Shengying 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 Shengying further agree that borrowers shall not repay the loan to Ambow Shengying early unless Ambow Shengying 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 and Gang Huang in Ambow Zhixin to Ambow Shengying. 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.

Agreements that provide effective control over IValley

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

Share Pledge Agreement. Pursuant to the first and second share pledge agreement, dated March 20, 2017 and November 27, 2017, respectively, among Ambow Education Management, Chiao-Ling Hsu and Shu Hui Cai, each a shareholder of IValley, each of Chiao-Ling Hsu and Shu Hui Cai pledged all of their equity interest in IValley to Ambow Education Management to secure the performance of IValley under technology service agreements between Ambow Education Management and IValley dated March 20, 2017 and November 27, 2017. If (a) IValley and its subsidiaries fails to perform their payment obligation or other related obligations to the pledgee in accordance with the provisions of technology service agreement, or (b) the pledgors breach their duties or obligations thereunder, the pledgee shall have the right to exercise the pledge in any manner at any time it deems appropriate to the extent permitted by applicable law during the term of pledge, including without limitation: (a) to negotiate with the 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 law. Each shareholder of IValley also agreed that, without Ambow Education Management's prior written consent, each of Chiao-Ling Hsu and Shu Hui Cai shall not (i) make a proposal to amend the articles of association of IValley or cause the making of such proposal, (ii) increase or reduce IValley's registered capital, or otherwise change the structure of its registered capital, (iii) 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, (iv) perform any act that may prejudice any rights of Ambow Education Management under the share pledge agreements, or any act that may materially affect the assets, business and/or operations of IValley, (v) distribute dividends to the shareholders in any form (however, upon Ambow Education Management's request, the pledgors shall immediately distribute all of their distributable profits to the shareholders), (vi) change the director or supervisor of IValley, or (vii) 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. Without Ambow Education Management's prior written consent, the pledgors shall not transfer any of their rights or obligations under the share pledge agreement to any other party. Ambow Education Management 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 the 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 terminated by the consent of Ambow Education Management or by mutual agreement of Chiao-Ling Hsu, Shu Hui Cai and Ambow Education Management. 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 Republic of China Arbitration Association for arbitration in accordance with its then-effective rules. The arbitration shall be held in Taipei. The award of the arbitration shall be final and binding upon the parties.

Call Option Agreement Pursuant to the first and second call option agreement, dated March 20, 2017 and November 27, 2017, respectively, among Ambow Education Management, Chiao-Ling Hsu and Shu Hui Cai, each a shareholder of IValley, each of Chiao-Ling Hsu and Shu Hui Cai irrevocably granted Ambow Education Management or its designee an option to purchase, to the extent permitted by laws, all or part of his or her equity interest in IValley. The exercise price of such option shall be equal to the initial amount of the registered capital contributed by such shareholder in exchange for such equity interest in IValley and may be paid by the cancellation of indebtedness owed by such shareholder to Ambow Education Management. Ambow Education Management or its designee shall have the right to exercise the call option in any way permitted by law at any time within the term of the option upon effectiveness of the agreement. Currently, we do not expect to exercise such option in the foreseeable future. Without

Ambow Education Management's written consent, each of Chiao-Ling Hsu and Shu Hui Cai shall not transfer his or her equity interest in IValley to any third party. Chiao-Ling Hsu and Shu Hui Cai 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 IValley without Ambow Education Management's written consent, and (ii) during the term of the call option agreement, Chiao-Ling Hsu, Shu Hui Cai and IValley have not engaged in and shall not engage in any act or omission that may cause any losses to Ambow Education Management and may cause any reduction in value of the equity interests in IValley held by Chiao-Ling Hsu and Shu Hui Cai. 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 Education Management shall have the right to terminate this agreement early upon twenty days' prior notice, but Chiao-Ling Hsu and Shu Hui Cai shall not terminate this agreement early. 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 The Republic of China Arbitration Association for arbitration in accordance with its then effective arbitration rules. The arbitration shall be held in Taipei. The award of the arbitration shall be final and binding on both parties.

Powers of Attorney Under the first and second powers of attorney, each dated March 20, 2017 and November 27, 2017, respectively, each of Chiao-Ling Hsu and Shu Hui Cai granted to Ambow Education Management the power to exercise all of his or her voting rights of IValley 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 IValley and Ambow Education Management, the powers of attorney shall remain effective during the term of pledge.

Loan Agreement Pursuant to the loan agreement among Ambow Education Management, Chiao-Ling Hsu and Shu Hui Cai dated February 10, 2017, Ambow Education Management loaned TWD 3.0 million to Chiao-Ling Hsu and TWD 2.0 million to Shu Hui Cai to fund the registered capital requirements of IValley. The second loan agreement dated July 28, 2017 was signed among Ambow Education Management, Chiao-Ling Hsu and Shu Hui Cai, which Ambow Education Management loaned TWD 7.2 million to Chiao-Lin Hsu and TWD 4.8 million to Shu Hui Cai to fund the increased registered capital of IValley. Ambow Education Management, Chiao-Ling Hsu and Shu Hui Cai mutually agree and confirm that the period of both loans are 10 months from the date of activiation. The loan period cannot be extended without the consent from Ambow Education Management, and the way of return is determined by Ambow Education Management. To the extent permitted by Taiwan laws, each loan shall be deemed to have been repaid in the amount to the price of the transferred equity interest upon the transfer of the equity interest held by each of Chiao-Ling Hsu and Shu Hui Cai in IValley to Ambow Education Management. 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 The Republic of China Arbitration Association for arbitration in accordance with its then-effective arbitration rules. The arbitration shall be conducted in Taipei.

Agreements that transfer economic benefits to us

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

Exclusive Cooperation Agreement or technology service agreement Ambow Online and Ambow Shida entered into an exclusive cooperation agreement on January 31, 2005, which was revised on May 13, 2010. Ambow Online and Ambow Shida terminated this exclusive cooperation agreement on June 29, 2017. Ambow Chuangying and Ambow Shida entered into a technology service agreement on June 29, 2017, pursuant to which Ambow Chuangying has the exclusive right to provide to Ambow Shida technical support and marketing consulting services. Without Ambow Chuangying's written consent, Ambow Shida shall not transfer, pledge or assign to any third party the rights and obligations under this agreement. The agreement can be terminated by mutual agreement, by written notice from Ambow Chuangying to Ambow Shida. 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 60 days after on party receives the notice of the other party requesting the beginning of discussion or any longer period agreed upon separately by the parties, 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 Chuangying has the unilateral right to adjust the level of service fee to be charged to Ambow Shida under this technology service agreement unless there is any significant error. At the time the exclusive cooperation 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.

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

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

Technology Service Agreement Ambow Online and Ambow Shanghai entered into a technology service agreement on October 31, 2009, which was terminated on June 29, 2017. Ambow Shengying and Ambow Shanghai entered into a technology service agreement on June 29, 2017, pursuant to which Ambow Shengying 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 Shengying's prior written consent during the term of this agreement, while Ambow Shengying 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 Shengying 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 Shengying's prior written consent, while Ambow Shengying 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 Ambow Online and Ambow Sihua entered into a technology service agreement on October 31, 2009, which was terminated on June 29, 2017. Ambow Shengying and Ambow Sihua entered into a technology service agreement on June 29, 2017, pursuant to which Ambow Shengying 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 Shengying's prior written consent during the term of this agreement, while Ambow Shengying 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 Shengying e 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 Shengying's prior written consent, while Ambow Shengying 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 Ambow Rongye and its subsidiaries

Technology Service Agreement Pursuant to the technology service agreement, dated September 8, 2015, by and between Ambow Shengying and Ambow Rongye, Ambow Shengying has the exclusive right to provide to Ambow Rongye (i) education or training solutions; (ii) employee training and technical support; (iii) management and consulting services related to Ambow Rongye's operations; and (iv) other service arrangements under the consents from both Ambow Shengying and Ambow Rongye, in exchange for certain service fees to be agreed to by the parties from time to time. Ambow Rongye shall not engage any other third party as its technology service provider without Ambow Shengying's prior written consent during the term of this agreement, while Ambow Shengying 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 Shengying upon either 15 days' notice or Ambow Rongye's failure to cure its breach of the agreement or by mutual written agreement at any time. Ambow Rongye shall not assign its rights and obligations under this agreement to any third party without Ambow Shengying's prior written consent, while Ambow Shengying 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 Zhixin and its subsidiaries

Technology Service Agreement Pursuant to the technology service agreement, dated October 14, 2015, by and between Ambow Shengying and Ambow Zhixin, Ambow Shengying has the exclusive right to provide to Ambow Zhixin (i) education or training solutions; (ii) employee training and technical support; (iii) management and consulting services related to Ambow Zhixin's operations; and (iv) other service arrangements under the consents from both Ambow Shengying and Ambow Zhixin, in exchange for certain service fees to be agreed to by the parties from time to time. Ambow Zhixin shall not engage any other third party as its technology service provider without Ambow Shengying's prior written consent during the term of this agreement, while Ambow Shengying 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 Shengying upon either 15 days' notice or Ambow Zhixin's failure to cure its breach of the agreement or by mutual written agreement at any time. Ambow Zhixin shall not assign its rights and obligations under this agreement to any third party without Ambow Shengying's prior written consent, while Ambow Shengying 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 transfers economic benefits to us from IValley and its subsidiaries

Technology Service Agreement Pursuant to the technology service agreement, dated March 20, 2017 and November 27, 2017, by and between Ambow Education Management and IValley, Ambow Education Management has the exclusive right to provide to IValley (i) education or training solutions; (ii) employee training and technical support; (iii) administration and consulting services related to IValley's business operations; and (iv) other technical service arrangements under the consents from both Ambow Education Management and IValley. IValley shall not engage any other third party as its technology service provider without Ambow Education Management's prior written consent during the term of this agreement, while Ambow Education Management 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 Education Management upon either 15 days' notice or IValley's failure to cure its breach of the agreement or by mutual written agreement at any time. 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 The Republic of China Arbitration Association for arbitration in accordance with its then-effective rules. The arbitration shall be held in Taipei. We have not received any payment of service fees contemplated by this agreement.

D. Property, Plant and Equipment

Our headquarters are located in Beijing, China, where we owned approximately 16,146 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

Our business addresses three critical demands in China's education market, the desire for students to be admitted into top secondary and post-secondary schools, the desire for graduates of those schools to obtain more attractive jobs and the need for schools and corporate clients to optimizing their teaching and operating environment. We offer high-quality, individualized services and products through our integrated online and offline delivery model powered by our proprietary technologies and robust infrastructure.

Intelligent technology is changing education as students are no longer restricted by the traditional learning environment. Intelligent campuses and classes are becoming the trend leading to increased efficiency, cost savings, and improved experiences for students and staff. We will proactively introduce our intellectualized operational services to more universities and colleges to provide students access to educational resources regardless of the location or device, increasing the potential for learning and teaching through cooperation with peers and experts worldwide and optimizing facilities to create a sustainable campus.

Our net revenues increased from RMB 412.0 million in 2016 to RMB 443.9 million in 2017 and increased to RMB 531.5 million (US$ 77.3 million) in 2018. The increase from 2016 to 2017 was mainly driven by higher student enrollment for the 2016-2017 academic year in our K-12 schools from the fall semester in 2016, as well as the new income from intellectualized operational services contributed by IValley Beijing. The increase from 2017 to 2018 was mainly due to the revenue from Bay State College and higher student enrollment for both 2017-2018 and 2018-2019 academic years in our K-12 schools.

Our net income improved from RMB 45.9 million in 2017 to RMB 44.9 million (US$ 6.5 million) in 2018.

Net revenues from our Better Schools division, which includes K-12 schools and tutoring, accounted for 65.7%, 64.8% and 61.1% of our total net revenues in 2016, 2017 and 2018, respectively. Net revenues from our Better Jobs, which includes Career Enhancements, accounted for 34.3%, 32.7% and 37.7% of our total net revenues in 2016, 2017 and 2018, respectively. Net revenue from our Other segment accounted for 2.5% and 1.2% of our total net revenues in 2017 and 2018, respectively. We expect the mix of our net revenues between our Better Schools and Better Jobs divisions to change along with our strategic shift from tutoring to career enhancement.

Due to certain restrictions and qualification requirements under PRC law that applies 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.

In order to fund the acquisition costs and working capital needs in US dollars, on April 5, 2017, we entered into an agreement to receive a one-year interest-free US dollar loan from Sino Accord. This short-term loan is correlated to our one-year interest-free RMB loan from Suzhou Zhixinliren, and when we repay the US dollar loan, the RMB loan will be repaid. On March 7, 2018, we mutually agreed with Sino Accord and Suzhou Zhixinliren to extend the maturity date for repayment of the loans for an additional year. Accordingly, both loans are now due in April 2019. Please refer to Note 8 and Note 14 to consolidated financial statements for details.

The loan agreements are not individually regulated by the foreign currency exchange and cross border guarantee rules of China. However if we fail to repay the US dollar loan to Sino Accord or collect the RMB loan from Suzhou Zhixinliren when the agreements due, these transactions as a whole may be considered as unauthorized foreign exchange arrangements by the SAFE. The regulatory authority may deem the transactions as in substance a currency exchange arrangement or an onshore guarantee for an offshore loan and we may be subject to severe penalties under this circumstances. According to Regulations for the Implementation of Foreign Exchange Management in People's Republic of China, the upper limits of the monetary penalties can range from 30 to 100 percent of the deemed illegal loan amounts. On March 7, 2018, we mutually agreed with Sino Accord and Suzhou Zhixinliren to extend the maturity date for repayment of the loans for an additional year. Accordingly, both loans are now due in April 2019. With the extended maturity date of the loans, we shall either apply for a permit from the SAFE for our purchase of US dollar or pursue other future offerings resulting in US dollar proceeds to obtain enough US dollars to repay Sino Accord.

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:

- 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, career enhancement centers and campus 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:

- *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 campus, 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 head quarter level and at our tutoring centers, K-12 schools, career enhancement centers and campus. Our most significant costs at our K-12 schools, tutoring centers, partner schools 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.

According to the Law for Promoting Private Education revised on November 7, 2016, private schools may be operated as nonprofit schools or profit-making schools, but the nine-year compulsory education schools cannot be operated as profit-making schools. We are currently operating three K-12 schools as profit-making schools with reasonable return and they will be transitioned to be operated as non-profit schools under this revised law. The detailed implementation methods for transition of K-12 schools to non-profit schools have not been issued by local government authorities. We are communicating with local authorities regarding the impact on the operation and registration of the schools. Since we can still maintain control over the daily operation of the schools and has the right to appoint key management, we believe there will not be any significant impact on the operation of these schools before any official reply is issued by local authorities. Although turning into non-profit schools will prohibit the distribution of retained earnings as dividends from these schools, we can still control and allocate the financial resources of the schools in its daily operation. Therefore we believe there will be no significant financial impact to us as of the date of this report.

Effects of disposals and other strategic plans

On August 31, 2017, we sold the 100% equity interest in Ambow Online to a third party for nil consideration. After the disposal, Ambow Online and its remaining VIE Suzhou Wenjian Venture Investment Management Consulting Co., Ltd. ("Suzhou Wenjian") were no longer consolidated by us. On September 30, 2017, we sold the 100% equity interest in 21st Century Training Center to a third party, with a consideration of RMB 1 yuan. After the disposal, 21st Century Training Center was no longer consolidated by us. Please refer to Note 25 for details.

There were no other material disposals during the years 2017 and 2018.

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, cost of revenues and gross profit, both in absolute amount and as a percentage of net revenues, for the periods indicated.

	For the Years Ended December 31,						
	2016		2017		2018		
	RMB	%	RMB	%	RMB	US$	%
	(in thousands, except percentages)						
Net revenues	412,016	100.0	443,924	100.0	531,508	77,305	100.0
Cost of revenues	(238,742)	(57.9)	(256,395)	(57.8)	(338,143)	(49,181)	(63.6)
Gross Profit	173,274	42.1	187,529	42.2	193,365	28,124	36.4

Net revenues

In 2016, 2017 and 2018, we generated net revenues of RMB 412.0 million, RMB 443.9 million and RMB 531.5 million (US$ 77.3 million), respectively.

The increase from 2016 to 2017 was mainly driven by higher student enrollment for the 2016-2017 academic year in our K-12 schools from the fall semester in 2016 and the new income from intellectualized operational services contributed by IValley Beijing.

The increase from 2017 to 2018 was mainly due to revenues from Bay State College and higher student enrollment for both 2017-2018 and 2018-2019 academic years in K-12 schools.

We derived net revenues from our three operating segments in terms of percentages of our overall net revenues as follows in 2016, and four operating segments in 2017 and 2018:

	For the Years Ended December 31,		
	2016	2017	2018
	%	%	%
Better Schools:			
Tutoring	11.7	12.4	8.8
K-12 schools	54.0	52.4	52.3
Total Better Schools	65.7	64.8	61.1
Better Jobs:			
Career enhancement	34.3	32.7	37.7
Others:	-	2.5	1.2

Tutoring . We provided educational services in our 10 tutoring centers as of December 31, 2018. 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 nine months. 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 16,000 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 65 students per class. In addition, we also deliver these services in premium classes, including one-on-one tutoring.

K-12 schools . We operated three K-12 schools as of December 31, 2018. 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 3,000 to RMB 73,000 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 60 students per class.

Career enhancement. Our career enhancement services are provided in our 35 career enhancement centers, which include 8 career centers, 25 training offices, one career enhancement college and one career enhancement campus. 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. 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 400 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. The corporate trainings are all tailor-made according to customer companies' requirements, and normally are delivered to 10 to 30 persons per course.

Others. Our other services mainly include the business provided by IValley Beijing. We recognize revenues from its business to design, purchase, modify and integrate electronic equipment and devices, and develop mobile applications, performed by engineers and IT development and operational personnel, for end users to utilize office facilities, manage resources and administrative matters. For the intellectualized operational services, corporate clients, colleges and universities are our customers. We designed the intellectualized operational infrastructures and processes according to our clients' office or teaching space, human resource deployments and office/classroom administration requirements. We purchased computer, network, electronic and multimedia hardware and devices and application services along with these equipment. These hardware and devices either were installed by the vendors or by ourselves. We arranged the conductors, wires, optical fibers and bandwidths to integrate all devices. We also developed mobile applications for end users to punch time clocks, open and close lockers, turn on and off office gates, lights, air conditioners, set up remote visual conference meetings and use other office administrative services through the applications.

Cost of revenues

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

- 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 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.

- *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.

- *Others*. Cost of revenues for our others segment primarily consists of the cost of hardware, devices, materials and application services which we procure and integrate, subcontract cost to other service providers and labor cost of inhouse engineers and IT development and operational personnel.

Gross profit

Gross profit as a percentage of our net revenues was 42.1%, 42.2% and 36.4% in 2016, 2017 and 2018, respectively. The change in gross profit margin from the 2016 to 2017 was not significant. The change in gross profit margin from 2017 to 2018 was mainly due to lower profit margin at Bay State College, as the Company is in the process of consolidating its business operation.

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 Years Ended December 31,						
	2016		2017		2018		
	RMB	%	RMB	%	RMB	US$	%
	(in thousands, except percentages)						
Net revenues	412,016	100	443,924	100	531,508	77,305	100
Operating expenses:							
Selling and marketing	(41,818)	(10.1)	(36,710)	(8.3)	(43,751)	(6,363)	(8.2)
General and administrative	(145,513)	(35.3)	(142,252)	(32.0)	(132,718)	(19,303)	(25.0)
Research and development	(7,572)	(1.8)	(6,262)	(1.4)	(1,513)	(220)	(0.3)
Impairment loss	(22,402)	(5.4)	-	-	-	-	-
Total operating expenses	(217,305)	(52.6)	(185,224)	(41.7)	(177,982)	(25,886)	(33.5)

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 increase in selling and marketing expenses was primarily due to the consolidation of Bay State College.

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 decreased from 32.0% in 2017 to 25.0% in 2018, which was the combined effect from consolidation of Bay State College andthe recovered receivables in the amount of RMB 20.0 million allowing us to reverse bad debt expense from 2012. The receivables had been due from Xihua Group and the bad debt allowance had been written off in 2012 with an amount of RMB 46.8 million. At that time, because our management was focused on the JPL process, we did not have enough resources to put towards collection of such receivables. In 2018, Xihua Group was seeking for a business cooperation arrangement with us, which led to our ability to collect the receivable. As of December 31, 2018, RMB 20.0 million has been fully collected by us. There was no material fluctuation from 2016 to 2017 for our general and administration expenses as a percentage of net revenues.

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. The decrease was mainly due to lower spending on research expenses.

Impairment loss . Our impairment loss was related to the impairment of goodwill, intangible assets and property and equipment. See Note 10 and Note 11 to consolidated 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 Years Ended December 31,						
	2016		2017		2018		
	RMB	%	RMB	%	RMB	US$	%
	(in thousands, except percentages)						
Allocation of share-based expenses:							
General and administrative	(7,828)	100.0	(4,640)	100.0	(8,121)	(1,181)	100.0

Total share-based expenses	(7,828)	100.0	(4,640)	100.0	(8,121)	(1,181)	100.0

Our predecessor entity, Ambow Education Co., Ltd., adopted the 2010 Equity Incentive Plan in June 2010 and became effective upon completion of our 2010 IPO. On December 21, 2018, we adopted the Amended and Restated 2010 Plan, which became effective upon the approval from the Board of Directors and shareholders. See "Item 6 — Directors, Senior Management and Employees — Compensation—Equity-based compensation plans." From 2015 to 2018, we did not grant any share options to our employees and consultants for services rendered by them. 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.

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.

We also have five entities incorporated in Hong Kong which were subject to Hong Kong profit tax at a rate of 16.5% since the beginning of 2008.

Entity incorporated in Taiwan is subject to Taiwan profit tax at a rate of 17%.

The U.S. Tax Cuts and Jobs Act (the "Tax Act") was enacted on December 22, 2017. The Tax Act makes significant changes to U.S. income tax law, including, but not limited to, reducing the U.S. federal corporate income tax rate from 35 percent to 21 percent, and imposing a mandatory one-time tax on accumulated earnings of foreign subsidiaries.

On December 22, 2017, the SEC staff issued Staff Accounting Bulletin No. 118 ("SAB 118") to address the application of U.S. GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Tax Act. The Company has completed the assessment of the income tax effect of the Tax Act and there were no adjustments recorded to the provisional amounts.

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 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

The PRC government implemented a value-added tax reform pilot program, which replaced the business tax with value-added tax. Since May 2016, the changes from business tax to VAT are expanded to all other service sectors which used to be subject to business tax. 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 3% to 5% business tax rate which was applicable prior to the reform.

As of December 31, 2017 and 2018, the payable balances for VAT were RMB 9.0 million and RMB 9.0 million, respectively.

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. 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. From May 2016, as the final part of the VAT reform, VAT replaced business tax in all industries, on a nationwide basis. The VAT rates applicable to the subsidiaries and consolidated variable interest entities of the Group ranged from 3% to 6% as compared to the 3% to 5% business tax rate which was applicable prior to the reform.

As of December 31, 2017 and 2018, the payable balances for business tax were RMB 18.4 million and RMB 18.4 million, respectively.

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

The PRC Enterprise Income Tax ("EIT") is calculated based on the taxable income determined under the applicable EIT Law and its implementation rules, which became effective on January 1, 2008. EIT Law imposes a unified income tax rate of 25% for all resident enterprises in China, including both domestic and foreign invested enterprises.

EIT Law also imposes a withholding income tax rate of 10% on dividends distributed by a foreign invested enterprise, or FIE to its immediate holding company outside of PRC. However, a lower withholding income tax rate of 5% would be applied after the immediate holding company was registered in Hong Kong or other jurisdiction that have a tax treaty or arrangement with PRC and the FIE's immediate holding company, and satisfies 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 and rules. 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 EIT 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.

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.

Private schools

Our private schools, 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 were subject to income tax determined in accordance with the Law for Promoting Private Education 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 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 varies among different cities.

Under the EIT 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. Some of the schools 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 EIT Law. No provision has been made for interest or late payment fees for such provision.

For our schools 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, is subject to uncertainty. The strict application of the EIT Law indicates that certain of our private schools are subject to income tax of 25% after January 1, 2008. For those private schools 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, 2018, no detailed implementation guidance has been provided to local tax authorities on how to apply the EIT Law to private schools. 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 and schools 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 EIT Law to schools, this may also have an impact on the amount of income tax payable by our own schools.

Critical accounting policies and estimates

The preparation of consolidated 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 Shengying, Ambow Chuangying, Ambow Yuhua, Ambow University Inc., Ambow BSC Inc., Bay State College, three holding companies registered in Cayman and six 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. Except for Bay State College, 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.

The company regained control of these deconsolidated entities in the second half of 2015, and they were reconsolidated in the consolidated financial statements.

The separated VIE and Non-VIE financial net revenue and net income during the year of 2016 was as follows (in RMB thousands):

	VIEs Consolidated	Non-VIEs Consolidated	Inter-company Elimination	Group Consolidated
Net Revenue	470,194	2,625	(60,803)	412,016
Net Loss	(12,805)	(24,213)	-	(37,018)

The separated VIE and Non-VIE financial information during the year of 2017 was as follows (in RMB thousands):

	VIEs Consolidated	Non-VIEs Consolidated	Inter-company Elimination	Group Consolidated
Cash and cash equivalent	171,296	24,007	-	195,303
Inter-Group balances due from VIEs/Non VIEs	1,840,131	2,441,695	(4,281,826)	-
Other current assets	270,687	106,733	-	377,420
non-current assets	264,113	140,584	-	404,697
Total Assets	2,546,227	2,794,979	(4,363,786)	977,420
Inter-Group balances due to VIEs/Non VIEs	2,901,844	1,405,640	(4,307,484)	-
Other current liabilities	553,936	208,616	-	762,552
non-current liabilities	-	48,909	-	48,909
Total Liabilities	3,455,780	1,663,165	(4,307,484)	811,461
Equity	(909,553)	1,131,814	(56,302)	165,959
Net Revenue	484,757	17,806	(58,639)	443,924
Net Income	41,636	4,289	-	45,925

The separated VIE and Non-VIE financial information during the year of 2018 was as follows (in RMB thousands):

	VIEs Consolidated	Non-VIEs Consolidated	Inter-company Elimination	Group Consolidated
Cash and cash equivalent	196,339	15,097	-	211,436
Inter-Group balances due from VIEs/Non VIEs	1,795,324	2,840,591	(4,635,915)	-
Other current assets	287,136	56,828	-	343,964
non-current assets	259,622	95,197	-	354,819

Total Assets	2,538,421	3,007,713	(4,635,915)	910,219
Inter-Group balances due to VIEs/Non VIEs	2,890,093	1,773,450	(4,663,543)	-
Other current liabilities	527,339	117,808	-	645,147
non-current liabilities	-	2,301	-	2,301
Total Liabilities	3,417,432	1,893,559	(4,663,543)	647,448
Equity	(879,011)	1,114,154	27,628	262,771
Net Revenue	447,844	83,674	(10)	531,508
Net Income	66,185	(21,245)	-	44,940

Revenue recognition

We have adopted ASC 606 Revenue from Contracts with Customers using the modified retrospective transition method from January 1, 2018. Our revenue is generated from delivering educational programs and services and intellectualized operational services.

The core principle of ASC 606 is that an entity recognizes revenue when control of the promised goods or services is transferred to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achive that principal, the Group applies the following steps:

Step 1: Identify the contract(s) with a customer;

Step 2: Identify the performance obligations in the contract;

Step 3: Determine the transaction price;

Step 4: Allocate the transaction price to the performance obligations in the contract;

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

We have four operating segments, including Tutoring, K-12 Schools, Career Enhancement and Others. Tutoring and K-12 schools provide tutoring services and K-12 educational programs to pre-school children, primary and secondary students in China. Bay State College in Career Enhancement offers career-focused post-secondary educational services to undergraduate students in U.S. The rest of Career Enhancement provide vocational education services to partner colleges' students, or to provide boarding and accommodation services to colleges or corporate customers, or to

provide short term outward bound and in-house training services to corporate clients. Segment Others provides intellectualized operational services to corporate clients, colleges and universities

For customers including pre-school children, primary and secondary students and undergraduate students, usually there are no written formal contracts between us and the students according to business practice. Records with student's name, grades, tuition and fee collected are signed or confirmed by students. Academic requirements and each party's rights are communicated with students through enrollment brochures or daily teaching and academic activities. For customers including colleges and corporate clients, there are written formal contracts with these customers which include charge rate, contract amounts, each party's rights and obligations and payment terms.

For customers including pre-school children, primary and secondary students and undergraduate students, our performance obligations are to provide acknowledged academic education from kindergarten till grade twelve to school-aged students within academic years, post-secondary education with Associates and Bachelor's programs and extracurricular tutoring services within agreed-upon periods. For customers including colleges and corporate clients, our performance obligations are to provide customized vocational educational services to college students within academic years; or to provide boarding and accommodation services to customers for agreed-upon periods; or to provide short term outward bound and in-house training services to corporate clients within agreed-upon periods; or to provide intellectualized operational services and warranty of agreed period of time.

For customers including pre-school children, primary and secondary students and undergraduate students, transaction price of each customer is tuition and fee received normally up front. For customers including colleges and corporate clients, transaction price of each customer is service fee in the contract, net of value added tax, and would be received either up front or within payment terms depending on customers' situation. Circumstances like other variable consideration, significant financing component, noncash consideration, consideration payable to a customer are not being noticed.

For customers including pre-school children, primary and secondary students, undergraduate students, colleges and corporate clients, we identified one performance obligation. The transaction prices are allocated to the one performance obligation. For operating segment Others with corporate or college customers, we identified two performance obligations, which is to provide intellectualized operational services and warranty, since customers obtain different benefits from the two services separately and these two services are usually quoted to customers with stand-alone prices, which are determined by cost of services plus certain amount of profit. The transaction price from the contract is allocated according to standard-alone selling prices of each obligation.

For customers including pre-school children, primary and secondary students and undergraduate students, we satisfy performance obligations to students over time, and recognize revenue according to tutoring hours or school days consumed in each month of a semester. For operating segment Career Enhancement with college and corporate clients, we satisfy performance obligations to customers over time, and recognize revenue according to the number of months within the academic year, or training days consumed in each month, or boarding service days within each month. For segment Others with college and corporate clients, we satisfy intellectualized operational service performance obligations to customers over time, use the cost-based input method to depict its performance in

transferring control of services promised to the clients. Such input measure is determined by the proportional relation of the contract costs incurred to date relative to the estimated total contract costs at completion. For performance obligation of warranty, the change of control would be transferred to the customer over time. We recognize revenue using a straight line method within the whole warranty period.

Intangible assets, net

Intangible assets represent brand, software, trade name, student population, corporative 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 10-”Intangible assets, net” to the consolidated financial statements for additional information):

Software	2 years to 10 years
Student populations	1.8 years to 15 years
Customer relationships	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
Brand	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 third 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 approaches. 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. The Group performed impairment analysis on goodwill as of September 30 every year either beginning with a qualitative assessment, or starting with the quantitative assessment instead. The quantitative goodwill impairment test compares the fair values of each reporting unit to its carrying amount, including goodwill. A reporting unit constitutes a business for which discrete profit and loss financial information is available. The fair value of each reporting unit is established using a combination of expected present value of future cash flows. If the fair value of each reporting unit exceeds its carrying amount, goodwill is not considered to be impaired. If the carrying amount of a reporting unit exceeds its fair value, an impairment loss shall be recognized in an amount equal to that excess, limited to the total amount of goodwill allocated to that reporting unit.

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

Income tax expense has been allocated between continued and discontinued operations in all periods. 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.

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.

We adopted the guidance on accounting for uncertainty in income taxes, which 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 the de-recognition of income tax assets and liabilities, classification of current and deferred income tax assets and liabilities, accounting for income taxes in interim periods, and income tax disclosures. Significant judgment is required in evaluating our 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 its belief that its 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. See Note 17 (c) of consolidated financial statements for additional information.

U.S. Tax Cuts and Jobs Act

The U.S. Tax Cuts and Jobs Act was enacted on December 22, 2017. The Tax Act makes significant changes to U.S. income tax law, including, but not limited to, reducing the U.S. federal corporate income tax rate from 35 percent to 21 percent, and imposing a mandatory one-time tax on accumulated earnings of foreign subsidiaries.

On December 22, 2017, the SEC staff issued Staff Accounting Bulletin No. 118 ("SAB 118") to address the application of U.S. GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Tax Act. The Company has completed the assessment of the income tax effect of the Tax Act and there were no adjustments recorded to the provisional amounts.

Share-based compensation

We grant share options to our employees and directors. 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 ranging from one year to four years.

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, United States, Hong Kong and the British Virgin Islands is US$, the functional currency of our VIE incorporated in Taiwan is TWD, 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.

In the consolidated financial statements, the financial information of our company and its subsidiaries, which use US$ and TWD as their functional currencies, 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.

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).

Results of operations

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 Years Ended December 31,			
	2016	2017	2018	2018
	RMB	RMB	RMB	US$
	(in thousands)			
Consolidated Statement of Operations Data:				
NET REVENUES:				
- Educational programs and services	412,016	432,754	525,134	76,378
- Intellectualized operational services	-	11,170	6,374	927
Total net revenues	412,016	443,924	531,508	77,305
COST OF REVENUES:				
- Educational programs and services (1)	(238,742)	(249,400)	(331,939)	(48,279)
- Intellectualized operational services	-	(6,995)	(6,204)	(902)
Total cost of revenues	(238,742)	(256,395)	(338,143)	(49,181)
GROSS PROFIT	173,274	187,529	193,365	28,124
Operating expenses:				
Selling and marketing (1)	(41,818)	(36,710)	(43,751)	(6,363)
General and administrative (1)	(145,513)	(142,252)	(132,718)	(19,303)
Research and development (1)	(7,572)	(6,262)	(1,513)	(220)
Impairment loss	(22,402)	-	-	-
Total operating expenses	(217,305)	(185,224)	(177,982)	(25,886)
OPERATING (LOSS)/INCOME	(44,031)	2,305	15,383	2,238
OTHER INCOME	12,924	53,234	33,055	4,808
(Loss)/income before income tax and non-controlling interest	(31,107)	55,539	48,438	7,046
Income tax expense	(5,911)	(9,614)	(3,498)	(509)
NET (LOSS)/INCOME	(37,018)	45,925	44,940	6,537
Less: Net loss contributable to non-controlling interest	(1,318)	(538)	(50)	(7)
NET (LOSS)/INCOME ATTRIBUTABLE TO AMBOW EDUCATION HOLDING LTD.	(35,700)	46,463	44,990	6,544
NET (LOSS)/INCOME ATTRIBUTABLE TO ORDINARY SHAREHOLDERS	(35,700)	46,463	44,990	6,544

(1) Includes depreciation and amortization of RMB 25.0 million, RMB 22.7 million and RMB 26.3 million (US$ 3.8 million) for the years ended December 31, 2016, 2017 and 2018, respectively.

Year ended December 31, 2018 compared with year ended December 31, 2017

Net revenues . Our net revenues increased by 19.7% from RMB 443.9 million in 2017 to RMB 531.5 (US$ 77.3 million) in 2018. The increase was mainly driven by revenues from Bay State College and higher student enrollment for both 2017-2018 and 2018-2019 academic years in K-12 schools.

Cost of revenues . Our cost of revenues increased by 31.9% from RMB 256.4 million in 2017 to RMB 338.1 million (US$ 49.2 million) in 2018. There was an increase in performance-based compensation for teaching faculties and the cost of revenue from Bay State College.

Gross profit . Gross profit as a percentage of our net revenues decreased from 42.2% in 2017 to 36.4% in 2018. The decrease was mainly driven by lower profit margin at Bay State College, as the Company is in the process of consolidating its business operation.

Operating expenses . Our total operating expenses decreased by 3.9% from RMB 185.2 million in 2017 to RMB 178.0 million (US$ 25.9 million) in 2018. This decrease was mainly due to lower general and administrative expenses and lower research and development expenses in 2018 compared to 2017.

- *Selling and marketing expenses* . Our selling and marketing expenses increased by 19.3% from RMB 36.7 million in 2017 to RMB 43.8 million (US$ 6.4 million) in 2018. The increases were mainly due to the consolidation of Bay State College.

- *General and administrative expenses* . Our general and administrative expenses decreased by 6.7% from RMB 142.3 million in 2017 to RMB 132.7 million (US$ 19.3 million) in 2018. The decrease in 2018 was the combined effect from consolidation of Bay State College, and the recovered receivables in the amount of RMB 20.0 million allowing us to reverse the bad debt expense from 2012. The receivables had been due from Xihua Group and the bad debt allowance had been written off in 2012 with an amount of RMB 46.8 million. At that time, because our management was focused on the JPL process, we did not have enough resources to put towards collection of such receivables. In 2018 Xihua Group was seeking for a business cooperation arrangement with us, which led to our ability to collect the receivable. As of December 31, 2018, RMB 20.0 million has been fully collected by us.

- *Research and development expenses* . Our research and development expenses decreased by 76.2% from RMB 6.3 million in 2017 to RMB 1.5 million (US$ 0.2 million) in 2018. It was mainly caused by lower spending on research expenses due to the decrease in headcount.

Other income (expense), net. We recorded net other income of RMB 33.1 million (US$ 4.8 million) in 2018, compared to net other income of RMB 53.2 million in 2017. The decrease was mainly due to the disposal gain of RMB 38.1 million of 21st Training Center and Ambow Online during the year 2017 and offset by the gain from derecognition of liabilities of RMB 15.2 million in 2018. We review our accrued liabilities periodically to ensure they are active and with reasonable possibility to pay.

Income tax (expense)/benefit . Our income tax (expense)/ benefit changed from RMB 9.6 million expense in 2017 to RMB 3.5 million (US$ 0.5 million) expense in 2018.

Net (loss)/income . According to above mentioned factors, our net (loss)/income changed from income of RMB 45.9 million in 2017 to income of RMB 44.9 million (US$ 6.5 million) in 2018.

Year ended December 31, 2017 compared with year ended December 31, 2016

Net revenues . Our net revenues increased by 7.7% from RMB 412.0 million in 2016 to RMB 443.9 (US$ 68.2 million) in 2017. The increase was mainly driven by four percent increased student enrollment for the 2016-2017 academic year in two K-12 schools from the fall semester in 2016, the recognition of tuition fee which the prior years' courses were expired in Tutoring, the new revenue from intellectualized operational services contributed by IValley Beijing and revenue of Bay State College after it was acquired by the Company in 2017.

Cost of revenues . Our cost of revenues increased by 7.4% from RMB 238.7 million in 2016 to RMB 256.4 million (US$ 39.4 million) in 2017. There was an increase in performance-based compensation for teaching faculties and the new cost of revenue from intellectualized operational services contributed by IValley Beijing.

Gross profit . Gross profit as a percentage of our net revenues increased from 42.1% in 2016 to 42.2% in 2017. There was no material fluctuation.

Operating expenses . Our total operating expenses decreased by 14.8% from RMB 217.3 million in 2016 to RMB 185.2 million (US$ 28.5 million) in 2017. This decrease was mainly due to lower selling and marketing expenses and lower impairment loss in 2017 compared to 2016.

- *Selling and marketing expenses* . Our selling and marketing expenses decreased by 12.2% from RMB 41.8 million in 2016 to RMB 36.7 million (US$ 5.6 million) in 2017. The decreases were mainly due to the lower spending on marketing expense.

- *General and administrative expenses* . Our general and administrative expenses decreased by 2.2% from RMB 145.5 million in 2016 to RMB 142.3 million (US$ 21.9 million) in 2017. There are no material fluctuation.

- *Research and development expenses* . Our research and development expenses decreased by 17.1% from RMB 7.6 million in 2016 to RMB 6.3 million (US$ 1.0 million) in 2017. It was mainly caused by decrease of amortization of certain intangible assets which were used for research and development as these intangible assets were fully amortized in 2016.

- *Impairment loss* . The impairment loss was nil in 2017. The impairment loss in 2016 was mainly due to the impairment loss recognized in goodwill and intangible assets.

Other income (expense), net. We recorded net other income of RMB 53.2 million (US$ 8.2 million) in 2017, compared to net other income of RMB 12.9 million in 2016. The increase was mainly due to the disposal gain of RMB 38.1 million of 21st Training Center and Ambow Online during the year 2017.

Income tax (expense)/benefit . Our income tax (expense)/ benefit changed from RMB 5.9 million expense in 2016 to RMB 9.6 million (US$ 1.5 million) expense in 2017.

Net (loss)/income . According to above mentioned factors, our net (loss)/income changed from a loss of RMB 37.0 million in 2016 to income of RMB 45.9 million (US$ 7.1 million) in 2017.

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:

	For the Years Ended December 31,			
	2016 RMB	2017 RMB	2018 RMB	2018 US$
	(in thousands)			
Consolidated Statement of Operations Data:				
Net revenues:				
Tutoring	47,985	55,371	46,820	6,810
K-12 schools	222,592	232,433	277,790	40,403
Better Schools net revenues	270,577	287,804	324,610	47,213
Career enhancement	141,439	144,950	200,524	29,165
Better Jobs net revenues	141,439	144,950	200,524	29,165
Others	-	11,170	6,374	927
Total net revenues of reportable segments and the company	412,016	443,924	531,508	77,305
Cost of revenues:				
Tutoring	(33,465)	(26,426)	(27,770)	(4,039)
K-12 schools	(137,833)	(152,509)	(178,645)	(25,983)
Better Schools Cost of revenues	(171,298)	(178,935)	(206,415)	(30,022)
Career enhancement	(67,444)	(70,465)	(125,524)	(18,257)
Better Jobs Cost of revenues	(67,444)	(70,465)	(125,524)	(18,257)
Others	-	(6,995)	(6,204)	(902)
Total costs of revenues of reportable segments and the company	(238,742)	(256,395)	(338,143)	(49,181)
Gross profit				
Tutoring	14,520	28,945	19,050	2,771
K-12 schools	84,759	79,924	99,145	14,420
Better Schools gross profit	99,279	108,869	118,195	17,191
Career enhancement	73,995	74,485	75,000	10,908
Better Jobs gross profit	73,995	74,485	75,000	10,908
Others	-	4,175	170	25
Total gross profit of reportable segments and the company	173,274	187,529	193,365	28,124
Gross margin				
Tutoring	30.3 %	52.3 %	40.7 %	40.7 %
K-12 schools	38.1 %	34.4 %	35.7 %	35.7 %
Better Schools gross margin	36.7 %	37.8 %	36.4 %	36.4 %
Career enhancement	52.3 %	51.4 %	37.4 %	37.4 %
Better Jobs gross margin	52.3 %	51.4 %	37.4 %	37.4 %
Others	-	37.4 %	2.7 %	2.7 %
Total gross margin of reportable segments and the company	42.1 %	42.2 %	36.4 %	36.4 %

Year ended December 31, 2018 compared with year ended December 31, 2017

Tutoring

Net revenues from our tutoring segment decreased from RMB 55.4 million in 2017 to RMB 46.8 million (US$ 6.8 million) in 2018. The decrease was primarily due to the one-off recognition of prior years' tuition fee in 2017.

Cost of revenues from our tutoring segment increased from RMB 26.4 million in 2017 to RMB 27.8 million (US$ 4.0 million) in 2018. The increase was mainly due to more supporting direct cost related to the increase in student enrollment.

Gross profit as a percentage of our net revenues from our tutoring segment was 52.3% in 2017 and 40.7% in 2018. The increase was mainly due to the one-off recognition of prior years' tuition fee in 2017.

K-12 schools

Net revenues from our K-12 schools segment increased from RMB 232.4 million in 2017 to RMB 277.8 million (US$ 40.4 million) in 2018. The increase was primarily driven by increased student enrollment in K-12 schools for the 2017-2018 and 2018-2019 academic year.

Cost of revenues from our K-12 schools segment increased from RMB 152.5 million in 2017 to RMB 178.6 million (US$ 26.0 million) in 2018. The increase was primarily due to more supporting direct cost related to the increase in student enrollment and an increase in performance-based compensation for teaching faculties in 2018.

Gross profit as a percentage of our net revenues from our K-12 schools segment was 34.4% in 2017 and 35.7% in 2018. The change in the gross profit margin was not significant.

Career enhancement

Net revenues from our career enhancement segment increased from RMB 145.0 million in 2017 to RMB 200.5 million (US$ 29.2 million) in 2018. The increase was mainly caused by the revenue generated by Bay State College.

Cost of revenues in our career enhancement segment increased from RMB 70.5 million in 2017 to RMB 125.5 million (US$ 18.3 million) in 2018, which was in line with the increase in revenue.

Gross profit as a percentage of our net revenues from our career enhancement segment was 51.4% in 2017 and 37.4% in 2018. The decrease in gross margin was mainly due to the lower profit margin at Bay State College, as the Company is in the process of consolidating its business operation.

Others

Net revenues from our others segment was RMB 11.2 million in 2017 and RMB 6.4 million (US$ 0.9 million) in 2018. The decrease was mainly due to fewer contracts were implemented in 2018.

Cost of revenues in our others segment was RMB 7.0 million in 2017 and RMB 6.2 million (US$ 0.9 million) in 2018. The change was not significant.

Gross profit as a percentage of our net revenues from our others segment was 37.4% and 2.7% in 2017 and 2018, respectively. The decrease of gross profit was mainly due to less revenues in 2018.

Year ended December 31, 2017 compared with year ended December 31, 2016

Tutoring

Net revenues from our tutoring segment increased from RMB 48.0 million in 2016 to RMB 55.4 million (US$ 8.5 million) in 2017. The increase was primarily due to the recognition of tuition fee which the prior years' courses were expired.

Cost of revenues from our tutoring segment decreased from RMB 33.5 million in 2016 to RMB 26.4 million (US$ 4.1 million) in 2017. The decrease was mainly due to our effort to re-establish a solid foundation for future growth by suspension of non-performing businesses.

Gross profit as a percentage of our net revenues from our tutoring segment was 30.3% in 2016 and 52.3% in 2017. The increase was mainly due to the recognition of tuition fee which the prior years' courses were expired.

K-12 schools

Net revenues from our K-12 schools segment increased from RMB 222.6 million in 2016 to RMB 232.4 million (US$ 35.7 million) in 2017. The increase was primarily driven by increased student enrollment in two K-12 schools for the 2016-2017 academic year from the fall semester in 2016.

Cost of revenues from our K-12 schools segment increased from RMB 137.8 million in 2016 to RMB 152.5 million (US$ 23.4 million) in 2017. The increase was primarily due to more supporting direct cost related to the increase in student enrollment and an increase in performance-based compensation for teaching faculties in 2017.

Gross profit as a percentage of our net revenues from our K-12 schools segment was 38.1% in 2016 and 34.4% in 2017. The decrease in the gross profit margin was mainly due to an increase in performance-based compensation for teaching faculties in 2017.

Career enhancement

Net revenues from our career enhancement segment increased from RMB 141.4 million in 2016 to RMB 145.0 million (US$ 22.3 million) in 2017. The increase was mainly caused by revenue of Bay State College after it was acquired by the Company in 2017.

Cost of revenues in our career enhancement segment increased from RMB 67.4 million in 2016 to RMB 70.5 million (US$ 10.8 million) in 2017, which was not significant.

Gross profit as a percentage of our net revenues from our career enhancement segment was 52.3% in 2016 and 51.4% in 2017. The change in gross margin was not significant.

Others

Net revenues from our others segment was RMB 11.2 million (US$ 1.7 million) in 2017.

Cost of revenues in our others segment was RMB 7.0 million (US$ 1.1 million) in 2017.

Gross profit as a percentage of our net revenues from our others segment was 37.4% in 2017.

B. Liquidity and Capital Resources

As of December 31, 2018, our consolidated current liabilities exceeded our consolidated current assets by approximately RMB 89.7 million as of December 31, 2018. Our consolidated net assets were amounting to RMB 262.8 million as of December 31, 2018. In addition, we have lease commitment of RMB 170.6 million as of December 31, 2018, of which RMB 35.3 million was within one year. Our operating results for future periods are subject to numerous uncertainties and it is uncertain if we will be able to maintain a net income position for the foreseeable future. If management is not able to increase revenue and/or manage operating expenses in line with revenue forecasts, we may not be able to achieve profitability.

Our principal sources of liquidity have been cash provided by operating activities. As of December 31, 2018, we had RMB 211.4 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. As of December 31, 2018, we had RMB 196.3 million in unrestricted cash and cash equivalents from VIEs.

We had approximately RMB 47.2 million and RMB 70.0 million short term investments, available for sale and short term investments, held to maturity as of December 31, 2018, which was held as short-term investments to be liquid on the expiration date before the end of 2019.

Historically, we have addressed liquidity requirements through a series of cost reduction initiatives, debt borrowings and the sale of subsidiaries and other non-performing assets. In 2018 we successfully completed our public offering of 2,070,000 ADSs at US$4.25 per ADS, and received net proceeds of RMB 45.4 million (US$ 7.1 million) after deducting underwriting discounts and commissions and offering expenses. From 2018 and onwards, we are focusing on the development of core cash-generating business. If a subsidiary requires continuous cash in operations instead of generating cash, we would rather close it or sell it. In 2018, our new business plan has adjusted to focus on enhancing current business, improving operation efficiency and profitability, and enhancing its internal control procedures. Actions include initiating a career-oriented Cross-Border College Program, expanding Financial Share Service Centers across the Group wide and standardizing our Finance and Operation Policies throughout the Group; implementing enhanced vendor review and selection processes as well as implementing ERP systems to standardize operations, enhance internal controls on payable management, create synergy of our resources, and put forward efforts to pursue historical receivables.

We believe that available cash and cash equivalents, short term investments, available for sale and short term investments, held to maturity, cash provided by operating activities, together with cash available from the activities mentioned above, should enable us to meet presently anticipated cash needs for at least the next 12 months after the date that the financial statements are issued and we have prepared the consolidated financial statements on a going concern basis. However, we continue to have ongoing obligations and we expect that we will require additional capital

in order to execute our longer-term business plan. If we encounter unforeseen circumstances that place constraints on our capital resources, management will be required to take various measures to conserve liquidity, which could include, but not necessarily be limited to, initiating additional public offerings, curtailing our business development activities, suspending the pursuit of our business plan, controlling overhead expenses and seeking to further dispose of non-core assets. Management cannot provide any assurance that we will raise additional capital if needed.

Condensed summary of our cash flows

	For the Years Ended December 31,			
	2016	2017	2018	2018
	RMB	RMB	RMB	US$
	(in thousands)			
Net cash provided by operating activities	17,535	20,210	25,445	3,699
Net cash used in investing activities	(65,218)	(61,078)	(28,520)	(4,148)
Net cash (used in)/provided by financing activities	(1,504)	39,205	46,872	6,817
Effects of exchange rate changes on cash, cash equivalents and restricted cash	84	66	58	11
Net change in cash, cash equivalents and restricted cash	(49,103)	(1,597)	43,855	6,379
Cash, cash equivalents and restricted cash at beginning of year	248,353	199,250	197,653	28,747
Cash, cash equivalents and restricted cash at end of year	199,250	197,653	241,508	35,126

Operating activities

Net cash provided by operating activities amounted to RMB 25.4 million (US$ 3.7 million) in the year ended December 31, 2018, as compared to net cash provided by operating activities of RMB 20.2 million in the year ended December 31, 2017 and net cash provided by operating activities of RMB 17.5 million in the year ended December 31, 2016.

Net cash provided by operating activities in the year ended December 31, 2018 was primarily attributable to net income of RMB 44.9 million (US$ 6.5 million), depreciation and amortization of RMB 26.3 million (US$ 3.8 million), share-based compensation expense of RMB 8.1 million (US$ 1.2 million), a decrease in accounts receivables of RMB 1.8 million (US$ 0.3 million), an increase in income tax payable of RMB 5.2 million (US$ 0.7 million), an increase in deferred revenue of RMB 9.7 million (US$ 1.4 million), partially offset by reversal of bad debt provision of RMB 5.6 million (US$ 0.8 million), and increase in other non-current assets of RMB 3.2 million (US$0.5 million), a decrease in accrued and other liabilities of RMB 29.4 million (US$ 4.3 million), a decrease in accounts payable of RMB 7.9 million (US$ 1.1 million), a gain from deregistration of subsidiaries of RMB 2.9 million (US$ 0.4 million), a gain from derecognition of liabilities of RMB 15.2 million (US$ 2.2 million), a gain from fair value change of contingent consideration payable of RMB 5.4 million (US$ 0.8 million), an increase in prepaid and other current assets of RMB 6.8 million (US$ 1.0 million), and a deferred income tax of RMB 2.2 million (US$ 0.3 million).

Net cash provided by operating activities in the year ended December 31, 2017 was primarily attributable to net income of RMB 45.9 million (US$ 7.1 million), depreciation and amortization of RMB 22.7 million (US$ 3.5 million), share-based compensation expense of RMB 4.6 million (US$ 0.7 million), bad debt provision of RMB 5.1 million (US$ 0.8 million), a decrease in prepaid and other current assets of RMB 20.1 million (US$ 3.1 million), an increase in accounts payable of RMB 4.3 million (US$ 0.7 million), an increase in deferred revenue of RMB 3.4 million (US$ 0.5 million), an increase in amount due from related parties of RMB 1.5 million (US$ 0.2 million) and an increase in income tax payable of RMB 10.8 million (US$ 1.7 million), partially offset by an increase in accounts receivables of RMB 10.3 million (US$ 1.6 million), an increase in other non-current assets of RMB 5.8 million (US$ 0.9 million), an increase in accrued and other liabilities of RMB 38.1 million (US$ 5.9 million), an increase in amounts due to related parties of RMB 4.2 million (US$ 0.7 million), a disposal gain from subsidiaries of RMB 38.1 million (US$ 5.9 million) and a deferred income tax of RMB 2.1 million (US$ 0.3 million).

Investing activities

Net cash used in investing activities amounted to RMB 28.5 million (US$ 4.1 million) in the year ended December 31, 2018 as compared to RMB 61.1 million net cash outflow in the year ended December 31, 2017 and RMB 65.2 million net cash inflow in the year ended December 31, 2016.

Net cash used in investing activities in the year ended December 31, 2018 was mainly attributable to purchase of available-for-sale investments of RMB 222.0 million (US$ 32.3 million), purchase of held-to-maturity investments of RMB 671.0 million (US$ 97.6 million), payment as result of disposal of subsidiaries RMB 112.0 million (US$ 16.3 million), purchase of other non-current assets of RMB 1.6 million (US$ 0.2 million), purchase of property and equipment of RMB 8.8 million (US$ 1.3 million), and prepayment for leasehold improvement of RMB 9.9 million (US$ 1.4 million), partially offset by proceed from available-for-sale investments of RMB 303.0 million (US$ 44.1 million) and proceed from held-to-maturity investments of RMB 694.0 million (US$ 100.9 million).

Net cash used in investing activities in the year ended December 31, 2017 was mainly attributable to purchase of available-for-sale investments of RMB 241.2 million (US$ 37.1 million), purchase of held-to-maturity investments of RMB 558.7 million (US$ 85.9 million), increase in loan receivable of RMB 42.7 million (US$ 6.6 million), purchase of property and equipment of RMB 7.7 million (US$ 1.2 million), purchase of intangible assets of RMB 1.1 million (US$ 0.2 million), purchase of subsidiaries, net of cash acquired of RMB 7.6 million (US$ 1.2 million), prepayment for purchase of minority interest of RMB 4.5 million (US$ 0.7 million), proceeds from disposal of subsidiaries, net of cash balance at disposed entities of RMB 4.3 million (US$ 0.7 million) and prepayment for leasehold improvement of RMB 13.3 million (US$ 2.0 million), partially offset by proceed from available-for-sale investments of RMB 284.4 million (US$ 43.7 million), proceed from held-to-maturity investments of RMB 530.4 million (US$ 81.5 million) and purchase of subsidiaries, contingent consideration of RMB 6.8 million (US$ 1.0 million).

Financing activities

Our financing activities consist primarily of issuance of ordinary shares and minority shareholder capital injection. Net cash provided by financing activities amounted to RMB 46.9 million (US$ 6.8 million) in the year ended December 31, 2018, as compared to net cash provided amounted to RMB 39.2 million in the year ended December 31, 2017 and net cash used of RMB 1.5 million in the year ended December 31, 2016.

Net cash provided by financing activities in the year ended December 31, 2018 was attributable to proceeds from issuance of ordinary shares, net of expenses amounted to RMB 45.4 million (US$ 6.6 million) and proceeds from minority shareholder capital injection amounted to RMB 1.5 million (US$ 0.2 million).

Net cash provided by financing activities in the year ended December 31, 2017 was attributable to proceeds from long-term borrowings amounted to RMB 39.2 million (US$ 6.0 million).

Short-term and Long-term borrowings

During 2016 and 2017, we and our affiliated entities entered into various loan agreements in the aggregate amount of nil and long-term borrowing of US$ 6.0 million (RMB 39.2 million) with terms more than one year, respectively. By December 31, 2018, the borrowing of US$ 6.0 million would mature within one year and was reclassified as short-term borrowing in amount of RMB 41.2 million.

Short-term and long-term borrowings consisted of the following:

		As of December 31		
		2016	2017	2018
		RMB	RMB	RMB
	Maturities	(In thousands)		
Long-term and short-term borrowings from third party	April 2019	-	39,205	41,179

The weighted average interest rate of the borrowings outstanding was nil per annum as of December 31, 2017 and 2018. The fair values of the borrowings approximate their carrying amounts. The weighted average borrowings for the years ended December 31, 2017 and 2018 was RMB 29.1 million and RMB 41.2 million, respectively.

The borrowings incurred interest expenses were nil for the years ended December 31, 2016, 2017 and 2018. There was neither capitalization as additions to construction in progress nor guarantee fees for each of three years ended December 31, 2018.

Capital expenditures

Our capital expenditures were RMB 78.4 million, RMB 7.7 million and RMB 8.8 million (US$ 1.3 million) in the fiscal years ended December 31, 2016, 2017 and 2018, respectively. These capital expenditures were incurred primarily for investments in property, facilities, equipment and technology.

Holding company structure

We conduct our operations primarily through our wholly-owned subsidiary in China, Ambow Shengying, Ambow Chuangying, IValley Beijing and their 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 Shengying, Ambow Chuangying, Ambow Education Management and fees paid by Ambow Sihua, Ambow Shanghai, Ambow Shida, Ambow Rongye, IValley and Ambow Zhixin and their subsidiaries to Ambow Shengying, Ambow Chuangying and Ambow Education Management for sales of services and products. Fees paid by

VIEs and subsidiaries are mainly for sales of services. The aggregate amount that VIEs and subsidiaries had paid to Ambow Shengying, Ambow Chuangying and Ambow Education Management were insignificant for the reporting period, and the aggregate amount of fees payable from the VIE and subsidiaries to Ambow Shengying, Ambow Chuangying and Ambow Education Management were insignificant for the reporting period.

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, Ambow Shida, Ambow Rongye and Ambow Zhixin 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. Pursuant to an amendment to The Law for Promoting Private Education on November 7, 2016, which will go into effect on September 1, 2017, sponsors of for-profit private schools are entitled to retain the profits from their schools and the operating surplus may be allocated to the sponsors pursuant to the PRC company law and other relevant laws and regulations. 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 standards

See Capital expenditures (ee) of Notes to consolidated financial statements for recent accounting standards that could have an effect on us.

C. Research and Development, Patents and Licenses

We have an in-house research and development team with 29 full-time software and educational professionals as of December 31, 2018 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 and career enhancement centers into our qualified content database and then introduce it to our nationwide student user base. In 2016, 2017 and 2018, we spent RMB 7.6 million, RMB 6.3 million and RMB 1.5 million (US$ 0.2 million), respectively, on research and development expenses.

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.

There were no new off-balance sheet arrangements as of December 31, 2017 and 2018.

F. Contractual Obligations

The following table presents a summary of our contractual obligations and payments, by period, as of December 31, 2018.

	Payments Due by Period				
	Total	Less than 1 Year	1-3 Years	4-5 Years	More than 5 Years
	RMB	RMB	RMB	RMB	RMB
	(in millions)				
Operating lease obligations	170.6	35.3	46.7	27.7	60.9

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, 2018.

Name	Age	Position	Class	Nationality	Residence
Jin Huang	53	President, Chief Executive Officer and Chairman of the Board	Class III	United States	China
Kia Jing Tan	46	Chief Financial Officer	N/A	Malaysia	China
Xuejun Xie	53	Vice President, Public Relationship and legal affairs	N/A	China	China
Jianguo Xue	53	Vice President, Sales	N/A	China	China
Chiao-Ling Hsu	49	Chief Operating Officer	N/A	Taiwan	China
Yanhui Ma(1)(2)	59	Director	Class III	United States	United States
Yigong Justin Chen (1)	49	Director	Class I	China	China
Ping Wu (1)(2)	54	Director	Class II	China	China
John Robert Porter	66	Director	Class II	United Kingdom	United Kingdom

(1) Member of the audit committee

(2) Member of the compensation 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 Jing Tan was further promoted to the position of Acting Chief Financial Officer. In May 2015, Kia Jing Tan has started to serve as our Chief Finance Officer of Ambow Education Group. 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 Fellow Chartered Accountant with the Institute of Singapore Chartered Accountants and Fellow Certified Practicing Accountant (CPA) with CPA Australia.

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.

Chiao-Ling Hsu has served as our Chief Operating Officer in June 2015. Ms. Hsu has over 15 years of operating and management experience in the education industry. Since 2011, she has served as Chief Executive Officer of Hwa Kang Foundation, and as Executive Director of the Innovative Biz Group in the School of Continuing Education (SCE) at Chinese Culture University in Taipei. From 2012 to 2014, Ms. Hsu also was Vice Chairperson at the Center For Credentialing & Education in Greensboro, North Carolina in the United States. Previously, Ms. Hsu held several positions in the SCE at Chinese Culture University, including Chief Operating Office, Director of the Customer Contact Center, and Director of the E-learning Development Center. Ms. Hsu is a graduate of Chinese Culture University, and also holds a Master of Business Education from New York University.

Yanhui Ma 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.

Justin Chen has served as 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 lowa, 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 lowa in 1995 and 1998, respectively.

Ping Wu has served as 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.

John Robert Porter has served as a member of our board of directors since May 2014. Mr. Porter is a non-executive director of the company. Mr. Porter is also a director of CEIHL. Mr. Porter is an English 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.

The business address of each of our executive officers and directors is Ambow Education Holding Ltd., 12th Floor, Tower 1, Financial Street, Chang'an Center, Shijingshan District, Beijing 100043, 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 2018, the aggregate cash compensation that we paid to our executive officers as a group was RMB 3.0 million (US$ 0.4 million), which includes bonuses, salaries and other benefits that were earned in 2017 and paid in 2018. During 2018, the aggregate cash compensation paid to our non-employee directors was RMB 0.3 million (US$ 0.04 million). 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, 2017 and 2018, options granted to employees to purchase 223,895 and nil shares of ordinary shares and to non-employees to purchase 29,921 and nil shares of ordinary shares were outstanding, and options to purchase 941,978 and nil ordinary shares were still available for future grants.

On October 14, 2014, the Board of Directors granted restricted stock to each non-executive member of the Board. The number of shares of restricted stock subject to each award was determined by dividing US$ 200 by the Cayman Court approved price US$ 1.480 per share of the Group’s ordinary shares on May 14, 2014. Total numbers of shares of restricted stock were 811,359. The awards vested at a rate of 1/36 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. As of December 31, 2017, these awards of restricted stock were fully vested, with 15,027 shares of restricted stock vested but not issued. Please refer to Note 16 to consolidated financial statements.

On May 18, 2015, the Board of Directors granted 86,473 shares of the restricted stock to existing employees whose old options have expired by their terms. All restricted stock subject to this award shall fully vest as of May 18, 2015. As of December 31, 2016, these awards of restricted stock were fully vested, with 19,935 shares of restricted stock vested but not issued.

On May 18, 2015, the Board of Directors granted 510,000 shares of the restricted stock to employees and new hires. Twenty-five percent of the awards shall vest on the one year anniversary of the grant date, and the remainder shall vest in equal and continuous monthly installments over the following thirty-six months thereafter, subject to participant's continuing service through each vesting date. In 2017 and 2018, 127,500 and 116,291 shares of restricted stock were vested respectively, with 122,353 and 116,291 of the vested shares separately issued to the board members in 2017 and 2018.

On November 22, 2018, the Board of Directors approved to convert 293,059 outstanding and expired options with an exercise price of US$0.4749 into 293,059 shares of restricted stock. All restricted stock subject to this award shall fully vest as of November 22, 2018.

On November 22, 2018, the Board of Directors approved to grant 200,000 shares of the restricted stock to senior employees of the Company. Twenty-five percent of the awards shall vest on the one year anniversary of the vesting commence date, and the remainder shall vest in equal and continuous monthly installments over the following thirty-six months thereafter, subject to participant's continuing service of the Company through each vesting date. During 2018, nil shares of restricted stock were vested.

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.

"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.

"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 registerable 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.

Equity-based compensation plans

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 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.

Amended and Restated 2010 Equity Incentive Plan

On December 21, 2018, the Group amended and restated the 2010 Plan, or the "Amended and Restated 2010 Plan", which became effective upon the approval of the shareholders at the Annual Meeting of Shareholders on December.

Share reserve . The maximum aggregate number of our ordinary shares that may be issued under our Amended and Restated 2010 Equity Incentive Plan is such number of shares as shall be equal to 6,500,000 Class A Ordinary Shares, plus any shares that subject to stock options or similar 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 converted by the company, with the maximum number of shares to be added to the Amended and Restated 2010 Equity Incentive Plan equal to 293,059 Class A Ordinary Shares. In addition, our Amended and Restated 2010 Equity Incentive Plan provides for increases in the number of shares available for issuance thereunder on the closing day of each future registration before the fiscal years ending December 31, 2020, in the amount equal to 15% of the Class A Ordinary Shares issued in each registration.

Shares issued pursuant to awards under the Amended and Restated 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 Amended and Restated 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 Amended and Restated 2010 Equity Incentive Plan. As of December 31, 2018, the Group granted up to 1,905,222 Class A Ordinary Shares of the company to its employees, outside directors and consultants.

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Administration . Our board of directors or a committee of our board of directors administers our Amended and Restated 2010 Equity Incentive Plan. Different committees with respect to different groups of service providers may administer our Amended and Restated 2010 Equity Incentive Plan. Subject to the provisions of our Amended and Restated 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 Amended and Restated 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 Amended and Restated 2010 Equity Incentive Plan. The exercise price of options granted under our Amended and Restated 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.

Share appreciation rights . Share appreciation rights may be granted under our Amended and Restated 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 Amended and Restated 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 Amended and Restated 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 Amended and Restated 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 Amended and Restated 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.

Transferability . Unless the administrator provides otherwise, our Amended and Restated 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 Amended and Restated 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 Amended and Restated 2010 Equity Incentive Plan provides that in the event of our merger or change in control, as defined in the Amended and Restated 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 without the prior written consent of the participant, 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 Amended and Restated 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.

On June 26, 2015, we made an exchange offer to our employees to exchange all outstanding options to purchase shares of Ambow's Class A Ordinary Shares granted under our 2005 Stock Plan and granted on or prior to November 19, 2011 under our 2010 Equity Incentive Plan, that have an exercise price per share greater than $0.4749 ("Eligible Options"), which price is based upon the 30 days' average trading price of the company's Class A Ordinary Shares as of May 11, 2015, as approved by the company's board members, for new options to be issued under our 2010 Equity Incentive plan with following terms:

- Each Eligible Options would be exchanged, on a one-for-one basis, for the grant of a new option to purchase shares of Ambow's Class A Ordinary Shares under the 2010 Equity Incentive Plan ("New Option");

- Each New Option would be issued under the 2010 Equity Incentive Plan and would have an exercise price equal to $0.4749, which price is based upon the 30 days' average trading price of the company's Class A Ordinary Shares as of May 11, 2015; and

- Each New Option would have a vesting schedule that was the same as the Eligible Option. Any Eligible Options that have already vested would be exchanged for New Options that were immediately vested. Vesting of New Options is conditioned on the continued employment of the employees with us through each applicable vesting date.

The following table summarizes, as of December 31, 2018, the share options and other equity awards granted to our executive officers under our Amended and Restated 2010 Equity Incentive Plan or pursuant to other arrangements approved by our board of directors, after the reverse share split on August 17, 2015:

Name	Ordinary Shares Underlying Options Granted & Restricted Shares		Date of Grant (original)	Date of Grant (New)	Date of Expiration
Dr. Jin Huang	(1)	*	02/25/10	11/22/18	—
Tan Kia Jing	(1)	*	02/10/09	11/22/18	—
	(1)	*	02/25/10	11/22/18	—
	(1)	*	02/25/11	11/22/18	—
Xuejun Xie	(1)	*	11/01/06	11/22/18	—
	(1)	*	08/26/08	11/22/18	—
	(1)	*	02/25/10	11/22/18	—
	(1)	*	—	05/18/15	—
Jianguo Xue	(1)	*	08/26/08	11/22/18	—
	(1)	*	02/25/10	11/22/18	—
	(1)	*	—	05/18/15	—
Chiao-Ling Hsu	(1)	*	—	05/18/15	—

*Less than 1% of the outstanding ordinary shares

(1) Restricted shares

Our non-employee directors have received restricted shares.

Restricted Stock Awards

On October 14, 2014, the Board of Directors granted restricted stock to each non-executive member of the Board. The number of shares of restricted stock subject to each award was determined by dividing US$ 200 by the Cayman Court approved price US$ 1.480 per share of the Group's ordinary shares on May 14, 2014. Total numbers of shares of restricted stock were 811,359. The awards vested at a rate of 1/36 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. As of December 31, 2017, these awards of restricted stock were fully vested, with 15,027 shares of restricted stock vested but not issued. Please refer to Note 16 to consolidated financial statements.

On May 18, 2015, the Board of Directors granted 86,473 shares of the restricted stock to existing employees whose old options have expired by their terms. All restricted stock subject to this award shall fully vest as of May 18, 2015. As of December 31, 2016, these awards of restricted stock were fully vested, with 19,935 shares of restricted stock vested but not issued.

On May 18, 2015, the Board of Directors granted 510,000 shares of the restricted stock to employees and new hires. Twenty-five percent of the awards shall vest on the one year anniversary of the grant date, and the remainder shall vest in equal and continuous monthly installments over the following thirty-six months thereafter, subject to participant's continuing service through each vesting date. In 2017 and 2018, 127,500 and 116,291 shares of restricted stock were vested respectively, with 122,353 and 116,291 of the vested shares separately issued to the board members in 2017 and 2018.

On November 22, 2018, the Board of Directors approved to convert 293,059 options outstanding and expired with an exercise price of US$0.4749 into 293,059 shares of restricted stock. All restricted stock subject to this award shall fully vest as of November 22, 2018.

On November 22, 2018, the Board of Directors approved to grant 200,000 shares of the restricted stock to senior employees of the Company. Twenty-five percent of the awards shall vest on the one year anniversary of the vesting commence date, and the remainder shall vest in equal and continuous monthly installments over the following thirty-six months thereafter, subject to participant's continuing service of the Company through each vesting date. During 2018, nil shares of restricted stock were vested.

C. Board Practices

As of December 31, 2018, our board of directors consisted of five directors:

Dr. Jin Huang, Mr. Justin Chen, Mr. Ping Wu, Mr. John Porter and Dr. Yanhui Ma. Our directors are elected for three year terms. Mr. Ralph Parks who previously served on our board, decided not to stand for re-election as a Class I director at the Annual Meeting of Shareholders on December 21, 2018.

We believe that each of the non-executive members of our board of directors, other than Mr. Porter, 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 Sixth Amended and Restated 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.

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.

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**
Yigong Justin Chen	Ping Wu	Jin Huang
	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.

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 and 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 have a separate nominating and corporate governance committee of the board. Our full board of directors will perform the functions performed by such committee.

Audit committee

Our audit committee consists of Yigong Justin Chen, Ping Wu and Yanhui Ma, each of whom meets the independence standards of the NYSE and the SEC. Yigong Justin Chen is the Chairperson of our audit committee. Mr. Yanhui Ma serves as our audit committee financial expert. 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.

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, 2018, we and our subsidiaries had 1,881 full-time employees, and 1,567 part-time employees, respectively. As of December 31, 2018, we had the following numbers of full-time employees by department: 236 in selling and marketing, 589 in general and administrative functions, 29 in research and development, and 1,027 teachers. None of our employees are represented by collective bargaining arrangements. We consider our relations with our employees to be good.

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E. Share Ownership

The following table sets forth, as of February 28, 2019, certain information concerning the beneficial ownership of the Class A Ordinary Shares and Class C Ordinary Shares by (i) each shareholder known by the company to own beneficially five percent or more of the outstanding Class A Ordinary Shares and Class C Ordinary 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.

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. As of February 28, 2019, the percentage of beneficial ownership for holders of Class A ordinary shares is based on 38,582,702 Class A Ordinary Shares issued and outstanding and the percentage of beneficial ownership for holders of Class C ordinary shares is based on 4,708,415 Class C Ordinary Shares issued and outstanding, both of which classes of ordinary shares exclude unvested restricted shares. On all matters subject to vote at general meetings of the company, the holders of Class A ordinary shares are entitled to one vote per share and the holders of Class C ordinary shares are entitled to ten votes per share.

Unless otherwise indicated, the address of such individual is c/o Ambow Education Holding Ltd., 12th Floor, Tower 1, Financial Street, Chang'an Center, Shijingshan District, Beijing 100043, China .

	Shares beneficially owned					**Percentage of votes held**			
Name	**Number of Class A ordinary shares**	**Percentage of Class A ordinary shares (%)**	**Number of Class C ordinary shares**	**Percentage of Class C ordinary shares (%)**	**Number of total ordinary shares**	**Percentage of total ordinary shares (%)**	**Based on total Class A ordinary shares (%)**	**Based on total Class C ordinary shares (%)**	**Based on total ordinary shares (%)**
Directors and Executive Officers									
Jin Huang (2)(7)	638,012	1.65 %	4,708,415	100 %	5,346,427	12.35 %	1.65 %	100 %	55.71 %
Kia Jing Tan	-	-	-	-	-	-		-	-
Xuejun Xie	-	-	-	-	-	-	-	-	-
Jianguo Xue	-	-	-	-	-	-	-	-	-
Yigong Justin Chen	-	-	-	-	-	-	-	-	-

Ping Wu (3)	960,383	2.49	%	-	-	960,383	2.22	%	2.49	%	-	1.12 %
John Porter	999,205	2.59	%	-	-	999,205	2.31	%	2.59	%	-	1.17 %
Ralph Parks	-	-		-	-	-	-		-		-	-
Yanhui Ma	-	-		-	-	-	-		-		-	-
Chiao-Ling Hsu	-	-		-	-	-	-		-		-	-
All executive officers and directors of the company as a group (10 persons)(5)	4,126,024	10.69	%	4,708,415	100 %	8,834,439	20.41	%	10.69	%	100 %	59.78 %
5% and Greater Shareholders												
Investment entities affiliated with Baring Private Equity (6)	3,280,449	8.50	%	-	-	3,280,449	7.58	%	8.50	%	-	3.83 %
New Summit Global Limited	2,703,475	7.01	%	-	-	2,703,475	6.24	%	7.01	%	-	3.16 %
CEIHL Partners (I) Limited (4)	3,420,375	8.87	%	-	-	3,420,375	7.90	%	8.87	%	-	3.99 %
CEIHL Partners (II) Limited (4)	11,144,636	28.89	%	-	-	11,144,636	25.74	%	28.89	%	-	13.01 %
New Flourish Holdings Limited (8)	928,562	2.40	%	4,288,415	91.08 %	5,216,977	12.05	%	2.40	%	91.08 %	51.14 %
Spin-Rich Ltd. (9)	-	-		420,000	8.92 %	420,000	0.97	%	-		8.92 %	4.9 %

Note: Shares less than 1% of outstanding shares were not shown.

(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) Of the 638,012 Class A Ordinary Shares (i) 573,914 of the Class A Ordinary Shares are owned by New Flourish Holdings Limited for the benefit of certain officers of the Company, and (ii) 64,098 of the Class A Ordinary Shares are owned directly by Dr. Huang. Dr. Huang as the sole director of New Flourish has voting control and investment power over the Class A Ordinary Shares held by New Flourish, but disclaims beneficial ownership over such shares.

(3) The Class A Ordinary Shares are held by SummitView Investment Fund I, L.P. and Changzhou SummitView Venture Fund, LLP. Mr. Wu disclaims beneficial ownership of all shares held by SummitView Investment Fund I, L.P. and Changzhou SummitView Venture Fund LLP., 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. Pan Jianyue is the general partner of CEIHL Partners (I) Limited and CEIHL Partners (II) Limited (collectively "CEIHL"). CEIHL Partners (I) Limited holds 3,420,375 Class A Ordinary Shares and CEIHL Partners (II) Limited holds 11,144,636 Class A Ordinary Shares. As the general partner of CEIHL Partners (I) Limited and CEIHL Partners (II) Limited, Mr. Pan Jianyue has sole voting and dispositive power over the Class A Ordinary Shares held by CEIHL.

(5) Includes Class A Ordinary Shares, Class C Ordinary Shares and options to purchase Class A Ordinary Shares held by all of our directors and executive officers as a group.

(6) Consists of 2,899,881 Class A Ordinary Shares held by Baring Private Equity Asia V Holding (4) Limited, and 380,568 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 3,280,449 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 3,280,449 Class A Ordinary Shares. The Baring Asia Private Equity Fund V, L.P., The Baring Asia Private Equity Fund V 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, Ugland 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 3,280,449 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.

(7) Of the 4,708,415 Class C Ordinary Shares (i) 4,288,415 of the Class C Ordinary Shares are owned by New Flourish Holdings Limited ("New Flourish") for the benefit of Dr. Jin Huang, and (ii) 420,000 of the Class C Ordinary Shares are owned by Spin Rich Ltd.. Dr. Huang as the sole director of New Flourish has voting control and investment power over the Class C Ordinary Shares held by New Flourish.

(8)

Dr. Jin Huang, as the sole director of New Flourish has voting control and investment power over the Class A Ordinary Shares and the Class C Ordinary Shares owned by New Flourish. Dr. Huang disclaims beneficial ownership over the Class A Ordinary Shares, which are held for the benefit of certain officers of the Company.

(9) Dr. Jin Huang has sole voting control and investment power over Class C Ordinary Shares owned by Spin Rich Ltd.

Three shareholders of the VIEs, namely Xuejun Xie, Gang Huang and Jianguo Xue are also beneficial owners of the company. As of February 28, 2019, 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 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.

As of February 28, 2019, approximately 43,291,117 of our ordinary shares were issued and outstanding. Citibank, N.A., the depositary, has advised us that, as of February 28, 2019, 4,790,616 ADRs, representing 9,581,232 underlying ordinary shares were outstanding. The number of beneficial owners of our ADR 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 and career enhancement training centers. These contractual arrangements enable us to:

- 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 Education Management, Ambow Shengying and Ambow Chuangying 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.

See "Item 4.C — Information on the Company — Organizational Structure" for a summary of these contractual arrangements.

As of December 31, 2018, we had RMB 1.1 million due from certain related party and owed RMB 2.7 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, 2016, 2017 and 2018, see Note 23 to consolidated financial statements. We do not believe that such transactions with the related parties require approval from the government.

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

We entered into a registration rights agreement with Campus, Dr. Huang and Spin-Rich Ltd., which entitles them to certain registration rights, including demand registration rights, Form F-3 registration rights, and piggyback registration rights.

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. On May 24, 2018, Changsha Yaxing Real Estate Development Co., Ltd. (“Changsha Yaxing”) filed a claim to Hunan Provincial High Court, against Shida Ambow, Ambow Chuangying and Changsha K-12 to seek indemnification for Changsha K-12 equity transfer consideration. In July 2018 Hunan Provincial Court ruled to freeze the bank account of Shida Ambow. As of December 31, 2018, Shida Ambow’s cash in bank amounting to RMB 27.7 million was frozen. Shida Ambow filed an objection of jurisdiction to Hunan Provincial High Court in July 2018. In September 2018 Hunan Provincial High Court overruled the objection of jurisdiction. The Group has appealed to the Supreme Court of PRC. The Supreme Court of PRC accepted the appeal in Februrary 2019 and assigned the case to

the First Circuit Court of the Supreme Court. The Company believes that it was too early to make an estimate of result.

As of December 31, 2018, we did not have any other significant indemnification claims that were probable or reasonably possible.

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.

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 depositary 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 “Item 9. The Offer and Listing—C. Markets.”

B. Plan of Distribution

Not applicable.

C. Markets

Our ADSs (each representing two Class A Ordinary Shares) currently trade in the NYSE American under the symbol “AMBO”.

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.

B. Memorandum and Articles of Association

Our Sixth Amended and Restated Memorandum and Articles of Association were adopted by our shareholders at an extraordinary general meeting held on June 30, 2015. A copy of the Sixth Amended and Restated Memorandum and Articles of Association are incorporated by reference to Exhibit 99.1 of our 6-K filed with the Commission on June 4, 2015.

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.

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.

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People's Republic of China taxation

The China EIT 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 implementation regulations for the EIT 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 EIT 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 EIT Law and implementation 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 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 China and other countries.

United States federal income taxation

General

The following are the material U.S. federal income tax consequences of the acquisition, ownership and disposition of the ADSs or ordinary shares. As used in this discussion, references to "we," "us" or "our" refer to Ambow Education Holding Ltd.

The discussion below of the U.S. federal income tax consequences to "U.S. Holders" will apply to a beneficial owner of the ADSs or ordinary shares that is for U.S. federal income tax purposes:

· an individual citizen or resident of the United States;

· a corporation (or other entity treated as a corporation) that is created or organized (or treated as created or organized) in or under the laws of the United States, any state thereof or the District of Columbia;

· an estate whose income is includible in gross income for U.S. federal income tax purposes regardless of its source; or

· a trust if (i) a U.S. court can exercise primary supervision over the trust's administration and one or more U.S. persons are authorized to control all substantial decisions of the trust, or (ii) it has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

A beneficial owner of the ADSs or ordinary shares that is described above is referred to herein as a "U.S. Holder." If a beneficial owner of the ADSs or ordinary shares is not described as a U.S. Holder and is not an entity treated as a partnership or other pass-through entity for U.S. federal income tax purposes, such owner will be considered a "Non-U.S. Holder." The material U.S. federal income tax consequences applicable specifically to Non-U.S. Holders are described below under the heading "Non-U.S. Holders."

This discussion is based on the Internal Revenue Code of 1986, as amended (the "Code"), its legislative history, Treasury regulations promulgated thereunder, published rulings and court decisions, all as currently in effect. These authorities are subject to change or differing interpretations, possibly on a retroactive basis.

This discussion does not address all aspects of U.S. federal income taxation that may be relevant to any particular holder based on such holder's individual circumstances. In particular, this discussion considers only holders that purchase ADSs pursuant to this offering and own and hold the ADSs or ordinary shares as capital assets within the meaning of Section 1221 of the Code, and does not address the potential application of the alternative minimum tax or the U.S. federal income tax consequences to holders that are subject to special rules, including:

· financial institutions or financial services entities;

· broker-dealers;

· persons that are subject to the mark-to-market accounting rules under Section 475 of the Code;

· tax-exempt entities;

· governments or agencies or instrumentalities thereof;

- insurance companies;
- regulated investment companies;
- real estate investment trusts;
- certain expatriates or former long term residents of the United States;
- persons that actually or constructively own 5% or more of our voting shares (including as a result of ownership of the ADSs);
- persons that acquired the ADSs or ordinary shares pursuant to an exercise of employee options, in connection with employee incentive plans or otherwise as compensation;
- persons that hold the ADSs or ordinary shares as part of a straddle, constructive sale, hedging, conversion or other integrated transaction;
- persons whose functional currency is not the U.S. dollar;
- passive foreign investment companies; or
- controlled foreign corporations.

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. This discussion also assumes that the ADSs will represent only ordinary shares in us and will not represent cash or any other type of property. For U.S. federal income tax purposes, a holder of the ADSs will be treated as the beneficial owner of the underlying ordinary shares represented by such ADSs. Accordingly, deposits or withdrawals of ordinary shares for ADSs will not be subject to U.S. federal income tax.

The U.S. Treasury has expressed concerns that parties to whom ADSs are pre-released may be taking actions that are inconsistent with the claiming, by U.S. Holders of ADSs, of foreign tax credits for U.S. federal income tax purposes. Such actions also would be inconsistent with the claiming of the reduced rate of tax applicable to dividends received by certain non-corporate U.S. Holders, as described below. Accordingly, the availability of foreign tax credits or the reduced tax rate for dividends received by certain non-corporate U.S. Holders could be affected by actions that may be

taken by parties to whom ADSs are pre-released, or by future actions of the U.S. Treasury Department.

This discussion does not address any aspect of U.S. federal non-income tax laws, such as gift or estate tax laws, or state, local or non-U.S. tax laws or, except as discussed herein, any tax reporting obligations applicable to a holder of the ADSs or ordinary shares. This discussion also does not address the tax treatment of any taxes, fees or expenses that may be payable by an ADS holder pursuant to the deposit Agreement. Additionally, this discussion does not consider the tax treatment of partnerships or other pass-through entities or persons who hold the ADSs or ordinary shares through such entities. If a partnership (or other entity classified as a partnership for U.S. federal income tax purposes) is the beneficial owner of the ADSs or ordinary shares, the U.S. federal income tax treatment of a partner in the partnership generally will depend on the status of the partner and the activities of the partnership. This discussion also assumes that any distribution made (or deemed made) to a holder in respect of the ADSs or ordinary shares and any consideration received (or deemed received) by a holder in connection with the sale or other disposition of the ADSs or ordinary shares will be in U.S. dollars.

We have not sought, and will not seek, a ruling from the Internal Revenue Service, (the “IRS”), or an opinion of counsel as to any U.S. federal income tax consequence described herein. The IRS may disagree with the description herein, and its determination may be upheld by a court. Moreover, there can be no assurance that future legislation, regulations, administrative rulings or court decisions will not adversely affect the accuracy of the statements in this discussion.

U.S. Holders

Taxation of Cash Distributions Paid on ADSs or Ordinary Shares

Subject to the passive foreign investment company (“PFIC”) rules discussed below, a U.S. Holder generally will be required to include in gross income as ordinary income the amount of any cash dividend paid on the ADSs or ordinary shares. A cash distribution on the ADSs or ordinary shares generally will be treated as a dividend for U.S. federal income tax purposes to the extent the distribution is paid out of our current or accumulated earnings and profits (as determined for U.S. federal income tax purposes). Such dividend generally will not be eligible for the dividends-received deduction generally allowed to U.S. corporations in respect of dividends received from other U.S. corporations. The portion of such cash distribution, if any, in excess of such earnings and profits will be applied against and reduce (but not below zero) the U.S. Holder’s adjusted tax basis in the ADSs or ordinary shares. Any remaining excess generally will be treated as gain from the sale or other taxable disposition of such ADSs or ordinary shares.

With respect to non-corporate U.S. Holders, any such cash dividends may be subject to U.S. federal income tax at the lower applicable regular long term capital gains tax rate (see "—Taxation on the Disposition of ADSs or Ordinary Shares" below) provided that (a) the ADSs or ordinary shares are readily tradable on an established securities market in the United States or, in the event we are deemed to be a PRC "resident enterprise" under the EIT Law, we are eligible for the benefits of the Agreement between the Government of the United States of America and the Government of the People's Republic of China for the Avoidance of Double Taxation and the Prevention of Tax Evasion with Respect to Taxes on Income (the "U.S.-PRC Tax Treaty"), (b) we are not a PFIC, as discussed below, for either the taxable year in which the dividend was paid or the preceding taxable year, and (c) certain holding period requirements are met. Therefore, if the ADSs or ordinary shares are not readily tradable on an established securities market in the United States, and we are not eligible for the benefits of the U.S. – PRC Tax Treaty, then cash dividends paid by us to non-corporate U.S. Holders will not be subject to U.S. federal income tax at the lower regular long term capital gains tax rate. Under published IRS authority, shares (including ADSs) are considered for purposes of clause (a) above to be readily tradable on an established securities market in the United States only if they are listed on certain exchanges, which presently include the NYSE American.

If a PRC income tax applies to any cash dividends paid to a U.S. Holder on the ADSs or ordinary shares, such tax may be treated as a foreign tax eligible for a deduction from such holder's U.S. federal taxable income or a foreign tax credit against such holder's U.S. federal income tax liability (subject to applicable conditions and limitations). In addition, if such PRC tax applies to any such dividends, such U.S. Holder may be entitled to certain benefits under the U.S.-PRC Tax Treaty, if such holder is considered a resident of the United States for purposes of, and otherwise meets the requirements of, the U.S.-PRC Tax Treaty. U.S. Holders should consult their own tax advisors regarding the deduction or credit for any such PRC tax and their eligibility for the benefits of the U.S.-PRC Tax Treaty.

Taxation on the Disposition of ADSs or Ordinary Shares

Upon a sale or other taxable disposition of the ADSs or ordinary shares, and subject to the PFIC rules discussed below, a U.S. Holder generally will recognize capital gain or loss in an amount equal to the difference between the amount realized and the U.S. Holder's adjusted tax basis in the ADSs or ordinary shares.

The regular U.S. federal income tax rate on capital gains recognized by U.S. Holders generally is the same as the regular U.S. federal income tax rate on ordinary income, except that long term capital gains recognized by non-corporate U.S. Holders generally are subject to U.S. federal income tax at a maximum regular rate of 20%. Capital gain or loss will constitute long term capital gain or loss if the U.S. Holder's holding period for the ADSs or ordinary shares exceeds one year. The deductibility of capital losses is subject to various limitations.

If a PRC income tax applies to any gain from the disposition of the ADSs or ordinary shares by a U.S. Holder, such tax may be treated as a foreign tax eligible for a deduction from such holder's U.S. federal taxable income or a foreign

tax credit against such holder's U.S. federal income tax liability (subject to applicable conditions and limitations). In addition, if such PRC tax applies to any such gain, such U.S. Holder may be entitled to certain benefits under the U.S.-PRC Tax Treaty, if such holder is considered a resident of the United States for purposes of, and otherwise meets the requirements of, the U.S.-PRC Tax Treaty. U.S. Holders should consult their own tax advisors regarding the deduction or credit for any such PRC tax and their eligibility for the benefits of the U.S.-PRC Tax Treaty.

Additional Taxes

U.S. Holders that are individuals, estates or trusts and whose income exceeds certain thresholds generally will be subject to a 3.8% Medicare contribution tax on unearned income, including, without limitation, dividends on, and gains from the sale or other taxable disposition of, the ADSs or ordinary shares, subject to certain limitations and exceptions. Under applicable regulations, in the absence of a special election, such unearned income generally would not include income inclusions under the qualified electing fund ("QEF"), rules discussed below under "Passive Foreign Investment Company Rules," but would include distributions of earnings and profits from a QEF. U.S. Holders should consult their own tax advisors regarding the effect, if any, of such tax on their ownership and disposition of the ADSs or ordinary shares.

Passive Foreign Investment Company Rules

A foreign (i.e., non-U.S.) corporation will be a PFIC if either (a) at least 75% of its gross income in a taxable year of the foreign corporation, including its pro rata share of the gross income of any corporation in which it is considered to own at least 25% of the shares by value, is passive income, or (b) at least 50% of its assets in a taxable year of the foreign corporation, ordinarily determined based on fair market value and averaged quarterly over the year, including its pro rata share of the assets of any corporation in which it is considered to own at least 25% of the shares by value, are held for the production of, or produce, passive income. Passive income generally includes dividends, interest, rents and royalties (other than certain rents or royalties derived from the active conduct of a trade or business), and gains from the disposition of passive assets.

Based on the expected composition (and estimated values) of the assets and the nature of the income of us and our subsidiaries, we do not expect to be treated as a PFIC for the current taxable year. However, our actual PFIC status for our current taxable year or any subsequent taxable year will not be determinable until after the end of such taxable year. Accordingly, there can be no assurance with respect to our status as a PFIC for our current taxable year or any subsequent taxable year.

If we are determined to be a PFIC for any taxable year (or portion thereof) that is included in the holding period of a U.S. Holder of the ADSs or ordinary shares, and the U.S. Holder did not make a timely QEF election for our first taxable year as a PFIC in which the U.S. Holder held (or was deemed to hold) the ADSs or ordinary shares, a QEF election along with a purging election, or a mark-to-market election, each as described below, such holder generally will be subject to special rules for regular U.S. federal income tax purposes with respect to:

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· any gain recognized by the U.S. Holder on the sale or other disposition of its ADSs or ordinary shares; and

· any "excess distribution" made to the U.S. Holder (generally, any distributions to such U.S. Holder during a taxable year of the U.S. Holder that are greater than 125% of the average annual distributions received by such U.S. Holder in respect of the ADSs or ordinary shares during the three preceding taxable years of such U.S. Holder or, if shorter, such U.S. Holder's holding period for the ADSs or ordinary shares).

Under these rules,

· the U.S. Holder's gain or excess distribution will be allocated ratably over the U.S. Holder's holding period for the ADSs or ordinary shares;

· the amount allocated to the U.S. Holder's taxable year in which the U.S. Holder recognized the gain or received the excess distribution or to the period in the U.S. Holder's holding period before the first day of our first taxable year in which we qualified as a PFIC will be taxed as ordinary income;

· the amount allocated to other taxable years (or portions thereof) of the U.S. Holder and included in its holding period will be taxed at the highest tax rate in effect for that year and applicable to the U.S. Holder; and

· the interest charge generally applicable to underpayments of tax will be imposed in respect of the tax attributable to each such other taxable year of the U.S. Holder.

In general, if we are determined to be a PFIC, a U.S. Holder may avoid the PFIC tax consequences described above with respect to the ADSs or ordinary shares by making a timely QEF election (or a QEF election along with a purging election). Pursuant to the QEF election, a U.S. Holder will be required to include in income its pro rata share of our net capital gains (as long term capital gain) and other earnings and profits (as ordinary income), on a current basis, in each case whether or not distributed, in the taxable year of the U.S. Holder in which or with which our taxable year ends if we are treated as a PFIC for that taxable year. A U.S. Holder may make a separate election to defer the payment of taxes on undistributed income inclusions under the QEF rules, but if deferred, any such taxes will be subject to an interest charge.

The QEF election is made on a shareholder-by-shareholder basis and, once made, can be revoked only with the consent of the IRS. A U.S. Holder generally makes a QEF election by attaching a completed IRS Form 8621 (Information Return by a Shareholder of a Passive Foreign Investment Company or Qualified Electing Fund), including the information provided in a PFIC annual information statement, to a timely filed U.S. federal income tax return for the taxable year to which the election relates. Retroactive QEF elections generally may be made only by filing a protective statement with such return and if certain other conditions are met or with the consent of the IRS.

In order to comply with the requirements of a QEF election, a U.S. Holder must receive certain information from us. Upon request from a U.S. Holder, we will endeavor to provide to the U.S. Holder no later than 90 days after the request such information as the IRS may require, including a PFIC annual information statement, in order to enable the U.S. Holder to make and maintain a QEF election. However, there is no assurance that we will have timely knowledge of our status as a PFIC in the future or of the required information to be provided.

If a U.S. Holder has made a QEF election with respect to the ADSs or ordinary shares, and the special tax and interest charge rules do not apply to such ADSs or ordinary shares (because of a timely QEF election for our first taxable year as a PFIC in which the U.S. Holder holds (or is deemed to hold) such ADSs or ordinary shares or a QEF election, along with a purge of the PFIC taint pursuant to a purging election, as described below), any gain recognized on the sale or other taxable disposition of such ADSs or ordinary shares generally will be taxable as capital gain and no interest charge will be imposed. As discussed above, for regular U.S. federal income tax purposes, U.S. Holders of a QEF generally are currently taxed on their pro rata shares of the QEF's earnings and profits, whether or not distributed. In such case, a subsequent distribution of such earnings and profits that were previously included in income generally should not be taxable as a dividend to such U.S. Holders. The adjusted tax basis of a U.S. Holder's ADSs or ordinary shares in a QEF will be increased by amounts that are included in income, and decreased by amounts distributed but not taxed as dividends, under the above rules. Similar basis adjustments apply to property if by reason of holding such property the U.S. Holder is treated under the applicable attribution rules as owning ADSs or ordinary shares in a QEF.

Although a determination as to our PFIC status will be made annually, an initial determination that we are a PFIC generally will apply for subsequent years to a U.S. Holder who held the ADSs or ordinary shares while we were a PFIC, whether or not we meet the test for PFIC status in those subsequent years. A U.S. Holder who makes the QEF election discussed above for our first taxable year as a PFIC in which the U.S. Holder holds (or is deemed to hold) the ADSs or ordinary shares, however, will not be subject to the PFIC tax and interest charge rules discussed above with respect to such ADSs or ordinary shares. In addition, such U.S. Holder will not be subject to the QEF inclusion regime with respect to such ADSs or ordinary shares for any of our taxable years that end within or with a taxable year of the U.S. Holder and in which we are not a PFIC. On the other hand, if the QEF election is not effective for each of our taxable years in which we are a PFIC and during which the U.S. Holder holds (or is deemed to hold) the ADSs or ordinary shares, the PFIC rules discussed above will continue to apply to such ADSs or ordinary shares unless the holder files on a timely filed U.S. federal income tax return (including extensions) a QEF election and a "purging election" to recognize under the rules of Section 1291 of the Code any gain that it would otherwise recognize if the U.S. Holder sold the ADSs or ordinary shares for their fair market value on the "qualification" date. The qualification date is the first day of our tax year in which we qualify as a QEF with respect to such U.S. Holder. The purging election can only be made if such U.S. Holder held the ADSs or ordinary shares on the qualification date. A purging election generally creates a deemed sale of such ADSs or ordinary shares at their fair market value. The gain recognized by the purging election generally will be subject to the special tax and interest charge rules treating the gain as an excess distribution, as described above. As a result of the purging election, the U.S. Holder generally will increase the adjusted tax basis in its ADSs or ordinary shares by the amount of gain recognized and will also have a

new holding period in its ADSs or ordinary shares for purposes of the PFIC rules.

Alternatively, if a U.S. Holder, at the close of its taxable year, owns ADSs or ordinary shares in a PFIC that are treated as marketable stock, the U.S. Holder may make a mark-to-market election with respect to such ADSs or ordinary shares for such taxable year. If the U.S. Holder makes a valid mark-to-market election for the first taxable year of the U.S. Holder in which the U.S. Holder holds (or is deemed to hold) the ADSs or ordinary shares and for which we are determined to be a PFIC, such holder generally will not be subject to the PFIC rules described above with respect to its ADSs or ordinary shares as long as such ADSs or ordinary shares continue to be treated as marketable stock. Instead, in general, the U.S. Holder will include as ordinary income each year that we are treated as a PFIC the excess, if any, of the fair market value of its ADSs or ordinary shares at the end of its taxable year over the adjusted tax basis in its ADSs or ordinary shares. The U.S. Holder also will be allowed to take an ordinary loss in respect of the excess, if any, of the adjusted tax basis of its ADSs or ordinary shares over the fair market value of its ADSs or ordinary shares at the end of its taxable year (but only to the extent of the net amount of previously included income as a result of the mark-to-market election). The U.S. Holder's adjusted tax basis in its ADSs or ordinary shares will be adjusted to reflect any such income or loss amounts, and any further gain recognized on a sale or other taxable disposition of the ADSs or ordinary shares in a taxable year in which we are treated as a PFIC will be treated as ordinary income. Special tax rules may also apply if a U.S. Holder makes a mark-to-market election for a taxable year after the first taxable year in which the U.S. Holder holds (or is deemed to hold) the ADSs or ordinary shares and for which we are treated as a PFIC.

The mark-to-market election is available only for stock that is regularly traded on a national securities exchange that is registered with the Securities and Exchange Commission, including the NYSE American, or on a foreign exchange or market that the IRS determines has rules sufficient to ensure that the market price represents a legitimate and sound fair market value. Commencing on June 1, 2018, our ADSs began trading on the NYSE American. U.S. Holders should consult their own tax advisors regarding the availability and tax consequences of a mark-to-market election with respect to the ADSs or ordinary shares under their particular circumstances.

If we are a PFIC and, at any time, have a foreign subsidiary that is classified as a PFIC, a U.S. Holder of the ADSs or ordinary shares generally should be deemed to own a portion of the shares of such lower-tier PFIC, and generally could incur liability for the deferred tax and interest charge described above if we receive a distribution from, or dispose of all or part of our interest in, or the U.S. Holder were otherwise deemed to have disposed of an interest in, the lower-tier PFIC. Upon request, we will endeavor to cause any lower-tier PFIC to provide to a U.S. Holder no later than 90 days after the request the information that may be required to make or maintain a QEF election with respect to the lower-tier PFIC. However, there is no assurance that we will have timely knowledge of the status of any such lower-tier PFIC or that we will be able to cause the lower-tier PFIC to provide the required information. A mark-to-market election generally would not be available with respect to such a lower-tier PFIC. U.S. Holders are urged to consult their own tax advisors regarding the tax issues raised by lower-tier PFICs.

A U.S. Holder that owns (or is deemed to own) ADSs or ordinary shares in a PFIC during any taxable year of the U.S. Holder may have to file an IRS Form 8621 (whether or not a QEF election or mark-to-market election is or has been made) with such U.S. Holder's U.S. federal income tax return and provide such other information as may be required by the U.S. Treasury Department.

The rules dealing with PFICs and with the QEF and mark-to-market elections are very complex and are affected by various factors in addition to those described above. Accordingly, U.S. Holders of the ADSs or ordinary shares should consult their own tax advisors concerning the application of the PFIC rules to the ADSs or ordinary shares under their particular circumstances.

Non-U.S. Holders

Cash dividends paid or deemed paid to a Non-U.S. Holder with respect to the ADSs or ordinary shares generally will not be subject to U.S. federal income tax unless such dividends are effectively connected with the Non-U.S. Holder's conduct of a trade or business within the United States (and, if required by an applicable income tax treaty, are attributable to a permanent establishment or fixed base that such holder maintains or maintained in the United States).

In addition, a Non-U.S. Holder generally will not be subject to U.S. federal income tax on any gain attributable to a sale or other taxable disposition of the ADSs or ordinary shares unless such gain is effectively connected with its conduct of a trade or business in the United States (and, if required by an applicable income tax treaty, is attributable to a permanent establishment or fixed base that such holder maintains or maintained in the United States) or the Non-U.S. Holder is an individual who is present in the United States for 183 days or more in the taxable year of such sale or other disposition and certain other conditions are met (in which case, such gain from U.S. sources generally is subject to U.S. federal income tax at a 30% rate or a lower applicable tax treaty rate).

Cash dividends and gains that are effectively connected with the Non-U.S. Holder's conduct of a trade or business in the United States (and, if required by an applicable income tax treaty, are attributable to a permanent establishment or fixed base that such holder maintains or maintained in the United States) generally will be subject to regular U.S. federal income tax at the same regular U.S. federal income tax rates as applicable to a comparable U.S. Holder and, in the case of a Non-U.S. Holder that is a corporation for U.S. federal income tax purposes, may also be subject to an additional branch profits tax at a 30% rate or a lower applicable tax treaty rate.

Backup Withholding and Information Reporting

In general, information reporting for U.S. federal income tax purposes should apply to cash distributions made on the ADSs or ordinary shares within the United States to a U.S. Holder (other than an exempt recipient) and to the proceeds from sales and other dispositions of the ADSs or ordinary shares by a U.S. Holder (other than an exempt recipient) to or through a U.S. office of a broker. Payments made (and sales and other dispositions effected at an office) outside the United States will be subject to information reporting in limited circumstances. In addition, certain information concerning a U.S. Holder's adjusted tax basis in its ADSs or ordinary shares and adjustments to that tax basis and whether any gain or loss with respect to such ADSs or ordinary shares is long-term or short-term also may be required to be reported to the IRS, and certain holders may be required to file an IRS Form 8938 (Statement of Specified Foreign Financial Assets) to report their interest in the ADSs or ordinary shares.

Moreover, backup withholding of U.S. federal income tax, at a current rate of 24%, generally will apply to cash dividends paid on the ADSs or ordinary shares to a U.S. Holder (other than an exempt recipient) and the proceeds from sales and other dispositions of the ADSs or ordinary shares by a U.S. Holder (other than an exempt recipient), in each case who:

- fails to provide an accurate taxpayer identification number;
- is notified by the IRS that backup withholding is required; or
- in certain circumstances, fails to comply with applicable certification requirements.

A Non-U.S. Holder generally may eliminate the requirement for information reporting and backup withholding by providing certification of its foreign status, under penalties of perjury, on a duly executed applicable IRS Form W-8 or by otherwise establishing an exemption.

Backup withholding is not an additional tax. Rather, the amount of any backup withholding will be allowed as a credit against a U.S. Holder's or a Non-U.S. Holder's U.S. federal income tax liability and may entitle such holder to a refund, provided that certain required information is timely furnished to the IRS. Holders are urged to consult their own tax advisors regarding the application of backup withholding and the availability of and procedures for obtaining an exemption from backup withholding in their particular circumstances.

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.

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 12th Floor, Tower 1, Financial Street, Chang'an Center, Shijingshan District, Beijing 100043, 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 are in the process of relisting and has filed new Form F-1 (Registration No. 333-220207, as amended) and prospectus. 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 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. Our exposure to interest rate risk primarily relates to the interest income generated by excess cash invested in available-for-sale investment, held-to-maturity investments with maturities of three months or less and term deposits with maturities of greater than three months and less than a year. We have not used any derivative financial instruments to manage our interest risk exposure. Interest-earning instruments carry a degree of interest rate risk. We have not been exposed, nor do we anticipate being exposed, to material risks due to changes in interest rates. However, our future interest income may be lower than expected due to changes in market interest rates. A hypothetical 1% decrease in interest rates would have resulted in a decrease of approximately RMB 1.7 million (US$ 0.2 million) in our interest income for the year ended December 31, 2018.

At December 31, 2017 and 2018, we had RMB 39.2 million and RMB 41.2 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 2018 would have resulted in an increase of approximately RMB 3.9 million (US$ 0.6 million) in our interest expense for 2018.

Foreign exchange risk . Substantially most 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 and Taiwan 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/Taiwan 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 and Taiwan 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 2018, the depreciation of the RMB against the U.S. dollar reached 0.6% 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 and Taiwan dollars. To the extent that we need to convert U.S. dollar or Taiwan dollars denominated financial assets into RMB for our operations, appreciation of the RMB against the U.S. dollar and Taiwan dollars 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 1.5 million (US$ 0.2 million) in the value of our U.S. denominated cash and cash equivalents as of December 31, 2018. A hypothetical 10% appreciation of the RMB against the Taiwan dollars would have resulted in a decrease of approximately RMB 3.4 million (US$ 0.5 million) in the value of our TWD denominated cash and cash equivalents as of December 31, 2018.

Item 12. Description of Securities Other Than Equity Securities

A. Debt Securities

Not applicable.

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 depositary bank for our ADSs:

Service	Fees
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
Depositary Services	up to U.S. 5¢ per ADS held on the applicable record date(s) established by the depositary

An ADS holder you will also be responsible to pay certain fees and expenses incurred by the depositary 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.

Depositary fees payable upon the issuance and cancellation of ADSs are typically paid to the depositary by the brokers (on behalf of their clients) receiving the newly issued ADSs from the depositary and by the brokers (on behalf of their clients) delivering the ADSs to the depositary for cancellation. The brokers in turn charge these fees to their clients. Depositary fees payable in connection with distributions of cash or securities to ADS holders and the depositary services fee are charged by the depositary to the holders of record of ADSs as of the applicable ADS record date.

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, 2018, there was US$ 11,757 received from Citibank, the depositary bank for our ADR program.

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

Our management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, has performed an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of the end of the period covered by this report, as required by Rule 13a-15(b) under the Exchange Act. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer has concluded, as of December 31, 2018, that our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is (i) recorded, processed, summarized and reported within the time period specified in the Securities and Exchange Commission rules and forms, and (ii) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Management's Annual Report on Internal Control over Financial Reporting

Our management 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: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (ii) 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 (iii) 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.

Because of its inherent limitations, internal control over financial reporting can provide only reasonable assurance with respect to consolidated financial statement preparation and presentation and may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our internal control over financial reporting using the criteria established in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation, our management has concluded that the internal control over financial reporting was effective as of December 31, 2018.

Attestation Report of the Registered Public Accounting Firm

Not applicable.

Changes in Internal Control over Financial Reporting

There were no significant changes in our internal controls over financial reporting in connection with the evaluation required by Rules 13a-15 or 15d-15 that occurred during the period covered by this annual report that have materially affected, or is reasonably likely to materially affect our internal control over financial reporting.

Item16A Audit Committee Financial Expert

Our board of directors has determined that Yanhui Ma, an independent director (using 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.

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 Marcum Bernstein & Pinchuk LLP our independent registered public accounting firm for 2017 and 2018. We did not pay any other fees to our independent registered public accounting firm during the periods indicated below.

	For the years ended December 31,	
	2017	2018
	(U.S. dollars in millions)	
Audit fees	0.6	0.6

“Audit fees” means the aggregated fees billed for professional services rendered by our independent registered public accounting firm for the audit of our annual financial statements and the review of our comparative interim financial statements.

The policy of our audit committee is to pre-approve all audit services provided by Marcum Bernstein & Pinchuk LLP, 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.

Item 16F Change in Registrant’s Certifying Accountant

None.

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 corporate governance rules set forth by national securities exchange, such as the NYSE. As a result, our corporate governance practices differ in some respects from those required to be followed by U.S. companies listed on a national securities exchange. As a Cayman Islands exempted company, Ambow Education Holding Ltd. is not required to have a separate nominating committee of the Board. The full Board of Directors will perform the functions performed by such committee. This is the only practice required to be followed by U.S. companies listed on a national securities exchange that we are not following.

Item 16H Mine Safety Disclosure

Not applicable.

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	Sixth Amended and Restated Memorandum and Articles of Association (incorporated by reference to Exhibit 99.1 of our 6-K filed with the Commission on June 4, 2015)
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 our registration statement (File No. 333-168096), as amended, initially filed with the Commission on July 14, 2010 (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	2010 Equity Incentive Plan (incorporated by reference to Exhibit 10.2 of the F-1 Registration Statement)

4.2	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)
4.3	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)
4.4	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)
4.5	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)
4.6	English Translation of Powers of Attorney, each dated April 26, 2007 (incorporated by reference to Exhibit 10.8 of the F-1 Registration Statement)
4.7	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)
4.8	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)
4.9	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)
4.10	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)
4.11	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)
4.12	English Translation of Call Option 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 10.14 of the F-1 Registration Statement)
4.13	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)
4.14	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)
4.15	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)
4.16	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)
4.17	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)
4.18	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)

4.19	English Translation of Powers of Attorney, each dated October 31, 2009 (incorporated by reference to Exhibit 10.21 of the F-1 Registration Statement)
4.20	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)
4.21	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)
4.22	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)
4.23	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)
4.24	English Translation of Powers of Attorney, each dated February 25, 2009 (incorporated by reference to Exhibit 10.26 of the F-1 Registration Statement)
4.25	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)
4.26	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)
4.27	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)

4.28	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)
4.29	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)
4.30	Restructuring Agreement dated May 4, 2014 (incorporated by reference to Exhibit 4.31 of the 20F filing of the year of 2012)
4.31	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)
4.32	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)
4.33	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)
4.34	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)
4.35	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)
4.36	English Translation of Technology Service Agreement between Beijing Ambow Shengying Education and Technology Co., Ltd. and Ambow Rongye Education and Technology Co., Ltd., dated September 8, 2015
4.37	English Translation of Share Pledge Agreement by and among Beijing Ambow Shengying Education and Technology Co., Ltd., Xuejun Xie and Gang Huang, dated September 8, 2015
4.38	English Translation of Call Option Agreement by and among Beijing Ambow Shengying Education and Technology Co, Ltd., Xuejun Xie and Gang Huang, dated September 8, 2015
4.39	English Translation of Powers of Attorney, each dated September 8, 2015
4.40	English Translation of Loan Agreement by and among Beijing Ambow Shengying Education and Technology Co., Ltd., Xuejun Xie and Gang Huang, dated September 8, 2015
4.41	English Translation of Technology Service Agreement between Beijing Ambow Shengying Education and Technology Co., Ltd. and Ambow Zhixin Education and Technology Co., Ltd., dated October 14, 2015
4.42	English Translation of Share Pledge Agreement by and among Beijing Ambow Shengying Education and Technology Co., Ltd., Xuejun Xie and Gang Huang, dated October 14, 2015
4.43	English Translation of Call Option Agreement by and among Beijing Ambow Shengying Education and Technology Co, Ltd., Xuejun Xie and Gang Huang, dated October 14, 2015
4.44	English Translation of Powers of Attorney, each dated October 14, 2015
4.45	English Translation of Loan Agreement by and among Beijing Ambow Shengying Education and Technology Co., Ltd., Xuejun Xie and Gang Huang, dated October 14, 2015
4.46	English Translation of Termination Agreement between Beijing Ambow Online Software Co., Ltd. and Shanghai Ambow Education Information Consulting Co., Ltd. dated June 29, 2017 (incorporated by reference to Exhibit 10.46 of the F-1 with filing date at August 28, 2017)
4.47	English Translation of Termination Agreement among Beijing Ambow Online Software Co., Ltd., Xiaogang Feng and Xuejun Xie dated June 29, 2017 (incorporated by reference to Exhibit 10.47 of the F-1 with filing date at August 28, 2017)
4.48	English Translation of Termination Agreement between Beijing Ambow Online Software Co., Ltd. and Beijing Ambow Sihua Education and Technology Co., Ltd. dated June 29, 2017 (incorporated by reference to Exhibit 10.48 of the F-1 with filing date at August 28, 2017)
4.49	

	English Translation of Termination Agreement among Beijing Ambow Online Software Co., Ltd., Xiaogang Feng and Xuejun Xie dated June 29, 2017 (incorporated by reference to Exhibit 10.49 of the F-1 with filing date at August 28, 2017)
4.50	English Translation of Termination Agreement between Beijing Ambow Online Software Co., Ltd. and Beijing Ambow Shida Education and Technology Co., Ltd. dated June 29, 2017 (incorporated by reference to Exhibit 10.50 of the F-1 with filing date at August 28, 2017)
4.51	English Translation of Termination Agreement among Beijing Ambow Online Software Co., Ltd., Jianguo Xue and Xuejun Xie dated June 29, 2017 (incorporated by reference to Exhibit 10.51 of the F-1 with filing date at August 28, 2017)
4.52	English Translation of Technology Service Agreement between Beijing Ambow Shengying Education and Technology Co., Ltd. and Shanghai Ambow Education Information Consulting Co., Ltd., dated June 29, 2017 (incorporated by reference to Exhibit 10.52 of the F-1 with filing date at August 28, 2017)
4.53	English Translation of Share Pledge Agreement by and among Beijing Ambow Shengying Education and Technology Co., Ltd., Xuejun Xie and Gang Huang, dated June 29, 2017 (incorporated by reference to Exhibit 10.53 of the F-1 with filing date at August 28, 2017)
4.54	English Translation of Call Option Agreement by and among Beijing Ambow Shengying Education and Technology Co, Ltd., Xuejun Xie and Gang Huang, dated June 29, 2017 (incorporated by reference to Exhibit 10.54 of the F-1 with filing date at August 28, 2017)
4.55	English Translation of Powers of Attorney, each dated June 29, 2017 (incorporated by reference to Exhibit 10.55 of the F-1 with filing date at August 28, 2017)
4.56	English Translation of Loan Agreement by and among Beijing Ambow Shengying Education and Technology Co., Ltd., Xuejun Xie and Gang Huang, dated June 29, 2017 (incorporated by reference to Exhibit 10.56 of the F-1 with filing date at August 28, 2017)
4.57	English Translation of Technology Service Agreement between Beijing Ambow Shengying Education and Technology Co., Ltd. and Ambow Sihua Education and Technology Co., Ltd., dated June 29, 2017 (incorporated by reference to Exhibit 10.57 of the F-1 with filing date at August 28, 2017)

4.58	English Translation of Share Pledge Agreement by and among Beijing Ambow Shengying Education and Technology Co., Ltd., Xuejun Xie and Gang Huang, dated June 29, 2017 (incorporated by reference to Exhibit 10.58 of the F-1 with filing date at August 28, 2017)
4.59	English Translation of Call Option Agreement by and among Beijing Ambow Shengying Education and Technology Co, Ltd., Xuejun Xie and Gang Huang, dated June 29, 2017 (incorporated by reference to Exhibit 10.59 of the F-1 with filing date at August 28, 2017)
4.60	English Translation of Powers of Attorney, each dated June 29, 2017 (incorporated by reference to Exhibit 10.60 of the F-1 with filing date at August 28, 2017)
4.61	English Translation of Loan Agreement by and among Beijing Ambow Shengying Education and Technology Co., Ltd., Xuejun Xie and Gang Huang, dated June 29, 2017 (incorporated by reference to Exhibit 10.61 of the F-1 with filing date at August 28, 2017)
4.62	English Translation of Technology Service Agreement between Beijing Ambow Chuangying Education and Technology Co., Ltd. and Beijing Ambow Shida Education Technology Co., Ltd., dated June 29, 2017 (incorporated by reference to Exhibit 10.62 of the F-1 with filing date at August 28, 2017)
4.63	English Translation of Share Pledge Agreement by and among Beijing Ambow Chuangying Education and Technology Co., Ltd., Xuejun Xie and Jianguo Xue, dated June 29, 2017 (incorporated by reference to Exhibit 10.63 of the F-1 with filing date at August 28, 2017)
4.64	English Translation of Call Option Agreement by and among Beijing Ambow Chuangying Education and Technology Co, Ltd., Xuejun Xie and Jianguo Xue, dated June 29, 2017 (incorporated by reference to Exhibit 10.64 of the F-1 with filing date at August 28, 2017)
4.65	English Translation of Powers of Attorney, each dated June 29, 2017 (incorporated by reference to Exhibit 10.65 of the F-1 with filing date at August 28, 2017)
4.66	English Translation of Loan Agreement by and among Beijing Ambow Chuangying Education and Technology Co., Ltd., Xuejun Xie and Jianguo Xue, dated June 29, 2017 (incorporated by reference to Exhibit 10.66 of the F-1 with filing date at August 28, 2017)
4.67	English Translation of First Technology Service Agreement between Ambow Education Management (Hong Kong) Ltd. and IValley Co., Ltd. dated March 20, 2017 (incorporated by reference to Exhibit 10.67 of the F-1/A with filing date at January 5, 2018)
4.68	English Translation of First Share Pledge Agreement by and among Ambow Education Management (Hong Kong) Ltd., Chiao-Ling Hsu and Shu Hui Cai, dated March 20, 2017 (incorporated by reference to Exhibit 10.68 of the F-1/A with filing date at January 5, 2018)
4.69	English Translation of First Call Option Agreement by and among Ambow Education Management (Hong Kong) Ltd., Chiao-Ling Hsu and Shu Hui Cai, dated March 20, 2017 (incorporated by reference to Exhibit 10.69 of the F-1/A with filing date at January 5, 2018)
4.70	English Translation of First Powers of Attorney, each dated March 20, 2017 (incorporated by reference to Exhibit 10.70 of the F-1/A with filing date at January 5, 2018)
4.71	English Translation of First Loan Agreement by and among Ambow Education Management (Hong Kong) Ltd., Chiao-Ling Hsu and Shu Hui Cai, dated February 10, 2017 (incorporated by reference to Exhibit 10.71 of the F-1/A with filing date at January 5, 2018)
4.72	Loan Agreement between Ambow Education Holding Ltd. And Sino Accord Investment Limited, dated April 5, 2017 (incorporated by reference to Exhibit 10.72 of the F-1/A with filing date at March 8, 2018)
4.73	Supplementary Agreement between Ambow Education Holding Ltd. And Sino Accord Investment Limited, dated March 7, 2018 (incorporated by reference to Exhibit 10.73 of the F-1/A with filing date at March 8, 2018)
4.74	English Translation of Loan Agreement between Beijing Ambow Shengying Education and Technology Co., Ltd. And Suzhou Zhixinliren Investment Co., Limited, dated April 5, 2017 (incorporated by reference to Exhibit 10.74 of the F-1/A with filing date at March 8, 2018)
4.75	

	English Translation of Supplementary Agreement between Beijing Ambow Shengying Education and Technology Co., Ltd. And Suzhou Zhixinliren Investment Co., Limited, dated March 7, 2018 (incorporated by reference to Exhibit 10.75 of the F-1/A with filing date at March 8, 2018)
4.76	English Translation of Equity Transfer Agreement of Beijing Ambow Online Software Co., Ltd. And Suzhou Wenjian Venture Investment Management Consulting Co., Ltd., dated August 31, 2017 (incorporated by reference to Exhibit 10.76 of the F-1/A with filing date at March 8, 2018)
4.77	English Translation of Equity Transfer Agreement – Amendment 1 of Beijing Ambow Online Software Co., Ltd. And Suzhou Wenjian Venture Investment Management Consulting Co., Ltd., dated August 31, 2017 (incorporated by reference to Exhibit 10.77 of the F-1/A with filing date at March 8, 2018)
4.78	English Translation of Equity Transfer Agreement – Amendment 2 of Beijing Ambow Online Software Co., Ltd. And Suzhou Wenjian Venture Investment Management Consulting Co., Ltd., dated December 12, 2017 (incorporated by reference to Exhibit 10.78 of the F-1/A with filing date at March 8, 2018)
4.79	English Translation of Equity Transfer Agreement – Amendment 3 of Beijing Ambow Online Software Co., Ltd. And Suzhou Wenjian Venture Investment Management Consulting Co., Ltd., dated December 21, 2017 (incorporated by reference to Exhibit 10.79 of the F-1/A with filing date at March 8, 2018)
4.80	English Translation of Equity Transfer Agreement – Amendment 4 of Beijing Ambow Online Software Co., Ltd. And Suzhou Wenjian Venture Investment Management Consulting Co., Ltd., dated March 2, 2018 (incorporated by reference to Exhibit 10.80 of the F-1/A with filing date at March 8, 2018)
4.81	English Translation of Second Technology Service Agreement between Ambow Education Management (Hong Kong) Ltd. and IValley Co., Ltd. dated November 27, 2017*
4.82	English Translation of Second Share Pledge Agreement by and among Ambow Education Management (Hong Kong) Ltd., Chiao-Ling Hsu and Shu Hui Cai, dated November 27, 2017*
4.83	English Translation of Second Call Option Agreement by and among Ambow Education Management (Hong Kong) Ltd., Chiao-Ling Hsu and Shu Hui Cai, dated November 27, 2017*
4.84	English Translation of Second Powers of Attorney, each dated November 27, 2017*
4.85	English Translation of Second Loan Agreement by and among Ambow Education Management (Hong Kong) Ltd., Chiao-Ling Hsu and Shu Hui Cai, dated July 28, 2017*
4.86	Amended and restated 2010 plan (incorporated by reference to Exhibit 99.1 of our 6-K filed with the Commission on November 14, 2018)

8.1	List of Subsidiaries and Consolidated Affiliated Entities*
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.

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
Chief Financial Officer

Date: April 5, 2019

AMBOW EDUCATION HOLDING LTD.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors

of Ambow Education Holding Ltd.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Ambow Education Holding Ltd. and Subsidiaries (the “Company”) as of December 31, 2017 and 2018, and the related consolidated statements of operations and comprehensive income (loss), changes in equity and cash flows for each of the three years in the period ended December 31, 2018, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the consolidated financial position of the Company, as of December 31, 2017 and 2018, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2018 in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting 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.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Marcum Bernstein & Pinchuk llp

Marcum Bernstein & Pinchuk llp

We have served as the Company’s auditor since 2013

Guangzhou, China
April 5, 2019

AMBOW EDUCATION HOLDING LTD.

CONSOLIDATED BALANCE SHEETS

(All amounts in thousands, except for share and per share data)

	Note	As of December 31, 2017 RMB	2018 RMB	2018 US$ Note 3(a)
ASSETS				
Current assets:				
Cash and cash equivalents	4	195,303	211,436	30,752
Restricted cash	4,19	2,350	30,072	4,374
Short term investments, available for sale	5	128,042	47,208	6,866
Short term investments, held to maturity	5	93,000	70,000	10,181
Accounts receivable, net	6	24,511	18,132	2,637
Amounts due from a related party	23	-	1,105	161
Prepaid and other current assets, net	7	129,517	134,770	19,601
Loan receivable, current	8	-	42,677	6,207
Total current assets		572,723	555,400	80,779
Non-current assets:				
Property and equipment, net	9	168,423	165,933	24,134
Land use rights, net		1,848	1,804	262
Intangible assets, net	10	96,769	92,412	13,441
Goodwill	11	73,166	73,166	10,642
Deferred tax assets, net	17	8,222	10,240	1,490
Long-term loan receivables	8	42,677	-	-
Other non-current assets, net	12	13,592	11,264	1,638
Total non-current assets		404,697	354,819	51,607
Total assets		977,420	910,219	132,386

AMBOW EDUCATION HOLDING LTD.

CONSOLIDATED BALANCE SHEETS (CONTINUED)

(All amounts in thousands, except for share and per share data)

	Note	As of December 31, 2017 RMB	2018 RMB	2018 US$ Note 3(a)
LIABILITIES				
Current liabilities:				
Deferred revenue (including consolidated VIE amount without recourse to the Company of RMB 109,878 and RMB 116,753 as of December 31, 2017 and 2018, respectively)		114,396	124,250	18,071
Accounts payable (including consolidated VIE amount without recourse to the Company of RMB 19,809 and RMB 8,996 as of December 31, 2017 and 2018, respectively)		23,414	13,583	1,977
Accrued and other liabilities (including consolidated VIE amount without recourse to the Company of RMB 219,009 and RMB 192,302 as of December 31, 2017 and 2018, respectively)	13	418,998	256,325	37,270
Borrowing from third party, current	14	-	41,179	6,000
Income taxes payable (including consolidated VIE amount without recourse to the Company of RMB 201,810 and RMB 206,871 as of December 31, 2017 and 2018, respectively)		202,314	207,114	30,123
Amounts due to related parties (including consolidated VIE amount without recourse to the Company of RMB 3,430 and RMB 2,417 as of December 31, 2017 and 2018, respectively)	23	3,430	2,696	392
Total current liabilities		762,552	645,147	93,833
Non-current liabilities:				
Long-term borrowings from third party	14	39,205	-	-
Consideration payable for acquisitions	22	6,766	1,322	192
Other non-current liabilities		2,938	979	142
Total non-current liabilities		48,909	2,301	334
Total liabilities		811,461	647,448	94,167

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

AMBOW EDUCATION HOLDING LTD.

CONSOLIDATED BALANCE SHEETS (CONTINUED)

(All amounts in thousands, except for share and per share data)

	Note	As of December 31, 2017 RMB	2018 RMB	2018 US$ Note 3(a)
Commitments and contingencies	19			
EQUITY				
Preferred shares (US$ 0.003 par value; 1,666,667 shares authorized, nil issued and outstanding as of December 31, 2017 and 2018)		-	-	-
Class A Ordinary shares (US$ 0.003 par value; 66,666,667 and 66,666,667 shares authorized; 34,206,939 and 38,756,289 shares issued and outstanding as of December 31, 2017 and 2018, respectively)	15	640	728	106
Class C Ordinary shares (US$ 0.003 par value; 8,333,333 and 8,333,333 shares authorized; 4,708,415 and 4,708,415 shares issued and outstanding as of December 31, 2017 and 2018, respectively)	15	90	90	13
Additional paid-in capital		3,456,307	3,507,123	510,090
Statutory reserve	21	20,036	20,149	2,931
Accumulated deficit		(3,316,715)	(3,271,838)	(475,869)
Accumulated other comprehensive income		6,876	8,305	1,208
Total Ambow Education Holding Ltd.’s equity		167,234	264,557	38,479
Non-controlling interests	27	(1,275)	(1,786)	(260)
Total equity		165,959	262,771	38,219
Total liabilities and equity		977,420	910,219	132,386

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

AMBOW EDUCATION HOLDING LTD.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

(All amounts in thousands, except for share and per share data)

		Years ended December 31,			
	Note	2016 RMB	2017 RMB	2018 RMB	2018 US$
NET REVENUES					
- Educational program and services	20	412,016	432,754	525,134	76,378
- Intellectualized operational services	20	-	11,170	6,374	927
Total net revenues		412,016	443,924	531,508	77,305
COST OF REVENUES					
- Educational program and services	20	(238,742)	(249,400)	(331,939)	(48,279)
- Intellectualized operational services	20	-	(6,995)	(6,204)	(902)
Total cost of revenues		(238,742)	(256,395)	(338,143)	(49,181)
GROSS PROFIT		173,274	187,529	193,365	28,124
OPERATING EXPENSES					
Selling and marketing		(41,818)	(36,710)	(43,751)	(6,363)
General and administrative		(145,513)	(142,252)	(132,718)	(19,303)
Research and development		(7,572)	(6,262)	(1,513)	(220)
Impairment loss	10,11	(22,402)	-	-	-
Total operating expenses		(217,305)	(185,224)	(177,982)	(25,886)
OPERATING (LOSS) INCOME		(44,031)	2,305	15,383	2,238
OTHER INCOME (EXPENSE)					
Interest (expense) income, net	5	5,941	5,191	6,652	967
Foreign exchange (loss) gain, net		84	(522)	372	54
Other income, net		2,570	1,652	1,447	210
Gain from derecognition of liabilities	24	-	-	15,226	2,215
Gain on disposal of subsidiaries	25	-	38,145	-	-
Gain from deregistration of subsidiaries	26	-	-	2,858	416
Gain from fair value change of contingent consideration payable	22	-	-	5,444	792
Gain on sale of investment available for sale	5	4,329	8,768	1,056	154
Total other income		12,924	53,234	33,055	4,808
(LOSS) INCOME BEFORE INCOME TAX AND NON-CONTROLLING INTERESTS		(31,107)	55,539	48,438	7,046
Income tax expense	17	(5,911)	(9,614)	(3,498)	(509)

NET (LOSS) INCOME		(37,018)	45,925	44,940	6,537
Less: Net loss attributable to non-controlling interests		(1,318)	(538)	(50)	(7)
NET (LOSS) INCOME ATTRIBUTABLE TO AMBOW EDUCATION HOLDING LTD.		(35,700)	46,463	44,990	6,544
NET (LOSS) INCOME		(37,018)	45,925	44,940	6,537
OTHER COMPREHENSIVE INCOME, NET OF TAX					
Foreign translation adjustments		(1,160)	3,876	1,304	190
Unrealized gains on short term investments					
Unrealized holding gains arising during period		5,622	2,901	776	113
Less: reclassification adjustment for gains included in net income		3,870	5,606	651	95
Other comprehensive income		592	1,171	1,429	208
TOTAL COMPREHENSIVE (LOSS) INCOME		(36,426)	47,096	46,369	6,745
Net (loss) income per share-basic		(0.93)	1.20	1.09	0.16
Net (loss) income per share-diluted	18	(0.93)	1.18	1.08	0.16
Weighted average shares used in calculating basic net income (loss) per share	18	38,469,234	38,826,800	41,342,597	41,342,597
Weighted average shares used in calculating diluted net income (loss) per share	18	38,469,234	39,303,760	41,671,763	41,671,763
Share-based compensation expense included in:					
- Selling and marketing		-	-	-	-
- General and administrative		7,828	4,640	8,121	1,181
- Research and development		-	-	-	-

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

AMBOW EDUCATION HOLDING LTD.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(All amounts in thousands, except for share and per share data)

		Attributable to Ambow Education Holding Ltd.'s Equity									
		Class A Ordinary shares (Note 15)		Class C Ordinary shares (Note 15)				Retained	Accumulated		
	Note	Shares	Amount RMB	Shares	Amount RMB	Additional paid-in capital RMB	Statutory reserves RMB	Earnings (Accumulated deficit) RMB	other comprehensive income RMB	Non-controlling Interest RMB	Total Equity RMB
Balance as of January 1, 2016		33,556,762	627	4,708,415	90	3,445,408	81,005	(3,388,447)	5,113	(973)	142,823
Share-based compensation	16	-	-	-	-	7,828	-	-	-	-	7,828
Issuance of ordinary shares for restricted stock award	16	433,918	9	-	-	(9)	-	-	-	-	-
Foreign currency translation adjustment		-	-	-	-	-	-	-	(1,160)	-	(1,160)
Appropriation to statutory reserves	21	-	-	-	-	-	2	(2)	-	-	-
Unrealized gain on investment, net of income taxes	5	-	-	-	-	-	-	-	1,752	-	1,752
Capital injection from minority shareholders	27	-	-	-	-	-	-	-	-	796	796
Net loss		-	-	-	-	-	-	(35,700)	-	(1,318)	(37,018)
Balance as of December 31, 2016		33,990,680	636	4,708,415	90	3,453,227	81,007	(3,424,149)	5,705	(1,495)	115,021

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

AMBOW EDUCATION HOLDING LTD.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (CONTINUED)

(All amounts in thousands, except for share and per share data)

		Attributable to Ambow Education Holding Ltd.'s Equity									
		Class A Ordinary shares (Note 15)		Class C Ordinary shares (Note 15)				Retained	Accumulated		
	Note	Shares	Amount RMB	Shares	Amount RMB	Additional paid-in capital RMB	Statutory reserves RMB	Earnings (Accumulated deficit) RMB	other comprehensive income RMB	Non-controlling Interest RMB	Total Equity RMB
Balance as of January 1, 2017		33,990,680	636	4,708,415	90	3,453,227	81,007	(3,424,149)	5,705	(1,495)	115,021
Share-based compensation	16	-	-	-	-	4,640	-	-	-	-	4,640
Issuance of ordinary shares for restricted stock award	16	216,259	4	-	-	(4)	-	-	-	-	-
Foreign currency translation adjustment		-	-	-	-	-	-	-	3,876	-	3,876
Appropriation to statutory reserves	21	-	-	-	-	-	202	(202)	-	-	-
Unrealized gain on investment, net of income taxes	5	-	-	-	-	-	-	-	(2,705)	-	(2,705
Buy-outs of non-controlling interests	27	-	-	-	-	(1,556)	-	-	-	758	(798
Disposal of subsidiaries	25	-	-	-	-	-	(61,173)	61,173	-	-	-
Net income (loss)		-	-	-	-	-	-	46,463	-	(538)	45,925
Balance as of December 31, 2017		34,206,939	640	4,708,415	90	3,456,307	20,036	(3,316,715)	6,876	(1,275)	165,959

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

AMBOW EDUCATION HOLDING LTD.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (CONTINUED)

(All amounts in thousands, except for share and per share data)

		Attributable to Ambow Education Holding Ltd.'s Equity									
		Class A Ordinary shares (Note 15)		Class C Ordinary shares (Note 15)				Retained	Accumulated		
	Note	Shares	Amount RMB	Shares	Amount RMB	Additional paid-in capital RMB	Statutory reserves RMB	Earnings (Accumulated deficit) RMB	other comprehensive income RMB	Non-controlling Interest RMB	Total Equity RMB
Balance as of January 1, 2018		34,206,939	640	4,708,415	90	3,456,307	20,036	(3,316,715)	6,876	(1,275)	165,959
Share-based compensation	16	-	-	-	-	8,121	-	-	-	-	8,121
Issuance of ordinary shares for restricted stock award	16	409,350	8	-	-	(8)	-	-	-	-	-
Issuance of ordinary shares on IPO	15	4,140,000	80			45,322					45,402
Foreign currency translation adjustment		-	-	-	-	-	-	-	1,304	-	1,304
Appropriation to statutory reserves	21	-	-	-	-	-	113	(113)	-	-	-
Unrealized gain on investment, net of income taxes	5	-	-	-	-	-	-	-	125	-	125
Buy-outs of non-controlling interests	27	-	-	-	-	(2,619)	-	-	-	(1,885)	(4,504)
Deregistration of subsidiaries		-	-	-	-	-	-	-	-	(46)	(46)
Capital injection from minority	27	-	-	-	-	-	-	-	-	1,470	1,470

shareholders										
Net income (loss)	-	-	-	-	-	-	44,990	-	(50)	44,940
Balance as of December 31, 2018	38,756,289	728	4,708,415	90	3,507,123	20,149	(3,271,838)	8,305	(1,786)	262,771

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

AMBOW EDUCATION HOLDING LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(All amounts in thousands, except for share and per share data)

	Years ended December 31,			
	2016 RMB	2017 RMB	2018 RMB	2018 US$ Note 3(a)
Cash flows from operating activities				
Net (loss) income	(37,018)	45,925	44,940	6,537
Adjustments to reconcile net (loss) income to net cash provided by operating activities:				
Depreciation and amortization	24,997	22,673	26,329	3,829
Share-based compensation expense	7,828	4,640	8,121	1,181
Bad debt provision	1,727	5,090	5,645	821
Foreign exchange (gain) loss, net	(84)	522	(372)	(54)
Impairment loss	22,402	-	-	-
Deferred income tax	1,030	(2,127)	(2,212)	(322)
Disposal gain from subsidiaries	-	(38,145)	-	-
Gain from deregistration of subsidiaries	-	-	(2,858)	(416)
Gain from derecognition of liabilities	-	-	(15,226)	(2,215)
Disposal loss from property and equipment	534	90	105	15
Loss from equity method investment	10	16	908	132
Gain from fair value change of contingent consideration payable	-	-	(5,444)	(792)
Changes in operating assets and liabilities:				
Accounts receivable	(2,298)	(10,272)	1,762	256
Prepaid and other current assets	510	20,090	(6,844)	(995)
Amounts due from related parties	24	1,523	(1,105)	(161)
Other non-current assets	(189)	(5,754)	(3,154)	(459)
Accounts payable	(1,653)	4,297	(7,895)	(1,148)
Accrued and other liabilities	2,605	(38,071)	(29,396)	(4,275)
Income tax payable	3,512	10,764	5,153	749
Deferred revenue	(6,402)	3,386	9,681	1,408
Amounts due to related parties	-	(4,232)	(734)	(107)
Other non-current liabilities	-	(205)	(1,959)	(285)
Net cash provided by operating activities	17,535	20,210	25,445	3,699
Cash flows from investing activities				
Purchase of available-for-sale investments	(442,790)	(241,200)	(222,000)	(32,289)
Proceeds from available-for-sale investments	373,917	284,363	303,000	44,070
Purchase of held-to-maturity investments	(651,470)	(558,730)	(671,000)	(97,593)
Maturity and proceeds from held-to-maturity investments	738,560	530,430	694,000	100,938
Maturity of term deposits	1,150	-	-	-
Prepayment for acquisition of property	(71,024)	-	-	-

Purchase of property and equipment	(7,442)	(7,745)	(8,755)	(1,273)
Prepayment for leasehold improvement	(3,854)	(13,325)	(9,877)	(1,437)
Purchase of intangible assets	(1,225)	(1,110)	(295)	(43)
Purchase of subsidiaries (including cash payment in relation to prior acquisitions), net of cash acquired	-	(833)	-	-
Prepayment for purchase of minority interest	-	(4,504)	-	-
Purchase of other non-current assets	(1,040)	(640)	(1,590)	(231)
Proceed from disposal of subsidiaries, net of cash balance at disposed entities	-	(4,309)	(3)	-
Payment as result of disposal of subsidiaries	-	-	(112,000)	(16,290)
Purchase of minority interest	-	(798)	-	-
Long-term loan receivables	-	(42,677)	-	-
Net cash used in investing activities	(65,218)	(61,078)	(28,520)	(4,148)

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

AMBOW EDUCATION HOLDING LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

(All amounts in thousands, except for share and per share data)

	Years ended December 31,			
	2016 RMB	2017 RMB	2018 RMB	2018 US$ Note 3(a)
Cash flows from financing activities				
Proceeds from issuance of ordinary shares, net of expenses	-	-	45,402	6,603
Proceeds from minority shareholder capital injection	796	-	1,470	214
Proceeds from long-term borrowings	-	39,205	-	-
Repayments of short-term borrowings	(2,300)	-	-	-
Net cash (used in) provided by financing activities	(1,504)	39,205	46,872	6,817
Effects of exchange rate changes on cash, cash equivalents and restricted cash	84	66	58	11
Net change in cash, cash equivalents and restricted cash	(49,103)	(1,597)	43,855	6,379
Cash, cash equivalents and restricted cash at beginning of year	248,353	199,250	197,653	28,747
Cash, cash equivalents and restricted cash at end of year	199,250	197,653	241,508	35,126
Supplemental disclosure of cash flow information				
Income tax paid	(1,639)	(932)	(597)	(87)
Interest paid	(115)	-	-	-
Supplemental disclosure of non-cash investing and financing activities:				
Derecognition of assets other than cash of disposed subsidiaries/deregistered subsidiaries	-	25,152	1,607	234
Derecognition of liabilities of disposed subsidiaries/deregistered subsidiaries, net of recognized amount due to the disposed subsidiaries/deregistered subsidiaries	-	67,606	5,719	832
Contingent consideration of purchase of subsidiary	-	6,766	(5,444)	(792)

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

AMBOW EDUCATION HOLDING LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in thousands, except for share and per share data)

1. ORGANIZATION AND PRINCIPAL ACTIVITIES

a. Background

The accompanying consolidated financial statements include the financial statements of Ambow Education Holding Ltd. (the "Company"), its subsidiaries and variable interest entities ("VIEs") for which the Company or its subsidiaries are the primary beneficiaries. The Company, its subsidiaries and VIEs are hereinafter collectively referred to as the "Group".

The Company was incorporated in the Cayman Islands on June 26, 2007. On August 5, 2010, the Company and certain selling shareholders of the Company completed its initial public offering.

From August 5, 2010 until October 6, 2014, the Company's ADSs had been traded on the NYSE in the U.S. On October 6, 2014, the Company's ADSs were removed from listing on the NYSE and began quotation in the OTC markets after the Company failed to timely file its Annual Report on Form 20-F for the fiscal years ended December 31, 2012 and 2013, which was during the time the Company was controlled by the Joint Provisional Liquidators during the ongoing Audit Committee Investigation that resulted in its inability to provide audited financial information for inclusion in such filings. On May 7, 2014, the Cayman Court approved the return of management to the Board of Directors of the Company.

The Group conducted a restructuring that occurred in May 2014 by taking a loan facility from China Education Investment Holding Limited ("CEIHL") which converted principal outstanding into economic interest in the Company.

On June 29, 2017, the shareholders of VIEs, which include Shanghai Ambow Education Information Consulting Co., Ltd. ("Shanghai Ambow") and Ambow Sihua Education and Technology Co., Ltd. ("Ambow Sihua"), terminated their share pledge agreements, call options agreements, loan agreements, powers of attorney and exclusive consulting and service agreements with Beijing Ambow Online Software Co., Ltd. ("Ambow Online"); and entered into such contractual agreements with Ambow Shengying Education and Technology Co., Ltd. ("Ambow Shengying") instead. As

of June 29, 2017, the shareholders of VIE, Beijing Normal University Ambow Education Technology Co., Ltd. ("Ambow Shida"), terminated their share pledge agreements, call options agreements, loan agreements, powers of attorney and exclusive consulting and service agreements with Ambow Online; and entered into such contractual agreements with Beijing Ambow Chuangying Education and Technology Co., Ltd. ("Ambow Chuangying") instead. Through the renewal of such contractual agreements, the Company through its subsidiaries, continued to control the operation decisions of the VIEs. Therefore, the accounts and operations of the VIEs and their subsidiaries remain unchanged in the Group's consolidated financial statements.

On August 31, 2017, the Company sold the 100% equity interest in Ambow Online to a third party for nil consideration. After the disposal, Ambow Online and its remaining VIE Suzhou Wenjian Venture Investment Management Consulting Co., Ltd. ("Suzhou Wenjian") were not consolidated by the Company. On September 30, 2017, the Company sold the 100% equity interest in 21st Century Training Center to a third party, with a consideration of RMB 1 yuan. After the disposal, 21st Century Training Center was not consolidated by the Company. Please refer to Note 25 for details.

The Company established IValley Co., Ltd. ("IValley") on March 13, 2017. IValley is a VIE of Ambow Education Management (Hong Kong) Limited. The Company established IValley Beijing Technology Co. Ltd. ("IValley Beijing") on September 15, 2017. IValley Beijing is a wholly owned subsidiary of IValley. IValley Beijing's business is to design, purchase, modify and integrate electronic equipment and devices, and develop mobile APP, performed by engineers and IT development and operational personnel, for end users to utilize office facilities, manage resources and administrative matters.

The Company established Ambow BSC Inc. on February 14, 2017. Ambow BSC Inc. is a 100% subsidiary of the Company. On November 20, 2017, Ambow BSC Inc. acquired 100% of the outstanding shares of common stock of Bay State College Inc. Bay State College Inc. is a Massachusetts corporation that owns and operates Bay State College, a higher education institution offering career-focused post-secondary educational services. Please refer to Note 22 for details.

In March 2018, the Company closed Ambow (Dalian) Education and Technology Co., Ltd. and completed its deregistration procedures of local governmental and corporate service institutions.

In June 2018, the Company completed its public offering of 2,070,000 ADSs at US$4.25 per ADS. Each ADS comprises two Class A ordinary shares of the Company. On June 1, 2018, the Company's ADSs commenced trading on the NYSE American under the symbol "AMBO".

b. Nature of operations

The Group is a leading provider of educational and career enhancement services in the People's Republic of China ("PRC") and U.S. The Group offers a wide range of educational and career enhancement services and products focusing on improving educational opportunities for primary and advanced degree school students and employment opportunities for university graduates. The Group launched intellectualized operational services for schools and corporate clients to optimizing their teaching and operating environment in 2017.

c. Major subsidiaries and VIEs

As of December 31, 2018, the Company's major subsidiaries and VIEs include the following entities:

Name	Date of incorporation or establishment	Place of Incorporation (or establishment) /operation	Principal activity
Subsidiaries			

Ambow Education Management (Hong Kong) Ltd.	November 9, 2009	Hong Kong	Investment Holding
Ambow Chuangying	January 18, 2008	PRC	Investment Holding
Ambow Shengying	October 13, 2008	PRC	Investment Holding
Ambow BSC Inc.	February 14, 2017	United States	Investment Holding
Bay State College Inc.	November 20, 2017	United States	Career Enhancement

Name	Date of incorporation or establishment	Place of Incorporation (or establishment) /operation	Principal activity
Variable interest entities ("VIEs") and subsidiaries of VIEs			
Ambow Shida	July 30, 2004	PRC	Investment Holding
Shanghai Ambow	May 16, 2006	PRC	Investment Holding
Ambow Sihua	April 17, 2007	PRC	Investment Holding
Ambow Rongye Education and Technology Co., Ltd. ("Ambow Rongye")	September 8, 2015	PRC	Investment Holding
Ambow Zhixin Education and Technology Co., Ltd. ("Ambow Zhixin")	October 14, 2015	PRC	Investment Holding
IValley	March 13, 2017	Taiwan	Investment Holding
Jinan Wangrong Investment Consulting Co., Ltd.	May 21,2010	PRC	Career Enhancement
Hebei Yuanlong Corporate Management Co., Ltd. ("Hebei YL Career Enhancement")	January 13, 2011	PRC	Career Enhancement
Beijing Genesis Education Group ("Genesis Career Enhancement")	May 1, 2011	PRC	Career Enhancement
Kunshan Ambow	August 28, 2008	PRC	Career Enhancement
Beijing Ambow Dacheng Education and Technology Co., Ltd.	December 2, 2013	PRC	Career Enhancement
Shanghai Huanyu Liren Education Training Co., Ltd. ("Huanyu Liren")	April 27, 2016	PRC	Career Enhancement

IValley Beijing	September 15, 2017	PRC	Others

Name	**Date of incorporation or establishment**	**Place of Incorporation (or establishment) /operation**	**Principal activity**
Schools of VIEs			
Changsha Study School (“Changsha Tutoring”)	June 1, 1984	PRC	Tutoring
Beijing YZ Tutoring	December 30, 1994	PRC	Tutoring
Hunan Changsha Tongsheng Lake Experimental School (“Changsha K-12”)	June 18, 1999	PRC	K-12 School
Shenyang Universe High School (“Shenyang K-12”)	December 8, 2003	PRC	K-12 School
Shuyang Galaxy School (“Shuyang K-12”)	November 1, 2008	PRC	K-12 School
Beijing Haidian Ambow Xinganxian Training School	March 28, 2005	PRC	Tutoring
Beijing Huairou Xinganxian Training School	March 10, 2011	PRC	Tutoring

The names of certain schools or companies referred to above represent management’s best effort in translating the Chinese names of these entities as no English names for these entities have been registered.

d. VIE arrangements

VIEs of the Company

PRC regulations restrict foreign owned companies from directly investing in certain businesses providing educational services in PRC. In order to comply with these regulations, through its PRC subsidiaries, the Company has entered into exclusive technical consulting and service agreements (the "Service Agreements") with a number of VIEs in PRC, which are able to provide such educational services.

The Company has chosen to operate the intellectualized operational service business in PRC through IValley, a Taiwan VIE. According to Taiwan related regulations, any individual, organization, or other institution of the Mainland Area, or any company it invests in any third area may not engage in any investment activity in the Taiwan Area unless permitted by the competent authorities. Hong Kong is considered a third area under Taiwan law. In order to comply with those regulations, through Ambow Education Management (Hong Kong) Ltd., the Company has entered into exclusive Service Agreements with IValley, which is able to provide the intellectualized operational services through its subsidiaries.

The shareholders of the VIEs, through share pledge agreements, have pledged all of their rights and interests in the VIEs, including voting rights and dividend rights, to the Company or its subsidiaries as collateral for their obligation to perform in accordance with the Service Agreements. Further, the shareholders of the VIEs, through exclusive call option agreements, granted to the Company or its subsidiaries an exclusive, irrevocable and unconditional right to purchase part or all of the equity interests in the VIEs for an amount equal to the original cost of their investment should the purchase become permissible under the relevant PRC law.

Through the contractual agreements described above, the following companies: Ambow Shida, Ambow Shanghai, Ambow Sihua, Ambow Rongye, Ambow Zhixin and IValley are considered to be VIEs in accordance with US GAAP for the following reasons:

- Shareholders of the VIEs lack the right to receive any expected residual returns from the VIEs;
- Shareholders of VIEs lack the ability to make decisions about the activities of the VIEs that have a significant effect on their operation; and
- Substantially all of the VIEs' businesses are conducted on behalf of the Company or its subsidiaries.

Through the equity pledge arrangements, call option agreements and powers of attorney with the shareholders of VIEs, the Company controls decisions in relation to the operations of the VIEs, VIE's subsidiaries and schools controlled. Specifically, the Company can make the following decisions which most significantly affect the economic performance of the VIEs:

- The Company has the power to appoint the members of the VIE's board of directors and senior management as a result of the powers of attorney;

- The Company is closely involved in the daily operation of the VIE via appointing management personnel such as VP and other staff to oversee the operation of the VIEs;

- Generally, the VIE's board of directors and senior management may (1) modify the articles of the schools / centers; (2) approve the department structure of the schools / centers, and (3) approve the division, combination, termination of the schools / centers;

- The principals of the schools are involved in curriculum design, course delivery, hiring teachers, student recruitment, and approving school budgets and monthly spending plan; and

- The principals sign significant contracts on behalf of the schools / training centers such as service arrangement, leasing contract etc.

Further, the Company is also able to make the following decisions that enable it to receive substantially all of the economic returns from the VIEs:

- The Company has the exclusive right to provide management / consulting services to VIEs. Given the Company controls the VIE's board of directors, the Company has the discretion to set the service fees which enable the Company to extract the majority of the profits from the Company;

- The Company has the right to renew the service contracts indefinitely, which ensures the Company will be able to extract profits on a perpetual basis.

The Company, either directly or through its subsidiaries, is the primary beneficiary of the VIEs because it holds all the variable interests in the VIEs. As a result, the accounts and operations of the VIEs and their subsidiaries are included in the accompanying consolidated financial statements.

Other than the contractual control arrangements as disclosed, the Group's officers, directors or shareholders do not have any written or oral agreement with the VIE shareholders.

Subsidiaries of the VIEs

The Company conducts education and intellectualized operational service business in PRC primarily through contractual arrangements among the Group's subsidiaries and VIEs in PRC and Taiwan.

The Group's VIEs have power over the activities of subsidiaries (mainly including schools and centers) through their role as the registered sponsors of schools or controlling shareholders of corporate centers. The VIEs control the equity in these schools and are also entitled to the economic benefits from the schools.

The schools and centers, which are controlled by the VIEs, hold the necessary business and education licenses or permits to perform education activities. The schools and centers also sign all significant contracts, including leases, relating to the performance of these activities.

In addition, the responsibilities of the schools and centers, under the direction of the VIEs and Company's management (through the power invested in them by the VIEs) include the following:

- Providing suitable facilities to house staff and deliver courses to students;
- Designing an appropriate curriculum for the delivery of courses, in accordance with the Ministry of Education ("MOE"), or the MOE stipulations, where applicable;
- Hiring, training and terminating the employment of teachers and other support staff to run the schools and centers; and
- Selecting and recruiting students, in accordance with the Company's entry requirements and to maximize the usage of capacity.

Based on the nature of schools, the Company has categorized the schools into two categories, and applies the voting interest model when consolidating the schools requiring reasonable returns and applies the VIE model when consolidating the schools not requiring reasonable returns.

For the schools requiring reasonable returns, the VIEs have a 100% equity interest in the schools, which allows them to make key operating decisions on behalf of the schools. Therefore, the Company through the VIEs consolidates the schools applying voting interest model.

According to the Law for Promoting Private Education, which regulates the education industry in China, schools not requiring reasonable returns are prohibited from distributing annual dividends. The Company through the VIEs has the power to direct the schools' most significant activities as long as the VIEs remain the equity holders of the schools and has the obligation to absorb operating losses and the rights to receive the schools' expected residual returns. The Company is able to extract profits through technical service agreements / software agreements. Therefore, the Company through the VIEs is the primary beneficiary of the schools not requiring reasonable returns and consolidates them under the VIE model.

Aggregation of VIEs

The Company identifies and aggregates its subsidiaries and VIEs with similar nature for consolidation and reporting purpose. The VIEs and their schools and centers have very similar characteristics and are facing similar kinds/levels of risks:

- The principal business of the VIEs are sponsors of the schools and centers, or the controlling shareholders of the companies which are the sponsors of the schools and centers;
- All the schools of the VIEs require licenses from MOE (or commercial and business regulators if they are registered as companies);
- The schools and centers, in addition to holding the business/education licenses, have to operate by conducting all necessary activities, including but not limited to, acquiring and provisioning of appropriate facilities, hiring and management of teachers and supporting staff, recruitment of students and course/training delivery;
- The schools and centers operated their business in the education industry and hence subject to the regulations and risks associated with the industry; and
- For the VIEs, schools and centers registered and located in PRC, they are facing similar risks in related to governmental, economic and currency. For VIE registered in Taiwan, its subsidiaries locate in PRC and facing similar risks in related to governmental, economic and currency with other VIEs.

In addition, the Company enters into different contractual agreements with the six VIEs but these agreements are of similar format and structure. Therefore, the contract risk, if any, arising from the contractual relationship with the VIEs is also similar.

As a result, the Company considers it is appropriate to, according to ASC 810, aggregate all these VIEs together for reporting in the periodic financial statements.

Risk in relation to the VIE structure

There are substantial uncertainties regarding the interpretation and application of PRC laws and regulations, including those that govern the Group's VIE contractual arrangements. If the Group's ownership structure and contractual arrangements are found to be in violation of any existing or future PRC laws or regulations, the relevant regulatory authorities would have broad discretion in dealing with such violation, including (i) revoking the business and operating licenses of the Company's PRC subsidiaries and VIEs; (ii) discontinuing or restricting the operations of any related-party transactions among the Company's PRC subsidiaries and VIEs; (iii) imposing fines or other requirements with which the Group or the Company's PRC subsidiaries and VIEs may not be able to comply; (iv) revoking the preferential tax treatment enjoyed by the Company's PRC subsidiaries and VIEs; (v) requiring the Group or the Company's PRC subsidiaries and VIEs to restructure the ownership structure or operations. If any of the above penalties is imposed on the Group, the Group's business operations and expansion, financial condition and results of operations will be materially and adversely affected. The Draft Foreign Investment Law issued at January 19, 2015 required the Group to apply access permit under the new foreign investment access system to ratify whether the Group's subsidiaries and operations are already out of the fields of prohibited and restricted foreign investments. However, if not, the above draft law did not give any definite solution and the risk in revoking the current business and operating licenses would be low. Furthermore, The Draft Foreign Investment Law" is to set up a new law not to revise any of the other laws, so it would spend more time from its consultation to final, so at least during this period, the Group's VIE contractual arrangements will be legal.

There are uncertainties as to whether the Company can maintain the Taiwan VIE structure in the future. If Ambow Education Management (Hong Kong) Ltd. is classified as "organization of the Mainland Area", there may be a material impact to the viability to our current corporate structure, corporate governance and business operations. The Company may potentially be subject to fines and/or administrative or criminal liabilities.

The Company's operations depend on the VIEs and their respective shareholders to honor their contractual agreements with the Company. All of these agreements between the Company and Ambow Shida, Ambow Shanghai, Ambow Sihua, Ambow Rongye and Ambow Zhixin are governed by PRC law and provide for the resolution of disputes through arbitration in the PRC. Agreements between the Company and IValley are governed by Taiwan laws and regulations and provide for the resolution of disputes through arbitration in the Taipei. The management believes that the VIE agreements are in compliance with PRC and Taiwan laws and are legally enforceable.

However, the interpretation and implementation of the laws and regulations in the PRC and their application to the legality, binding effect and enforceability of contracts are subject to the discretion of competent PRC authorities, and therefore there is no assurance that relevant PRC authorities will take the same position as the Group herein in respect of the legality, binding effect and enforceability of each of the contractual agreements. Meanwhile, since the PRC legal system continues to rapidly evolve, the interpretations of many laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involve uncertainties, which may limit legal protections available to the Company to enforce the contractual arrangements should the VIEs or their shareholders fail to perform their obligation under those arrangements.

In addition, if the Company is unable to maintain effective control over its VIEs, the Company would not be able to continue to consolidate the Group's VIEs' financial results with its financial results. The Company's ability to conduct its education business may be negatively affected if the PRC government were to carry out of any of the aforementioned actions. As a result, the Company may not be able to consolidate Ambow Shanghai, Ambow Shida, Ambow Sihua, Ambow Rongye, Ambow Zhixin and IValley, their respective schools and subsidiaries in its consolidated financial statements as it may lose the ability to exert effective control over these entities and their respective schools and subsidiaries and their shareholders, and it may lose the ability to receive economic benefits from these respective entities, schools and subsidiaries. The Company, however, does not believe such actions would result in the liquidation or dissolution of the Company, the subsidiaries or the VIEs, and believes that the risk of losing the ability to maintain effective control over its VIEs is remote.

Currently there are no contractual arrangements that could require the Company to provide additional financial support to the VIEs. As the Company is conducting its PRC educational and career enhancement services through the VIEs and their subsidiaries, and PRC intellectualized operational services through IValley and its subsidiaries, the Company may provide such support on a discretional basis in the future, which could expose the Company to a loss.

Financial information of the VIEs and their subsidiaries/schools:

The combined financial information of the Group's VIEs and, as applicable, subsidiaries/schools of the Group's VIEs was included in the accompanying consolidated financial statements of the Group as follows:

	As of December 31,	
	2017	2018
	RMB	RMB
Total assets	706,096	743,097
Total liabilities	553,936	527,339

	Years ended December 31,		
	2016	2017	2018
	RMB	RMB	RMB
Net revenue	409,391	426,118	447,834
Net (loss) income	(12,805)	41,636	66,185

The following table sets forth cash and cash equivalents held by the Group's VIEs and non-VIE in PRC by RMB currency as of December 31, 2017 and 2018:

	As of December 31,	
	2017	2018
	RMB	RMB
VIEs in PRC	169,178	187,815
Non-VIEs in PRC	4,178	2,179
Total RMB	173,356	189,994

2. GOING CONCERN

Liquidity and Capital Resources

As of December 31, 2018, the Group's consolidated current liabilities exceeded its consolidated current assets by approximately RMB 89,747. The Group's consolidated net assets were amounting to RMB 262,771 as of December 31, 2018. In addition, the Group has lease commitment of RMB 170,633 as of December 31, 2018, of which RMB 35,325 was within one year. The Group's operating results for future periods are subject to numerous uncertainties and it is uncertain if the Group will be able to maintain a net income position 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.

The Group's principal sources of liquidity have been cash provided by operating activities. As of December 31, 2018, the Group had RMB 211, 436 in unrestricted cash and cash equivalents. The Group's 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. As of December 31, 2018, the Group had RMB 196,339 in unrestricted cash and cash equivalents from VIEs.

Management plan and actions

The Group had approximately RMB 47,208 and RMB 70,000 short term investments, available for sale and short term investments, held to maturity as of December 31, 2018, which was held as short-term investments to be liquid on the expiration date before the end of 2019.

Historically, the Group has addressed liquidity requirements through a series of cost reduction initiatives, debt borrowings and the sale of subsidiaries and other non-performing assets. In 2018 the Group successfully completed its public offering of 2,070,000 ADSs at US$4.25 per ADS, and received net proceeds of RMB 45,402 (US$ 7,113) after deducting underwriting discounts and commissions and offering expenses. From 2018 and onwards, the Group is focusing on the development of core cash-generating business. If a subsidiary requires continuous cash in operations instead of generating cash, the Company would rather close it or sell it. In 2018, the Group's new business plan has adjusted to focus on enhancing current business, improving operation efficiency and profitability, and enhancing its internal control procedures. Actions include initiating a career-oriented Cross-Border College Program, expanding Financial Share Service Centers across the Group wide and standardizing the Group's Finance and Operation Policies throughout the Group; implementing enhanced vendor review and selection processes as well as implementing ERP systems to standardize operations, enhance internal controls on payable management, create synergy of the Group's

resources, and put forward efforts to pursue historical receivables.

Conclusion

The Group believes that available cash and cash equivalents, short term investments, available for sale and short term investments, held to maturity, 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 after the date that the financial statements are issued 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, initiating additional public offerings, 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.

3. SIGNIFICANT ACCOUNTING POLICIES

a. Basis of presentation

The consolidated financial statements of the Group have been prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP"). All amounts in the accompanying consolidated financial statements and notes are expressed in Renminbi ("RMB"). Amounts in United States dollars ("US$") are presented solely for the convenience of readers and use an exchange rate of RMB 6.8755, representing the middle rate as set forth in the H.10 statistical release of the U.S. Federal Reserve Board as of December 31, 2018. No representation is made that the RMB amounts could have been, or could be, converted into US$ at such rate.

b. Use of estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates, judgments, and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses and the related disclosure of contingent assets and liabilities. On an on-going basis, the Group evaluates its estimates, including those related to the useful lives of long-lived assets including property and equipment, stock-based compensation, impairment of goodwill and other intangible assets, income taxes, provision for doubtful accounts and contingencies. The Group bases its estimates of the carrying value of certain assets and liabilities on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, when these carrying values are not readily available from other sources. Actual results may differ from these estimates.

c. Basis of consolidation

All significant inter-company transactions and balances have been eliminated upon consolidation. Non-controlling interests represent the equity interests in the Company's subsidiaries and VIEs that are not attributable, either directly or indirectly, to the Company.

The consolidated financial statements include the financial statements of the Company, its subsidiaries and its VIEs.

d. Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, cash in bank with no restrictions, as well as highly liquid investments which are unrestricted as to withdrawal or use, and which have remaining maturities of three months or less when initially purchased.

e. Restricted cash

Restricted cash relates to special deposit accounts required by the Education Commission for the purpose of preventing abusive use of tuition and fees of educational and training institutions, and cash frozen by a court order during an ongoing legal proceeding. Please refer to Note 19 for detail.

f. Short term investments

Short term investments consist of held-to-maturity investments and available-for-sale investments.

The Group's held-to-maturity investments consist of financial products purchased from banks. The Group's short-term held-to-maturity investments are classified as short-term investments on the consolidated balance sheets based on their contractual maturity dates which are less than one year and are stated at their amortized costs.

Investments classified as available-for-sale investments are carried at their fair values and the unrealized gains or losses from the changes in fair values are reported net of tax in accumulated other comprehensive income until realized.

The Group reviews its investments for other-than-temporary impairment ("OTTI") based on the specific identification method. The Group considers available quantitative and qualitative evidence in evaluating potential impairment of its investments. If the cost of an investment exceeds the investment's fair value, the Group considers, among other factors, general market conditions, expected future performance of the investees, the duration and the extent to which the fair value of the investment is less than the cost, and the Group's intent and ability to hold the investment. OTTI is recognized as a loss in the income statement.

g. Accounts receivable

Accounts receivable mainly represent the amounts due from the customers or students of the Company's various subsidiaries and VIEs.

h. Allowance for doubtful accounts

An allowance for doubtful accounts is recorded in the period in which a loss is determined to be probable based on an assessment of specific evidence indicating doubtful collection, historical experience, account balance aging and prevailing economic conditions. Doubtful accounts balances are written off and deducted from allowance, when receivable are deemed uncollectible, after all collection efforts have been exhausted and the potential for recovery is considered remote.

i. Land use rights

Land use rights are recorded at cost less accumulated amortization. Amortization is provided on straight-line basis over the useful life of land use right.

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j. Property and equipment

Property and equipment is stated at cost less accumulated depreciation. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

Buildings	20-40 years
Motor vehicles	5 years
Office and computer equipment	3-10 years
Leasehold improvements	Shorter of the remaining lease terms or estimated useful lives

k. Business combinations

Business combinations are recorded using the acquisition method of accounting. The assets acquired, the liabilities assumed, and any non-controlling interests of the acquiree at the acquisition date, if any, are measured at their fair values as of the acquisition date. Goodwill is recognized and measured as the excess of the total consideration transferred plus the fair value of any non-controlling interest of the acquiree and fair value of previously held equity interest in the acquiree, if any, at the acquisition date over the fair values of the identifiable net assets acquired. Common forms of the consideration made in acquisitions include cash and common equity instruments. Consideration transferred in a business acquisition is measured at the fair value as of the date of acquisition. Acquisition-related expenses and restructuring costs are expensed as incurred.

Where the consideration in an acquisition includes contingent consideration the payment of which depends on the achievement of certain specified conditions post-acquisition, the contingent consideration is recognized and measured at its fair value at the acquisition date and is recorded as a liability, it is subsequently remeasured at fair value at each reporting date with changes in fair value reflected in earnings.

Business combinations occurred during the year ended December 31, 2017 are disclosed in Note 22. There was no business combination occurred during the year ended December 31, 2018.

l. Intangible assets

Intangible assets represent brand, software, trade name, student population, corporative agreement, customer relationship, favorable lease, and 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 Group 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 10):

Software	2 years to 10 years
Student populations	1.8 years to 15 years
Cooperative agreements	1.3 years to 10 years
Favorable leases	0.8 years to 20 years
Trade names	Indefinite
Brand	Indefinite

The Group has determined that trade names and brand 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 and brand. Consequently, the carrying amounts of trade names and brand 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 and brand exceed their fair values.

The Group 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 approaches. 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.

m. Segments

The Group evaluates a reporting unit by first identifying its operating segments, and then evaluates each operating segment to determine if it includes one or more components that constitute a business. If there are components within an operating segment that meets the definition of a business, the Group evaluates those components to determine if they must be aggregated into one or more reporting units. If applicable, when determining if it is appropriate to aggregate different operating segments, the Group determines if the segments are economically similar and, if so, the operating segments are aggregated. The Group has three reportable segments in 2016, and four reportable segments in 2017 and 2018. For further details, see Note 20.

n. Goodwill

Goodwill represents the future economic benefits arising from other assets acquired in a business combination or an acquisition by an 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. The Group performed impairment analysis on goodwill as of September 30 every year either beginning with a qualitative assessment, or starting with the quantitative assessment instead. The quantitative goodwill impairment test compares the fair values of each reporting unit to its carrying amount, including goodwill. A reporting unit constitutes a business for which discrete profit and loss financial information is available. The fair value of each reporting unit is established using a combination of expected present value of future cash flows. If the fair value of each reporting unit exceeds its carrying amount, goodwill is not considered to be impaired. If the carrying amount of a reporting unit exceeds its fair value, an impairment loss shall be recognized in an amount equal to that excess, limited to the total amount of goodwill allocated to that reporting unit.

Determining when to test for impairment, the Group’s 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 comparable. The Group bases fair value estimates on assumptions it believes 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 Group’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.

o. Impairment of long-lived assets

The Group reviews its 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, the Group measures 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, the Group would recognize an impairment loss, which is the excess of carrying amount over the fair value of the assets, using the expected future discounted cash flows.

p. Extinguishments of liabilities

The Group derecognizes a liability only if it has been extinguished. A liability has been extinguished if either the Group pays the creditor and is relieved of its obligation for the liability, or the Group is legally released from the liability judicially or by the creditor. In 2018, the Group derecognized liabilities with long aging over certain years and no claim of debts have been received by the Group, and liability which creditor has ceased to exist legally. Please see Note 24 for detail.

q. Revenue recognition

The Group has adopted ASC 606 Revenue from Contracts with Customers using the modified retrospective transition method from January 1, 2018. The Group's revenue is generated from delivering educational programs and services and intellectualized operational services.

The core principle of ASC 606 is that an entity recognizes revenue when control of the promised goods or services is transferred to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that principal, the Group applies the following steps:

Step 1: Identify the contract(s) with a customer;

Step 2: Identify the performance obligations in the contract;

Step 3: Determine the transaction price;

Step 4: Allocate the transaction price to the performance obligations in the contract;

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

The Group has four operating segments, including Tutoring, K-12 Schools, Career Enhancement and Others. Tutoring and K-12 schools provide tutoring services and K-12 educational programs to pre-school children, primary and secondary students in China. Bay State College in Career Enhancement offers career-focused post-secondary educational services to undergraduate students in U.S. The rest of Career Enhancement provide vocational education services to partner colleges' students, or to provide boarding and accommodation services to colleges or corporate customers, or to provide short term outward bound and in-house training services to corporate clients. Segment Others provides intellectualized operational services to corporate clients, colleges and universities.

For customers including pre-school children, primary and secondary students and undergraduate students, usually there are no written formal contracts between the Group and the students according to business practice. Records with students' name, grade, tuition and fee collected are signed or confirmed by students. Academic requirements and each party's rights are communicated with students through enrollment brochures or daily teaching and academic activities. For customers including colleges and corporate clients, there are written formal contracts with these customers which include charge rate, contract amounts, each party's rights and obligations and payment terms.

For customers including pre-school children, primary and secondary students and undergraduate students, the Group's performance obligations are to provide acknowledged academic education from kindergarten till grade twelve to school-aged students within academic years, post-secondary education with Associates and Bachelor's programs and

extracurricular tutoring services within agreed-upon periods. For customers including colleges and corporate clients, the Group's performance obligations are to provide customized vocational educational services to college students within academic years; or to provide boarding and accommodation services to customers for agreed-upon periods; or to provide short term outward bound and in-house training services to corporate clients within agreed-upon periods; or to provide intellectualized operational services and warranty of agreed period of time.

For customers including pre-school children, primary and secondary students and undergraduate students, transaction price of each customer is tuition and fee received normally up front. For customers including colleges and corporate clients, transaction price of each customer is service fee in the contract, net of value added tax, and would be received either up front or within payment terms depending on customers' situation. Circumstances like other variable consideration, significant financing component, noncash consideration, consideration payable to a customer did not exist.

For customers including pre-school children, primary and secondary students, undergraduate students, colleges and corporate clients, the Group identified one performance obligation. The transaction prices are allocated to the one performance obligation. For operating segment Others with corporate or college customers, the Group identified two distinct performance obligations, which is to provide intellectualized operational services and warranty, since customers obtain different benefits from the two services separately and these two services are usually quoted to customers with stand-alone prices, which are determined by cost of services plus certain amount of profit. The transaction price from the contract is allocated according to stand-alone selling prices of each obligation.

For customers including pre-school children, primary and secondary students and undergraduate students, the Group satisfy performance obligations to students over time, and recognize revenue according to tutoring hours or school days consumed in each month of a semester. For operating segment Career Enhancement with college and corporate clients, the Group satisfy performance obligations to customers over time, and recognize revenue according to the number of months within the academic year, or training days consumed in each month, or boarding service days within each month. For segment Others with college and corporate client, the Group satisfy intellectualized operational service performance obligations to customers over time, use the cost-based input method to depict its performance in transferring control of services promised to the clients. Such input measure is determined by the proportional relation of the contract costs incurred to date relative to the estimated total contract costs at completion. For performance obligation of warranty, the change of control would be transferred to the customer over time. The Group recognize revenue using a straight line method within the whole warranty period.

Disaggregation of revenues

The following table illustrates the disaggregation of revenue by operating segments for the year of 2016, 2017 and 2018:

(RMB in thousands)	Better School			Better Job		
	Tutoring	K-12	Subtotal	Career Enhancement	Others	Consolidated
	RMB	RMB	RMB	RMB	RMB	
Net Revenues in 2016	47,985	222,592	270,577	141,439	-	412,016
Net Revenues in 2017	55,371	232,433	287,804	144,950	11,170	443,924
Net Revenues in 2018	46,820	277,790	324,610	200,524	6,374	531,508

Contract Balances

The transferred control of promised services to customers result in the Group's unconditional rights and conditional consideration receivable on passage of time. Accordingly as of December 31, 2017 and 2018, the Group has no other contract assets except for Accounts Receivable, in RMB 24,511 and RMB 18,132, respectively. Please refer to Note 6 for detail.

As of December 31, 2018, the Group's Deferred Revenue represented its contract liabilities, which represent the Group has received consideration but has not transferred the related services to customers. RMB 109,484 and RMB 114,396 have been recognized as revenue from Deferred Revenue at the beginning of the years ended December 31, 2017 and 2018, respectively. The remaining unsatisfied performance obligations as of December 31, 2017 and 2018 were RMB 119,581 and RMB 125,414, respectively.

Following are the deferred revenue balances by segments as of December 31, 2017 and 2018.

As of December 31,	
2017	2018
RMB	RMB

Career Enhancement	21,496	24,333
K-12	77,394	87,027
Tutoring	15,506	12,890
Total	114,396	124,250

r. Cost of revenues

Cost of revenues for educational programs and services primarily consist of teaching fees and performance-linked bonuses paid to the teachers, rental payments for the schools and learning centers, depreciation and amortization of property, equipment and land use rights used in the provision of educational services, costs of educational materials.

Cost of revenues for intellectualized operational services primarily include cost of hardware, devices, materials and application services which were procured and integrated, subcontract cost to other service providers and labor cost of engineers and IT development and operational personnel.

s. Leases

Operating lease

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Minimum lease payments, including scheduled rent increases, made under operating leases are charged to the consolidated statements of operations and other comprehensive income (loss) on a straight-line basis over the lease term. Contingent rentals are excluded from minimum lease payments, and are recognized as expense when the achievement of the specified target is considered probable.

Capital lease

When the lease term is equal to 75 percent or more of the estimated economic life of the leased property, the lease is classified as a capital lease, where the lessee assumes substantially all the benefits and risks of ownership. The depreciation is calculated on a straight-line basis over the lease term.

In a capital lease, assets and liabilities are recorded at the amount of the lesser of (a) the fair value of the leased asset at the inception of the lease or (b) the present value of the minimum lease payments (excluding executing costs) over the lease term. Recorded assets are depreciated over the lease terms. During the lease term, each minimum lease payment is allocated between a reduction of the obligation and interest expense to produce a constant periodic rate of interest on the remaining balance of the obligation.

t. Research and development

Research and development expenses comprise of (a) payroll, employee benefits, and other headcount-related costs associated with the development of online education technology platforms and courseware, and (b) outsourced development costs. Except for costs related to internal use software and website development costs, the Group expenses all other research and development costs when incurred for the years presented.

For internal use software, the Group expenses all costs that are incurred in connection with the planning and implementation phases of development and costs that are associated with repair or maintenance of the existing software. Direct costs incurred to develop the software during the application development stage that can provide future benefits are capitalized.

Capitalized internal use software and website development costs are included in intangible assets.

u. Advertising costs

The Group expenses advertising costs as incurred. Total advertising expenses were RMB 1,857, RMB 2,701 and RMB 8,450 for the years ended December 31, 2016, 2017 and 2018, respectively, and have been included as part of selling and marketing expenses.

v. Foreign currency translation and transactions

The Group uses RMB as its reporting currency. The functional currency of the Company and its subsidiaries incorporated in the Cayman Islands, Hong Kong, the British Virgin Islands and United States is the US$; the functional currency of the Company's subsidiary in Taiwan is the TWD; while the functional currency of the other entities in the Group is the RMB. In the consolidated financial statements, the financial information of the Company and its subsidiaries, which use US$ and TWD 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 each quarter. 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 remeasured 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 remeasurement at year-end are recognized in foreign currency exchange gain/loss, net on the consolidated statement of operations.

w. Foreign currency risk

The RMB is regulated by the PRC government and is not a freely convertible currency. The State Administration for Foreign Exchange, under the authority of the People's Bank of PRC, controls the conversion of RMB into foreign currencies. Limitations on foreign exchange transactions imposed by the PRC government could cause future exchange rates to vary significantly from current or historical exchange rates. Further, the value of RMB is subject to changes in central government policies and to international economic and political developments affecting supply and demand in the PRC Foreign Exchange Trading System market.

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x. Fair value of financial instruments

Financial instruments include cash and cash equivalents, short term investments, available for sale and short term investments, held to maturity, accounts receivable, accounts payable, borrowings, amounts due from and due to related parties, and loan receivable, current. The carrying values of the financial instruments approximate their fair values due to their short-term maturities.

y. Net income (loss) per share

Basic earnings per share is computed by dividing net income/(loss) attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year. Diluted earnings per share is calculated by dividing net income/(loss) attributable to ordinary shareholders as adjusted for the effect of dilutive ordinary equivalent shares, if any, by the weighted average number of ordinary and dilutive ordinary equivalent shares outstanding during the year. Ordinary equivalent shares consist of the ordinary shares issuable upon the exercise of outstanding share options (using the treasury stock method) and the ordinary shares issuable upon the vest of restricted shares. Ordinary equivalent shares are excluded from the computation of the diluted net income per share in years when their effect would be anti-dilutive. Ordinary equivalent shares are also excluded from the calculation in loss periods, as their effects would be anti-dilutive.

z. Income taxes

Income taxes are provided for in accordance with the laws of the relevant taxing authorities. 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 that some portion or all of the deferred tax assets will not be realized. All the deferred tax liabilities and assets have been classified as noncurrent in the consolidated balance sheets.

Deferred tax liabilities and assets are classified as noncurrent and presented with a netted off amount in the consolidated balance sheets as of December 31, 2017 and 2018, respectively.

aa. Uncertain tax positions

The Group adopted the guidance on accounting for uncertainty in income taxes, which 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 the 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 Group's uncertain tax positions and determining its provision for income taxes. The Group establishes 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 the Group believes that certain positions might be challenged despite its belief that its tax return positions are in accordance with applicable tax laws. The Group adjusts 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.

bb. Comprehensive income

U.S. GAAP generally requires that recognized revenue, expenses, gains and losses be included in net income or loss. Although certain changes in assets and liabilities are reported as separate components of the equity section of the consolidated balance sheet, such items, along with net income, are components of comprehensive income or loss. The components of other comprehensive income or loss consist of unrealized gain or loss on short term investments, available for sale and foreign currency translation adjustments.

cc. Share-based compensation

The Group grants share options/restricted stock to its employees and directors. The Group measures the cost of employee services received 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. The Group records stock-based compensation expense on a straight-line basis over the requisite service period, generally ranging from one year to four years.

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

dd. Loss contingencies

An estimated loss contingency is accrued and charged to the consolidated statements of operations and other comprehensive income (loss) if both of the following conditions are met: (1) Information available prior to issuance of the financial statements indicates that it is probable that an asset had been impaired or a liability had been incurred at the date of the financial statements. It is implicit in this condition that it must be probable that one or more future events will occur confirming the fact of the loss; (2) The amount of loss can be reasonably estimated.

The Group reviews its contingent issues on a timely basis to identify whether the above conditions are met.

ee. Recently issued accounting standards

In February 2016, the FASB issued ASU No. 2016-02, Leases. The new standard creates Topic 842, Leases, in the FASB Accounting Standards Codification (FASB ASC) and supersedes FASB ASC 840, Leases. ASU 2016-02 requires a lessee to recognize the assets and liabilities that arise from leases (operating and finance). However, for leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election not to recognize lease assets and lease liabilities. If a lessee makes this election, it should recognize lease expense for such leases generally on a straight-line basis over the lease term. For public business entities, the amendments in this update are effective for financial statements issued for annual periods beginning after December 15, 2018, and interim periods within those annual periods. Earlier application is permitted for all entities as of the beginning of an interim or annual reporting period. In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. In July 2018, the FASB issued ASU No. 2018-10, Codification Improvements to Topic 842, Leases. The amendments in this update affect narrow aspects of ASU No. 2016-02. In July 2018, the FASB issued 2018-11, Leases (Topic 842): Targeted Improvements. This update introduces a new and optional transition method to adopt the new lease standard. The Company has completed its assessment of the impact that adopting this new accounting guidance will have on its consolidated financial statements and disclosures. Based on its evaluation of ASU No. 2016-02, the Company expects the recognition of lease assets and lease liabilities for operating leases on its statements of financial position as of January 1 and December 31, 2019 after adoption using the modified retrospective method. The Company expects no material impact on its results of operations or cash flows in the periods after adoption and comparative periods presented in the financial statements.

In February 2018, the FASB issued guidance to address the income tax accounting treatment of the tax effects within other comprehensive income due to the enactment of the Tax Cuts and Jobs Act (the “Tax Act”). This guidance allows entities to elect to reclassify the tax effects of the change in the income tax rates from other comprehensive income to retained earnings. The guidance is effective for periods beginning after December 15, 2018 although early adoption is permitted. In March 2018, the FASB issued ASU No. 2018-05, Income Tax (Topic 740) - Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118. This update adds SEC paragraphs pursuant to the SEC Staff Accounting Bulletin No. 118, which expresses the view of the staff regarding application of Topic 740, Income Taxes, in the reporting period that includes December 22, 2017 - the date on which the Tax Act was signed

into law. The Company has completed the assessment of the adoption of this guidance on its consolidated financial statements, and monitored future guidance with respect to the Transition Tax Provisions under the Tax Act, and true up the estimate as appropriate within one year measurement period. No later adjustment was noticed.

In August 2018, the FASB issued ASU No. 2018-13, Fair Value Measurement (Topic 820)-Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement. ASU 2018-13 removes the amounts and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy and the valuation processes for Level 3 fair value measurements; modifies certain disclosure requirements in Topic 820; and require additional disclosures such as the range and weighted average of significant unobservable inputs used to develop Level 3 measurements etc. ASU No. 2018-13 is effective for the Company beginning in the first quarter of fiscal year 2020. The Company does not expect the adoption of ASU No. 2018-13 will have a significant effect on its consolidated financial statements.

Recently issued ASUs by the FASB, except for the ones mentioned above, have no material impact on the Company’s consolidated results of operations or financial position.

4. CASH, CASH EQUIVALENTS AND RESTRICTED CASH

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the consolidated balance sheets that sum to the total of the same such amounts shown in the consolidated statements of cash flows.

	Years ended December 31,		
	2016	2017	2018
	RMB	RMB	RMB
Cash and cash equivalents	196,900	195,303	211,436
Restricted cash	2,350	2,350	30,072
Total cash, cash equivalents, and restricted cash shown in the consolidated statements of cash flows	199,250	197,653	241,508

5. SHORT TERM INVESTMENTS

Short term investments consist of held-to-maturity investments and available-for-sale investments.

Held to maturity investments

Held-to-maturity investments consist of various fixed-income financial products purchased from Chinese commercial banks, which are classified as held-to-maturity investments as the Group has the positive intent and ability to hold the investments to maturity. The maturities of these financial products range from thirty to ninety-eight days, with annual interest rates ranging from 3.90% to 4.48% and matured and fully collected with principal and interest as of the date of this report. They are classified as short term investments on the consolidated balance sheets as its contractual maturity dates are less than one year. The repayments of principal of the financial products are not guaranteed by the Chinese commercial banks from which the fixed income financial products were purchased. Historically, the Company has received the principal and the interest in full upon maturity of these investments.

While these fixed-income financial products are not publicly traded, the Company estimated that their fair value approximate their amortized costs considering their short term maturities and high credit quality. No OTTI loss was recognized for the year ended December 31, 2018.

Available-for-sale investments

Investments other than held-to-maturity are classified as available-for-sale investments, which consist of various adjustable-income financial products purchased from Chinese commercial banks. All the available for sale investments did not have maturity date. They are classified as short-term investments on the consolidated balance sheets as management intends to hold them for a period less than one year.

Available-for-sale securities are carried at their fair values and the unrealized gains or losses from the changes in fair values are included in accumulated other comprehensive income. The aging of all the available-for-sale investments were less than 12 months as of December 31, 2018. No OTTI loss was recognized for the year ended December 31, 2018.

The amortized cost, gross unrealized gain in accumulated other comprehensive income, and estimated fair value of investments as of December 31, 2017 and 2018, are reflected in the tables below:

	As of December 31, 2017		
	Amortized Cost	Gross unrealized gain in accumulated other comprehensive income	Estimated Fair value
	RMB	RMB	RMB
Short-term investments:			
Held-to-maturity investments			
Fixed-rate financial products	93,000	-	93,000
Available-for-sale investments			
Adjustable-rate financial products	128,000	42	128,042

	As of December 31, 2018		
	Amortized Cost	Gross unrealized gain in accumulated other comprehensive income	Estimated Fair value
	RMB	RMB	RMB
Short-term investments:			
Held-to-maturity investments			
Fixed-rate financial products	70,000	-	70,000
Available-for-sale investments			
Adjustable-rate financial products	47,000	208	47,208

Interest income recognized on held-to-maturity investments for years ended December 31, 2016, 2017 and 2018 were as follows:

	Year Ended December 31,			
	2016	2017	2018	2018
	RMB	RMB	RMB	USD
Interest income recognized on held-to-maturity investments	4,078	3,799	5,836	849

6. ACCOUNTS RECEIVABLE, NET

Accounts receivable consisted of the following:

	As of December 31,	
	2017	2018
	RMB	RMB
Accounts receivable	25,257	21,667
Less: Allowance for doubtful accounts	(746)	(3,535)
Accounts receivable, net	24,511	18,132

Allowance for doubtful accounts:

	As of December 31,

	2017 RMB	2018 RMB
Balance at beginning of year	-	(746)
Addition (Note i)	(746)	(4,616)
Written off (Note i)	-	1,827
Balance at end of year	(746)	(3,535)

(Note i) Full provision was provided to receivables due from different customers due to the remote collectability, and certain provision was written off after all collection efforts have been exhausted and the potential for recovery was remote.

7. PREPAID AND OTHER CURRENT ASSETS, NET

Prepaid and other current assets consisted of the following:

	As of December 31,	
	2017	2018
	RMB	RMB
Amount due from Xihua Group (Note i)	49,800	49,800
Value added tax refundable	5,165	5,165
Due from former owners	5,743	5,743
Staff advances	5,857	7,885
Rental deposits	3,804	3,522
Prepaid professional services fees	6,513	5,053
Prepaid rental fees	5,520	7,794
Receivable from Zhenjiang operating rights (Note ii)	35,000	35,000
Others (Note iii)	23,327	24,462
Total before allowance for doubtful accounts	140,729	144,424
Less: allowance for doubtful accounts	(11,212)	(9,654)
Total	129,517	134,770

Allowance for doubtful accounts:

	As of December 31,	
	2017	2018
	RMB	RMB
Balance at beginning of year	(179,055)	(11,212)
Addition (Note iv)	(2,690)	(1,029)
Written off	150,886	2,587
Decrease due to disposal of subsidiaries (Note v)	19,647	-
Balance at end of year	(11,212)	(9,654)

(Note i) A payable balance amounted to RMB 49,800 was recorded by a subsidiary prior to its acquisition by the Group, and such payable was indemnified by Xihua Investment Group (“Xihua Group). No provision was made for the indemnity. The indemnity balance was still outstanding as of the date of issuance of the financial statements.

(Note ii) The balance represented the prepaid operating rights to the Zhenjiang Foreign Language School and Zhenjiang International School. The Group started a negotiation of returning the operating right back to the original owner Zhenjiang Education Investment Center in the third quarter of 2011. As a result, the prepaid operating rights have been reclassified as receivable since then. As of December 31, 2017 and 2018, the payable balance to Zhenjiang Foreign Language School amounted to RMB 36,770 and RMB 36,770, respectively (see Note 13); therefore, no provision was made. As of the date of issuance of the financial statements, the negotiation was still in progress.

(Note iii) Others mainly included inventory, prepaid education supplies, prepaid outsourcing service fee, and other miscellaneous items with trivial amounts.

(Note iv) Other addition of allowance during the years of 2017 and 2018 was mainly provided against third parties and former employees due to the remote recoverability.

(Note v) In the year ended December 31, 2018, the Group negotiated and recovered receivables due from Xihua Group in RMB 20,000. It was part of receivables from Xihua Group which had been provided with allowance and written off in the year of 2012 in RMB 46,829, because our management had to focus on JPL process in 2012 and following years till 2014, and did not have enough resources to put towards collection of such receivables back then. In 2018, Xihua Group was searching for a business cooperation agreement with the Group, which led to the collection of the receivable in RMB 20,000 as a final settlement of historical receivables as aforementioned. As of December 31, 2018, RMB 20,000 has been fully collected by the Group.

8. LOAN RECEIVABLE, CURRENT

The following table sets forth the loan agreement in loan receivable, current balance:

Date	Borrower	Lender	Amount (RMB)	Annual Interest Rate	Repayment Due Date
4/5/2017	Suzhou Zhixinliren Investments Co., Limited (“Suzhou Zhixinliren”)	Ambow Shengying	42,677	0 %	4/4/2019

On April 5, 2017, Ambow Shengying entered into an agreement to provide an interest-free loan to Suzhou Zhixinliren in the amount of RMB 42,677, with a maturity of April 4, 2018. On March 7, 2018, Ambow Shengying entered into a supplementary agreement with Suzhou Zhixinliren to extend the term of loan for additional one year. The extended maturity date of the loan is April 4, 2019. Suzhou Zhixinliren is a non-affiliate third party to the Company.

As of December 31, 2017 and 2018, the Company has RMB 42,677 and RMB 42,677 of long-term loan receivable and loan receivable, current from Suzhou Zhixinliren, respectively.

In order to meet the Company's acquisition fund and working capital needs in US Dollars, on April 5, 2017, the Company entered into an agreement to receive an interest-free loan from Sino Accord Investments Limited ("Sino Accord") in the amount of US$ 6,000 (equivalent to RMB 41,179). The due date of the loan was April 4, 2018. On March 7, 2018, the Company entered into a supplementary agreement with Sino Accord to extend the term of loan for additional one year. The extended maturity date of the loan is April 4, 2019. Sino Accord is a non-affiliated party to the Company. Through an understanding among the Company, Ambow Shengying, Suzhou Zhixinliren and Sino Accord, the borrowing due to Sino Accord, current at amount of US$ 6,000 is correlated to the loan receivable, current at amount of RMB 42,677. It is the understanding among the parties that when the borrowing from third party, current is repaid, the loan receivable, current will similarly be collected.

9. PROPERTY AND EQUIPMENT, NET

Property and equipment consisted of the following:

	As of December 31,	
	2017	2018
	RMB	RMB
Buildings	127,914	128,050
Capital lease of property	12,000	12,000
Motor vehicles	4,054	4,783
Office and computer equipment	69,804	67,555
Leasehold improvements	72,542	80,339
Sub-total	286,314	292,727
Less: accumulated depreciation	(117,891)	(126,794)
Total	168,423	165,933

For the years ended December 31, 2016, 2017 and 2018, depreciation expenses were RMB 17,620, RMB 17,103 and RMB 19,973, respectively, which were recorded in cost of revenues, selling and marketing expenses, general and administrative expenses and research and development expenses.

The capital leases of properties of Shenyang K-12 School was RMB 12,000, which commenced from December 30, 2010. As at December 31, 2017 and 2018, the accumulated depreciation of Shenyang K-12 School's capital lease of properties were RMB 4,350 and RMB 4,950 respectively. For the years ended December 31, 2016, 2017 and 2018, depreciation expenses were RMB 600, RMB 600 and RMB 600 respectively and recorded in cost of revenues.

As of December 31, 2018, the Group is in the process of applying for the building ownership certificates for certain buildings with a total net carrying value of approximately RMB 32,838.

10. INTANGIBLE ASSETS, NET

Intangible assets consisted of the following:

	As of December 31,	
	2017	2018
	RMB	RMB
Gross carrying amount		
Trade names	48,908	48,908
Brand	5,920	5,920
Student populations	39,818	39,818
Software	33,770	35,421
Customer relationships	5,270	5,270
Cooperative agreements	5,230	5,230
Favorable leases	63,237	63,237
Non-compete agreements	833	833
	202,986	204,637
Less: Accumulated amortization		
Trade names	-	-
Brand	-	-
Student populations	(37,580)	(38,476)
Software	(32,712)	(34,200)
Customer relationships	(5,270)	(5,270)
Cooperative agreements	(3,554)	(4,062)
Favorable leases	(26,268)	(29,384)
Non-compete agreements	(833)	(833)
	(106,217)	(112,225)
Intangible assets, net		
Trade names	48,908	48,908
Brand	5,920	5,920
Student populations	2,238	1,342

Software	1,058	1,221
Customer relationships	-	-
Cooperative agreements	1,676	1,168
Favorable leases	36,969	33,853
Non-compete agreements	-	-
	96,769	92,412

The Group recorded impairment loss of trade names in RMB 2,655 and RMB nil in the year of 2016 and 2017 respectively. For the year ended December 31, 2018, the Group performed impairment test on the Trade name, Brand and other finite lived intangible assets. No impairment loss incurred thereof.

Amortization expenses for intangible assets amounted to RMB 6,786, RMB 4,782 and RMB 4,651 for the years ended December 31, 2016, 2017 and 2018, respectively, of which RMB 2,466, RMB 1,393 and RMB 1,393 are included in cost of sales and the remaining is included in general and administrative expenses. Based on the current amount of intangible assets subject to amortization, the estimated amortization expenses for each of the future annual periods is as follows:

	Amount RMB
2019	4,598
2020	4,514
2021	3,569
2022	3,370
2023	3,316
Thereafter	18,217
Total	37,584

11. GOODWILL

The changes in the carrying amount of goodwill by reporting unit for the years ended December 31, 2017 and 2018 were as follows:

	Better Schools			Better Jobs	
	Tutoring RMB	K-12 Schools RMB	Subtotal RMB	Career Enhancement RMB	Consolidated RMB
Balance as of December 31, 2017	7,772	25,710	33,482	39,684	73,166
Balance as of December 31, 2018	7,772	25,710	33,482	39,684	73,166

In 2018, the Group elected to start with the quantitative impairment test for goodwill. The management determined that the Income Approach, specifically the Discounted Cash Flow (“DCF”) method, is appropriate. For Tutoring segment, the management has suspended some non-performing business units in the past few years, in order to solidify the operational base and enhance future growth prospects. The rest of the Tutoring segment kept a steady growing trend. For Career Enhancement segment, with the acquisition of Bay State College in November 2017, the revenues of Career Enhancement have increase significantly in the year of 2018. The management would continue to maintain and develop its business in following years. For K-12 segment, the management decided to use a flat and conservative growth rate. Other key assumptions besides cash flow projections included discount rates in the range from 14.8% to 17% and terminal growth rate of 3%. As a result of the above factors, fair value of each reporting unit

was greater than its carrying amount, therefore no impairment loss was recognized for the year ended December 31, 2018.

12. OTHER NON-CURRENT ASSETS, NET

Other non-current assets consisted of the following:

	As of December 31,	
	2017	2018
	RMB	RMB
Prepayment for purchase of minority interest (Note i)	4,504	-
Equity method investments	1,764	2,446
Prepayment for development of internal use software	1,211	1,211
Long-term prepaid rental fees	2,161	4,312
Others	3,952	3,295
Total	13,592	11,264

(Note i) In 2017, the Group prepaid RMB 4,504 to purchase 10% economic interest of Shenyang K-12. The transfer of ownership of such economic interest has been completed in June 2018.

13. ACCRUED AND OTHER LIABILITIES

Accrued and other liabilities consisted of the following:

	As of December 31,	
	2017	2018
	RMB	RMB
Payable to Ambow Online (Note 25)	137,532	25,532
Business tax, VAT and others	41,437	41,147
Payable balance with indemnity by Xihua Group (Note 7(i)	49,800	49,800
Accrual for rental	42,612	43,147
Payable to Zhenjiang Foreign Language School (Note 7(ii))	36,770	36,770
Accrued payroll and welfare	27,383	28,767
Professional service fees payable	20,850	2,801
Receipt in advance	18,578	9,431
Amounts due to students	11,423	5,995
Lawsuit penalty payable	2,315	2,453
Others	30,298	10,482
Total	418,998	256,325

14. BORROWING FROM THIRD PARTY, CURRENT

The following table sets forth the loan agreement of borrowing from third party, current balance:

Date	Borrower	Lender	Amount (RMB)	Original Amount (US$)	Annual Interest Rate	Repayment Due Date
4/5/2017	Ambow Education Holding Ltd.	Sino Accord	41,179	6,000	0 %	4/4/2019

On April 5, 2017, the Company entered into an agreement to receive an interest-free loan from Sino Accord in the amount of US$ 6,000 (equivalent to RMB 41,179 as of December 31, 2018). The due date of the loan was April 4, 2018. Sino Accord is a non-affiliated party to the Company. The loan is to provide the Company with sufficient US dollar-denominated currency to meet its acquisition fund and working capital requirements. On March 7, 2018, the Company entered into a supplementary agreement with Sino Accord to extend the term of loan for additional one year. The extended maturity date of the loan was April 4, 2019.

As of December 31, 2017 and 2018, the Company has RMB 39,205 and RMB 41,179 of long-term borrowings from Sino Accord and borrowing from Sino Accord, current, respectively.

Through an understanding among the Company, Ambow Shengying, Suzhou Zhixinliren and Sino Accord, the borrowing due to Sino Accord, current at amount of US$ 6,000 is correlated to the loan receivable, current at amount of RMB 42,677, please refer to Note 8. It is the understanding among the parties that when the borrowing from third party, current is repaid, the loan receivable, current will similarly be collected.

15. ORDINARY SHARES

As of January 1, 2017, there were 33,990,680 and 4,708,415 Class A and Class C Ordinary Shares issued and outstanding, respectively.

On November 22, 2018, the Board of Directors approved to convert 293,059 outstanding and expired options with an exercise price of US$0.4749 into 293,059 shares of restricted stock. All restricted stock subject to this award shall fully vest as of November 22, 2018.

On November 22, 2018, the Board of Directors approved to grant 200,000 shares of the restricted stock to senior employees of the Company. Twenty-five percent of the awards shall vest on the one year anniversary of the vesting commence date, and the remainder shall vest in equal and continuous monthly installments over the following thirty-six months thereafter, subject to participant's continuing service of the Company through each vesting date. During 2018, nil shares of restricted stock were vested.

As of December 31, 2017, there were 34,206,939 and 4,708,415 Class A and Class C Ordinary Shares issued and outstanding, respectively.

As of December 31, 2018, there were 38,756,289 and 4,708,415 Class A and Class C Ordinary Shares issued and outstanding, respectively.

16. SHARE BASED COMPENSATION

2005 Share Incentive Plan

On February 4, 2005, the Group adopted the 2005 Share Incentive Plan, or the "2005 Plan", under which the Group may grant options to purchase up to 50,000 ordinary shares of the Company to its employees, outside directors and consultants. The Board of Directors subsequently raised the number of options to be granted to 676,078 shares on November 14, 2008. Following the Company's IPO, the Company no longer grants any awards under the 2005 plan. However, the 2005 plan will continue to govern the terms and conditions of any outstanding awards previously granted there under. In the event that any outstanding option or other right for any reason expires, is cancelled, or otherwise terminated, the shares allocable to the unexercised portion of the 2005 Plan or other right shall again be available for the purposes of the 2005 Plan.

An individual who owns more than 10% of the total combined voting power of all classes of outstanding stock of the Company or any parent or subsidiary of the Company shall not be eligible for designation as an optionee or purchaser unless:

(i) the per share exercise price shall be not less than 110% of the fair market value per share on the date of grant;

(ii) the purchase price shall be not less than 100% of the fair market value per share on the date of grant; and

(iii) in the case of an Incentive Shares Option ("ISO"), such ISO by its terms is not exercisable after the expiration of five years from the date of grant.

The 2005 Plan was approved and will terminate automatically 10 years after its adoption, unless terminated earlier at the Board of Directors' discretion. Option awards are granted with an exercise price determined by the Board of Directors; those option awards generally vest based on 4 years of continuous service and expire in 10 years. By December 31, 2015, all option awards of the 2005 Plan were expired.

2010 Equity Incentive Plan

On June 1, 2010, the Group adopted the 2010 Equity Incentive Plan, or the "2010 Plan", which became effective upon the completion of the IPO on August 5, 2010. The 2010 Plan allows the Company to offer a variety of incentive awards to employees, outside directors and consultants. Under the plan, the Group may grant up to 633,333 Class A Ordinary Shares of the Company to its employees, outside directors and consultants, plus (i) any shares that, as of the completion of the IPO, have been reserved but not issued pursuant to awards granted under the 2005 Plan and are not subject to any awards granted there under, and (ii) any shares subject to awards granted under the 2005 Plan that expire or otherwise terminate without having been exercised in full, and shares issued pursuant to awards granted under the 2005 Plan that are forfeited to or repurchased by the Company, with the maximum number of shares to be added to the 2010 Plan pursuant to clauses (i) and (ii) above equal to 333,333 Class A Ordinary Shares; provided, however, that there shall be an annual increase on the first day of each fiscal year beginning with the 2011 Fiscal Year, in an amount equal to the least of (i) 833,333 Class A Ordinary Shares, (ii) 5% of the outstanding Class A

Ordinary Shares on the last day of the immediately preceding fiscal year or (iii) such number of Class A Ordinary Shares determined by the Board of Directors. In the event that any outstanding option or other right for any reason expires, is cancelled, or otherwise terminated, the shares allocable to the unexercised portion of the 2010 Plan or other right shall again be available for the purposes of the 2010 Plan.

The 2010 Plan was approved by the Board of Directors and shareholders, and will terminate automatically 10 years after its adoption, unless terminated earlier at the Board of Directors' discretion. The exercise price will not be less than the fair market value of the Company's ordinary shares on the date of grant and the term may not exceed 10 years. In the case of an ISO granted to an employee of the Company or any parent or subsidiary of the Company who, at the time the ISO is granted, owns stock representing more than 10% of the voting power of all classes of shares of the Company or any parent or subsidiary, the exercise price shall be no less than 110% of the fair market value on the date of grant, and the term of the ISO shall be no less than 5 years from the date of grant.

Amended and Restated 2010 Equity Incentive Plan

On December 21, 2018, the Group amended and restated the 2010 Plan, or the "Amended and Restated 2010 Plan", which became effective upon the approval from the Board of Directors and shareholders. Under the Amended and Restated 2010 Plan, the maximum aggregate number of shares that may be issued under the Plan is such number of Shares as shall be equal to 6,500,000 shares, plus any shares subject to stock options or similar awards granted under the 2005 Plan that expire or otherwise terminate without having been exercised in full and shares issued pursuant to awards granted under the 2005 Plan that are forfeited to or converted by the Company, with the maximum number of Shares to be added to the Plan equal to 293,059 Shares. The number of shares available for issuance under the Amended and Restated 2010 Plan will be increased on the closing day of each future registration (including closing of over-allotment options) during the next two fiscal years ending December 31, 2020, in an amount equal to fifteen percent (15%) of the shares offered in each registration.

Share options

On November 22, 2018, the Board of Directors approved to convert 293,059 outstanding and expired options with an exercise price of US$0.4749 into 293,059 shares of restricted stock. The fair value of the restricted shares was US$2.70 per share, which was based on the quoted price of the Company's ADS on November 21, 2018. All restricted stock subject to this award shall fully vest as of November 22, 2018. As of December 31, 2017 and 2018, options granted to employees to purchase 223,895 and nil ordinary shares and to non-employees to purchase 29,921 and nil ordinary shares were outstanding, and options to purchase 941,978 and nil ordinary shares were still available for future grants. It is the Company's policy to issue new shares upon share option exercise.

A summary of the share option activity as of December 31, 2016, 2017 and 2018 is as follows:

Year ended December 31, 2016 Shares	Year ended December 31, 2017 Shares	Year ended December 31, 2018 Shares

		Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value		Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value		Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
		RMB		RMB		RMB		RMB		RMB		RMB
Outstanding at beginning of year	387,350	3.08	2.59	3,836	256,617	3.30	2.84	4,499	253,816	3.09	1.86	1,186
Granted	-	-	-	-	-	-	-	-	-	-	-	-
Exercised	-	-	-	-	-	-	-	-	-	-	-	-
Forfeited or expired	(130,733)	3.30	-	-	(2,801)	3.09	-	-	-	-	-	-
Converted	-	-	-	-	-	-	-	-	(253,816)	3.09	-	-
Outstanding at end of year	256,617	3.30	2.84	4,499	253,816	3.09	1.86	1,186	-	-	-	-
Exercisable at end of year	256,617	3.30	2.84	4,499	253,816	3.09	1.86	1,186	-	-	-	-
Expected to be vested	-	-	-	-	-	-	-	-	-	-	-	-

Management of the Group is responsible for determining the fair value of options granted and have considered a number of factors when making this determination, including valuations. The Group has not granted options during the year of 2016, 2017 and 2018.

There were no share-based compensation expenses for the share options during the years from 2016 to 2018. As of December 31, 2017 and 2018, all share options were vested.

Restricted stock awards

On October 14, 2014, the Board of Directors granted restricted stock to each non-executive member of the Board. The number of shares of restricted stock subject to each award was 135,227, which was determined by dividing US$ 200 by the Cayman Court approved price US$ 1.480 per share of the Group’s ordinary shares on May 14, 2014. Total numbers of shares of restricted stock were 811,359. The awards vested at a rate of 1/36 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. As of December 31, 2017, these awards of restricted stock were fully vested, with 15,027 shares of restricted stock vested but not issued.

On May 18, 2015, the Board of Directors granted 86,473 shares of the restricted stock to existing employees whose old options have expired by their terms. All restricted stock subject to this award fully vested as of May 18, 2015. As of December 31, 2016, these awards of restricted stock were fully vested, with 19,935 shares of restricted stock vested but not issued.

On May 18, 2015, the Board of Directors granted 510,000 shares of the restricted stock to employees and new hires. Twenty-five percent of the awards shall vest on the one year anniversary of the grant date, and the remainder shall vest in equal and continuous monthly installments over the following thirty-six months thereafter, subject to participant's continuing service through each vesting date. In 2017 and 2018, 127,500 and 116,291 shares of restricted stock were vested respectively, with 122,353 and 116,291 of the vested shares separately issued to the board members.

On November 22, 2018, the Board of Directors approved to convert 293,059 outstanding and expired options with an exercise price of US$0.4749 into 293,059 shares of restricted stock. All restricted stock subject to this award shall fully vest as of November 22, 2018.

On November 22, 2018, the Board of Directors approved to grant 200,000 shares of the restricted stock to senior employees of the Company. Twenty-five percent of the awards shall vest on the one year anniversary of the vesting commence date, and the remainder shall vest in equal and continuous monthly installments over the following thirty-six months thereafter, subject to participant's continuing service of the Company through each vesting date. During 2018, nil shares of restricted stock were vested.

A summary of the restricted stock awards as of December 31, 2017 and 2018 is as follows:

	Year ended December 31, 2017		
	Shares	Grant-date fair value	Weighted Average Remaining Contractual Term
		RMB	
Outstanding at beginning of year	415,521	22.28	1.89
Granted	-	-	-
Issued	(216,259)	21.25	-
Forfeited or expired	(2,625)	20.36	1.47
Outstanding at end of year	196,637	20.50	1.29
Shares vested but not issued at end of year	49,500	21.44	-

	Year ended December 31, 2018		
	Shares	Grant-date fair value	Weighted Average Remaining Contractual Term
		RMB	
Outstanding at beginning of year	196,637	20.50	1.29
Granted	493,059	18.56	3.90
Issued	(409,350)	19.40	-
Forfeited or expired	(7,027)	21.51	2.11
Outstanding at end of year	273,319	19.31	3.01
Shares vested but not issued at end of year	34,962	22.51	-

The Company recorded share-based compensation expenses of RMB 7,828, RMB 4,640 and RMB 8,121 in general and administrative expense for the restricted stock awards for the years ended December 31, 2016, 2017 and 2018, respectively, and the unrecognized share-based compensation expenses were amounting to RMB 3,575 and RMB 4,650 as of December 31, 2017 and 2018, respectively.

17. TAXATION

a. **Value added tax ("VAT")**

The PRC government implemented a value-added tax reform pilot program, which replaced the business tax with VAT. Since May 2016, the change from business tax to VAT are expanded to all other service sectors which used to be subject to business tax. The VAT rates applicable to the subsidiaries and consolidated variable interest entities of the Group ranged from 3% to 6% as compared to the 3%~5% business tax rate which was applicable prior to the reform.

As of December 31, 2017 and 2018, the payable balances for VAT were RMB 8,965 and RMB 8,973 respectively.

b. **Business tax**

In PRC, business taxes are imposed by the government on the revenues arising from the provision of taxable services including but not limited to education, the transfer of intangible assets and the sale of immovable properties in PRC. The business tax rate varies depending on the nature of the revenues. Other than revenues generated from degree oriented educational activities provided by private schools that are accredited to issue diplomas or degree certificates recognized by the Ministry of Education of the PRC which are exempted from business tax, the applicable business tax rate for the Group's revenues generally ranges from 3% to 5%. Business tax and related surcharges are deducted from revenues before arriving at net revenues.

From May 2016, as the final part of the VAT reform, VAT replaced business tax in all industries, on a nationwide basis. The VAT rates applicable to the subsidiaries and consolidated variable interest entities of the Group ranged from 3% to 6% as compared to the 3%~5% business tax rate which was applicable prior to the reform.

As of December 31, 2017 and 2018, the payable balances for business tax were RMB 18,423 and RMB 18,430, respectively.

c. **Income taxes**

Cayman Islands

Under the current laws of Cayman Islands, the Company and its subsidiaries incorporated in the Cayman Islands are not subject to tax on income or capital gains. In addition, upon payment of dividends by the Company to its shareholders, no Cayman Islands withholding tax will be imposed.

British Virgin Islands

The Company's subsidiaries incorporated in the BVI are not subject to taxation.

Hong Kong

Entities incorporated in Hong Kong are subject to Hong Kong profit tax at a rate of 16.5%.

Taiwan

Entity incorporated in Taiwan is subject to Taiwan profit tax at a rate of 17%.

PRC and US

Significant components of the provision for income taxes on earnings for the years ended December 31, 2016, 2017 and 2018 are as follows:

	Years ended December 31,		
	2016	2017	2018
	RMB	RMB	RMB
Current:			
PRC	4,881	11,648	5,709
U.S.	-	93	-
Deferred:			
PRC	1,030	(2,161)	(2,594)
U.S.	-	34	383
Provision for income tax expenses (benefits)	5,911	9,614	3,498

Corporate entities

The PRC Enterprise Income Tax ("EIT") is calculated based on the taxable income determined under the applicable EIT Law and its implementation rules, which became effective on January 1, 2008. EIT Law imposes a unified income tax rate of 25% for all resident enterprises in China, including both domestic and foreign invested enterprises.

EIT Law also imposes a withholding income tax of 10% on dividends distributed by a foreign invested enterprise, or FIE, to its immediate holding company outside of PRC. A lower withholding income tax rate of 5% is applied if the FIE's immediate holding company is registered in Hong Kong or other jurisdiction that have a tax treaty or arrangement with PRC and the FIE's immediate holding company satisfies the criteria of beneficial owner as set out in Circular Guoshuihan [2009] No. 601. Such withholding income tax was exempted under the previous income tax laws and rules. On February 22, 2008, the Ministry of Finance ("MOF") and the State Administration of Taxation ("SAT") jointly issued a circular which stated that FIEs that generate earnings in or after 2008 and distribute those earnings to foreign investors should pay the withholding tax. As stipulated in the EIT Law, if the earnings of a tax resident enterprise are distributed to another tax resident enterprise, the withholding tax can be exempted. According to EIT Law and EIT Implementing Regulations, a tax resident enterprise is an entity incorporated in the PRC, or incorporated outside the PRC but its "place of effective management" is in the PRC. The Company assessed and concluded that it does not satisfy the definition of a tax resident enterprise. The Company has further determined that its FIEs in PRC will not declare any dividend should the withholding tax on dividends be applied. Accordingly, the Company did not record any withholding tax on the retained earnings of its FIEs in PRC for the years ended December 31, 2016, 2017 and 2018.

Private schools and colleges

The Group's companies providing education services are taxed as corporate enterprises as referred to above. Private schools or colleges operated for reasonable returns are subject to income taxes at 25% after January 1, 2008 but are sometimes subject to deemed rates of income tax to be determined by the relevant tax authorities. In certain cities, schools that were registered as requiring reasonable returns were subject to income tax of 1.5% to 2.5% on gross revenue.

The principal regulations governing private education in China are The Law for Promoting Private Education and The Implementing Rules for the Law for Promoting Private Education, or 2004 Implementing Rules. The Standing Committee of the National People's Congress promulgated an amendment to The Law for Promoting Private Education on November 7, 2016, which went into effect on September 1, 2017. Pursuant to this amendment, private schools not requiring reasonable returns were treated in a similar manner to public schools and were generally not subject to income tax. 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. 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 EIT Law. The Group has recognized income tax payable for the above unrecognized tax benefits because the obligation was considered probable. Please see Note 17(d) for the movement of uncertain tax position.

U.S. Tax Cuts and Jobs Act

The U.S. Tax Cuts and Jobs Act (the "Tax Act") was enacted on December 22, 2017. The Tax Act makes significant changes to U.S. income tax law, including, but not limited to, reducing the U.S. federal corporate income tax rate from 35 percent to 21 percent, and imposing a mandatory one-time tax on accumulated earnings of foreign subsidiaries.

On December 22, 2017, the SEC staff issued Staff Accounting Bulletin No. 118 ("SAB 118") to address the application of U.S. GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Tax Act. The Company has completed the assessment of the income tax effect of the Tax Act and there were no adjustments recorded to the provisional amounts.

The principal components of the Group's deferred tax assets and liabilities were as follows:

	As of December 31	
	2017	2018
	RMB	RMB
Deferred tax asset:		
Accrued expense	7,028	5,942
Allowance for doubtful accounts	47,593	45,032
Tax loss carried forward	359,908	259,740
Deferred advertising expense	670	472
Impairment of long-lived tangible assets	19,691	424
Total deferred tax assets	434,890	311,610
Valuation allowance	(403,485)	(278,437)
Deferred tax assets, net of valuation allowance	31,405	33,173
Deferred tax liabilities:		
- Unrecognized valuation surplus and deficit - acquisition	79,834	79,834
- Unrecognized valuation surplus and deficit - decrease due to amortization and impairment	(56,677)	(58,272)
- Unrealized profit of short-term investments	26	142
- Accelerated fixed assets depreciation	-	1,229
Total deferred tax liabilities	23,183	22,933
Deferred tax assets, net of valuation allowance and deferred tax liabilities	8,222	10,240

For entities incorporated in Hong Kong, net loss can be carried forward indefinitely; for entity incorporated in Taiwan, net loss can be carried forward for ten years; for entity incorporated in U.S., net loss generated before 2018 can be carried forward for twenty years , net loss generated in 2018 and onward can be carried forward indefinitely; for entity incorporated in P.R.C. mainland, net loss can be carried forward for five years.

The following represents the amounts and expiration dates of operating loss carried forwards for tax purpose:

Amount **RMB**

2019	151,768
2020	83,692
2021	59,575
2022	31,845
2023 and thereafter	689,323
Total	1,016,203

The following represents a roll-forward of the valuation allowance for each of the years:

	As of December 31,		
	2016	2017	2018
	RMB	RMB	RMB
Balance at beginning of the year	530,358	536,838	403,485
Allowance made during the year	6,480	10,764	7,315
Decrease due to disposal/deregistration of subsidiaries	-	(120,069)	(23,595)
Reversals	-	(24,048)	(108,768)
Balance at end of the year	536,838	403,485	278,437

Reconciliation between total income tax expense and the amount computed by applying the PRC statutory income tax rate to income before income taxes is as follows:

	Years ended December 31,		
	2016	2017	2018
	%	%	%
PRC statutory income tax rate	25 %	25 %	25 %
Impact of different tax rates in other jurisdictions	-	(6)%	(2)%
Tax effect of non-deductible expenses	(1)%	15 %	9 %
Tax effect of non-taxable income	1 %	(13)%	(9)%
Tax effect of tax-exempt entities	(10)%	7 %	0 %
Tax effect of deemed profit	(1)%	0 %	(2)%
Tax effect of short term investment	0 %	0 %	3 %
Tax penalty	(4)%	2 %	0 %
Changes in valuation allowance	(29)%	(12)%	(16)%
Effective tax rate	(19)%	18 %	8 %

d. Uncertain tax positions

A reconciliation of the beginning and ending amount of liabilities associated with uncertain tax positions is as follows:

	As of December 31,		
	2016	2017	2018
	RMB	RMB	RMB
Unrecognized tax benefits, beginning of year	23,648	25,323	24,619
Increases related to current tax positions	1,675	5,941	2,042
Decrease due to disposal of subsidiaries (Note 25)	-	(6,645)	-
Decrease due to deregistration of subsidiary	-	-	(415)
Unrecognized tax benefits, end of year	25,323	24,619	26,246

The amounts of unrecognized tax benefits listed above are based on the recognition and measurement criteria of ASC Topic 740. However, due to the uncertain and complex application of tax regulations, it is possible that the ultimate resolution of uncertain tax positions may result in liabilities which could be materially different from these estimates. In such an event, the Group will record additional tax expense or tax benefit in the period in which such resolution occurs. For the years ended December 31, 2016, 2017 and 2018, there are RMB 1,675, RMB 5,941 and RMB 2,042 unrecognized tax benefits that if recognized would affect the annual effective tax rate. The Group does not expect that the position of unrecognized tax benefits will significantly increase or decrease within 12 months of December 31, 2018.

In accordance with PRC Tax Administration Law on the Levying and Collection of Taxes, the PRC tax authorities generally have up to five years to assess underpaid tax plus penalties and interest for PRC entities' tax filings. In the case of tax evasion, which is not clearly defined in the law, there is no limitation on the tax years open for investigation. Accordingly, the PRC entities remain subject to examination by the tax authorities based on the above.

18. NET INCOME/LOSS PER SHARE

The following table sets forth the computation of basic and diluted net income (loss) per share for the periods indicated:

	Years ended December 31,		
	2016 RMB	2017 RMB	2018 RMB
Numerator:			
Numerator for basic and diluted (loss) income per share	(35,700)	46,463	44,990
Denominator:			
Denominator for basic (loss) income per share weighted average ordinary shares outstanding	38,469,234	38,826,800	41,342,597
Denominator for diluted (loss) income per share weighted average ordinary shares outstanding	38,469,234	39,303,760	41,671,763
Basic (loss) income per share	(0.93)	1.20	1.09
Diluted (loss) income per share	(0.93)	1.18	1.08

Basic net income (loss) per share is computed using the weighted average number of the ordinary shares outstanding during the period. Diluted net income (loss) per share is computed using the weighted average number of ordinary shares and ordinary equivalent shares outstanding during the period. Due to the loss for the year ended December 31, 2016, approximately 672,138 share options and restricted shares were excluded from the calculation of diluted net income (loss) per share, because the effect would be anti-dilutive. 476,960 and 329,166 share options and restricted shares were included in the calculation of diluted income per share for year of 2017 and 2018.

19. COMMITMENTS AND CONTINGENCIES

Operating leases

The Group leases offices and classrooms under operating leases. The terms of substantially all of these leases are ten years or less. Future minimum lease payments under non-cancelable operating leases as of December 31, 2018 were as follows:

	Amount RMB
2019	35,325
2020	27,920
2021	18,760
2022	15,475
2023	12,288
Thereafter	60,865
Total	170,633

Rent expense for all cancelable and non-cancelable leases were approximately RMB 26,184, RMB 22,617 and RMB 37,897 for years ended December 31, 2016, 2017 and 2018, respectively.

Contingencies

On May 24, 2018, Changsha Yaxing Real Estate Development Co., Ltd. (“Changsha Yaxing”) filed a claim to Hunan Provincial High Court, against Shida Ambow, Ambow Chuangying and Changsha K-12 to seek indemnification for Changsha K-12 equity transfer consideration. In July 2018 Hunan Provincial Court ruled to freeze the bank account of

Shida Ambow. As of December 31, 2018, Shida Ambow's cash in bank amounting to RMB 27.7 million was frozen. Shida Ambow filed an objection of jurisdiction to Hunan Provincial High Court in July 2018. In September 2018 Hunan Provincial High Court overruled the objection of jurisdiction. The Group has appealed to the Supreme Court of PRC. The Supreme Court of PRC accepted the appeal in February 2019 and assigned the case to the First Circuit Court of the Supreme Court. The Company believes that it was too early to make an estimate of result.

As of December 31, 2018, the Company did not have any other significant indemnification claims that were probable or reasonably possible.

20. SEGMENT INFORMATION

The Group offers a wide range of educational and career enhancement services and products focusing on improving educational opportunities for primary and advanced degree school students and employment opportunities for university graduates.

The Group's chief operating decision maker ("CODM") has been identified as the CEO who reviews the financial information of separate operating segments when making decisions about allocating resources and assessing performance of the Group. Based on management's assessment, the Group has determined that it has four operating segments which are Tutoring, K-12 Schools, Career Enhancement and Others. These four operating segments are also identified as reportable segments. The reportable segments of tutoring and K-12 schools are grouped under the "Better Schools" division because the segments offer programs and education services using a standards-based curriculum that enables students to improve their academic results and educational opportunities. The reportable segments of career enhancement was classified under the "Better Jobs" division because the segments offer services and programs that facilitate post-secondary students to obtain more attractive employment opportunities. The reportable segment of Others represents the intellectualized operational services provided, and was classified under the "Others" division. This segment provide intellectualized operational services to corporate clients, colleges and universities, which is to design, purchase, modify and integrate electronic equipment and devices, and develop mobile APP for end users to utilize office facilities, manage resources and administrative matters according to our clients' office or teaching space, human resource deployments and office/classroom administration requirements.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The CODM evaluates performance based on each reporting segment's revenues, cost of revenues, gross profit, operating expenses, other income (expense), (loss) income before income tax and non-controlling interests and total assets as follows.

For the year ended December 31, 2016

(RMB in thousands)	Better School			Better Job	
	Tutoring	K-12	Subtotal	Career Enhancement	Consolidated
	RMB	RMB	RMB	RMB	RMB
Net Revenues	47,985	222,592	270,577	141,439	412,016
Cost of revenues	(33,465)	(137,833)	(171,298)	(67,444)	(238,742)
GROSS PROFIT	14,520	84,759	99,279	73,995	173,274
OPERATING EXPENSES					
Selling and marketing	(5,516)	(1,065)	(6,581)	(30,810)	(37,391)
General and administrative	(21,929)	(42,205)	(64,134)	(34,023)	(98,157)
Research and development	(1,445)	-	(1,445)	(924)	(2,369)
Impairment loss	(21,779)	-	(21,779)	(623)	(22,402)
Unallocated corporate expenses	-	-	-	-	(56,986)
Total operating expenses	(50,669)	(43,270)	(93,939)	(66,380)	(217,305)
OPERATING (LOSS) INCOME	(36,149)	41,489	5,340	7,615	(44,031)

OTHER INCOME (EXPENSE)					
Interest income	106	106	212	186	398
Foreign exchange gain, net	-	-	-	12	12
Other (loss) income, net	(2,514)	195	(2,319)	(1,714)	(4,033)
Gain on sale of investment available for sale	-	2,464	2,464	138	2,602
Unallocated corporate other income	-	-	-	-	13,945
Total other (expenses) income	(2,408)	2,765	357	(1,378)	12,924
(LOSS) INCOME BEFORE INCOME TAX AND NON-CONTROLLING INTERESTS	(38,557)	44,254	5,697	6,237	(31,107)
Segment assets	118,083	363,317	481,400	187,362	668,762
Unallocated corporate assets	-	-	-	-	284,261
TOTAL ASSETS	118,083	363,317	481,400	187,362	953,023

For the year ended December 31, 2017

(RMB in thousands)	Better School			Better Job		
	Tutoring	K-12	Subtotal	Career Enhancement	Others	Consolidated
	RMB	RMB	RMB	RMB	RMB	
Net Revenues	55,371	232,433	287,804	144,950	11,170	443,924
Cost of revenues	(26,426)	(152,509)	(178,935)	(70,465)	(6,995)	(256,395)
GROSS PROFIT	28,945	79,924	108,869	74,485	4,175	187,529
OPERATING EXPENSES						
Selling and marketing	(4,220)	(1,356)	(5,576)	(26,656)	-	(32,232)
General and administrative	(16,411)	(40,681)	(57,092)	(34,466)	(12)	(91,570)
Research and development	(241)	-	(241)	(407)	-	(648)
Unallocated corporate expenses	-	-	-	-	-	(60,774)
Total operating expenses	(20,872)	(42,037)	(62,909)	(61,529)	(12)	(185,224)
OPERATING INCOME	8,073	37,887	45,960	12,956	4,163	2,305
OTHER INCOME (EXPENSE)						
Interest income	252	804	1,056	171	-	1,227
Foreign exchange gain, net	-	-	-	47	-	47
Gain on disposal of subsidiaries	4,540	-	4,540	-	-	4,540
Other income (loss), net	10,402	1,025	11,427	(4,348)	-	7,079
Gain on sale of investment available for sale	-	5,594	5,594	1,958	-	7,552
Unallocated corporate other income	-	-	-	-	-	32,789
Total other income (loss)	15,194	7,423	22,617	(2,172)	-	53,234
INCOME BEFORE INCOME TAX AND NON-CONTROLLING INTERESTS	23,267	45,310	68,577	10,784	4,163	55,539
Segment assets	118,403	370,251	488,654	172,690	8,085	669,429
Unallocated corporate assets	-	-	-	-	-	307,991
TOTAL ASSETS	118,403	370,251	488,654	172,690	8,085	977,420

For the year ended December 31, 2018

(RMB in thousands)	Better School			Better Job		
	Tutoring	K-12	Subtotal	Career Enhancement	Others	Consolidated

	RMB	RMB	RMB	RMB	RMB	
Net Revenues	46,820	277,790	324,610	200,524	6,374	531,508
Cost of revenues	(27,770)	(178,645)	(206,415)	(125,524)	(6,204)	(338,143)
GROSS PROFIT	19,050	99,145	118,195	75,000	170	193,365
OPERATING EXPENSES						
Selling and marketing	(332)	(1,286)	(1,618)	(36,619)	-	(38,237)
General and administrative	9,482	(46,041)	(36,559)	(57,288)	(638)	(94,485)
Research and development	-	-	-	(4)	(483)	(487)
Unallocated corporate expenses	-	-	-	-	-	(44,773)
Total operating expenses	9,150	(47,327)	(38,177)	(93,911)	(1,121)	(177,982)
OPERATING INCOME (LOSS)	28,200	51,818	80,018	(18,911)	(951)	15,383

(RMB in thousands)	Better School			Better Job		
	Tutoring	K-12	Subtotal	Career Enhancement	Others	Consolidated
	RMB	RMB	RMB	RMB	RMB	
OTHER INCOME (EXPENSE)						
Interest income	156	3,859	4,015	95	15	4,125
Foreign exchange gain (loss), net	111	-	111	94	(167)	38
Other income, net	2,495	3,404	5,899	2,581	-	8,480
Gain from derecognition of liabilities	3,914	-	3,914	340	-	4,254
Gain from deregistration of subsidiaries	489	-	489	2,369	-	2,858
Gain on sale of investment available for sale	-	512	512	-	-	512
Unallocated corporate other income	-	-	-	-	-	12,788
Total other income (loss)	7,165	7,775	14,940	5,479	(152)	33,055
INCOME (LOSS) BEFORE INCOME TAX AND NON-CONTROLLING INTERESTS	35,365	59,593	94,958	(13,432)	(1,103)	48,438
Segment assets	192,381	323,754	516,135	199,428	10,117	725,680
Unallocated corporate assets	-	-	-	-	-	184,539
TOTAL ASSETS	192,381	323,754	516,135	199,428	10,117	910,219

The Group primarily operates in the PRC and US. Substantially most of the Group's long-lived assets are located in the PRC and US.

21. PRC CONTRIBUTION AND PROFIT APPROPRIATION

Full time employees of the Group in the PRC participate in a government-mandated multiemployer 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. PRC labor regulations require the Group to accrue for these benefits based on certain percentages of the employees' salaries. The relevant local labor bureau is responsible for meeting all retirement benefit obligations; hence, the Group has no further commitments beyond its monthly contributions. The total contributions for such employee benefits were RMB 29,029, RMB 35,241 and RMB 37,594 for the years ended December 31, 2016, 2017 and 2018, respectively.

In accordance with the Regulations on Enterprises with Foreign Investment of PRC and their articles of association, the Company's subsidiaries in the PRC, being foreign invested enterprises established in PRC, are required to provide for certain statutory reserves, namely general reserve, enterprise expansion reserve and staff welfare and bonus reserve, all of which are appropriated from net profit as reported in the Group's PRC statutory accounts. The

Company's subsidiaries in the PRC are required to allocate at least 10% of their after-tax profits to the general reserve fund until such fund has reached 50% of their respective registered capital. Appropriations to the enterprise expansion fund and staff welfare and bonus fund are at the discretion of the board of directors of the Company's subsidiaries.

In accordance with the PRC Company Laws, the Group's VIEs established in PRC make appropriations from their after-tax profits as reported in their PRC statutory accounts to non-distributable reserves, namely statutory surplus reserve, statutory public welfare reserve and discretionary surplus reserve. The Company's or its non-school subsidiaries' VIEs are required to allocate at least 10% of their after-tax profits to the statutory surplus reserve until the reserve reaches 50% of each entity's registered capital. Appropriation to the statutory public welfare fund is 5% to 10% of their after-tax profits as reported in the PRC statutory accounts. Effective from January 1, 2006, under the revised PRC Company Laws, an appropriation to the statutory public welfare reserve is no longer mandatory. Appropriation to the discretionary surplus reserve is made at the discretion of the board of directors of the VIEs.

In accordance with the Law of Promoting Private Education (2003), the Group's school subsidiaries in PRC must make appropriations from their after-tax profits as reported in their PRC statutory accounts to non-distributable reserves, namely the education development reserve, which requires annual appropriations of at least 25% of after-tax profits or the increase in net assets of private education schools (as determined under accounting principles generally accepted in the PRC at each year-end) to the statutory reserve.

The following table presents the Group's appropriations to the general reserve fund, statutory surplus reserve and education development reserve as of December 31, 2017 and 2018:

	As of December 31,	
	2017	2018
	RMB	RMB
General and statutory surplus reserve	17,348	17,348
Education development reserve	2,688	2,801
Total	20,036	20,149

22. ACQUISITION

In 2017, the Group entered into one acquisition agreement. The details are as follow:

	Date of acquisition	Purchase price	Goodwill	Intangibles with indefinite life	Amortizable intangibles
Entity acquired during the year ended December 31, 2017		RMB	RMB	RMB	RMB
(1) Bay State College Inc.	November 20, 2017	22,830	5,212	5,920	1,438

On November 20, 2017, Ambow BSC Inc. acquired 100% of the outstanding shares of common stock of Bay State College, Inc., which owns and operates Bay State College (the "BSC"), a higher education institution offering career-focused post-secondary education with Associates and Bachelor's programs in Business, Information Technology, Healthcare, Criminal Justice and Fashion. The acquisition date is determined based on the date at which the Group obtained control of the acquiree.

Management of the Group is responsible for determining the fair value of consideration transferred, assets acquired, liabilities assumed and intangible assets identified as of the acquisition date and considered a number of factors including valuations from an independent appraiser.

The total purchase price of RMB 22,830 (US$ 3,494) consisted of cash consideration of RMB 16,064 (US$ 2,459) and contingent consideration of RMB 6,766 (US$ 1,036). The contingent consideration payable was subject to the

performance of the acquiree in the future years. The fair value of the contingent consideration was estimated by using income approach, which was the discounted future payment determined by the projected EBITDA of BSC during the assessing period. Please also see Note 28. As of December 31, 2018, the fair value of the contingent consideration was RMB 1,322 (US$ 192) as the Group lowered projected EBITDA of BSC during the assessing period. The decreased RMB 5,444 was recognized as gain from fair value change of contingent consideration payable in the year of 2018.

The purchase price exceeded the fair value of the net tangible assets acquired from Bay State College Inc. and as a result, the Group recorded goodwill in connection with this transaction. The goodwill acquired resulted primarily from the Group's expected synergies from the integration of businesses acquired into the Group's service and product offerings.

The Group used the following valuation methodologies to value assets acquired, liabilities assumed and intangible assets identified:

- Property and equipment was valued using the cost approach;
- Brand were valued using the relief from royalty method, which represents the benefits of owning the intangible asset rather than paying royalties for its use;
- Student populations was valued using the multi-period excess earning method approach;
- All other current assets and current liabilities carrying value approximated fair value at the time of acquisition.

Acquisition-related costs incurred for the acquisitions have been expensed as incurred in general and administrative expense.

The purchase price was allocated based on the fair values of the acquired assets and liabilities as of the acquisition date as follows:

	RMB	Amortization Period (in years)
Cash and cash equivalents	15,231	
Prepaid and other current assets	3,921	
Property and equipment	9,096	
Intangible assets:		
Brand	5,920	Indefinite
Students population	1,438	3.3
Goodwill	5,212	
Other non-current assets	745	
Total assets	41,563	
Deferred revenue	(3,685)	
Accounts payable	(1,555)	
Accrued and other liabilities	(9,004)	
Income tax payable	20	
Other non-current liabilities	(3,143)	
Deferred tax assets, net of deferred tax liabilities	(1,366)	
Total	22,830	

Of the RMB 7,358 of acquired intangible assets, RMB 5,920 was assigned to brand that are not subject to amortization. The remaining amortizable intangible assets of RMB 1,438 have a useful life of 3.3 years. Goodwill is not deductible for tax purposes. For the purposes of presenting operating segments, Bay State College Inc. and the goodwill arising on its acquisition are classified within the Career Enhancement segment.

The net revenue and net income arising from acquisition of Bay State College Inc. made in period from acquisition date to December 31, 2017 that are included in the Group’s consolidated income statement for the year ended December 31, 2017 are RMB 6,430 and RMB 295, respectively. The RMB 16,064 (US$ 2,459) of cash consideration less cash acquired of RMB 15,231 (US$ 2,331) resulted in a net cash outlay of RMB 833 (US$128).

23. RELATED PARTY TRANSACTIONS

a. Transactions

The Group entered into the following transactions with related parties:

Transactions	Years ended December 31, 2016 RMB	2017 RMB	2018 RMB
Loan to/(collection from) a member of management team of Beijing SIWA Century Zhisheng Education Technology Co., Ltd. (“Century Zhisheng”) (Note i)	(24)	-	-
Repayments to Shandong Shichuang Software Engineering Co., Ltd., an entity controlled by Executive Principal of Ambow Research Center	-	-	(1,013)
Service provided to Beijing QC Technology Company Limited, an entity significantly influenced by a member of management team of the Company (Note ii)	-	-	1,105
Compensation to non-executive directors of the board of the Company (Note iii)	-	-	279

Note (i) The loans to a member of management team of Century Zhisheng and borrowings from entities controlled by a member of management team of Century Zhisheng were made for operation purpose without interest bearing and maturity date. In 2017, the member of management team of Century Zhisheng was resigned, led to the reclassification of respective amounts due from and due to such member from related party to a third party.

Note (ii) The service was provided to an entity significantly influenced by a member of management team of the Company.

Note (iii) The compensation was for the services from the non-executive directors of the board to the Company.

b. The Group had the following balances with related parties:

Relationship	Amounts due from a related party		Amounts due to related parties	
	As of December 31,		As of December 31,	
	2017 RMB	2018 RMB	2017 RMB	2018 RMB
Entity controlled by Executive Principal of Ambow Research Center - Shandong Shichuang Software Engineering Co., Ltd.	-	-	3,430	2,417
Entity significantly influenced by a member of management team of the Company - Beijing QC Technology Company Limited (Note 23a (ii))	-	1,105	-	-
Non-executive directors of the board of the Company (Note a. iii)	-	-	-	279
	-	1,105	3,430	2,696

24. GAIN FROM DERECOGNITION OF LIABILITIES

In 2018, to improve payable management and internal controls, the Company reviewed the possibility to pay and aging of payables of its subsidiaries and schools on a quarterly basis. As a result, the Company derecognized payables to Suzhou Wenjian in amount of RMB 9,150 since Suzhou Wenjian was closed in the year and did not claimed and pursued the debt before its closure. The Company also derecognized payables to other creditors in a collective amount of RMB 6,076 as those payables were all with long aging over three to seven years and no claim of debts have been received by the Company as of December 31, 2018, which led to expiration of statute of limitation of those payables. The Company believes the possibilities to pay are remote and write-off those accrued expenses in 2018 accordingly.

25. DISPOSAL OF SUBSIDIARIES

On August 31, 2017, the Company sold the 100% equity interest in Ambow Online to a third party, with nil consideration, and the third party assumed all assets and liabilities of Ambow Online as of August 31, 2017. In connection with the disposal, the Company offset the payables to Ambow Online with Ambow Online’s net assets attributable to the Company as of August 31, 2017. After offsetting, the payable balance due to Ambow Online by the Company was RMB 171,137. Through further negotiation with the buyer, the payable balance due to Ambow Online by the Company was reduced to RMB 137,532. The difference of RMB 33,605 was recognized as disposal gain. Obligation in aggregate amount of RMB 137,532 would be paid by December 31, 2018. The deal was not a strategic shift of the business and this transaction would not have major impact on Ambow’s business, therefore this transaction was not qualified as discontinued operation. As of December 31, 2018, the Company has paid RMB 112,000 to Ambow Online. On December 24, 2018, the Company entered into a supplementary agreement with Ambow Online and the third party to extend the payable due date to March 31, 2019. The extended payable in RMB 25,532 was fully

paid subsequently to the date the consolidated financial statements were issued.

On September 30, 2017, the Company sold the 100% equity interest in 21st Training Center to a third party, with consideration of RMB 1 yuan, and the third party assumed all assets and liabilities of 21st Training Center as of September 30, 2017. In connection with the disposal, 21st Training Center also waived the net payables with the Company. The Company received RMB 1 yuan as consideration in the transaction. The disposal was not a strategic shift of the business and this transaction would not have major impact on Ambow's business, therefore this transaction did not qualify as discontinued operation. As of disposal date on September 30, 2017, the net liabilities of 21st Training Center was RMB 4,540. In September 2017, the Company recognized a gain of RMB 4,540 on the disposal accordingly.

26. GAIN FROM DEREGISTRATION OF SUBSIDIARIES

In 2018, the Company closed several subsidiaries and schools through the deregistration procedures of local governmental and corporate service institutions. Those subsidiaries and schools had no business operations and were in accumulated deficit for years. As a result, the Company recognized gain from deregistration of those subsidiaries and schools in a collective amount of RMB 2,858 in the year of 2018.

27. NON-CONTROLLING INTERESTS

In 2016, the Group established Suzhou Jiaxue under Ambow Zhixin, with a non-controlling economic interest of 40% amounting to RMB 400 from one individual shareholder and one corporate shareholder. Also the Group established Huanyu Liren under Kunshan Ambow, with a non-controlling economic interest of 40% amounting to RMB 396 from one individual shareholder.

In 2017, the 40% economic interests of Huanyu Liren and Suzhou Jiaxue, which was deficit of RMB 758 in total, were derecognized because respective minority shareholders sold their non-controlling interests to the Group. The total consideration for buy-out such non-controlling interests was RMB 798 and the difference between the consideration and the carrying amount of non-controlling interest derecognized was recorded as an adjustment to additional paid-in capital. The Group held 100% economic interests in Huanyu Liren and Suzhou Jiaxue thereafter.

In 2018, the 10% economic interests of Shenyang K-12 owned by Shenyang Hanwen Classic Books Publishing Co., Ltd., which was RMB 1,885, was derecognized because the Group acquired such non-controlling interests in court auction. The total consideration for buy-out such non-controlling interests was RMB 4,504 and the difference between the consideration and the carrying amount of non-controlling interest derecognized was recorded as an adjustment to additional paid-in capital. The Group held 100% economic interests in Shenyang K-12 thereafter. In addition, the Group established Beijing Ambow-Cowain Education and Technology Co., Ltd., with a non-controlling economic interest of 49% collectively amounting to RMB 1,470 from one corporate shareholder and one individual shareholder.

28. FAIR VALUE MEASUREMENTS

The Group adopted ASC Topic 820, “Fair Value Measurements and Disclosures”, which defines fair value, establishes a framework for measuring fair value and expands financial statement disclosure requirements for fair value measurements.

ASC Topic 820 defines fair value as the price that would be received from the sale of an asset or paid to transfer a liability (an exit price) on the measurement date in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability. ASC Topic 820 specifies a hierarchy of valuation techniques, which is based on whether the inputs into the valuation technique are observable or unobservable. The hierarchy is as follows:

Level 1-Valuation techniques in which all significant inputs are unadjusted quoted prices from active markets for assets or liabilities that are identical to the assets or liabilities being measured.

Level 2-Valuation techniques in which significant inputs include quoted prices from active markets for assets or liabilities that are similar to the assets or liabilities being measured and/or quoted prices for assets or liabilities that are identical or similar to the assets or liabilities being measured from markets that are not active. Also, model-derived valuations in which all significant inputs and significant value drivers are observable in active markets are Level 2 valuation techniques.

Level 3-Valuation techniques in which one or more significant inputs or significant value drivers are unobservable. Unobservable inputs are valuation technique inputs that reflect the Group's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Management of the Group is responsible for determining the fair value of equity issued, assets acquired, liabilities assumed and intangibles identified as of the acquisition date and considered a number of factors including valuations from independent appraiser.

When available, the Group uses quoted market prices to determine the fair value of an asset or liability. If quoted market prices are not available, the Group measures fair value using valuation techniques that use, when possible, current market-based or independently-sourced market parameters, such as interest rates and currency rates. The following is a description of the valuation techniques that the Group uses to measure the fair value of assets and liabilities that are measured and reported at fair value on a recurring basis:

At December 31, 2018 and 2017 information about inputs into the fair value measurements of the assets and liabilities that the Group makes on a recurring basis were as follows:

	Fair Value Measurements at Reporting Date Using			
	Total Fair Value and Carrying Value on Balance Sheet	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
As of December 31, 2018				
Assets:				
Short term investments, available for sale	47,208	47,208	-	-

	Fair Value Measurements at Reporting Date Using			
	Total Fair Value and Carrying Value on Balance Sheet	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
As of December 31, 2017				
Assets:				
Short term investments, available for sale	128,042	128,042	-	-

The following table presents the quantitative information about the Group's Level 3 fair value measurements of intangible assets on a nonrecurring basis in 2017 and 2018, which utilize significant unobservable internally-developed inputs:

	Fair value	Valuation techniques	Unobservable inputs	Range
Intangible assets in 2017	91,249	Relief-from-royalty method	Royalty rate Discount rate Terminal growth rate	1%-6% 14.8%-17% 3%
Intangible assets in 2018	141,758	Relief-from-royalty method	Royalty rate Discount rate Terminal growth rate	1%-6% 14.8%-17% 3%

The following table presents the quantitative information about the Group's Level 3 fair value measurements of contingent consideration payable on a recurring basis in 2017 and 2018, which utilize significant unobservable

internally-developed inputs:

	Fair value	Valuation techniques	Unobservable inputs	Rate
Contingent consideration payable in 2017	6,766	Discounted cash flow method	Discount rate	14.8%
Contingent consideration payable in 2018	1,322	Discounted cash flow method	Discount rate	14.8%

29. CONCENTRATIONS

Financial instruments that potentially expose the Group to concentrations of credit risk consist primarily of cash and cash equivalents, term deposits, accounts receivable and other receivable. The Group places its cash and cash equivalents and term deposits with financial institutions with high-credit ratings. The Group conducts credit evaluations of its customers and suppliers, and generally does not require collateral or other security from them. The Group evaluates its collection experience and long outstanding balances to determine the need for an allowance for doubtful accounts.

No single customer represented 10% or more of the Group's total revenues for the years ended December 31, 2016, 2017 and 2018.

No single supplier represented 10% or more of the Group's total costs of sales for the years ended December 2016, 2017 and 2018.

A summary of the debtors who accounted for 10% or more of the Group's consolidated accounts receivable and prepaid and other current assets was as follows:

	As of December 31,			
	2017		2018	
Debtors	**RMB**	**%**	**RMB**	**%**
Accounts receivable				
Company A	5,656	23%	-	-
Prepaid and other current assets				
Company B	49,800	38%	49,800	37 %
Company C	35,000	27%	35,000	26%

The Chinese market in which the Group operates exposes the Group to certain macroeconomic and regulatory risks and uncertainties. These uncertainties extend to the ability of the Group to provide educational and career enhancement services through contractual arrangements in the PRC since this industry remains highly regulated. The Chinese government may issue from time to time new laws or new interpretations on existing laws to regulate the education industry. Regulatory risk also encompasses the interpretation by the tax authorities of current tax laws, the status of properties leased for the Group's operations and the Group's legal structure and scope of operations in the PRC, which could be subject to further restrictions resulting in limitations on the Group's ability to conduct business in the PRC.

30. SUBSEQUENT EVENTS

The Company has evaluated subsequent events through the date of issuance of this consolidated financial statements, and does not identified events with material financial impact on the Group's consolidated financial statements.

31. ADDITIONAL INFORMATION - CONDENSED FINANCIAL STATEMENTS

Relevant PRC statutory laws and regulations permit the payment of dividends by the Group's PRC VIEs and subsidiaries only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. In addition, PRC laws and regulations require that annual appropriations of certain percentages of the after-tax income or the increase in net assets for the year (as determined under accounting principles generally accepted in the PRC) should be set aside at each year end as a reserve prior to the payment of dividends. As a result of these PRC laws and regulations, the Group's PRC VIEs and subsidiaries are restricted in their ability to transfer a portion of their net assets to the Group either in the form of dividends, loans or advances. The Group's restricted net assets, comprising of the registered paid in capital and statutory reserve of Company's PRC subsidiaries and VIEs, were RMB 962,875 and RMB 828,461 as of December 31, 2017 and 2018, respectively.

The condensed financial statements of the Company have been prepared using the same accounting policies as set out in the Group's consolidated financial statements except that the Company used the equity method to account for investments in its subsidiaries and VIEs.

The Company, its subsidiaries and VIEs were included in the consolidated financial statements whereby the inter-company balances and transactions were eliminated upon consolidation. For the purpose of the Company's condensed financial statements, its investments in subsidiaries are reported using the equity method of accounting.

The Company is a Cayman Islands company, therefore, is not subjected to income taxes for all years presented.

The footnote disclosures contain supplemental information relating to the operations of the Company and, as such, these statements should be read in conjunction with the notes to the consolidated financial statements of the Company. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S GAAP have been condensed or omitted.

As of December 31, 2017 and 2018, there were no material contingencies, significant provisions for long-term obligations, or guarantees of the Company, except for those which have been separately disclosed in the consolidated financial statements, if any.

AMBOW EDUCATION HOLDING LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Financial information of Parent Company

Balance Sheets

(All amounts in thousands, except for share and per share data)

	As of December 31,		
	2017 RMB	2018 RMB	2018 US$ Note 3(a)
ASSETS			
Current assets:			
Cash and cash equivalents	323	5,094	740
Amounts due from related parties	261,867	368,891	53,655
Prepaid expenses and other current assets	2,770	863	126
Total current assets	264,960	374,848	54,521
Non-current assets:			
Property and equipment, net	-	-	-
Intangible assets, net	-	-	-
Investment in subsidiaries	-	-	-
Total non-current assets	-	-	-
Total assets	264,960	374,848	54,521
LIABILITIES			
Current liabilities:			
Amounts due to related parties	17,325	41,559	6,045
Accrued and other liabilities	41,196	27,553	3,997
Borrowing from third party, current	-	41,179	6,000
Total current liabilities	58,521	110,291	16,042
Non-current liabilities:			

Long-term borrowing from third party	39,205	-	-
Total non-current liabilities	39,205	-	-
Total liabilities	97,726	110,291	16,042
SHAREHOLDERS' EQUITY			
Preferred shares (US$ 0.003 par value; 1,666,667 shares authorized, nil issued and outstanding as of December 31, 2017 and 2018)	-	-	-
Class A Ordinary shares (US$ 0.003 par value; 66,666,667 and 66,666,667 shares authorized; 34,206,939 and 38,756,289 shares issued and outstanding as of December 31, 2017 and 2018, respectively)	640	728	106
Class C Ordinary shares (US$ 0.003 par value; 8,333,333 and 8,333,333 shares authorized; 4,708,415 and 4,708,415 shares issued and outstanding as of December 31, 2017 and 2018, respectively)	90	90	13
Additional paid-in capital	3,456,307	3,507,123	510,090
Accumulated deficit	(3,296,679)	(3,251,689)	(472,938)
Accumulated other comprehensive income	6,876	8,305	1,208
Total shareholders' equity	167,234	264,557	38,749
Total liabilities and shareholders' equity	264,960	374,848	54,521

AMBOW EDUCATION HOLDING LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Financial information of Parent Company

Statements of Operations

(All amounts in thousands, except for share and per share data)

	Years ended December 31,			
	2016 RMB	2017 RMB	2018 RMB	2018 US$ Note 3(a)
NET REVENUES				
- Educational program and services	-	-	-	-
- Intellectualized operational services	-	-	-	-
Cost of revenues				
- Educational program and services	-	-	-	-
- Intellectualized operational services	-	-	-	-
GROSS LOSS	-	-	-	-
Operating expenses:				
Selling and marketing	-	-	-	-
General and administrative	(18,854)	(13,457)	(1,097)	(160)
Research and development	-	-	-	-
Total operating expenses	(18,854)	(13,457)	(1,097)	(160)
OPERATING LOSS	(18,854)	(13,457)	(1,097)	(160)
Share of (loss) income from subsidiaries	(23,274)	59,933	44,864	6,526
OTHER EXPENSE				
Interest income, net	1	2	117	17
Other income (expense), net	6,427	(15)	1,106	161
Income tax	-	-	-	-
NET (LOSS) INCOME	(35,700)	46,463	44,990	6,544

AMBOW EDUCATION HOLDING LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Financial Information of Parent Company

Statements of Cash Flows

(All amounts in thousands, except for share and per share data)

	Years ended December 31,			
	2016 RMB	2017 RMB	2018 RMB	2018 US$ Note 3(a)
Cash flows from operating activities	(6,348)	(18,255)	(86)	(13)
Cash flows from investing activities	-	(1,556)	(2,619)	(381)
Cash flows from financing activities	(843)	18,667	7,476	1,087
Effects of exchange rate changes on cash and cash equivalents	-	-	-	-
Net change in cash and cash equivalents	(7,191)	(1,144)	4,771	693
Cash and cash equivalents at beginning of year	8,658	1,467	323	47
Cash and cash equivalents at end of year	1,467	323	5,094	740
Supplemental disclosure of cash flow information				
Supplemental disclosure of non-cash investing and financing activities				