Ambow Education Holding Ltd.
Form 20-F
May 29, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

(Mark One)

o	**Registration Statement pursuant to Section 12(b) or (g) of the Securities Exchange Act of 1934**

OR

x	**Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the fiscal year ended December 31, 2011

OR

o	**Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

OR

o	**Shell Company Report pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934**

Date of the event requiring this shell company report . . . .

Commission file number: 001-34824

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

Not Applicable
(Translation of Registrant s Name into English)

Cayman Islands
(Jurisdiction of Incorporation or Organization)

18th Floor, Building A, Chengjian Plaza, No. 18,

BeiTaiPingZhuang Road, Haidian District, Beijing

100088

People s Republic of China
(Address of Principal executive offices)

Gareth Kung, Chief Financial Officer

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BeiTaiPingZhuang Road, Haidian District, Beijing

100088

People s Republic of China

Telephone: +86 (10) 6206-8007

Facsimile: +86 (10) 6206-8100
(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:

Title of Each Class	Name of Each Exchange on Which Registered
Class A Ordinary Shares	New York Stock Exchange*

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

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

None

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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.

49,088,096 Class A Ordinary Shares and 95,392,968 Class B Ordinary Shares, par value $0.0001 per share, as of December 31, 2011.

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

o 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.

o 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.

o Yes x No

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

o Yes o No

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

Large Accelerated Filer o | Accelerated Filer x | Non-accelerated Filer o

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 o	Other o

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.

o Item 17 o Item 18

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

o Yes 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.

- ***Ambow***, ***we***, ***us*** or ***our*** refer to Ambow Education Holding Ltd. and its 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.

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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 expressions or 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 planned capital expenditures in 2012;
- Our plan to make significant expenditures 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, and specifically decline any obligation, to update publicly or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this annual report might not occur.

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PART I

Item 1. Identity of Directors, Senior Management and Advisers

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

A. Selected Financial Data

The selected consolidated financial data presented below for the three years ended December 31, 2009, 2010 and 2011 and as of December 31, 2010 and 2011 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, 2007 and 2008, and as of December 31, 2007, 2008 and 2009 is derived from our unaudited consolidated financial statements for those years that are not included in this annual report (which are unaudited as they have been revised from previously issued audited financial statements to reflect the classification of discontinued operations as a separate line item in the income statement), which were prepared in accordance with U.S. GAAP.

We have completed a number of acquisitions since January 1, 2008, including 7 acquisitions in 2011. We also disposed of several companies in December 2011 as well as initiated the disposal process for a college and K-12 school in December 2011. This has affected period-to-period comparisons of our selected consolidated financial data. The results presented in our financial statements reflect all of our continuing operations since January 1, 2007 or the subsequent date of acquisition. Any entities disposed of or in the process of being disposed of in December 2011 have been classified as discontinued operations, where applicable, and their financial results, together with any gain/loss arising on disposal, are reflected as a single line item below Income from Continuing Operations, for all periods presented, except for Beijing 21st Century International School, whose financial results were included as part of continuing operations because the Company will have significant continuing involvement with the school following the completion of the planned disposal.

	For the Year Ended December 31,					
	2007	**2008**	**2009**	**2010**	**2011**	**2011**
	RMB	**RMB**	**RMB**	**RMB**	**RMB**	**US$**

	(in thousands, except share, per share and per ADS information)					
Consolidated Statement of Operations Data:						
NET REVENUES:						
Educational programs and services	317,854	451,115	613,611	1,002,458	1,321,141	209,908
Software products	1,077	38,826	123,104	214,663	348,071	55,303
Total net revenues	318,931	489,941	736,715	1,217,121	1,669,212	265,211
Cost of revenues	(205,619)	(319,536)	(356,842)	(526,804)	(715,332)	(113,655)
GROSS PROFIT	113,312	170,405	379,873	690,317	953,880	151,556
Operating expenses:						
Selling and marketing (1)	(19,600)	(39,649)	(127,688)	(235,683)	(353,425)	(56,154)
General and administrative (1)	(33,828)	(52,747)	(136,466)	(220,602)	(329,913)	(52,418)
Research and development (1)	(3,754)	(11,696)	(16,968)	(27,553)	(39,541)	(6,282)
Impairment loss from continuing operations (1)					(25,336)	(4,025)
Total operating expenses	(57,182)	(104,092)	(281,122)	(483,838)	(748,215)	(118,879)
OPERATING INCOME	56,130	66,313	98,751	206,479	205,665	32,677
OTHER INCOME (EXPENSE)	(11,315)	5,577	(4,130)	(12,140)	(27,634)	(4,391)
INCOME BEFORE INCOME TAX, NON-CONTROLLING INTEREST, AND DISCONTINUED OPERATIONS	44,815	71,890	94,621	194,339	178,031	28,286
Income tax expense	(10,578)	(7,629)	(2,772)	(37,635)	(42,231)	(6,710)
INCOME FROM CONTINUING OPERATIONS	34,237	64,261	91,849	156,704	135,800	21,576
Income(loss) from and (loss) on sale of discontinued operations, net of income tax		3,099	46,172	54,995	(119,581)	(19,000)

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	For the Year Ended December 31,					
	2007	2008	2009	2010	2011	2011
	RMB	RMB	RMB	RMB	RMB	US$
	(in thousands, except share, per share and per ADS information)					
NET INCOME	34,237	67,360	138,021	211,699	16,219	2,576
Non-controlling interest			215	4,333	4,966	789
NET INCOME ATTRIBUTABLE TO AMBOW EDUCATION HOLDING LTD.	34,237	67,360	138,236	216,032	21,185	3,365
Preferred shares redemption value accretion	(1,407)	(67,768)	(157,877)	(94,209)		
Allocation of net income to participating preferred shareholders	(20,837)	(53,949)	(93,611)	(55,534)		
NET INCOME (LOSS) ATTRIBUTABLE TO ORDINARY SHAREHOLDERS	11,993	(54,357)	(113,252)	66,289	21,185	3,365
Net income (loss) from continuing operations per ordinary share: (2)						
Basic	0.75	(2.49)	(4.07)	0.13	0.98	0.16
Diluted	0.33	(2.49)	(4.07)	0.14	0.94	0.15
Net income (loss) from discontinued operations per ordinary share: (2)						
Basic	0.00	0.13	1.18	0.64	(0.84)	(0.13)
Diluted	0.00	0.13	1.18	0.49	(0.79)	(0.13)
Net income (loss) from continuing operations per ADS: (2)						
Basic	1.50	(4.99)	(8.14)	0.26	1.96	0.32
Diluted	0.66	(4.99)	(8.14)	0.28	1.88	0.30
Net income (loss) from discontinued operations per ADS: (2)						
Basic	0.00	0.27	2.36	1.29	(1.67)	(0.27)
Diluted	0.00	0.27	2.36	0.98	(1.59)	(0.25)
Weighted average shares used in calculating net income (loss) per share (2)						
Basic	16,031,507	23,038,853	39,193,092	85,551,412	142,939,038	142,939,038
Diluted	37,622,476	23,038,853	39,193,092	112,122,045	150,432,812	150,432,812

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(1) Share-based compensation expense included in:

	For the Year Ended December 31,					
	2007	2008	2009	2010	2011	2011
	RMB	RMB	RMB	RMB	RMB	US$
	(in thousands, except share, per share and per ADS information)					
Selling and marketing	623	1,194	4,411	7,204	7,286	1,158
General and administrative	4,175	8,370	8,640	26,029	25,220	4,007
Research and development	353	426	480	981	842	134

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

	As of December 31,					
	2007	2008	2009	2010	2011	2011
	(in thousands)					
	RMB	RMB	RMB	RMB	RMB	US$
Consolidated Balance Sheet Data:						
Cash and cash equivalents	416,094	778,824	409,926	869,300	470,682	74,784
Total current assets	1,006,011	1,578,712	1,133,515	1,663,782	1,669,505	265,258
Total assets	1,012,335	1,993,884	3,672,394	4,238,497	4,720,627	750,032
Total current liabilities	475,104	502,738	1,131,901	1,071,402	1,449,737	230,339
Total liabilities	475,104	525,626	1,582,625	1,505,504	1,954,164	310,485
Mezzanine equity	387,757	1,131,408	1,288,147			
Total shareholders equity	149,474	336,850	801,622	2,732,993	2,766,463	439,547

	For the Year Ended December 31,					
	2007	2008	2009	2010	2011	2011
	RMB	RMB	RMB	RMB	RMB	US$
	(in thousands)					
Consolidated Statement of Cash Flow Data:						
Net cash provided by/(used in) operating activities	88,613	(63,630)	523,094	456,914	296,705	47,142
Net cash used in investing activities	(118,430)	(261,831)	(802,365)	(392,364)	(494,558)	(78,577)
Net cash provided by/(used in) financing activities	388,754	700,041	(86,500)	406,598	(46,216)	(7,343)
Cash and cash equivalents included in assets held for sale					(139,099)	(22,101)

Exchange Rates

Our business is primarily conducted in China and substantially all 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 30, 2011, which was RMB 6.2939 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

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exchange and through restrictions on foreign trade. On May 18, 2012, the daily exchange rate reported by the Federal Reserve Board was RMB6.3245 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.

	Exchange Rate			
Period	**Period End**	**Average (1)**	**Low (2)**	**High (2)**
2007	7.2946	7.5806	7.2946	7.8127
2008	6.8225	6.9193	6.7800	7.2946
2009	6.8259	6.8295	6.8176	6.8470
2010	6.6000	6.7653	6.6000	6.8330
2011	6.2939	6.4475	6.2939	6.6364
October	6.3547	6.3710	6.3534	6.3825
November	6.3765	6.3564	6.3400	6.3839
December	6.2939	6.3482	6.2939	6.3733
2012				
January	6.3080	6.3119	6.2940	6.3330
February	6.2935	6.2997	6.2935	6.3120
March	6.2975	6.3125	6.2975	6.3315
April	6.2790	6.3043	6.2790	6.3150
May (through May 18, 2012)	6.3245	6.3133	6.3052	6.3247

(1) Annual averages are calculated from month-end noon buying rates in the city of New York as published by the Federal Reserve Bank. Monthly averages are calculated using the daily noon buying rates in the city of New York as set forth in the H.10 statistical release of the Federal Reserve Board during the relevant periods.

(2) 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. **Risk Factors**

Risks related to our business and industry

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

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

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

Our education professionals are critical to maintaining the quality of our services, software products and programs, and maintaining our brand and reputation, as they interact with our students on a regular basis. We must continue to attract qualified education professionals who have a strong command of the subject areas to be taught and meet our qualifications. There are a limited number of education professionals in China with the necessary experience to satisfy our qualifications, and we must provide competitive compensation packages to attract and retain qualified teachers and tutors. Some of our education professionals are teachers of public schools that are working at our tutoring centers on a part-time basis. Paid tutoring by teachers of public schools has received more regulatory scrutiny recently. Some of the provinces and cities where we have substantial business operations, such as Beijing, Tianjin, Chengdu, Jiangsu, Hunan and Hubei have promulgated local regulations prohibiting teachers of public schools from teaching, on a part-time basis, at private schools during the work week or at any time. We believe that some of our teachers also work in public schools. If these education professionals choose to leave, or are forced to leave, our learning centers to comply with relevant local regulations, we will need to seek new teachers to replace them which we cannot assure you that we will be able to do at a reasonable cost or at all. If these regulations become the trend and are adopted in more provinces and cities or become more restrictive, we may need to seek additional new teachers in more places, which will further increase the difficulty of our recruiting efforts. While none of the existing local regulations impose any penalty on private schools like ours for hiring teachers who also teach at public schools, we cannot assure you that such regulations will not be adopted in the future. In addition, we may not be able to hire and retain enough qualified education professionals to keep pace with our anticipated growth or at acceptable costs while maintaining consistent teaching quality across many different schools, learning centers and programs in different geographic locations. Shortages of qualified education professionals, or decreases in the quality of our instruction, whether actual or perceived in one or more of our markets, or an increase in hiring costs, may have a material and adverse effect on our business and our reputation. Further, our inability to retain our education professionals may hurt the brands we are trying to develop, and retaining qualified teachers at additional costs may have a material adverse effect on our business and results of operations.

Failure to effectively and efficiently manage the expansion of our service network may materially and adversely affect our ability to capitalize on new business opportunities.

We plan to expand our operations primarily through organic growth, which may result in substantial demands on our management personnel as well as our financial, operational, administrative, technological and other resources. Opening new tutoring and career enhancement centers requires us to incur substantial pre-opening costs and we may incur losses during the initial ramp-up stage since we incur rent, salary and other operating expenses for new learning centers regardless of any revenues we may generate. We expect that the fixed costs and other increased operating expenses that would result from opening new centers would exceed the revenue generated from those new centers during their initial establishment period. Consequently, if we open a significant number of new tutoring and career enhancement centers, our profit margins will decline substantially, at least in the near term, until such time as the new centers generate sufficient revenue to offset their fixed costs and other increased operating expenses. Furthermore, the expansion of our programs, services and geographic locations may not succeed due to competition, failure to efficiently market our new centers and maintain their quality and consistency, or other factors. We cannot assure you that we will be able to successfully integrate new learning centers into our operations. Any failure to effectively and efficiently manage our expansion may materially and adversely affect our ability to capitalize on new business opportunities, which in turn may have a material adverse effect on our future financial condition and results of operations. However, if we fail to expand our business in a timely fashion, we may lose market share and revenue and our future growth could be limited.

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 significant expenditures to create and maintain our positive brand awareness and brand loyalty. The diverse set of services and products that we offer to K-12 students, college students and other adults throughout many provinces in China places significant demands on us to maintain the consistency and quality of our services and products to ensure that our brands do not suffer from any actual or perceived decrease in the quality of our services and products. As we continue to grow in size, expand our services and products and extend our geographical reach, maintaining the quality and consistency of our services and products may be more difficult. Any negative publicity about our services, products, schools or learning centers, regardless of its veracity, could harm our brand image and have a material adverse effect on our business and results of operations.

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

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

market in which we operate. Moreover, competition is particularly intense in some of the key geographic markets in which we operate, such as Beijing and Shanghai.

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

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

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

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

We have completed a number of acquisitions, which involve risks and uncertainties, and if we don t manage those risks well, it may harm our business.

We have completed a number of acquisitions, and we intend to continue to make strategic acquisitions and investments as part of our growth strategy. In the future, we may also establish and maintain joint ventures and strategic relationships with third parties. Strategic acquisitions, investments and relationships with third parties involve substantial risks and uncertainties, including:

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

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

- Potential ongoing financial obligations in connection with acquisitions;
- Potential unforeseen or hidden liabilities, including litigation claims or tax liabilities, associated with acquired companies or schools;
- The diversion of resources and management attention from our existing businesses;
- Failure to achieve the intended objectives, benefits or revenue-enhancing opportunities expected from the acquisitions;
- Our ability to generate sufficient revenues to offset the costs and expenses of strategic acquisitions, investments, joint venture formations, or other strategic relationships; and
- Potential loss of, or harm to, employee or customer relationships as a result of ownership changes.

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

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

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

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

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

- Consolidating and rationalizing corporate IT and administrative infrastructures;

- Retaining qualified education professionals of our acquired entities;

- Consolidating service and product offerings;

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

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

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

We may not successfully integrate our operations and the operations of entities we acquire in a timely manner, or at all, and we may not realize the anticipated benefits or synergies of the acquisitions to the extent, or in the timeframe, anticipated, which would have a material adverse effect on our results of operations. In the last quarter of 2011, we disposed four tutoring and career enhancement subdivisions and initiated the disposal of Beijing Century College and its 100% owned Beijing Siwa Century Facility Management Co. and Beijing 21st Century International School. In connection with these disposals, the Company recorded a total impairment loss of RMB152.6 million (US$24.2 million). This is done to sharpen our focus on the organic growth and business portfolio with stronger performance, greater capital efficiency and better asset turnover.

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 grew from RMB736.7 million in 2009 to RMB1,217.1 million in 2010 to RMB1,669.2 million (US$265.2 million) in 2011. Such growth may not be sustainable or indicative of our future results. In addition, 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, 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

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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.

Changes in our management may cause uncertainty in, or be disruptive to, our business.

We experienced certain changes in our senior management during 2011. Our Chief Financial Officer was appointed in December 2011, and we appointed a Chief Strategy Officer in November 2011. Although we will endeavor to implement management transition in as non-disruptive a manner as possible, any such transition might impact our business, and give rise to uncertainty among our customers, investors, vendors, employees and others concerning our future direction and performance. This could affect our business, financial condition, results of operations and cash flows, and our ability to execute our business model could be impaired.

The growth of our business is in part dependent on our relationships with our distributors and corporate partners. If we were to lose these relationships, or the benefits we derive from these relationships were to diminish, our growth rates and our business would be harmed.

We rely on our distributors and corporate partners to help drive our net revenues and profitability growth rates. We sell to distributors who then distribute our educational services and software products throughout China to additional schools and students and to expand our geographic reach to areas where we do not have a direct presence. Some of our distributors are small companies with limited resources and track records and there can be no assurance that they will be able to continue their operations or succeed in selling our products. If these distributors are unable to continue their operations or sell our products, we may be required to identify new distributors which may divert management resources from other matters and otherwise interrupt our sales cycle. We also have partnerships, both directly and through our distributors, with a number of K-12 schools and universities throughout China. We sell our services and software products to the students in these schools and universities and also teach students in our tutoring centers and career enhancement centers who are enrolled in these schools and universities. We have developed a number of strategic partnerships with significant national and multinational corporations who are expanding the business they do in China, including Cisco Systems, Inc., The McGraw-Hill Companies, Inc., Oracle (China) Software Systems Co. Ltd, Microsoft (China) Company Limited, Lenovo and Adobe Creative University. We derive both direct benefits, such as expanding and improving the curriculum in our career enhancement centers and helping to attract additional students to these centers, and indirect benefits, such as strengthening the Ambow brand, from these partnerships. If our relationships with any of these partners and distributors were to be damaged or lost, or the benefits we derive from these relationships were to be diminished, whether by our own actions, actions of one or more governmental entities or actions of our competitors, our growth rates and our business would be harmed.

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, result in systems interruptions or are not aligned with market expectations or preferences, we may lose market share and our business could be materially adversely affected.

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

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

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

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

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

A substantial majority of the net revenues generated in our tutoring segment in the year ended December 31, 2011 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. In 2009, 76 universities and colleges were allowed to recruit students through independently administered tests and admission procedures according to a notice promulgated by the MOE on December 12, 2008. The number of such universities and colleges increased to 80 in 2011 and may increase further in the future. 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 renew our existing loan facilities, or obtain new loans, at all or on terms that are acceptable to us, our growth pace will be impacted.

As of December 31, 2011, our total bank borrowings amounted to RMB180.6 million and our short-term bank loans outstanding totaled RMB118.1 million. We may seek to obtain additional bank loans in the future. We cannot assure you that we will be able to roll over our existing bank facilities, or 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. As of the date of this annual report, all of our bank borrowing is from domestic banks in China. During 2011, the People s Bank of China (PBOC) significantly tightened liquidity among Chinese banks. Although on December 5, 2011, the PBOC reduced the reserve requirement ratio for Chinese banks to 21 percent from a record high of 21.5 percent, we cannot assure you that the PBOC will not in the future take actions that may result in a tightening of the credit market in China. Our ability to obtain bank loans from domestic Chinese banks will be significantly impacted by the PBOC s policies, over which we have no control. If we are unable to roll over our existing bank facilities or 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. This may result in volatility and adversely affect the price of our ADSs.

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

product development throughout the year. We expect quarterly fluctuations in our revenues and results of operations to continue. These fluctuations could result in volatility and adversely affect the price of our ADSs. As our revenues grow in our K-12 schools and college segments, these seasonal fluctuations may become more pronounced.

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

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

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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. On May 13, 2009, the Intermediate Court in Beijing accepted a filing of an infringement claim by the Graduate Management Admission Council, or GMAC, regarding alleged copyright infringement arising from the unauthorized use of GMAT materials by Beijing Century Bosen Consulting Co., Ltd., or Beijing Century Tutoring, one of our tutoring centers. In November 2009, GMAC and Beijing Century Tutoring entered into a settlement agreement that provides, among other things, that Beijing Century Tutoring shall remove certain specified GMAT materials and hyperlinks from Beijing Century Tutoring s website, and RMB0.5 million was paid by Beijing Century Tutoring to GMAC for damages and losses incurred by the alleged infringing acts.

In August 2010, Beijing Kaidi Morning Light Education and Technology Development Co., Ltd., or Kaidi, initiated an action against Ambow Shida and Ambow Online in the Haidian District Court in Beijing, the People s Republic of China, alleging copyright infringement related to our Core Ebopo English and Ebopo English products. Kaidi applied to the court for an order that would require the defendants to stop the infringement, apologize publicly and pay the plaintiff damages in the amount of RMB 11,000,000. Ambow Shida and Ambow Online replied to the accusation, and Kaidi voluntarily withdrew the lawsuit after the first hearing for the preliminary evidence. In December 2010, Kaidi re-filed its claim for copyright infringement in the Haidian District Court in Beijing, the People s Republic of China, against Ambow Shida and Ambow Online. Ambow Shida and Ambow Online replied to the accusation. The court held a hearing to review the preliminary evidence in March 2011 and adjourned the case.

In March 2011, Mintel Learning Technology, Inc. (Mintel) filed a complaint against Ambow Education Holding Ltd. (Ambow) and Ambow s President and CEO, Dr. Jin Huang, in U.S. District Court for the Northern District of California, alleging a claim of trade secret misappropriation. On January 6, 2012, the Court granted Ambow s motion to dismiss the complaint for failure to state a claim. In an amended complaint filed on January 12, 2012, Mintel dropped its claim against Dr. Huang. Mintel maintained its claim against Ambow for trade secret misappropriation. In an order dated March 8, 2012, the Court denied Ambow s motion to dismiss the amended complaint. On March 22, 2012, Ambow filed an answer to the complaint, denying Mintel s claim. The parties are currently engaged in the early stages of discovery. Fact discovery will close on October 19, 2012, and expert discovery will close on December 14, 2012. The last day for the parties to file dispositive motions is January 11, 2013. The Court has set a preliminary pretrial conference for February 1, 2013.

Although we believe that these claims are not meritorious and intend to defend ourselves vigorously, 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;

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

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

- Any infection by or spread of computer viruses.

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

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

All of our servers and routers, including backup servers, are currently hosted by third-party service providers within China. We do not currently maintain any backup servers outside of China. To improve the performance and to prevent the disruption of our services, we may have to make substantial investments to deploy additional servers or one or more copies of our websites to mirror our online resources.

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

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

As of December 31, 2011, we were unable to acquire copies of title certificates of buildings from lessors or registration or approval from competent authorities for properties to be obtained by lessors accounting for approximately 318,573 square meters, or approximately 42.2 % of

the premises we lease based on the aggregate of 754,221 square meters of space we lease for our tutoring centers, K-12 schools, career enhancement centers and college as of such date. These leased buildings with defects, which represent 32.7% of all of the buildings we lease and own, generally are used for classrooms and dormitories for our students. Of the buildings we lease with defects, buildings covering approximately 94,212 square meters for schools or learning center space are leased from public schools and such buildings are prohibited from being leased to private schools.

In 2011, our net revenues were RMB1,669.2 million (US$265.2 million). If we are forced to vacate the premises at the properties that have defects where we lease buildings that house our classrooms and dormitories, it could impact schools and learning centers that generate approximately 23.6% of our net revenues, of which there was approximately 20.9% of our net revenues in 2011 that were generated by sales of software products and were not reliant on our physical properties. We believe, however, that it is highly unlikely that we would be impacted by all or most of these defects at the same time across numerous locations in various jurisdictions where these properties are located, and we believe that we would be able to find alternative locations quickly without incurring significant additional expenses for most of these locations; therefore, we believe that any impact from these defects on our net revenues would be significantly smaller than 23.6%.

As of December 31, 2011, certain land leased separately from the buildings discussed above covering 366,625 square meters, which represented approximately 78.0% of all our land leased as of that date and approximately 31.1% of all of our leased and owned land as of that date, are restricted to industrial and other uses, rather than for educational use, including one plot of land owned by villages and rural organizations, or collectively-owned land, which is not permitted to be leased for a non-agricultural use under PRC law. This portion of our leased land is used for recreational areas at certain of our tutoring centers, K-12 schools and college. As a result, if we were forced to vacate this portion of leased land, which is leased separately from our buildings, we do not believe it would have a direct impact on our net revenues. However, if we are regarded by a competent authority as using this leased land for a purpose other than the use approved by the government, we may be ordered to vacate the relevant land and subject to fines at a rate that we believe, based on our review of the applicable regulations, would be up to RMB30.0 (US$4.8) per square meter, and the total amount of the fines might be up to RMB11.1 million (US$1.8 million).

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

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our current leases in a timely basis and on terms favorable to us, our business, results of operations and financial condition could be materially adversely affected.

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

Some of the real properties that we own have defects or potential issues such as missing title certificates. As of December 31, 2011, we own and occupy land covering an aggregate of 681,634 square meters, of which one parcel of land covering 56,667 square meters, accounting for 8.3% of the land we own as of that date and 4.9% of the land we lease and own as of that date, do not have land use right certificates. As of December 31, 2011, we own an aggregate of 220,974 square meters of buildings. We have not acquired the building ownership certificates for buildings covering 83,069 square meters, accounting for 37.6% of the square meters of the buildings we own, including certain properties covering 54,864 square meters that have some of the required permits.

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

We are in the process of applying for the land use right for one parcel of land covering 56,667 square meters and building ownership certificates for buildings covering 53,726 square meters 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 were aware of defects in the leased or owned real properties at target entities at the time we made acquisitions. As we continue to expand our business and acquire additional schools and learning centers, certain defects might exist in the leased or owned properties of the schools and learning centers we acquire in the future.

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

Failure by our college to comply with regulatory requirements on land use rights and capital commitment may subject our colleges to penalties and adversely affect our business operations.

The Rules Relating to the Establishment and Regulation of Independent Colleges, or Independent College Rules, promulgated by the MOE on February 22, 2008 and effective as of April 1, 2008, provide that an independent college established thereafter shall hold the land use right certificate or construction planning permit for land covering at least 500 mu (333,334 square meters), and independent colleges established prior to April 1, 2008 are required to meet this land requirement within a grace period of five years, namely prior to March 31, 2013. Our college, the Applied Technology College, was established prior to April 1, 2008 and is subject to such minimum land requirements and does not currently comply. To satisfy such requirements would require us to incur significant expenses that we are not able to quantify, and we cannot assure you that we can satisfy these requirements in time. In addition, the Independent College Rules require that the capital commitment to an independent college established before the Rules came into effect shall be paid within one year after its effectiveness. As of the date of this annual report, the capital commitment to the Applied Technology College is fully paid in cash, but we still need to contribute land use rights. For the year ended December 31, 2011, net revenues from our independent college accounted for 7.0% of our net revenues. Our failure to comply with the land requirements before the deadline or the capital commitment requirement may subject us to penalties, including fines of an unknown amount, and the college s ability to recruit additional students may be limited or suspended, any of which may result in a material adverse effect on our reputation, business and 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 purchase method of accounting, and such acquisitions have resulted in significant goodwill and intangible assets. These assets may become impaired in the future, which could

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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 2011, we recorded an impairment loss of RMB152.6 million (US$24.2 million) in respect of continuing and discontinued operations. In the future, we may be required to record a significant charge to earnings in our financial statements during the period in which any impairment of our goodwill or amortizable intangible assets is determined, which could have a material adverse effect on our results of operations.

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

We adopted a stock option plan in 2005, or 2005 Stock Plan, as well as an equity incentive plan in 2010, or 2010 Equity Incentive Plan. We have granted options and restricted shares under these plans to our employees and consultants. U.S. GAAP prescribes how we account for share-based compensation, and may have an adverse or negative impact on our results of operations or the price of our ADSs. U.S. GAAP requires us to recognize share-based compensation as compensation expense in the statement of operations based on the fair value of equity awards on the date of the grant, with the compensation expense recognized over the period in which the recipient is required to provide service in exchange for the equity award. These statements also require us to adopt a fair value-based method for measuring the compensation expense related to share-based compensation. As of December 31, 2011, we had RMB 54.0 million (US$8.6 million) of unrecognized share-based compensation costs, adjusted for estimated forfeitures, related to unvested stock option awards granted prior to such date, which are expected to be recognized over a weighted-average period of 1.68 years. 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.

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

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

For the years ended December 31, 2009, 2010 and 2011, we received the following preferential tax treatments: (i) Ambow Online was recognized as a Software Enterprise and was exempted from income tax on its profits for 2009, and is entitled to a 50% reduction in income tax rate from 2010 to 2012; and (ii) Tianjin Ambow Yuhua Software Co., Ltd., or Ambow Yuhua, was recognized as a Software Enterprise and is entitled to be exempted from income tax on its profits for 2011 and 2012, and is entitled to a 50% reduction in income tax rate from 2013 to 2015. In order to maintain the Software Enterprise status, each of these entities 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, or the MIIT. Software Enterprises which fail such annual inspections may not, for the current year, enjoy the relevant incentive policies including the preferential tax treatment. Each of Ambow Online and Ambow Yuhua has obtained the Certificate of Software Enterprise. For the years ended December 31, 2009, 2010 and 2011, if our corporate

subsidiaries in the PRC had not been awarded tax holidays or received preferential tax treatment, the increase in our tax expense would have been RMB25,523,000, RMB28,285,000 and RMB59,580,000, respectively.

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

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

The growth rate of China s domestic product in 2011 was 9.2%, compared to a growth rate of 10.3% in 2010. A number of factors contributed to this slowdown in China s economy, including appreciation of the RMB, which adversely affected China s exports, and tightening macroeconomic measures and monetary policies adopted by the PRC government aimed at preventing overheating of China s economy and controlling China s high level of inflation. Since we derive substantially all of our revenues from students in China, any prolonged slowdown in the Chinese economy may have a negative impact on our business, results of operations and financial condition in a number of ways. For example, our students may decrease or delay spending with us, while we may have difficulty expanding our customer base fast enough, or at all, to offset the impact of decreased spending by our existing students. The adverse economic conditions, if they continue or worsen, will affect consumer spending generally, which could result in decreased demand for our services and products within our target markets.

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 and the market price of our ADSs 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, or the SEC, as required under Section 404 of the Sarbanes-Oxley Act of 2002, has adopted rules requiring every public company to include a report of management on the effectiveness of such company s internal control over financial reporting in its annual report. In addition, an independent registered public accounting firm must issue an attestation report on the effectiveness of our internal control over financial reporting. Our management and independent registered public accounting firm, as part of their audit of our consolidated financial statements for the year ended December 31, 2011, have performed an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2011 and reported to our board of directors the material weaknesses as of December 31, 2011. The material weaknesses identified in our internal control over financial reporting are related to both the inadequate oversight over complex transactions and insufficient personnel with appropriate levels of accounting knowledge and experience to address the high volume of U.S. GAAP accounting issues and to prepare and review financial statements and related disclosures under U.S. GAAP. See Item 15. Controls and Procedures.

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

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

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

Risks related to regulation of our business and our corporate structure

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

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

PRC laws and regulations currently prohibit foreign ownership of elementary and middle schools for students in grades one to nine and foreign ownership of businesses that provide content over the Internet is restricted in the PRC. Accordingly, our wholly-owned subsidiaries in China, which are considered foreign-invested, are currently ineligible to apply for such education licenses and Internet content provider permits in China.

We conduct our K-12 school business and provide online services in China primarily through contractual arrangements between Ambow Online, our principal operating subsidiary in China, and our VIEs, and their respective shareholders. Our VIEs and their respective subsidiaries hold the required licenses and permits necessary to conduct our education business in China and to operate our K-12 schools, tutoring centers, college and career enhancement centers. We have been and expect to continue to be dependent on our VIEs and their respective subsidiaries to operate our business.

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 Ministry of Commerce, or MOFCOM, and the MIIT, which regulate the education industry, foreign investment in China and Internet business, respectively, would have broad discretion in dealing with such violations, including:

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

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

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

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

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

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

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

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

We have relied and expect to continue to rely on contractual arrangements with our VIEs and their respective shareholders to operate a substantial portion of our education business. For a description of these contractual arrangements, see Item 4.C Information on the Company Organizational Structure and Item 7.B Related Party Transactions Contractual arrangements with our VIEs and their respective subsidiaries and shareholders. These contractual arrangements may not be as effective in providing us with control over our VIEs and their respective subsidiaries as direct ownership. If we had direct ownership of our VIEs and their respective subsidiaries, we would be able to exercise our rights as a shareholder to effect changes in the board of directors of our VIEs and their respective subsidiaries, which could effect changes, subject to any applicable fiduciary duties, at the management level. As a legal matter, if our VIEs or any of their respective shareholders fails to perform its or his or her respective obligations under these contractual arrangements, we may have to incur substantial costs and expend significant resources to enforce such arrangements. We may also rely on legal remedies under PRC law, including seeking specific performance or injunctive relief, and claiming damages, but these remedies may not be effective. For example, if the shareholders of any of our VIEs were to refuse to transfer their equity interest in such VIEs to us or our designee when we exercise the call option pursuant to these contractual arrangements, or if they were otherwise to act in bad faith toward us, then we may have to take legal action to compel them to fulfill their contractual obligations. In addition, we may not be able to renew these contracts with our VIEs and/or their respective shareholders.

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

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

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

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

The principal regulations governing private education in China are The Law for Promoting Private Education (2003) and The Implementing Rules for the Law for Promoting Private Education (2004), or 2004 Implementing Rules. Under these laws and regulations, a private school may elect to be a school that does not require reasonable returns or a school that requires reasonable returns. At the end of each fiscal year, every private school is required to allocate a certain amount to its development fund for the construction or maintenance of the school or procurement or upgrading of educational equipment. In the case of a private school that requires reasonable returns, this amount shall be no less than 25% of the annual net income of the schools, while in the case of a private school that does not require reasonable returns, this amount shall be equivalent to no less than 25% of the annual increase of net assets of the school (as determined under generally accepted accounting principles in the PRC). All of the private schools operated by our VIEs and their respective subsidiaries currently comply with the existing laws and regulations regarding the allocation of their development funds. A private school that requires reasonable returns must publicly disclose such election and additional information required under the regulations. A private school shall consider factors such as the school s tuition fees, ratio of the funds used for education-related activities to the course fees collected, admission standards and educational quality when determining the percentage of the school s net income that would be distributed to the investors as reasonable returns. However, none of the current PRC laws and regulations provides a formula or guidelines for determining reasonable returns. In addition, none of the current PRC laws and regulations sets forth different requirements or restrictions on a private school s ability to operate its education business based on such school s status as a school that requires reasonable returns or a school that does not require reasonable returns. New laws or regulations might be adopted to:

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

- Specify the formula for calculating reasonable returns.

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

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

Our VIEs control and operate tutoring centers, K-12 schools, career enhancement centers and one college. As the provision of these services is heavily regulated in China, especially primary or secondary schools, these schools and companies that our VIEs or their respective subsidiaries currently own or operate or may acquire or establish in the future may be subject from time to time to inspections and investigations, claims of non-compliance or lawsuits by governmental agencies, which may allege statutory violations, regulatory infractions or other causes of action. For example, if an independent college is found unable to satisfy one or more conditions for running a college set by the MOE in such inspection or investigation, the MOE may impose limitation on the annual enrollment quota or even suspend the recruitment of the college. In 2006, the MOE, based on the result of an investigation into independent colleges, posted a notice of non-compliance on its website criticizing some independent colleges, including the two colleges that we subsequently acquired, for failure of their respective sponsors to transfer committed assets to the colleges. As of the date of this annual report, we have only one college and its sponsors have not had any fines imposed upon them

or otherwise incurred a penalty from the MOE for the failure to pay committed capital, and its enrollment capacity has not been adversely affected for failure to satisfy conditions set by the MOE. If the results of any such investigations or lawsuits are unfavorable to us, we may be subject to fines, penalties, injunctions or other censure that could have an adverse impact on our reputation and results of operations. Even if we adequately address the issues raised by a government investigation, we may have to devote significant financial and management resources to resolve these issues, which could have a material adverse effect on our business.

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

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

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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.

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

According to the 2004 Implementing Rules, private schools that do not require reasonable returns enjoy the same preferential tax treatment as public schools. While it is indicated in the 2004 Implementing Rules that the relevant authorities under the State Council may consider formulating separate preferential tax treatment policies applicable to private schools requiring reasonable returns, no such tax preferential policy has been promulgated yet. In March 2007, the Chinese government enacted the CIT Law, and promulgated the Implementing Regulations for the PRC Corporate Income Tax Law in December 2007, both of which came into effect on January 1, 2008. On February 22, 2008, the Ministry of Finance and State Taxation Administration issued a subsequent notice, or the 2008 Tax Notice, that effectively abolished our preferential tax treatment under the 2004 Implementing Rules. The CIT Law and 2008 Tax Notice, among other things, impose a unified income tax rate of 25% for all private schools regardless of whether they require a reasonable return or not unless the school qualifies as a not-for-profit organization as defined in the PRC tax regime effective January 1, 2008. If a school qualifies as a not-for-profit organization in accordance with the tax law, it will be exempt from corporate income tax for certain of its income qualified for exemption under the relevant laws and rules. In November 2009, the Ministry of Finance and State Taxation Administration further issued rules providing the criteria for a not-for-profit organization to qualify for exemption of corporate income tax. These rules are relatively new and contain many ambiguities. In practice, tax treatments for private schools vary across different cities in China. In some cities, private schools are subject to a 25% standard corporate income tax, while in other cities, private schools are subject to a 1.75% to 4.0% tax on gross receipts received by the schools or a deemed fixed tax amount or may be exempted from corporate income tax. These deemed tax rates and deemed fixed tax amount treatments granted to our schools by local tax authorities are subject to review and may be adjusted or revoked at any time. In addition, education services provided to students receiving degree-oriented education by private schools are also exempted from business tax in China so long as those schools are accredited to issue diplomas or degree certificates recognized by the MOE. The discontinuation of any of these tax treatments currently available to us or the determination of the tax authority that any of the preferential tax treatment we have enjoyed is not in compliance with the PRC laws, especially those schools in major cities, would cause our effective tax rate to increase, which would increase our income tax expenses and in turn decrease our net income or even subject us to supplementary payment of tax balance.

Under PRC laws and regulations, an enterprise that qualifies as a new and high-technology enterprise or a software enterprise may enjoy preferential tax benefits. An enterprise qualified as both a new and high-technology enterprise and as a software enterprise may choose one of the more preferential tax treatments. For example, Ambow Online is a certified new and high-technology enterprise and a software enterprise and has chosen to enjoy preferential tax treatments as a software enterprise. As a result, Ambow Online is entitled to a two-year exemption from the first year it generates taxable income and a 12.5% corporate income tax rate for another three years, which might be followed by a 15% tax rate so long as Ambow Online continues to qualify as a new or high-technology enterprise . If Ambow Online fails to maintain the status of a software enterprise or a new and high-technology enterprise , it will cease to enjoy the reduced tax rate and its tax rate will increase to 25% or the then current rate. Ambow Yuhua was also recognized as a software enterprise , and is entitled to a tax exemption from income tax on its profits for 2011. As a result, Ambow Yuhua will enjoy a two-year income tax exemption from 2011 and will be subject to 12.5% corporate income tax for another three years. If Ambow Yuhua ceases to qualify for the current preferential corporate income tax rate, it will cease to enjoy the reduced tax rate and its tax rate will increase to 25% or the then current rate. If PRC laws and regulations were to phase out preferential tax benefits currently granted to software enterprises or new and high-technology enterprises , each of Ambow Online and Ambow Yuhua would be subject to the standard corporate income tax rate, which currently is 25%. Loss of these preferential tax treatments could have a material adverse effect on our financial condition and results of operations.

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

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

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

In 2011, we generated net revenues from our tutoring and career enhancement segments of RMB 778.0 million (US$123.6 million) and RMB 505.2 million (US$80.3 million), respectively. A portion of these net revenues were related to providing educational materials online. If the provision of these online services is deemed to have exceeded the scope of Ambow Shida s license, we may be required to cease providing these online materials, which would harm our net revenues and results of operations. As we are a foreign enterprise in China, Ambow Shida may also be deemed to have illegally leased its ICP license or provided facilities or other resources to foreign investors. If we are deemed to have violated applicable Chinese Internet regulations, we could be subject to severe penalties, including confiscation of illegal gains, fines ranging from three to five times the illegal gains, suspension of certain types of service 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 all of our operations are conducted in China, and substantially all of our net revenues are derived from China. Accordingly, our business, financial condition, results of operations, prospects and certain transactions we may undertake are subject, to a significant extent, to

economic, political and legal developments in China.

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

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

The PRC government has implemented various measures to encourage foreign investment and sustainable economic growth and to guide the allocation of financial and other resources, which have for the most part had a positive effect on our business and growth. However, we cannot assure you that the PRC government will not repeal or alter these measures or introduce new

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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 Online and our other wholly-owned subsidiaries in China are generally subject to laws and regulations applicable to foreign investments in China and, in particular, laws applicable to wholly foreign-owned enterprises.

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

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

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

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

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

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

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

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

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

As of December 31, 2011, we have across our four operating segments a total of 33 private schools of which three schools are registered as schools not requiring reasonable returns while other schools choose to be registered as schools requiring reasonable returns. Entities registered as schools not requiring reasonable returns are restricted from directly distributing to us any dividends or profits.

To date, our PRC subsidiaries have not paid dividends to us out of their accumulated profits. In the near future, we do not expect to receive dividends from our PRC subsidiaries because the accumulated profits of these PRC subsidiaries are expected to be used for their own business or expansions. If we are unable to extract the earnings and profits of some of our schools and learning centers, it could have a material adverse effect on our liquidity and financial condition.

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

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

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

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

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

In addition, on August 29, 2008, SAFE promulgated Circular 142, a notice regulating the conversion by a foreign-invested company of its capital contribution in foreign currency into RMB. The notice requires that the capital of a foreign-invested company settled in RMB converted from foreign currencies shall be used only for purposes within the business scope as approved by the authorities in charge of foreign investment or by other competent authorities and as registered with the Administration for Industries and Commerce and, unless set forth in the business scope or in other regulations, may not be used for equity investments within the PRC. In addition, SAFE strengthened its oversight of the flow and use of the capital of a foreign-invested company settled in RMB converted from foreign currencies. The use of such RMB capital may not be changed without SAFE s approval, and may not in any case be used to repay RMB loans if the proceeds of such loans have not been used. Violations of Circular 142 will result in severe penalties, including heavy fines. As a result, Circular 142 may significantly limit our ability to transfer capital to our VIEs and their respective subsidiaries through our subsidiaries in the PRC, which may adversely affect our ability to expand our business, and we may not be able to convert capital into RMB to invest in or acquire any other PRC companies, or establish other VIEs in the PRC.

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

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

If we use our capital for the business of Ambow Online or our other wholly-owned subsidiaries, we are also required to apply to the authority of commerce for approval for an increase of their respective registered capital given that the original registered capital of these subsidiaries have been fully paid. We cannot assure you our capital 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.

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

The CIT Law and its Implementing Regulations, which became effective on January 1, 2008, provide that enterprises established outside of China whose de facto management bodies are located in China are considered resident enterprises. Although the Implementing Regulations of the PRC CIT Law define the term de facto management bodies as a body which substantially manages, or has control over the business, personnel, finance and assets of an enterprise, 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 CIT Law and its Implementing Regulations to a PRC resident recipient.

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

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

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

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

The change in value of the RMB against the U.S. dollar and other currencies is affected by, among other things, changes in China s political and economic conditions. On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the RMB to the U.S. dollar.

Under the policy, the RMB is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. Between July 21, 2005 and April 30, 2012, the RMB appreciated by approximately 31.8% against the U.S. dollar, although the pace of appreciation was uneven during this period. 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.

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Recent PRC regulations relating to offshore investment activities by PRC residents and employee stock options granted by overseas-listed companies may increase our administrative burden, restrict our overseas and cross-border investment activity or otherwise adversely affect the implementation of our acquisition strategy. If our shareholders who are PRC residents, or our PRC employees who are granted or exercise stock options, fail to make any required registrations or filings under such regulations, we may be unable to distribute profits and may become subject to liability under PRC laws.

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

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

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

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

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

Regulation SAFE regulations on employee share options.

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

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

The audit report included in this annual report is prepared by an auditor who is not inspected by the Public Company Accounting Oversight Board and, as such, you are deprived of the benefits of such inspection.

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Auditors of companies that are registered with the Securities and Exchange Commission and traded publicly in the United States, including our independent registered public accounting firm, must be registered with the US Public Company Accounting Oversight Board (United States) (the PCAOB) and are required by the laws of the United States to undergo regular inspections by the PCAOB to assess their compliance with the laws of the United States and professional standards. Because our auditors are located in the People s Republic of China, a jurisdiction where the PCAOB is currently unable to conduct inspections without the approval of the Chinese authorities, our auditors are not currently inspected by the PCAOB.

This lack of PCAOB inspections in China prevents the PCAOB from regularly evaluating audits and quality control procedures of any auditors operating in China, including our auditors. As a result, investors may be deprived of the benefits of PCAOB inspections.

The inability of the PCAOB to conduct inspections of auditors in China makes it more difficult to evaluate the effectiveness of our auditor s audit procedures or quality control procedures as compared to auditors outside of China that are subject to PCAOB inspections. Investors may lose confidence in our reported financial information and procedures and the quality of our financial statements.

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 ownership of our ADSs and our trading market

The market price for our ADSs may be volatile.

The financial markets in the United States and other countries have experienced significant price and volume fluctuations in the last few years. Volatility in the price of our ADSs may be caused by factors outside of our control and may be unrelated or disproportionate to changes in our results of operations. In addition, although our ADSs are listed on the NYSE, an active public market for our ADSs may not be sustained, in which case the market price and liquidity of our ADSs will be materially adversely affected. Our ordinary shares are not listed on any exchange or quoted for trading on any over-the-counter system.

If securities or industry analysts do not publish research or reports about our business, or if they adversely change their recommendations regarding our ADSs, the price of our ADSs and trading volume could decline.

The trading market for our ADSs depends in part on the research and reports that industry or securities analysts publish about us or our business. We do not have any control over these analysts. If one or more of the analysts who cover us downgrade us, the price of our ADSs would likely decline. If one or more of these analysts cease coverage of our company or fail to regularly publish reports on us, we could lose visibility in the financial markets, which could cause the price of our ADSs or trading volume to decline.

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Substantial future sales of our ADSs or the anticipation of future sales of our ADSs in the public market could cause the price of our ADSs to decline.

Sales of substantial amounts of our ADSs or ordinary shares in the public market, or the perception that these sales could occur, could cause the market price of our ADSs to decline. In addition, certain holders of our ordinary shares have the right to cause us to register the sale of their shares under the Securities Act under certain circumstances. Registration of these shares under the Securities Act would result in these shares becoming freely tradable without restriction under the Securities Act immediately upon the effectiveness of the registration. Sales of these registered securities in the public market could cause the price of our ADSs to decline. If any existing shareholder or shareholders sell a substantial amount of ordinary shares, the market price of our ADSs could decline.

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. We plan to continue to make acquisitions depending on market conditions and our ability to identify and consummate such acquisitions. 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.

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

Under our amended and restated memorandum and articles of association, our ordinary shares are divided into Class A ordinary shares and Class B ordinary shares. Holders of Class A ordinary shares are entitled to one vote per share, while holders of Class B ordinary shares are entitled to ten votes per share. As of March 31, 2012, our executive officers and directors, and their respective affiliates, beneficially owned, in the aggregate, approximately 38.8% of the combined total outstanding ordinary shares, representing 59.1% of the total voting rights, in our company. Shareholdings of our executive officers and directors, and their respective affiliates, in particular with respect to the greater voting rights of the Class B ordinary shares they hold, give them the power to control any actions that require shareholder approval under Cayman Islands law, our amended and restated memorandum and articles of association and the NYSE requirements, including the election and removal of any member of our board of directors, mergers, consolidations and other business combinations, changes to our amended and restated memorandum and articles of association, the number of shares available for issuance under share incentive plans and the issuance of significant amounts of our ordinary shares in private placements. Due to the disparate voting rights attached to the two classes of our ordinary shares, our executive officers and directors and their respective affiliates could have sufficient voting rights to determine the outcome of all matters requiring shareholder approval even though they may hold less than a majority of the combined total number of our outstanding Class A and Class B ordinary shares.

As a result of our executive officers and directors and their respective affiliates ownership of Class B 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.

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

As a public company, we have incurred and will continue to incur significant legal, accounting and other expenses that we did not incur as a private company prior to our IPO. In addition, the Sarbanes-Oxley Act, as well as rules and regulations implemented by the SEC and the NYSE, have required significant additional corporate governance practices to be implemented by public

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

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

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

Many of the corporate governance rules promulgated by the NYSE will not apply to us so long as we qualify as a foreign private issuer, and there may be significant differences between our corporate governance practices and the corporate governance standards applicable to U.S. domestic companies listed on the NYSE.

As a foreign private issuer, we are permitted to follow corporate governance practices in accordance with Cayman Islands law in lieu of most of the NYSE corporate governance rules in the NYSE Listed Company Manual, or the NYSE Standards. For example, the NYSE Standards require U.S. domestic issuers to have a nominating/corporate governance committee composed entirely of independent directors. We are not subject to this requirement, and we do not intend to establish a nominating/corporate governance committee. We believe that the composition of our board and its committees and their respective duties and responsibilities are otherwise generally responsive to the relevant NYSE Standards applicable to U.S. domestic issuers. However, the charters for our audit and compensation committees may not address all aspects of the NYSE Standards applicable to U.S. domestic issuers. For example, the NYSE Standards require compensation committees of U.S. domestic issuers to produce a compensation committee report annually and include such report in their annual proxy statements or annual reports on Form 10-K. We are not subject to this requirement, and we have not addressed this in our compensation committee charter. The NYSE Standards require shareholder approval for certain matters, such as requiring that shareholders must be given the opportunity to vote on all equity compensation plans and material revisions to those plans. We intend to comply with the requirements of Cayman Islands law in determining whether shareholder approval is required on such matters.

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

We believe we were not a passive foreign investment company, or PFIC, for United States federal income tax purposes for our taxable year ending December 31, 2011. 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 our current taxable year ending December 31, 2012 or any future taxable year. A non-United States corporation will be considered a PFIC for any taxable year if either (1) at least 75% of its gross income is passive income or (2) or least 50% of the value of its assets (generally based on an average of the quarterly values of the assets during a taxable year) is attributable to assets that produce or are held for the production of passive income. PFIC status depends on the composition of our assets and income and the value of our assets (including, among others, a pro rata portion of the income and assets of each subsidiary in which we own, directly or indirectly, at least 25% (by value) of the equity interest) from time to time. Because we currently hold, and expect to continue to hold, a substantial amount of cash or cash equivalents, which are generally treated as passive assets, and, because the calculation of the value of our assets may be based in part on the value of our ADSs, which is likely to fluctuate (and may fluctuate considerably given that market prices of technology companies historically have been especially volatile), we may be a PFIC for any taxable year. If we were treated as a PFIC for any taxable year during which a United States holder held an ADS or an ordinary share, certain adverse United States federal income tax consequences could apply to such United States holder. See Item 10.E Taxation United States federal income taxation Passive foreign investment company.

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Our dual-class ordinary share structure with different voting rights could discourage others from pursuing any change of control transactions that holders of our Class A ordinary shares and ADSs may view as beneficial.

Our amended and restated memorandum and articles of association provide for a dual-class ordinary share structure. Our ordinary shares are divided into Class A ordinary shares and Class B ordinary shares. Holders of Class A ordinary shares are entitled to one vote per share, while holders of Class B ordinary shares are entitled to ten votes per share. We issued Class A ordinary shares represented by our ADSs in our IPO. Our shareholders prior to our IPO may continue to hold Class B ordinary shares, each of which is convertible into one Class A ordinary share at any time by the holder thereof. Class A ordinary shares are not convertible into Class B ordinary shares under any circumstances. Due to the disparate voting rights attached to these two classes, our existing Class B shareholders will have significant voting rights over matters requiring shareholder approval, including the election and removal of directors and certain corporate transactions, such as mergers, consolidations and other business combinations. This concentrated control could discourage others from pursuing any potential merger, takeover or other change of control transactions that holders of Class A ordinary shares and ADSs may view as beneficial.

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

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

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

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

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

Our corporate affairs are governed by our memorandum and articles of association, by the Companies Law (2011 Revision) of the Cayman Islands and by the common law of the Cayman Islands. The rights of shareholders to take action against our directors, actions by minority shareholders and the fiduciary responsibilities of our directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law in the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands and from English common law. Decisions of the Privy Council (which is the final Court of Appeal for British overseas territories such as the Cayman Islands) are binding on a court in the Cayman Islands. Decisions of the English courts, and particularly the House of Lords and the Court of Appeal are generally of persuasive authority but are not binding in the courts of the Cayman Islands. The rights of our shareholders and the fiduciary responsibilities of our directors under Cayman Islands law are not as clearly established as they would be under statutes or judicial precedents in the United States. In particular, the Cayman Islands has 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.

Substantially all of our assets are located outside the United States. Almost all of our current operations are conducted in China. A majority of our directors and officers reside outside the United States and a substantial portion of their assets are located outside of the United States. As a result, it may be difficult or impossible for you to bring an action against us or against these directors and officers in the Cayman Islands or in China in the event that you believe that your rights have been infringed under the securities laws or otherwise. Even if you are successful in bringing an action of this kind, the laws of the Cayman Islands and of China may render you unable to enforce a judgment against our assets or the assets of our directors and officers. There is no statutory recognition in the Cayman Islands of judgments obtained in the United States, although the courts of the Cayman Islands will in certain circumstances recognize and enforce a non-penal judgment of a foreign court of competent jurisdiction without retrial on the merits. While there is no binding authority on this point, this is likely to include, in certain circumstances, a non-penal judgment of a United States court imposing a monetary award based on the civil liability provisions of the U.S. federal securities laws. The Grand Court of the Cayman Islands may stay proceedings if concurrent proceedings are being brought elsewhere. Moreover, the PRC does not have treaties with the United States or many other countries providing for the reciprocal recognition and enforcement of judgment of courts. As a result of all of the above, our public shareholders may have more difficulty in protecting their interests through actions against us or our officers, directors or major shareholders than would shareholders of a corporation incorporated in a jurisdiction in the United States.

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

Holders of our ADSs will only be able to exercise the voting rights with respect to the underlying ordinary shares in accordance with the provisions of the deposit agreement. Under the deposit agreement, you must vote by giving voting instructions to the depositary. Upon receipt of your voting instructions, the depositary will vote the underlying ordinary shares in accordance with these instructions. You will not be able to directly exercise your right to vote with respect to the underlying ordinary shares unless you withdraw the shares. Under our amended and restated memorandum and articles of association, the minimum notice period required for convening a shareholder meeting is ten days. When a shareholder meeting is convened, you may not receive sufficient advance notice to withdraw the ordinary shares underlying your ADSs to allow you to vote with respect to any specific matter. If we ask for your instructions, the depositary will notify you of the upcoming vote and will arrange to deliver our voting materials to you. We cannot assure you that you will receive the voting materials in time to ensure that you can instruct the depositary to vote your shares. In addition, the depositary and its agents are not responsible for failing to carry out voting instructions or for their manner of carrying out your voting instructions. This means that you may not be able to exercise your right to vote and you may have no legal remedy if the shares underlying your ADSs are not voted as you requested.

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

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

Holders of our ADSs may not receive distributions on our ordinary shares or any value for them if such distribution is illegal or if any required government approval cannot be obtained in order to make such distribution available to you.

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

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.

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.

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

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

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

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

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

From 2008 to 2011, we made a total of 30 separate acquisitions through business combinations and one acquisition of long-term operating rights.

In the last quarter of 2011, we sold one career enhancement and three tutoring subdivisions. We also initiated the disposal of Beijing Century College and its 100% owned Beijing Siwa Century Facility Management Co. and Beijing 21st Century International School.

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

B. Business Overview

We are a leading national provider of educational and career enhancement services in China. Our business addresses two critical demands in China s education market, the desire for students to be admitted into top secondary and post-secondary schools, and the desire for graduates of those schools to obtain more attractive jobs. We offer high-quality, individualized services and products through our combined online and offline delivery model powered by our proprietary technologies and infrastructure. As of December 31, 2011, we had a total of 183 centers and schools (excluding one college which is in the process of being disposed of), comprised of 150 tutoring centers, five K-12 schools, 25 career enhancement centers, two career enhancement campuses and one college, which are located in 19 provinces and autonomous regions within China. We also have software companies and corporate training companies. In addition, we have partnerships with schools, through our distributors, and corporations, allowing us to provide our services and products to students in 30 out of the 31 provinces and autonomous regions within China.

Our educational services cover grades K-12, focusing on both tutoring services, including test preparation, and K-12 programs. We provide results-oriented services and products customized to regional curriculum requirements and individual student needs to help students enhance academic results, including those on ZhongKao and GaoKao admission tests, the results of which are of primary importance in determining which students will be admitted into top high school and university programs. We refer to these tutoring services and K-12 programs with standards-based curriculum that enable students to improve their academic results and educational opportunities as **Better Schools**. Our Better Schools services and products, offered in our service network, as well as delivered through our partners, are offered to customers in 30 out of the 31 provinces and autonomous regions within China.

Our career enhancement services target students at universities, colleges and community colleges, recent graduates of these institutions and employees and management in corporates. We refer to these career enhancement services programs that facilitate post-secondary students obtaining more attractive employment as well as our college programs as **Better Jobs**. Our Better Jobs programs are mainly offered through our career enhancement service network, which are strategically located in key economic centers across China where there is a high concentration of companies in high-growth industries. Our career enhancement service network is located in the Bohai Rim Area, the Central South Area (Changsha, Zhuzhou and Xiangtan) and the Yangtze River Delta. Within our career enhancement training centers, we partner with leading international vocational training content providers, corporations and universities to provide practical project-based training to enhance students overall competitiveness for better employment opportunities after graduation.

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We have established alliances with tutoring centers and career enhancement training providers in attractive markets we have identified to enter in the near future. We provide a total solution package to these A+ Alliance partners including teacher training, our IT infrastructure and our intelligent system, which combines our learning engine and robust content. The A+ Alliances typically have a term of three years. We monitor the operational, management and financial performances of the Alliance members and, if they meet our criteria, we may explore with certain of our A+ Alliance members the option to convert them to our own schools and learning centers through business combinations upon terms to be agreed. As of December 31, 2011, we had a total of 14 A+ Alliance members.

From our inception in 2000 through 2003, we focused on building our technology foundation by designing our proprietary software and technology solutions to provide educational and career enhancement services. From 2004 to 2007, we focused on building our nationwide services platform by deploying our services and products through sales agents, which enabled us to reach a large target customer base, build our Ambow brand and increase awareness of our products and services in a capital efficient way. As a result of the successful implementation of the aforementioned strategy we have built, users of our software products or services grew throughout this period: from approximately 400 in 2004 to approximately 170,000 in 2007. By the end of 2007, our student users had reached a critical mass, we had proven that our services and products built upon our proprietary technology were effective and well received by students and our brand and services became well known in the industry and among our target customers. At the beginning of 2008, we considered it to be the opportune time to establish physical service network to capture further business opportunities and provide our services and products through both offline classroom teaching and online delivery platform to our target customers in our directly-operated learning centers and schools. We established the strategic service network primarily by opening or acquiring top-tier tutoring centers, K-12 schools, career enhancement centers and college, which we believe enhances the Ambow brand as a premium educational and career enhancement service provider.

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

Through our directly-operated tutoring centers, schools, career enhancement centers, campuses and college as well as our distributors, we have significantly grown our net revenue, net income and student enrollments. Our net revenues from continuing operations increased from RMB736.7 million in 2009 to RMB1,217.1 million in 2010 to RMB1,669.2 million (US$265.2 million) in 2011. Our growth from 2009 to 2011 was primarily driven by the expansion of our service network across both Better Schools and Better Jobs, through acquisitions and organic growth, as well as the increase in sales of education services and software to distributors.

We have two business divisions, Better Schools and Better Jobs, and four operating segments, tutoring, K-12 schools, career enhancement and college. Our tutoring and K-12 schools segments are within our Better Schools division and career enhancement and college segments are within our Better Jobs division. Revenues from continuing operations for our Better Schools division accounted for 60.3%, 69.6% and 62.8% of our total net revenues from continuing operations in the fiscal years of 2009, 2010 and 2011, respectively. Revenues from our Better Jobs division accounted for 39.7%, 30.4% and 37.2% of our total net revenues from continuing operations in 2009, 2010 and 2011, respectively. We recorded net income from continuing operations of RMB138.0 million, RMB211.7 million, and RMB16.2 million (US$2.6 million) in 2009, 2010 and 2011, respectively. Our total student enrollments from continuing operations in our Better Schools division were approximately 782,400 and 881,000 for the fiscal year ended December 31, 2010 and 2011 respectively; and in our Better Jobs division were approximately 58,500 and 111,800 for the fiscal year ended December 31, 2010 and 2011 respectively.

Our services and products

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

The following map sets forth the service coverage and the geographic coverage of our tutoring centers and K-12 schools (marked as Better Schools), and our career enhancement centers, career enhancement campuses and college (marked as Better Jobs) as of December 31, 2011:

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Better Schools

Our Better Schools division consists of 150 tutoring centers and five K-12 schools as of December 31, 2011, which are located in or around our 17 provinces across China.

Our tutoring centers are designed to help students perform better in school and prepare for important tests, specifically high school and university entrance exams. In addition to our classroom-based teaching services, we offer educational curriculum and software products through our web-based applications to allow our students access to our tutoring services from anywhere at any time. Combined with our proprietary learning engine, our software features such functions as online video classes, practice questions, discussion forums and prior actual tests. Our educational software products include eBoPo (meaning energy and impact in Chinese), which offers full subjects, online practice tests and instruction for K-12 level students. Our software products and web-based applications complement our in-person classes and offer individualized services and tailored content based on each student s specific needs. Our tutoring centers offer the classroom instruction, small class and one-on-one tutoring. Total student enrollments of these tutoring centers were approximately 860,000 for the fiscal year ended December 31, 2011.

Our K-12 schools, which are accredited by the local equivalent of the MOE, provide full-subject national curriculum, including mathematics, language, history, sciences and arts. Our five K-12 schools have an aggregate capacity of up to 22,400 students in 2011. Before our students enter our K-12 schools, they need to take our admissions test. Before they graduate from our K-12 schools, they need to pass the exam required by the local MOE. When they pass this exam, they earn a certificate recognized by the local public school system. Our tutoring centers provide corresponding tutoring programs, along with ZhongKao and GaoKao preparation, GaoKao retake preparation and overseas exam preparation. Our strategy for our educational services is to establish service network that provide services in populated and economically-developed cities in China. We intend to continue to improve the education quality and brands of our schools, which we leverage to support our tutoring programs. We will also continue to develop or acquire tutoring centers that have the high ratings and quality teachers.

Better Jobs

Our Better Jobs division consists of 25 career enhancement centers, two career enhancement campuses and one college as of December 31, 2011, which are located in the Bohai Rim Area, Central South Area (Changsha, Zhuzhou and Xiangtan) and the

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Yangtze River Delta. Our career enhancement centers are designed to help university level students and graduates enhance their practical skills and improve their competitive positioning upon graduation as they look to start their career. We have located our service network in regional economic centers within China where there is a high concentration of companies in high-growth industries. We cooperate with universities to provide our career enhancement services to their students. Our directly-operated college and our university partners provide us with a large base of customers to whom we can offer our services and products. Classes taken at our career enhancement centers and campuses can also count as credits earned towards requirements of certain university degree programs. We have also established partnerships with domestic and international institutions, including Cisco Systems, Inc., and The McGraw-Hill Companies, Inc., to provide training content and direct and indirect job opportunities for our students. We have teamed up with Microsoft to set up a service outsourcing career enhancement base in Dandong. In addition, we will provide an accreditation program for Lenovo Certified Service Engineers for both Lenovo and its affiliated companies customer service centers throughout the country. We have also joined with Adobe Creative University to launch Adobe certification programs and entered into a partnership with Oracle to provide the Workforce Development Program, a unique training program developed by Oracle to provide IT training to Ambow s career enhancement students with the purpose of preparing these students for Oracle certification exams.

Our career enhancement centers currently focus on IT services and digital art training. Our career enhancement services curriculum emphasizes providing students with hands-on training for professional skills, including case studies, job environment simulation and specific technical skills needed to excel in jobs at our corporate partners, as well as soft skills training, including courses on time management, presentation, leadership and interview techniques. We design our career enhancement curriculum based on our understanding of the target industries and the actual recruiting needs of our corporate partners and corporations looking to hire our students. We also offer corporate training programs for our corporate partners employees that are designed jointly with certain of our corporate partners to specifically tailor the training for these employees. For the fiscal year ended December 31, 2011, student enrollments in our career enhancement services were approximately 105,000.

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

In October 2009, we began to collaborate with the MOE to establish a university student employment project to help university students obtain better jobs when they graduate. As part of this collaboration, we also collectively launched a Career Competency Enhancement Program (CCEP) in March 2011. This program was jointly developed with the MOE and offered in universities as a credit program which provides students with an advanced curriculum that focuses on soft skill trainings and integrated expert in-class teaching and online learning. For the fiscal year ended December 31, 2011, this program had attracted around 57,000 students.

We acquired Genesis Career Enhancement in 2011 which provides outbound and in-house management trainings targeted for corporate clients. In addition, we offered Corporate Business School (CBS) which is an online interactive management training course targeted for corporate clients.

Our college offers degree programs to incoming students. Students graduating from our degree programs receive bachelor s degrees recognized by the MOE. Our degree programs are typically designed to be completed in either two or four years and are designed to provide our students with practical, career-oriented education, positioning them for attractive entry-level job opportunities. We had 12,200 university student

enrollments in 2011, of which 5,400 student enrollments belong to the college of which we are in the process of disposal at 2011 year end. Our college operates for two semesters per academic year, one running from September to January, and the other running from February or March, depending on the date of the Chinese New Year, to July. We typically offer courses five days a week.

Student recruitment and retention

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

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Our technology infrastructure

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

Educational services platform

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

Continued tracking

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

Individualized learning experience to students

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

High quality

Our personalized educational framework ensures that students receive high-quality educational experiences tailored to their individual needs. Our educational content and services are not linked to one teacher, but rather to many highly-qualified and experienced educational experts, who work closely with us to ensure that materials are of the high quality and relevance for students.

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This means that no matter where students are living in urban centers or rural villages across China they can be confident of receiving the same high standard of resources and support at all times.

Operational management platform

We have built up an operational management platform to integrate our key management and administrative functions. We are developing additional functionality within our operational management platform to allow us to track revenues and expenses across each of our schools and learning centers by sub-segments within our operating segments. This will allow us to have better period-to-period insights into the underlying drivers in our business within each of our four distinct operating segments.

Development and deployment platform

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

Intellectual property

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

Ambow , , , , , ebopo , , , and are our registered trademarks in China. We have also applied for additional trademarks and logos, including , , , , and with the Trademark Office of the State Administration for Industry and Commerce in China. Our main websites are located at *www.ambow.com* and *www.ambow.com.cn*. 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 property.

If others are able to copy and use our programs and services, we may not be able to maintain our competitive position. Furthermore, the application of laws governing intellectual property rights in China and abroad is uncertain and evolving and could involve substantial risk to us. If litigation is necessary to enforce our intellectual property rights or determine the scope of the proprietary rights of others, we may have to incur substantial costs or divert other resources, which could harm our business.

Selling and marketing

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

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

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

- Hosting industry summits with key corporate partners;

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

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

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Our partners

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

Partner schools

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

Corporate partners

We have established business relationships with domestic and multinational corporations with business operations in China and, directly and indirectly through our distributors, with Chinese educational institutions. Our key corporate alliances are with companies who recognize our leadership in providing education and career enhancement services in China and want us to help train potential employees for them and design corporate training materials for their internal or key partners use. The following are descriptions of some of our most significant corporate partnerships:

- *Cisco Systems, Inc.*: Our partnership with Cisco began when they invested in us in 2006. Since their investment, we have entered into agreements and worked with Cisco China in two principal areas training of their channel partners and development of information technology talent. Our innovative educational model helps Cisco manage the effectiveness of its channel partners by tracking their ability to sell and support Cisco products. We have worked collaboratively to define a competency model and offer combined online and offline training solutions together with Cisco. The development of information technology talent is accomplished through a workforce transformation program targeted at universities to increase the networking talent pool in China.

- *The McGraw-Hill Companies, Inc.*: In November 2009, we entered into an agreement with McGraw-Hill Education to develop enhanced, customized English Language Training courseware and training for IT engineers in our career enhancement centers. The innovative learning programs we are jointly developing, which are focused on business process outsourcing training, will be offered in a blended format that includes online and group activities focusing on career-specific English that engineers use in their jobs. McGraw-Hill and Ambow also provide training for the program s instructors.

- *Microsoft (China) Company Limited*: In March 2011, we have teamed up with Microsoft to set up a service outsourcing career enhancement base in Dandong, a city in the north-eastern province of Liaoning. It is planning to train a total of 10,000 Microsoft-accredited service outsourcing personnel in the first four years.

- *Lenovo Group Ltd.*: In May 2011, we have finalized an agreement with Lenovo, the world renowned PC manufacturer, to be its authorized personnel Training Practice Base in China. We will provide an accreditation program for Lenovo Certified Service Engineers for both Lenovo and its affiliated companies customer service centers throughout the country.

- *Adobe*: In October 2011, we have joined with Adobe Creative University to launch Adobe certification programs localized for the Chinese learning and work environment.

- *Oracle (China) Software Systems Co., Ltd.*: In January 2012, we entered into a partnership with Oracle to provide the Workforce Development Program, a unique training program developed by Oracle to provide IT training to Ambow s career enhancement students with the purpose of preparing these students for Oracle certification exams.

We work with these corporate partners, among others, to license their existing content and to collaborate on developing additional content to add to our training programs in order to improve our Better Jobs programs and better satisfy students needs.

In October 2009, we began to collaborate with the MOE to establish a university student employment project to help university students obtain better jobs when they graduate. As part of this collaboration, we also collectively launched a Career Competence Enhancement Program (CCEP) in March 2011. This program was jointly developed with the MOE and offered in universities as a credit program which provides students with an advanced curriculum that focuses on soft skill trainings and integrated expert in-class teaching

and online learning. For the fiscal year ended December 31, 2011, this program had attracted around 57,000 students.

Acquisitions and disposals

At the beginning of 2008, we considered it to be the opportune time to establish physical service network to capture further business opportunities and provide our services and products through both offline classroom teaching and online delivery platform to our target customers primarily by acquiring top-tier tutoring centers, K-12 schools, career enhancement centers and colleges. To adhere to our goal of providing high-quality educational and career enhancement services to our students and to build a premium brand, we have adopted a disciplined and systematic approach towards acquisitions that complement our existing services and products, add scale and expand our footprint. Our systematic approach to identify, evaluate and conduct our acquisitions has enabled us to complete 30 separate acquisitions through business combinations and one acquisition of long-term operating rights from 2008 to 2011. In 2008, we made an aggregate of ten acquisitions to acquire tutoring companies, K-12 schools, a tutorial software company and career enhancement training companies. We also acquired long-term operating rights to run the Zhenjiang K-12 School and to use the school s buildings and facilities for 12 years. In 2009, we made an aggregate of 13 acquisitions to acquire tutoring companies, K-12 schools, career enhancement training companies and a career enhancement software company and colleges. In 2011, we completed an aggregate of seven acquisitions to acquire tutoring and career enhancement centers and one corporate training company group. Certain of our acquisitions involved multiple tutoring centers and career enhancement centers. At the beginning of the third quarter of 2011, we reverted the operating right for the Junior High portion of Zhenjiang Ambow International School back to the original owner. In the last quarter of 2011, we disposed of four subdivisions, including three in the tutoring subdivision and one in the career enhancement subdivision, and initiated the disposal of Beijing Century College and its 100% owned Beijing Siwa Century Facility Management Co. and Beijing 21st Century International School. These disposals were done to sharpen our focus on the organic growth and business portfolio with stronger performance, greater capital efficiency and better asset turnover. Subsequent to December 31, 2011, we acquired 16 tutoring centers which were owned and operated by a third party. Please refer to Note 9(ii) to the financial statements.

We plan to expand our operations primarily through organic growth. At the same time, to complement our organic growth strategy, we may also explore with certain of our A+ Alliance partners the option to convert them to our own learning centers and schools through business combinations and, to a lesser extent, make acquisitions of other businesses that complement our operations when suitable opportunities arise.

Competition

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

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

- Overall customer experience;
- Scope and quality of program, service and product offerings;
- Proximity of services to the customers;
- Brand recognition and reputation of service providers; and
- Ability to effectively market programs, services and products to a broad base of prospective students.

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

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

Seasonality

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

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first quarter due to Chinese New Year and winter vacations, though this seasonal impact is to a lesser extent than the impact on our K-12 schools and college.

Regulations

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

Regulations on private education

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

Education Law of the PRC

On March 18, 1995, the National People s Congress enacted the Education Law of the PRC, or the Education Law. The Education Law sets forth provisions relating to the fundamental education systems of the PRC, including a school system of pre-school education, primary education, secondary education and higher education, a system of nine-year compulsory education and a system of education certificates. The Education Law stipulates that the government formulates plans for the development of education and establishes and operates schools and other institutions of education and, in principle, enterprises, social organizations and individuals are encouraged to operate schools and other types of education organizations in accordance with PRC laws and regulations. Meanwhile, no organization or individual may establish or operate a school or any other education institution for profit-making purposes. However, according to the Law for Promoting Private Education, private schools may be operated for reasonable returns, as described in more detail below.

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

The Law for Promoting Private Education (2003) became effective on September 1, 2003, and the Implementing Rules for the Law for Promoting Private Education (2004) became effective on April 1, 2004. Under this law and these regulations, private schools are defined as schools established by social organizations or individuals using non-government funds. In addition, private schools providing certifications, pre-school education, education for self-study aid and other academic education shall be subject to approval by the education authorities, while private schools engaging in occupational qualification training and occupational skill training shall be subject to approvals from the authorities in charge of labor and social welfare. A duly approved private school will be granted a Private School Operation License by local or provincial-level counterparts of the MOE for operating a private school, and shall be registered with the local or provincial-level counterparts of

the MCA as a privately run non-enterprise institution and be issued a Private Non-enterprise Organization Registration Certificate. The durations of our Private School Operation Licenses vary from two years to 30 years and the durations of our Private Non-enterprise Organization Registration Certificates vary from one year to five years, depending on the location of our private schools.

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

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

The election to establish a private school requiring reasonable returns shall be provided in the articles of association of the school. The percentage of the school s annual net balance that can be distributed as a reasonable return shall be determined by the school s board of directors, taking into consideration the following factors: (i) items and criteria for the school s fees, (ii) the ratio of the school s expenses used for educational activities and improving the educational conditions to the total fees collected; and (iii) the admission standards and educational quality. The relevant information relating to the factors discussed above is required to be publicly disclosed before the school s board determines the percentage of the school s annual net balance that can be distributed as reasonable returns. Such information and the decision to distribute reasonable returns is also required to be filed with the approval authorities within 15 days from the decision made by the board. However, none of the current PRC laws and regulations provides a formula or guidelines for determining reasonable returns. In addition, none of the current PRC laws and regulations sets forth different requirements or restrictions on a private

school s ability to operate its education business based on such school s status as a school that requires reasonable returns or a school that does not require reasonable returns.

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

As of December 31, 2011, we had across our four operating segments a total of 33 schools that are registered as private schools as opposed to companies, of which three schools are registered as schools not requiring reasonable returns, while all other schools are registered as schools requiring reasonable returns.

Regulation of independent colleges

The principal regulations governing independent colleges in China consist of the Several Opinions on Standardizing and Strengthening the Regulation of the Pilot Operation of Independent Colleges by Universities Through Adopting New Mechanism and Model promulgated by MOE on April 23, 2003 and the Rules Relating to the Establishment and Regulation of Independent Colleges promulgated by MOE and effective as of April 1, 2008. Under these regulations, independent colleges are defined as colleges jointly established by universities engaging in degree-granting educational activities above undergraduate stage and social organizations or individuals using non-government funds to engage in degree-granting educational activities at undergraduate stage. Independent colleges fall within the private higher education sector and are deemed as a public welfare undertaking in China and, therefore, the education authorities in China generally regulate them in the same manner as the remaining private schools. MOE regulates independent colleges on a general basis including, but not limited to, the establishment of and material changes to independent colleges. MOE s counterparts at the provincial level directly regulate the independent colleges daily operations.

For the due establishment of independent colleges, these regulations impose a series of requirements, including (i) the universities jointly establishing an independent college should be competent in teaching, management and educational conditions and, as a general rule, are eligible for granting doctors degrees, (ii) the social organizations jointly establishing an independent college with a university should be an independent legal person with a registered capital no less than RMB50.0 million, total assets no less than RMB300.0 million, net assets no less than RMB120.0 million and a ratio of total liabilities to total assets shall be less than 60%, (iii) the individuals jointly establishing an independent college with a university should own total assets worth no less than RMB300.0 million, among which their currency assets shall be worth no less than RMB120.0 million. The universities should principally make contributions to the independent colleges in the form of intangible assets, and social organizations or individuals should principally make contributions in kind, currency or land use rights. Furthermore, an independent college established after April 1, 2008 shall hold the land use right certificate or construction planning permit of land covering at least 333,334 square meters. Independent colleges established prior to April 1, 2008 are required to meet this land requirement within a grace period of five years, namely prior to March 31, 2013. Independent colleges are also required to recruit students in accordance with, and limited to, annual enrollment quotas prescribed by the government. Each year the MOE releases a list of independent colleges which are qualified to recruit students for degree education. Student recruitment of those independent colleges which do not satisfy MOE requirements and criteria may be restricted or suspended. The items and rate of tuition and fees are required to be determined according to relevant rules and disclosed in the recruitment brochures and advertisements, which are required to be filed with provincial-level education departments before being released.

We have an independent college, namely Applied Technology College that is subject to the requirements discussed above. Please see Item 3.D Key Information Risk Factors Risks related to our business and industry Failure by our college to comply with regulatory requirements on land use rights and capital commitment may subject our college to penalties and adversely affect our business operations.

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 National Development and Reform Commission, or NDRC, and the MOFCOM on December 24, 2011 and became effective on January 30, 2012, foreign investment is encouraged to participate in higher education and vocational training services. The foreign investment in higher education has to take the form of a Sino-foreign equity or cooperative joint venture. Senior high school education in grades 10-12 is a restricted industry. The foreign investment in senior high school education has to take the form of a cooperative joint venture. Foreign investment is banned from compulsory education, which means grades 1-9. Foreign investment is allowed to invest in after-school tutoring services which do not grant diplomas. As of December 31, 2011, we had a total of 183 centers and schools, comprised of 150 tutoring centers, five K-12 schools, 25 career enhancement centers, two career enhancement campuses and one college. We conduct our education business in China primarily through contractual arrangements among our subsidiaries in China and VIEs. Our VIEs and their respective subsidiaries, as PRC domestic entities, hold the requisite licenses and permits necessary to conduct

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our education business in China and operate our tutoring centers, K-12 schools, career enhancement centers and colleges.

Regulations on Chinese-foreign cooperation in operating schools

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

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

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

As of the date of this annual report, only Beijing 21st Century International School is conducting a Chinese-foreign cooperation project which has been approved by Beijing Municipal Commission of Education.

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.

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

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

Regulation of the software industry

Policies to Encourage the Development of Software

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

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

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

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

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

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- Taking various strategies to ensure that the software industry has sufficient expertise; and

- Implementing measures to enhance intellectual property protection in China.

To qualify for preferential treatments, an enterprise must be recognized as a software enterprise by governmental authorities. A software enterprise is subject to annual inspection, failure of which in a given year will cause the enterprise to lose the relevant benefits. Ambow Online and Ambow Yuhua, our wholly-owned subsidiaries, have qualified as software enterprises and are entitled to enjoy these preferential treatments including tax incentives.

Software products administration

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

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

Software copyright

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

protection takes effect on the day of completion of the software s development. The protection period for software developed by legal persons and other organizations is 50 years and ends on December 31 of the fiftieth year from the date the software solution was first published. However, the Software Protection Regulations will not protect the software if it is not published within 50 years from the date of the completion of its development. Civil remedies available under the Software Protection Regulations against infringements of copyright include cessation of the infringement, elimination of the effects, apology and compensation for losses. The copyright administrative authorities will order the infringer of software copyright to stop all infringing acts, confiscate illegal gains, confiscate and destroy infringing copies, and may impose a fine on the offender under certain circumstances.

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, 2011, we have been issued 67 registration certificates for computer software copyrights.

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.

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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.

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

The State Administration of Radio, Film and Television, or 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.

Based on the advice of our PRC legal counsel, Commerce and Finance Law Offices, 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.

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

Regulations on Protection of the Right of Dissemination through Information Networks

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

Regulation of domain names and website names

PRC law requires owners of Internet domain names to register their domain names with qualified domain name registration agencies approved by MIIT and obtain registration certificates from such registration agencies. A registered domain name owner has an exclusive use right over its domain name. Unregistered domain names may not receive proper legal protections and may be misappropriated by unauthorized third parties. As of December 31, 2011, we have registered 101 domain names relating to our websites, 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, or 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, 2011, we have registered ten website names used in connection with our online education business with Beijing Municipal Bureau of Industry and Commerce and the registration of three other website names is now in progress.

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 . The National People s Congress 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 National People s Congress 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 30, 2005. These measures became effective on May 30, 2005.

Trademark . The PRC Trademark Law, adopted in 1982 and revised in 2001, 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 , , , , , ebopo , , , and are our registered trademarks in China. We have also applied for additional trademarks and logos, including , , , , and with the Trademark Office of the State Administration for Industry and Commerce in China.

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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. According to SAFE Circular 75, 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 75 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 complete the relevant overseas investment foreign exchange registration procedures by March 31, 2006. Under SAFE Circular 75, failure to comply with the registration procedures may result in restrictions on the relevant onshore entity, including restrictions on the payment of dividends and other distributions to its offshore parent or affiliate and restrictions on the capital inflow from the offshore entity, and may also subject relevant PRC residents to penalties under the PRC foreign exchange administration regulations.

As a Cayman Islands company, we are considered a foreign entity in China. If we purchase the assets or equity interests of a PRC company owned by PRC residents in exchange for our equity interests, such PRC residents will be subject to the registration procedures described in SAFE Circular 75. Moreover, PRC residents who are beneficial holders of our shares are required to register with SAFE in connection with their investment in us.

We believe that, except for renewal of the registration under SAFE Circular 75, our beneficial owners who are known to us to be PRC residents are currently in compliance with SAFE Circular 75.

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.

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

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

SAFE regulations on employee share options

On March 28, 2007, SAFE promulgated the Application Procedures of Foreign Exchange Administration for Domestic Individuals Participating in Employee Share Holding Plan or Share Option Plan of Overseas Listed Company, or the Share Option Rule. On February 15, 2012, SAFE promulgated the Notice of the State Administration of Foreign Exchange on Issues Related to Foreign Exchange Administration in Domestic Individuals Participation in Equity Incentive Plans of Companies Listed Abroad, or the No. 7 Notice, which supersedes the Share Option Rule in its entirety and immediately became effective upon circulation. According to the No. 7 Notice, domestic individuals, which include any directors, supervisors, senior managerial personnel or other employees of a domestic company who are Chinese citizens (including citizens of Hong Kong, Macao and Taiwan) or foreign individuals who consecutively reside in the territory of PRC for one year, who participate in the same equity incentive plan of an overseas listed company shall, through the domestic companies they serve, collectively entrust a domestic agency to handle issues like foreign exchange registration, account opening, funds transfer and remittance, and entrust an overseas institution to handle issues like exercise of options, purchasing and sale of related stocks or equity, and funds transfer. Where a domestic agency needs to remit funds out of China as required for individuals participation in an equity incentive plan, the domestic agency shall apply with the local office of the SAFE for a foreign exchange payment quota on a yearly basis. A domestic agency shall open a domestic special foreign exchange account in the bank. After repatriation of foreign currency income earned by individuals from participation in an equity incentive plan, the domestic agency shall request the bank to transfer the funds from its special foreign currency account to respective personal foreign currency deposit accounts. In the case of any significant change to the equity incentive plan of a company listed abroad (such as amendment to any major terms of the original plan, addition of a new plan, or other changes to the original plan due to merger, acquisition or reorganization of the overseas listed company or the domestic company or other major events), the domestic agency or the overseas trustee, the domestic agency shall, within three months of the occurrence of such changes, go through procedures for change of foreign exchange registration with the local office of the SAFE. The SAFE and its branches shall supervise, administer and inspect foreign exchange operations related to individuals participation in equity incentive plans of companies listed abroad, and may take regulatory measures and impose administrative sanctions on individuals, domestic companies, domestic agencies and banks violating the provisions of this Notice.

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 following diagram illustrates 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, 2011.

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Notes

(1) We excluded certain entities from this diagram that do not conduct any significant business or own or control other entities that conduct significant business. These entities include: 24 British Virgin Islands companies wholly owned by Ambow, Ambow Education Group Limited, a Hong Kong company wholly owned by Ambow, 4 Hong Kong companies (Ambow Training Management Limited, Ambow School Management Limited, Ambow School Consultation Management Limited and Ambow College Consultation Management Limited) wholly owned by Ambow Education Management (Hong Kong) Ltd., Beijing Ambow Chuangying Education Technology Co., Ltd., a PRC company wholly owned by Ambow Education Management (Hong Kong) Ltd., and Beijing Ambow Shengying Education and Technology Co., Ltd., a PRC company wholly owned by Ambow Training Management Limited.

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

(3) Shareholders of Ambow Sihua are Xuejun Xie and Xiaogang Feng, one of our employees, who own 57.4% and 42.6% of Ambow Sihua, respectively.

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

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

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

- Ambow Shida, which holds our schools, including elementary schools, junior high schools, high schools and college;

- Ambow Sihua, which holds our tutoring centers; and

- Ambow Shanghai, which holds our career enhancement centers, a career enhancement software company and one corporate training company group.

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

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

- Exercise effective control over our VIEs and their respective subsidiaries by having such VIEs shareholders pledge their respective equity interests in these VIEs to Ambow Online and entrust all the rights to exercise their voting power over these VIEs to Ambow Online. There is no limitation on Ambow Online s rights to exercise the voting

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power over the VIEs or to obtain and dispose of the pledged equity interests in the VIEs holding the tutoring centers and career enhancement centers by exercise of its call option or share pledge. Ambow Online s rights to obtain and dispose of the pledged equity interests in the VIEs holding the K-12 schools and college by exercise of its call option or share pledge are subject to Ambow Online s designating other PRC persons or entities to acquire the pledged equity interests in order not to violate PRC laws that prohibit or restrict foreign ownership in K-12 schools and college;

- Receive economic benefits from the pre-tax profits of our VIEs and their respective subsidiaries in consideration for products sold and technical support, marketing and management consulting services provided by Ambow Online to our VIEs and their respective subsidiaries. Such economic benefits, being net revenues of RMB187.3 million, RMB162.3 million and RMB72.4 million (US$11.5 million) for the years ended December 31, 2009, 2010 and 2011, respectively (which have been eliminated upon consolidation) were earned by Ambow Online in consideration of the products sold and services provided to our VIEs subsidiaries; and

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

Accordingly, we treat these domestic PRC companies as variable interest entities and have consolidated their historical financial results in our financial statements in accordance with U.S. GAAP. These domestic PRC companies and their subsidiaries hold the requisite licenses and permits necessary to conduct our education business in China and operate our tutoring centers, K-12 schools, career enhancement centers and college.

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

Ambow Shida, Ambow Sihua and Ambow Shanghai each is a controlling entity operating one of our business lines, including tutoring centers, K-12 schools, career enhancement service centers and campuses, as well as one college, and each owns certain interest in a number of schools and entities. Below is the detailed description of their interests as of December 31, 2011:

1. Tutoring Centers

(1) Ambow Sihua owns the 100% equity interest in Tianjin Ambow Huaying Education Technology Co., Ltd., which owns the 100% equity interest in Tianjin Tutoring and Tianjin Ambow Huaying School which together operate an aggregate of 14 tutoring centers;

(2) Ambow Sihua owns the 100% equity interest in Beijing YZ Tutoring, which operates six tutoring centers;

(3) Ambow Sihua owns the 100% equity interest in Shuyang Tutoring, which operates one tutoring center;

(4) Ambow Sihua owns the 100% equity interest in Jilin Clever Technology Consulting Co., Ltd., which owns the 100% equity interest in Jilin Tutoring, which in turn operates 12 tutoring centers;

(5) Ambow Sihua owns the 100% equity interest in Zhenjiang Ambow Education Training Centre, which operates three tutoring centers;

(6) Ambow Sihua owns the 100% equity interest in Zhengzhou Tutoring, which operates one tutoring center;

(7) Ambow Sihua owns the 100% equity interest in Changsha Tutoring, which operates six tutoring centers;

(8) Ambow Sihua owns the 100% equity interest in Beijing Century Tutoring, which operates five tutoring centers;

(9) Ambow Sihua owns the 100% equity interest in Guangzhou DP Tutoring, which operates ten tutoring centers;

(10) Ambow Sihua owns the 100% equity interest in Beijing JY Tutoring, which operates 73 tutoring centers;

(11) Ambow Sihua owns the 90% equity interest in Shenyang Hanwen Educational Training School, which operates two tutoring centers;

(12) Ambow Shida owns the 100% equity interest in Beijing SIWA Future Education Enterprise Co., Ltd., which operates one tutoring center;

(13) Ambow Sihua owns the 100% equity interest in Beijing XGX Tutoring, which operates four tutoring centers;

(14) Ambow Sihua owns the 100% equity interest in Beijing JT Tutoring, which operates ten tutoring centers;

(15) Ambow Sihua owns the 100% equity interest in Beijing Aijia Kids English Training School, which operates one tutoring center; and

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(16) Ambow Sihua owns the 100% equity interest in Lanzhou Anning Ambow English Training School, which operates one tutoring center.

2. Career Enhancement Centers and Campuses

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

(2) Ambow Shanghai owns the 100% equity interest in Shanghai Hero Further Education Institute, which operates 11 career enhancement service centers;

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

(4) Ambow Shanghai owns the 100% equity interest in Beijing IT Career Enhancement, which operates two career enhancement service centers;

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

(6) Ambow Shanghai owns the 100% equity interest in Jinan WR Career Enhancement, which operates one career enhancement service center;

(7) Ambow Shanghai owns the 100% equity interest in Hebei YL Career Enhancement, which operates one career enhancement service center;

(8) Ambow Shanghai owns the 100% equity interest in Chongqing XT Career Enhancement, which operates two career enhancement service centers;

(9) Ambow Shanghai owns the 100% equity interest in Guangzhou ZS Career Enhancement, which operates one career enhancement service center;

(10) Ambow Kunshan owns the 100% equity interest in Dalian High Tech Zone Ambow Hope Training School, which operates one career enhancement service campus;

(11) Ambow Kunshan owns the 100% equity interest in Beijing Away Career Enhancement, which operates two career enhancement service centers; and

(12) Ambow Kunshan owns the 100% equity interest in Suzhou Career Enhancement, a career enhancement software company which owns the 100% equity interest in Suzhou High-Tech Zone Yisi Education Training Center.

In addition, Ambow Shanghai also owns 100% equity interest in Genesis Career Enhancement, a group of three companies which provide outbound and in-house management trainings tailored for employees and management teams through their 12 subsidiaries.

3. Schools

(1) K-12 Schools

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

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

- Ambow Shida owns a 70% equity interest and Changsha Yaxing Property Development Company Limited, an entity unrelated to us, owns a 30% equity interest in Changsha K-12 Experimental School and Changsha Kindergarten (Ambow Shida will receive the remaining 30% equity interest in 2029 and Ambow Shida may either rent or purchase, at the then current fair market value, from Changsha Yaxing Property Development Company Limited, which owns the real properties at Changsha K-12 Experimental School and Changsha Kindergarten, such real properties for the continuing use of these properties by the two schools. Ambow Shida s receipt of the remaining equity interest in 2029 is not conditional upon the rent or purchase of the schools real properties); and

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

In addition, in March 2012 we have completed the disposal of Beijing 21st Century International School to Xihua Group, while at the same time obtained the 15-year operating rights of Beijing 21st Century International School.

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(2) College

- Ambow Shida owns 70% equity interest and Shanghai Yunhai Industrial Joint Stock Company Limited and Shanghai Yundu Corporate Development Co., Ltd., entities not related to us, own 30% equity interest in Kunshan Zhouzhuang Taishidian Tourism Scenic Area Development Co., Ltd., or Taishidian Holding, which wholly owns one subsidiary, Kunshan Suda Facility Management Co., Ltd., Taishidian Holding also owns and operates one college, Applied Technology College.

In addition, we are in the process of disposing of Beijing Century College.

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

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

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. These agreements include:

Share Pledge Agreement. Pursuant to the share pledge agreement, dated January 31, 2005, among Ambow Online, Xuejun Xie and Jianguo Xue, each a shareholder of Ambow Shida, as amended by the supplementary agreement dated January 4, 2009 entered into by and among AECL, Ambow Online, Xuejun Xie and Jianguo Xue, each of Xuejun Xie and Jianguo Xue pledged all of her or his equity interest in Ambow Shida to Ambow Online to secure the performance of Ambow Shida under an exclusive cooperation agreement, dated January 31, 2005, between Ambow Online and Ambow Shida as described below. Each of Xuejun Xie and Jianguo Xue also agreed not to transfer, dispose of or otherwise directly or indirectly create any encumbrance over her or his equity interest in Ambow Shida, or take any actions that may reduce the value of her or his equity interest in Ambow Shida without the prior written consent of Ambow Online.

Call Option Agreement. Pursuant to the call option agreement, dated January 31, 2005, among AECL, Xuejun Xie and Jianguo Xue, each a shareholder of Ambow Shida, as amended by the termination agreement dated April 26, 2007 and further amended by the supplementary agreement dated January 4, 2009 entered into by and among AECL, Ambow Online, Xuejun Xie and Jianguo Xue, AECL or its designee has an option to purchase from each of Xuejun Xie and Jianguo Xue, to the extent permitted under PRC laws, all or part of his or her equity interest in Ambow Shida in one or more installments at an aggregate purchase price of RMB3.0 million unless the applicable laws state otherwise. AECL or its designee shall have sole discretion to decide when to exercise the option, whether in part or in full. Currently, we do not expect to exercise such option in the foreseeable future. Should we decide to exercise such option, we or our designee would affect such purchase through the cancellation of loans owed to us by Xuejun Xie and/or Jianguo Xue unless the then applicable laws require the purchase price to be determined by a valuation or otherwise provided, in which case the transfer price shall be the minimum amount provided by applicable law and we will effect such purchase through, to the extent necessary, a combination of cash and cancellation of loans owed to us by each of Xuejun Xie and Jianguo Xue.

Powers of Attorney. Pursuant to the powers of attorney, each dated April 26, 2007, each of Xuejun Xie and Jianguo Xue irrevocably entrusted all the rights to exercise her or his voting power of Ambow Shida to Ambow Online for an indefinite period of time.

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Loan Agreements. Pursuant to the loan agreements, each dated January 31, 2005, among AECL, Xuejun Xie and Jianguo Xue, each a shareholder of Ambow Shida, respectively, amended by amendment agreements, dated April 26, 2007, among Ambow Online, AECL and Xuejun Xie and Jianguo Xue, respectively, and further amended by the supplementary agreement dated January 4, 2009 entered into by and among AECL, Ambow Online, Xuejun Xie and Jianguo Xue or renewed by a loan agreement between Ambow Online and Jianguo Xue dated February 1, 2008, as applicable, Ambow Online loaned RMB2.7 million and RMB0.3 million to Xuejun Xie and Jianguo Xue, respectively, to fund the registered capital requirements of Ambow Shida. To the extent permitted by PRC laws, each loan shall be deemed to have been repaid upon the transfer of the equity interest in Ambow Shida held by Xuejun Xie and Jianguo Xue, as applicable, to Ambow Online or its designee.

Agreements that provide effective control over Ambow Shanghai and its subsidiaries

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

Share Pledge Agreement. Pursuant to the share pledge agreement, dated October 31, 2009, and amended by a supplementary agreement dated January 4, 2010, among Ambow Online, Xuejun Xie and Xiaogang Feng, each a shareholder of Ambow Shanghai, each of Xuejun Xie and Xiaogang Feng pledged all of her or his equity interest in Ambow Shanghai to Ambow Online to secure the performance of Ambow Shanghai or its subsidiaries obligations under a technology service agreement between Ambow Online and Ambow Shanghai dated October 31, 2009 as described below. Each of Xuejun Xie and Xiaogang Feng also agreed not to transfer, dispose of or otherwise create any encumbrance over her or his equity interest in Ambow Shanghai, or distribute dividends of Ambow Shanghai without the prior written consent of Ambow Online.

Call Option Agreement. Pursuant to the call option agreement, dated October 31, 2009, and amended by a supplementary agreement dated January 4, 2010, among Ambow Online, Xuejun Xie and Xiaogang Feng, each a shareholder of Ambow Shanghai, each of Xuejun Xie and Xiaogang Feng irrevocably granted Ambow Online or its designee an exclusive option to purchase, to the extent permitted under PRC laws, all or part of her or his equity interest in Ambow Shanghai. The exercise price of such option shall be all or part, as applicable, of the initial amount of the registered capital contributed by such shareholder to acquire such equity interest in Ambow Shanghai and may be paid by the cancellation of indebtedness owed by such shareholder to Ambow Online, or the minimum amount of consideration permitted by applicable PRC law at the time when such transfer occurs, in which case we will pay the exercise price through, to the extent necessary, a combination of cash and cancellation of indebtedness owed by such shareholder to Ambow Online. Ambow Online or its designee shall have sole discretion to decide when to exercise the option, whether in part or in full. Currently, we do not expect to exercise such option in the foreseeable future.

Powers of Attorney. Pursuant to the powers of attorney, each dated October 31, 2009, each of Xuejun Xie and Xiaogang Feng irrevocably entrusted all the rights to exercise her or his voting power to Ambow Online, including without limitation, the power to sell, transfer or pledge, in whole or in part, such shareholder s equity interests in Ambow Shanghai and to nominate and appoint the legal representative, directors, supervisors, general managers and other senior management of Ambow Shanghai during the term of the share pledge.

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 RMB0.8 million to Xuejun Xie and RMB0.2 million to Xiaogang Feng to fund the registered capital requirements of Ambow Shanghai. To the extent permitted by PRC laws, each loan shall be deemed to have been repaid upon the transfer of the equity interest in Ambow Shanghai held by each of Xuejun Xie and Xiaogang Feng, as applicable, to Ambow Online or its designee.

Agreements that provide effective control over Ambow Sihua and its subsidiaries

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

Share Pledge Agreements. Pursuant to the share pledge agreement, dated October 31, 2009 and further amended by a supplementary agreement dated March 4, 2010, between Ambow Online and Xuejun Xie, a shareholder of Ambow Sihua, and the share pledge agreement, dated March 4, 2010, between Ambow Online and Xiaogang Feng, a shareholder of Ambow Sihua, each of Xuejun Xie and Xiaogang Feng pledged all of her or his equity interest in Ambow Sihua to Ambow Online to secure the performance of Ambow Sihua or its subsidiaries under a technology service agreement between Ambow Online and Ambow Sihua dated October 31, 2009 as described below. Each of Xuejun Xie and Xiaogang Feng also agreed not to transfer, dispose of or otherwise create any encumbrance over her or his equity interest in Ambow Sihua, or distribute dividends of Ambow Sihua without the prior written consent of Ambow Online.

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

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PRC laws, all or part of her or his equity interest in Ambow Sihua. The exercise price of such option shall be all or part, as applicable, of the initial amount of the registered capital contributed by such shareholder to acquire such equity interest in Ambow Sihua and may be paid by the cancellation of indebtedness owed by such shareholder to Ambow Online or the minimum amount of consideration permitted by applicable PRC law at the time when such transfer occurs, in which case we will pay the exercise price through, to the extent necessary, a combination of cash and cancellation of indebtedness owed by such shareholder to Ambow Online. Ambow Online or its designee shall have sole discretion to decide when to exercise the option, whether in part or in full. Currently, we do not expect to exercise such option in the foreseeable future.

Powers of Attorney. Pursuant to the powers of attorney, dated October 31, 2009 and March 4, 2010, respectively, each of Xuejun Xie and Xiaogang Feng irrevocably entrusted all the rights to exercise her or his voting power to Ambow Online, including without limitation, the power to sell, transfer or pledge, in whole or in part, her or his equity interest in Ambow Sihua and nominate and appoint the legal representative, directors, supervisors, general managers and other senior management of Ambow Sihua during the term of the share pledge.

Loan Agreement. Pursuant to the loan agreement between Ambow Online and Xiaogang Feng, dated March 4, 2010, Ambow Online loaned RMB40.0 million to Xiaogang Feng to fund the registered capital requirements of Ambow Sihua. To the extent permitted by PRC laws, such loan shall be deemed to have been repaid upon the transfer of the equity interest in Ambow Sihua held by Xiaogang Feng to Ambow Online or its designee.

Agreements that provide effective control over Suzhou Wenjian

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

Share Pledge Agreement. Pursuant to the share pledge agreement, dated February 25, 2009, among Ambow Online, Xuejun Xie, Xiaogang Feng and Yisi Gu, each a shareholder of Suzhou Wenjian, each of Xuejun Xie, Xiaogang Feng and Yisi Gu pledged all of his or her equity interest in Suzhou Wenjian to Ambow Online to secure the performance of Suzhou Wenjian under a technology service agreement between Ambow Online and Suzhou Wenjian dated February 25, 2009. Each shareholder of Suzhou Wenjian also agreed that, without the prior written consent of Ambow Online, such shareholder shall not transfer, dispose of or otherwise create any encumbrance over his or her equity interest in Suzhou Wenjian. The share pledge will expire three years after all obligations related to the technology service agreement are fully performed.

Call Option Agreement. Pursuant to the call option agreement, dated February 25, 2009, among Ambow Online, Xuejun Xie, Xiaogang Feng and Yisi Gu, each a shareholder of Suzhou Wenjian, each of Xuejun Xie, Xiaogang Feng and Yisi Gu irrevocably granted Ambow Online or its designee an exclusive option to purchase, to the extent permitted under PRC laws, all or part of his or her equity interest in Suzhou Wenjian. The exercise price of such option shall be all or part, as applicable, of the initial amount of the registered capital contributed by such shareholder to acquire such equity interest in Suzhou Wenjian and may be paid by the cancellation of indebtedness owed by such shareholder to Ambow Online, or the minimum amount of consideration permitted by applicable PRC law at the time when such transfer occurs, in which case we will pay the exercise price through, to the extent necessary, a combination of cash and cancellation of indebtedness owed by such shareholder to Ambow Online. Ambow Online or its designee shall have sole discretion to decide when to exercise the option, whether in part or in full. Currently, we do not expect to exercise such option in the foreseeable future.

Powers of Attorney. Under powers of attorney, each dated February 25, 2009, each of Xuejun Xie, Xiaogang Feng and Yisi Gu granted to Ambow Online the power to exercise all of his or her voting rights of Suzhou Wenjian during the term of the share pledge.

Loan Agreement. Pursuant to the loan agreement among Ambow Online, Xuejun Xie, Xiaogang Feng and Yisi Gu dated February 25, 2009, Ambow Online loaned RMB0.4 million to Xiaogang Feng, RMB0.3 million to Xuejun Xie and RMB0.3 million to Yisi Gu to fund the registered capital requirements of a domestic PRC company. Ambow later formed Suzhou Wenjian to serve as this domestic PRC company. To the extent permitted by PRC laws, each loan shall be deemed to have been repaid upon the transfer of the equity interest held by each of Xuejun Xie, Xiaogang Feng and Yisi Gu in Suzhou Wenjian to Ambow Online.

Agreements that transfer economic benefits to us

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

Exclusive Cooperation Agreement. Pursuant to the exclusive cooperation agreement, dated January 31, 2005 and revised on May 13, 2010, by and between Ambow Online and Ambow Shida, Ambow Online has the exclusive right to provide to Ambow Shida technical support and marketing consulting services relating to online education for primary and middle school and other related services in exchange for certain service fees, which are equal to Ambow Shida s pre-tax profit. The initial term of this agreement is twenty years and the term can be renewed upon expiration. The agreement can be terminated by mutual agreement, by written notice from the non-breaching party upon a breaching party s failure to cure its breach, or by either party s written notice upon non-performance of the agreement for 30 days as a result of any *force majeure*. We have not received any payment of service fees contemplated by this agreement.

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

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

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

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

Technology Service Agreement. Pursuant to the technology service agreement, dated October 31, 2009, by and between Ambow Online and Ambow Shanghai, Ambow Online has the exclusive right to provide to Ambow Shanghai (i) education or training solutions; (ii) employee training and technical support; and (iii) management and consulting services related to Ambow Shanghai s operations, in exchange for certain service fees to be agreed to by the parties from time to time. The term of this agreement is indefinite and the agreement may be terminated by Ambow Online upon either 15 days notice or Ambow Shanghai s failure to cure its breach of the agreement or by mutual written agreement at any time. We have not received any payment of service fees contemplated by this agreement.

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

Technology Service Agreement. Pursuant to the technology service agreement, dated October 31, 2009, by and between Ambow Online and Ambow Sihua, Ambow Online has the exclusive right to provide to Ambow Sihua (i) education or training solutions; (ii) employee training and technical support; and (iii) management and consulting services related to Ambow Sihua s operations, in exchange for certain service fees to be agreed to by the parties from time to time. The term of this agreement is indefinite and the agreement may be terminated by Ambow Online upon either 15 days notice or Ambow Sihua s failure to cure its breach of the agreement or by mutual written agreement at any time. We have not received any payment of service fees contemplated by this agreement.

Agreement that transfer economic benefits to us from Suzhou Wenjian

Technology Service Agreement. Pursuant to the technology service agreement, dated February 25, 2009, by and between Ambow Online and Suzhou Wenjian, Ambow Online has the exclusive right to provide to Suzhou Wenjian (i) educational and training solutions and related hardware and software development services, (ii) employee training and technical support, and (iii) management and consulting services related to Suzhou Wenjian s operations, in exchange for certain service fees to be agreed to by the parties from time to time. The term of this agreement is indefinite and the agreement may be terminated by Ambow Online upon either 15 days notice or Suzhou Wenjian s failure to cure its breach of the agreement or by mutual written agreement at any time. We have not received any payment of service fees contemplated by this agreement.

D. <u>Property, Plant and Equipment</u>

Our headquarters are located in Beijing, China, where we lease approximately 2,923 square meters of office space. In addition, we lease an aggregate of approximately 754,221 square meters of space for our tutoring centers, K-12 schools, career enhancement centers and college. We own an aggregate of approximately 222,938 square meters, including approximately 53,726 square meters at our K-12 school in Jiangsu Province, approximately 85,262 square meters at the Applied Technology College, approximately 36,944 square meters at our K-12 school in Beijing, and approximately 21,434 square meters at Changsha K-12 Experimental School.

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

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Form 20-F as well as Item 3.A Key Information Selected Consolidated Financial Data. We undertake no obligation to update publicly any forward-looking statements in this annual report on Form 20-F.

A. Operating Results

Overview

We are a leading national provider of educational and career enhancement services in China. Our business addresses two critical demands in China s education market, the desire for students to be admitted into top secondary and post-secondary schools, and the desire for graduates of those schools to obtain more attractive jobs. We offer high-quality, individualized services and products through our combined online and offline delivery model powered by our proprietary technologies and robust infrastructure. Our service network, comprised of 150 tutoring centers, five K-12 schools, 25 career enhancement centers, two career enhancement campuses and one college as of December 31, 2011, together with our software companies and corporate training companies, and combined with sales to distributors, enable us to provide our services and products to students in 30 out of the 31 provinces and autonomous regions within China.

Through our directly-operated tutoring centers, schools, career enhancement centers and campuses, college, and our distributors, we have significantly grown our net revenue, net income and student enrollment. Our net revenues from continuing operations increased from RMB736.7 million in 2009 to RMB1,217.1 million in 2010 to RMB1,669.2 million (US$265.2 million) in 2011. Our growth from 2009 to 2011 was primarily driven by the expansion of our service network across both Better Schools and Better Jobs, through acquisitions, organic growth, as well as the increase in sales of educational services and software products to distributors.

We recorded income from continuing operations of RMB91.8 million, RMB156.7 million and RMB135.8 million (US$21.6 million) in 2009, 2010 and 2011, respectively.

Net revenues from our Better Schools division, which includes tutoring and K-12 schools, accounted for 60.3%, 69.6% and 62.8% of our total net revenues from continuing operations in 2009, 2010 and 2011, respectively. Net revenues from our Better Jobs, which includes continuing operations of Career Enhancements and Colleges, accounted for 39.7%, 30.4% and 37.2% of our total net revenues from continuing operations in 2009, 2010 and 2011, respectively. We expect the mix of our net revenues between our Better Schools and Better Jobs divisions to fluctuate as we continue to expand our business and as the expansion plans focus more heavily on one of our segments in a given period.

For the fiscal year ended December 31, 2011, we had a total of 992,800 student enrollments from continuing operations for our Better Schools and Better Jobs divisions. When we refer to student enrollments in this annual report, we mean the total number of students enrolled in our K-12 schools and college and the total number of classes, tutoring sessions or training programs purchased by students under our tutoring and career enhancement services as well as the users of software products sold directly by us or through distributors for the respective period. For example, if one student enrolls in two separate tutoring classes or training programs, we count that as two student enrollments.

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

Factors affecting our results of operations

General factors affecting our results of operations

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

- 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.

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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, college and career enhancement centers and campuses through the VIE structure, the engagement of public school teachers and the organization of classes with large-size attendance in our tutoring centers, the establishment of new colleges and the offering of our online services. Though we do not possess the land use right certificates or building ownership certificates with respect to some of our owned real properties, and the lessors of some of our leased properties do not have effective ownership certificates, we do not believe that our ability to maintain and obtain or renew our licenses or permits for our business operations will be adversely affected by such issues, except that the failure of our college to possess the required amounts of land may impact its ability to conduct its business if we are not able to address this deficiency by the required compliance period in 2013. To satisfy such land requirement at our college may require us to incur significant expenses that we are not able to quantify.

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 our Better Schools and Better Jobs, the amount of fees we charge, the effectiveness of our marketing and brand promotion efforts, the locations and capacity of our tutoring centers, K-12 schools, career enhancement centers and campuses, and college, 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 add new tutoring and career enhancement centers as well as expanding alliances and partners to further penetrate our existing markets and enter new geographies to attract new student enrollments of related services. We also plan to continue to add new offerings to better attract students of different needs and provide cross-selling opportunities. However, we intend to keep the current K-12 schools or college 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. We believe that fees charged for career enhancement services will be more impacted by the economy. If students anticipate a lower-wage job after they graduate, they may be willing to spend less for career enhancement services.

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

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

Sales to our distributors

For the years ended December 31, 2009, 2010 and 2011, sales to distributors were RMB 135.6 million, RMB 188.1 million, and RMB 346.2 million, respectively. Sales to distributors were approximately 18.4% ,15.5% and 20.7%, respectively, of our net revenues from continuing operations. The increase in sales to our distributors in 2011 was mainly due to new product offering including CCEP and CBS as well as relationships developed with more schools and colleges via new acquisitions and distributors. We expect net revenues generated from sales to distributors as a percentage of total net revenues to fluctuate from period to period.

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

Terms of sales

In 2009, we generally sold educational services and software products to our distributors on a prepaid basis. From 2010, we started to offer credit terms to certain distributors. We do not give refunds and only offer replacements to the extent of product defaults. We provide secondary support in rare instances when the distributors cannot answer end users questions.

How distributors provide customers with support services

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

How we estimate amounts of returned products

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

Effects of acquisitions, disposals and other strategic plans

In 2008, we made an aggregate of ten acquisitions through business combinations and one acquisition of long-term operating rights pursuant to which we acquired 28 tutoring centers, two K-12 schools, and three career enhancement centers. In 2009, we made an aggregate of 13 acquisitions pursuant to which we acquired 66 tutoring centers, three K-12 schools, 12 career enhancement centers and two colleges. In 2011, we made an aggregate of seven acquisitions through business combinations. Our future results of operations will depend significantly upon our ability to increase student enrollments at existing schools and centers, open new tutoring and career enhancement centers, and further expand our partner school and center network throughout China. To complement our organic growth, we may continue to expand our operations going forward, including selectively converting our A+ Alliance partners to our own learning centers and schools through business combinations. Our planned continued expansion will also result in substantial demands on our management, operational, technological, financial and other resources. We will continue to implement additional measures and recruit qualified personnel in order to effectively manage and support our growth.

Following a strategic review of our business portfolios, in order to sharpen our focus on growth assets which consist of tutoring and career enhancement, and to adjust our business portfolio with better performance and greater capital efficiency, during the third quarter of 2011, the

Company reverted the operating right for the Junior High Portion of Zhenjiang Ambow International School back to the original owner. During the last quarter of 2011, we sold one career enhancement and three tutoring subdivisions as a package, and we are in the process of disposing of Beijing Century College and its 100% owned Beijing Siwa Century Facility Management Co. back to its original owner as well as returning Beijing 21st Century International School to its original owner. For additional information, see Note 24(b) of Notes to the consolidated financial statements.

Key financial performance indicators

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

	For the Year Ended December 31,						
	2009		2010		2011		
	RMB	%	RMB	%	RMB	US$	%
	(in thousands, except percentages)						
-Educational program and services	613,611	83.3	1,002,458	82.4	1,321,141	209,908	79.1
-Software products	123,104	16.7	214,663	17.6	348,071	55,303	20.9
Net revenues	736,715	100.0	1,217,121	100.0	1,669,212	265,211	100.0
-Educational program and services	(346,092)	(47.0)	(513,083)	(42.2)	(684,638)	(108,778)	(41.0)
-Software products	(10,750)	(1.4)	(13,721)	(1.1)	(30,694)	(4,877)	(1.8)
Cost of revenues	(356,842)	(48.4)	(526,804)	(43.3)	(715,332)	(113,655)	(42.9)
-Educational program and services	267,519	36.3	489,375	40.2	636,503	101,130	38.1
-Software products	112,354	15.3	200,942	16.5	317,377	50,426	19.0
Gross Profit	379,873	51.6	690,317	56.7	953,880	151,556	57.1

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Net revenues

In 2009, 2010 and 2011, we generated net revenues of RMB736.7 million, RMB1, 217.1 million and RMB1,669.2 million (US$265.2 million), respectively from continuing operations.

In 2011, following a strategic review, we sold one career enhancement center and three tutoring subdivisions. We also initiated the disposal of Beijing Century College and its 100% owned Beijing Siwa Century Facility Management Co. to Xihua Group, the original owner of Beijing Century College and its affiliates as well as the return of Beijing 21st Century International School to Xihua Group. Financial results of these disposed businesses and businesses that are in the disposal process except for Beijing 21st Century International School for which we will maintain 15-year operating rights are excluded from the above key financial performance indicators and are shown separately in the discontinued operations.

Revenue increases from 2009 to 2011 was primarily driven through acquisitions and organic growth in each segment as well as the increase in sales of education services and software products to distributors.

Our total software product revenues were RMB 123.1 million, RMB214.7 million and RMB 348.1 million (US$55.3 million) in 2009, 2010 and 2011 respectively. These revenues as a percentage of our total net revenues from continuing operations were 16.7%, 17.6% and 20.9% in 2009, 2010 and 2011, respectively. Our product sales include value added tax. The increase in software product sales was mainly because of the expanded product offering and relationship developed with more schools and colleges via new acquisitions and distributors.

We derived net revenues from our four operating segments in terms of percentages of our overall net revenues from continuing operations as follows in 2009, 2010 and 2011:

	For the Year Ended December 31,		
	2009	**2010**	**2011**
	%	**%**	**%**
Better Schools:			
Tutoring	42.5	48.9	46.6
K-12 schools	17.8	20.7	16.2
Total Better Schools	60.3	69.6	62.8
Better Jobs:			
Career enhancement	33.9	22.3	30.3
College	5.8	8.1	6.9
Total Better Jobs	39.7	30.4	37.2

The following table sets forth our approximate student enrollments under our four operating segments in 2009, 2010 and 2011, which exclude enrollments from the disposed entities as well as Beijing Century College that is in the process of being disposed of:

	2009	2010 (in thousands)	2011
Better Schools:			
Tutoring (1)	581,000	760,000	860,000
K-12 schools (2)	21,300	22,400	21,000
Total Better Schools	602,300	782,400	881,000
Better Jobs:			
Career enhancement (1)	46,000	51,800	105,000
College (2)	6,700	6,700	6,800
Total Better Jobs	52,700	58,500	111,800

(1) We disclose our student enrollments in our tutoring and career enhancement centers during the period because these students can enroll in multiple classes during a period. The number of student enrollments includes those served in our directly-operated tutoring and career enhancement centers as well as the users of software products sold by distributors. For the newly acquired centers during the year, we count only student enrollments after the acquisition becomes effective.

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(2) We disclose our student enrollments in our K-12 schools and college as of the end of the periods because these students enroll for a semester or school year and the number of students enrolled in these schools is relatively stable throughout the period.

Tutoring. We provided educational services in our 150 tutoring centers as of December 31, 2011. These services consist primarily of test preparation courses and tutoring. We recognize revenues from course fees collected for enrollment in the courses we offer at our tutoring centers proportionally as we deliver the instruction over the period of the course. Course fees collected are recorded as deferred revenues until they are recognized as revenues over the period when the course is taught, which typically ranges from one to six months. We also generate revenues in our tutoring segment through sales of software products. For sales directly to students and to distributors with a proven payment history with us, we recognize these net revenues upon delivery of our software products or education services to our students or distributors. For sales to distributors without a proven payment history, we recognize revenue upon collection of cash if delivery has occurred. The most significant factors that directly affect our net revenues in our tutoring segment are the number of student enrollments in the courses and the amount of course fees. Although similar courses have comparable rates, course fees vary among our numerous courses. Tuition fees in our tutoring centers range from RMB100 to RMB13,000 per program. We determine course fees primarily based on demand for our courses, the targeted market for our courses, the geographic location of the tutoring center, the length of time of the course, cost of services and the course fees charged by our competitors for the same or similar programs. Our courses are delivered in large class settings ranging from 15 students to 50 students per class. In addition, we also deliver these services in premium classes, including one-on-one tutoring.

K-12 schools. We operated five K-12 schools as of December 31, 2011. 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 RMB2,500 to RMB60,000 per year. We typically adjust tuition fees and associated accommodation fees based on the market conditions of the city where the particular school is located, subject to the relevant local governmental authority s advance approval, if required. Our K-12 schools have classes that range from 30 students to 50 students per class.

Career enhancement. Our career enhancement services are provided in our 25 career enhancement centers, two career enhancement campuses, as well as software companies and training companies as of December 31, 2011, of which Genesis Career Enhancement is a group of corporate training companies consisting of a total of 12 subsidiaries located in different provinces and cities. We recognize revenues from course fees collected for enrollment in the courses we offer at our career enhancement centers over the period of the course, which typically ranges from several days to 12 months. Course fees collected in advance are recorded as deferred revenues until the services are provided. We also generate revenues in our career enhancement segment through sales of software products. For distributors with a proven payment history with us, we recognize these revenues upon delivery of our education services and software products to these distributors. For sales to distributors without a proven payment history we recognize revenue upon collection of cash if delivery has occurred. The most significant factors that directly affect our revenues in our career enhancement segment are the number of enrollments in the courses and the amount of course fees. In addition to the specific factors mentioned above, enrollments at our career enhancement centers are affected by the local job markets specific demand for skills such as soft skills, information technology services and digital art. In addition, we believe many university graduates choose to obtain job-readiness training or acquire supplementary skills to differentiate themselves from their peers in order to get a better job. Tuition fees in our career enhancement centers range from RMB200 to RMB20,000 per program with course lengths ranging from several days to 12 months. We determine course fees primarily based on demand for our courses, the targeted market for our courses, the geographic location of the career enhancement center, costs of services delivered, and the course fees charged by our competitors for the same or similar programs. Our career enhancement courses are generally delivered in settings ranging from 15 students to 50 students per class. Prices of software products sold by Career Enhancement segment range from RMB100 to RMB32,000. The corporate trainings are all tailor-made according to customer companies requirements, and normally are delivered to 10 to 30 persons per course.

College. As of December 31, 2011, we operated one college, the Applied Technology College, and we initiated the disposal of the other college, Beijing Century College. We recognize revenues from tuition fees and associated accommodation fees collected for enrollment in our colleges ratably over the semester. Tuition fees and associated accommodation fees collected in advance are recorded as deferred revenues until the services are provided. Our college generally collects full year tuition fees once a year between August and October. The most significant factors that directly affect our net revenues for our college is the number of student enrollments and the amount tuition fees, associated accommodation and other fees we charge. Tuition fees for our colleges for 2011 ranged from RMB16,000 to RMB30,000 per year.

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, college and career enhancement centers. Their compensation and benefits primarily consist of teaching fees based on hourly rates, performance-linked bonuses based on student evaluations, as well as base salary, annual bonus and standard employee benefits in connection

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with their services other than teaching. Compensation of our part-time teachers is comprised primarily of teaching fees based on hourly rates and performance-linked bonuses based on student evaluations and other factors;

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

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

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

- Amortization of student population intangible assets.

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

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

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

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

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

The cost of sales for the two years ended December 31, 2009 and 2010 have been revised. The revisions relate to i) a reclassification of amortization expense attributable to student population, and ii) to include the disclosure of cost of sales for software products. The amortization charge was previously reported within general and administrative expenses, and has now been reclassified into cost of sales in 2011. The 2009 and 2010 cost of sales and general and administrative expenses have been restated by RMB 12,126 and RMB 18,155, respectively to ensure comparability. The Company considers the current classification to be more appropriate given that student populations acquired through business combinations contribute directly to the generation of Educational programs and services revenue.

Gross profit

For continuing operations, gross profit as a percentage of our net revenues was 51.6%, 56.7% and 57.1% in 2009, 2010 and 2011, respectively. From 2009 to 2011, improvement in gross margin was attributable to increased demand for premium services, better utilization of facilities in tutoring and career enhancement as well as higher software sales.

Operating expenses

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

	For the Year Ended December 31,						
	2009		2010		2011		
	RMB	%	RMB	%	RMB	US$	%
	(in thousands, except percentages)						
Net revenues	736,715	100.0	1,217,121	100.0	1,669,212	265,211	100.0
Operating expenses:							
Selling and marketing	(127,688)	(17.3)	(235,683)	(19.4)	(353,425)	(56,154)	(21.2)
General and administrative	(136,466)	(18.5)	(220,602)	(18.1)	(329,913)	(52,418)	(19.8)
Research and development	(16,968)	(2.3)	(27,553)	(2.3)	(39,541)	(6,282)	(2.4)
Impairment loss					(25,336)	(4,025)	(1.5)
Total operating expenses	(281,122)	(38.1)	(483,838)	(39.8)	(748,215)	(118,879)	(44.8)

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 as a percentage of net revenues was primarily due to corporate branding and advertising. We expect that our

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selling and marketing expenses will continue to increase as we further expand into new geographic locations, and continue to enhance our brand recognition.

General and administrative expenses. Our general and administrative expenses primarily consist of compensation and benefits of administrative staff, amortization of intangibles and, to a lesser extent, 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. Our general and administrative expenses as a percentage of net revenues increased from 18.1% in 2010 to 19.8% in 2011 mainly due to increased bad debt provision in 2011.

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. We expect that our research and development expenses will continue to increase in absolute terms but remain flat as a percentage of our net revenue as we continue to improve our products and services as well as geographic expansion.

Impairment loss. Our impairment loss from continuing operations consists of an impairment loss incurred when a decision was made to dispose of Beijing 21st Century International School in 2011, which school was classified as a separate asset group. It was determined that the school s net assets, including related goodwill, were lower than the recoverable amount of the asset group. As of December 31, 2011, the disposal transaction had not been completed and the school remains recorded as an asset held for use.

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

	For the Year Ended December 31,						
	2009		2010		2011		
	RMB	%	RMB	%	RMB	US$	%
	(in thousands, except percentages)						
Allocation of share-based expenses:							
Selling and marketing	(4,411)	32.6	(7,204)	21.0	(7,286)	(1,158)	21.9
General and administrative	(8,640)	63.9	(26,029)	76.1	(25,220)	(4,007)	75.6
Research and development	(480)	3.5	(981)	2.9	(842)	(134)	2.5
Total share-based expenses	(13,531)	100.0	(34,214)	100.0	(33,348)	(5,299)	100.0

Our predecessor entity, Ambow Education Co., Ltd., adopted the 2005 Stock Plan in February 2005. Our 2010 Equity Incentive Plan was adopted by our shareholders in June 2010 and became effective upon completion of our IPO. See Item 6 Directors, Senior Management and Employees Compensation Equity-based compensation plans. In 2009, 2010 and 2011, we granted, 3,373,885, 6,701,100 and 992,700 share options, respectively, to our employees and consultants for services rendered by them. Accordingly, we have adopted the provisions of ASC 718 Stock Compensation and ASC 505-50 Equity Based Payments to Non-Employees for the share options we granted. For options granted to our employees, we record share-based compensation expenses based on the fair value of the award as of the date of grant and amortize the expenses over the vesting periods of the options. For options granted to our consultants, we record share-based compensation expenses based on the fair

value of the award of the earlier of the performance commitment date or the date service is completed.

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

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

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

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education. For all other entities in China, as well as for any revenue generated by schools and college for non-degree-oriented education services, business tax of between 3% and 5% of gross revenues is payable.

Income tax

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

Corporate entities

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

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

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

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

In March 2007, Ambow Online was certified as a new and high-technology enterprise and a software enterprise , from which Ambow Online was entitled to choose to enjoy preferential tax treatment in either name. Ambow Online chose to apply for preferential tax treatment as a software

enterprise . As a result, it has been entitled to a two-year income tax exemption since 2008 and will be subject to 12.5% corporate income tax for another three years. This may be followed by a 15% tax rate for so long as Ambow Online continues to qualify as a new and high-technology enterprise. If Ambow Online ceases to qualify for the current preferential corporate income tax rate, we will consider options that may be available at the time that would enable it to qualify for other preferential tax treatment.

Ambow Yuhua was also recognized as a software enterprise , and is entitled to a tax exemption from income tax on its profits for 2011. As a result, Ambow Yuhua will enjoy a two-year income tax exemption from 2011 and will be subject to 12.5% corporate income tax for another three years. If Ambow Yuhua ceases to qualify for the current preferential corporate income tax rate, we will consider options that may be available at the time that would enable it to qualify for other preferential tax treatment.

Other than Ambow Online and Ambow Yuhua, certain of the affiliated entities of our VIEs were recognized as Software Enterprises. One of these entities was exempt from income tax on profits for 2005 and 2006, and was subject to a 50% reduction in income tax rate from 2007 to 2009 while the other entity was exempt from income tax for 2008 and 2009 and is subject to a 50% reduction in income tax rate from 2010 to 2012.

Private schools and college

Our private schools and college, being privately run non-enterprise institutions, acquired in 2008 and 2009 are registered as private schools that either do or do not require a reasonable return. Prior to January 1, 2008, these private schools and college were subject to income tax determined in accordance with the Law for Promoting Private Education (2003) and the 2004 Implementing Rules, as well as the Notice on Tax Policy for Educational Institutions and Notice on Several Preferential Tax Policy jointly issued by the PRC Ministry of Finance and the State Administration of Taxation, collectively referred to as the 2003 Education Law. Under these laws and regulations, private schools or a college not requiring reasonable returns were treated in a similar manner to public schools and were generally not subject to income tax. While it is indicated in the 2004 Implementing Rules that the relevant

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authorities under the State Council may consider formulating separate preferential tax treatment policies applicable to private schools requiring reasonable returns, no such tax preferential policy has been promulgated yet. As a result, the tax treatment applied to our schools and college varies among different cities.

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

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

The determination of our provision for income taxes, particularly for private schools and college is subject to uncertainty. The strict application of the CIT Law indicates that certain of our private schools and college are subject to income tax of 25% after January 1, 2008. For those private schools and college where the tax authorities have not determined a deemed fixed amount or deemed fixed rate for the purposes of calculating income tax payable, we have assumed that income tax of 25% is payable. However, as of December 31, 2011, no detailed implementation guidance has been provided to local tax authorities on how to apply the CIT Law to private schools and college. It is possible that, upon the introduction of the detailed implementation guidance, we may find ourselves in a position whereby income tax is not payable for periods prior to the release of the detailed guidance.

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

Preferred shares redemption value accretion

Prior to the occurrence of our IPO, the holders of a majority of our outstanding Series C convertible redeemable preferred shares or the holders of at least two-thirds of our outstanding Series D convertible redeemable preferred shares had the right to require us, at any time after July 20, 2012, to redeem all such series of preferred shares in cash in an amount equal to the greater of (i) the shares original purchase price plus all declared but unpaid dividends, or (ii) the shares fair market value. The fair market value of the Series C convertible redeemable preferred shares and Series D convertible redeemable preferred shares was greater than their original purchase price as of December 31, 2008, December 31, 2009 and August 4, 2010. As a result, we recorded accretion to the redemption value of these shares using the effective interest method as a reduction to net income to arrive at net income attributable to ordinary shareholders. Upon the closing of our IPO, our convertible preferred shares converted into ordinary shares and therefore the accretion of the preferred shares redemption value ceased.

Allocation of net income to participating preferred shareholders

Prior to the occurrence of our IPO, the holders of our outstanding preferred shares had rights to participate in the dividends of the company on a fixed basis prior to and in preference of the holders of our ordinary shares. As a result, net income has been allocated to participating preferred shareholders based on their existing rights to receive dividends in order to arrive at net income attributable to ordinary shareholders. Upon the closing of our IPO, our convertible redeemable preferred shares converted into ordinary shares and this allocation of net income to participating preferred shareholders ceased.

Critical accounting policies and estimates

The preparation of financial statements in conformity with U.S. GAAP requires estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities in the consolidated financial statements and accompanying notes. The SEC has defined a company s critical accounting policies as the ones that are most important to the portrayal of the company s financial condition and results of operations, and which require the company to make its most difficult and subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain. Based on this definition, we have identified the critical accounting policies and judgments addressed below. We also have other key accounting policies, which involve the use of estimates, judgments and assumptions that are significant to understanding our results. For additional information, see Note 2 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.

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Revenue recognition

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

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

Sales to distributors

Sales to distributors include sales of educational programs and services which mainly consist of career enhancement and corporate training programs where the end user accesses content through the Company s server or sales of software products where the end user accesses content on a compact disk with no further interaction with the Company.

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

Sales to distributors in 2011 represented 20.7% of total net revenues in 2011, as compared to 15.5% in 2010 and 18.4% in 2009.

Educational programs and services

Educational programs and services primarily consist of primary and secondary curriculum education, university curriculum education, tutoring programs that supplement primary and secondary curriculum education and career enhancement and other corporate training programs that are provided directly or indirectly to customers, where we are responsible for delivery of the programs and services. For the curriculum education programs, the tuition revenue, including accommodation, is recognized on a straight-line basis over the length of the course, which is typically over a period of a semester. For tutoring programs, tuition revenue is recognized on a straight-line basis over the period during which tutoring services are provided to students. Educational materials revenue, which is immaterial and has not been disclosed separately, relates to the sales of books, course materials, course notes for which we recognize revenue when the materials have been delivered to students.

Education programs and services also include programs offered online which could be accessed through a username and password. Career enhancement services such as CCEP, CBS and the Career GPS System have been offered to students and other customers either directly to

students or distributors. Revenue attributable to these service offerings is recognized on a straight-line basis over the length of the course, which is typically one to three months.

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

Sales of software products

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

If a sales contract stipulates more than one deliverable and includes the sale of software products, the deliverables are considered as multiple accounting units in accordance with ASC Topic 985, Revenue , the total revenue on such arrangements is allocated among the individual deliverables based on their relative fair values. For example, we have arrangement where sales of software products are bundled with sales of educational services. In such arrangement, the software product is delivered initially before the provision of services. If sufficient vendor-specific objective evidence of fair value does not exist for the allocation of revenue, the fee for the entire arrangement is recognized ratably over the term of the arrangement. Revenue is recorded net of business tax and surcharges.

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

For all years presented, Ambow Online and the Shandong Software Companies have met these criteria and therefore were entitled to the VAT refund. Ambow Yuhua has met these criteria and was entitled to the VAT refund since 2011.

Suzhou Yisi Chuangyi Technology Co., Ltd., or Suzhou Career Enhancement, was a small scale VAT taxpayer in 2009, and was subject to 3% VAT on the revenue from software products sold within the PRC. From January 1, 2010, Suzhou Career Enhancement was changed from a small scale VAT taxpayer to a general VAT tax payer and is subject to 17% VAT on the revenues from software products sold in the PRC.

We have adopted gross presentation for VAT, by which VAT is included in revenues and cost of revenues, because we consider our 17% VAT obligation and our entitlement to a 14% VAT refund as one integrated preferential VAT policy.

Barter transactions

For barter transactions, we recognize revenue and expense at fair value. For barter transactions involving the receipt of advertising services, we recognize revenue and expense at fair value only if the fair value of the advertising services received in the transaction are determinable. We had no barter transactions in 2009 and 2010. In 2011, we had software sales of RMB 37.3 million to companies with which we had also entered into arrangements for those customers to provide us advertising services. Both the software sales and the advertising services were separate cash transactions, but given the timing proximity of the transaction to each other, we accounted for these in accordance with our barter transaction accounting policy.

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Business combinations

We accounted for acquisitions made in the year ended December 31, 2008 using the acquisition method in accordance with SFAS 141 Business Combinations .

We adopted on a prospective basis SFAS 141(R) business combinations (now codified as ASC Topic 805, Business Combinations) in January 2009. This guidance significantly changed how business acquisitions were accounted for and impacts financial statements both on the acquisition date and in subsequent periods. We accounted for acquisitions made in the years ended December 31, 2009, 2010 and 2011 using the acquisition method in accordance with ASC Topic 805.

Intangible assets, net

Finite lived intangible assets are initially recorded at fair value when acquired in a business combination and 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. We review 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 7- Intangible assets, net for additional information):

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

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

Goodwill

Goodwill represents the excess of costs over the fair value of net assets of businesses acquired. Goodwill acquired in a business combination is tested for impairment at least annually or more frequently when events and circumstances occur indicating that the recorded goodwill may be impaired with the following two-step process. The first step compares the fair values of each reporting unit to its carrying amount, including

goodwill. The fair value of each reporting unit is established using a combination of expected present value of future cash flows and income approach valuation methodologies. If the fair value of each reporting unit exceeds its carrying amount, goodwill is not considered to be impaired and the second step will not be required. A reporting unit constitutes a business for which discrete profit and loss financial information is available. If the carrying amount of a reporting unit exceeds its fair value, the second step compares the implied fair value of goodwill to the carrying value of a reporting unit s goodwill. The implied fair value of goodwill is determined in a manner similar to accounting for a business combination with the allocation of the assessed fair value determined in the first step to the assets and liabilities of the reporting unit. The excess of the fair value of the reporting unit over the amounts assigned to the assets and liabilities is the implied fair value of goodwill. An impairment loss is recognized for any excess in the carrying value of goodwill over the implied fair value of goodwill.

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. Therefore, Beijing 21st Century International School was tested for impairment as its own reporting unit at the date that a decision was made to dispose of the school and this led to an impairment loss of RMB 25,336 (US$4,025) for the year ended December 31, 2011. Please refer to Note 8 of the financial statements for details.

We perform impairment tests in the fourth quarter of each year. At the latest impairment test date, the fair value of our reporting units was significantly in excess of carrying value. As of September 30, 2011, if the discount rates (weighted average cost of capital used in our analysis) had been 100 basis points higher than those estimated for each reporting unit and all other assumptions were held constant, the goodwill impairment test would have resulted in the same conclusion. Similarly, if the long-term growth rates had been 100 basis points lower than those estimated for each reporting unit and all other assumptions were held constant, the goodwill impairment test would have resulted in the same conclusion.

Future changes in the judgements and estimates underlying our 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.

Except for the impairment loss recognized in relation to entities disposed or in the process of being disposing in 2011, no other goodwill impairment loss was recognized for any years presented.

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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. We did not incur impairment losses related to long-lived assets during the years ended December 31, 2009 and 2010. During the year ended December 31, 2011 we recorded impairment losses in relation to entities disposed of or in the process of being disposed of as of December 31, 2011. No other impairment losses relating to long-lived assets were recognized during the year ended December 31, 2011.

Income taxes

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

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 as of January 1, 2007. The guidance prescribes a more likely than not threshold for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Guidance was also provided on de-recognition of income tax assets and liabilities, classification of current and deferred income tax assets and liabilities, accounting for interest and penalties associated with tax positions, accounting for income taxes in interim periods and income tax disclosures. Significant judgment is required in evaluating the uncertain tax positions and determining its provision for income taxes. We establish reserves for tax-related uncertainties based on estimates of whether, and the extent to which, additional taxes will be due. These reserves are established when we believe that certain positions might be challenged despite our belief that our tax return positions are in accordance with applicable tax laws. We adjust these reserves in light of changing facts and circumstances, such as the closing of a tax audit, new tax legislation or the change of an estimate. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will affect the provision for income taxes in the period in which such determination is made. The provision for income taxes includes the effect of reserve provisions and changes to reserves that are considered appropriate, as well as the related net interest and penalties where applicable. For the years ended December 31, 2009, 2010 and 2011, we did not have any interest and penalties associated with tax positions.

Share-based compensation

We grant share options to our employees, directors and non-employees. Cost of employee services received is measured at the grant-date using the fair value of the equity instrument issued net of an estimated forfeiture rate, and therefore only recognizes compensation costs for those

shares expected to vest over the service period of the award. Share-based compensation expense is recorded on a straight-line basis over the requisite service period, generally four years.

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

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

Foreign currency translation

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

In the consolidated financial statements, the financial information of our company and its subsidiaries, which use US$ as their functional currency, has been translated into RMB. Assets and liabilities are translated from each subsidiary s functional currency at the exchange rates on the balance sheet date, equity amounts are translated at historical exchange rates, and revenues, expenses, gains, and losses are translated using the average rate for the year. Translation adjustments are reported as cumulative

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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.

Long-lived assets to be disposed of

We account for a long-lived asset to be disposed of other than by sale in accordance with the provisions of ASC sub-topic 360-10 (ASC 360-10), Impairment and Disposal of Long-lived Assets , where such long-lived asset continues to be classified as held and used until it is disposed of. When a long-lived asset ceases to be used, the carrying amount of the asset is written down to its salvage value, if any.

We account for a long-lived asset or disposed group to be sold in accordance with the provisions ASC 360-10, where such long-lived asset or disposal group is classified as held for sale in the period in which all six criteria are met; (1) a plan to sell the asset has been committed to by management; (2) the asset can be sold in its current condition; (3) an active plan has been initiated to find a buyer; (4) it is probable that the asset will be sold and the sale will be completed within one year and will qualify as a completed sale; (5) the sales price is reasonable relative to the asset s current fair value and the entity is actively marketing the asset; and (6) it is unlikely that the plan to sell the asset will be withdrew or changed significantly. A long-lived asset or disposal group classified as held for sale is measured at the lower of its carrying amount or fair value less cost to sell, and it is presented separately in the balance sheets. Long-lived assets reclassified as held for sale are not depreciated or amortized.

We follow ASC sub-topic 205-20 (ASC 205-20), Presentation of Financial Statements in our accounting for a component of the Company that has been disposed of or is classified as held for sale and has operations and cash flows that can be clearly distinguished from the rest of the Company. Such component is reported as discontinued operations. In the period in which a component has been disposed of or classified as held for sale, the results of operations, including any gain or loss after tax recognized in accordance with ASC 360-10, less applicable income taxes (benefit), for the periods presented are reclassified into line items of income separately from net income (loss) from continuing operations before extraordinary items (if applicable), in the statements of operations.

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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 Year Ended December 31,			
	2009 RMB	2010 RMB	2011 RMB	2011 US$
	(in thousands)			
Consolidated Statement of Operations Data:				
NET REVENUES:				
Educational programs and services	613,611	1,002,458	1,321,141	209,908
Software products	123,104	214,663	348,071	55,303
Total net revenues	736,715	1,217,121	1,669,212	265,211
COST OF REVENUES:				
Educational programs and services	(346,092)	(513,083)	(684,638)	(108,778)
Software products	(10,750)	(13,721)	(30,694)	(4,877)
Total cost of revenues	(356,842)	(526,804)	(715,332)	(113,655)
GROSS PROFIT	379,873	690,317	953,880	151,556
Operating expenses:				
Selling and marketing (1)	(127,688)	(235,683)	(353,425)	(56,154)
General and administrative (1)	(136,466)	(220,602)	(329,913)	(52,418)
Research and development (1)	(16,968)	(27,553)	(39,541)	(6,282)
Impairment loss (1)			(25,336)	(4,025)
Total operating expenses	(281,122)	(483,838)	(748,215)	(118,879)
OPERATING INCOME	98,751	206,479	205,665	32,677
OTHER INCOME (EXPENSE)	(4,130)	(12,140)	(27,634)	(4,391)
Income before income tax, non-controlling interest, and discontinued operations	94,621	194,339	178,031	28,286
Income tax expense	(2,772)	(37,635)	(42,231)	(6,710)
INCOME FROM CONTINUING OPERATIONS	91,849	156,704	135,800	21,576
Income (loss) from and (Loss) on sale of discontinued operations, net of income tax	46,172	54,995	(119,581)	(19,000)
NET INCOME	138,021	211,699	16,219	2,576
Non-controlling interest	215	4,333	4,966	789
NET INCOME ATTRIBUTABLE TO AMBOW EDUCATION HOLDING LTD.	138,236	216,032	21,185	3,365
Preferred shares redemption value accretion	(157,877)	(94,209)		
Allocation of net income to participating preferred shareholders	(93,611)	(55,534)		
NET INCOME (LOSS) ATTRIBUTABLE TO ORDINARY SHAREHOLDERS	(113,252)	66,289	21,185	3,365

(1) Includes depreciation and amortization of RMB45,496, RMB86,474 and RMB114,906 (US$18,257) for the years ended December 31, 2009, 2010 and 2011, respectively.

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Year ended December 31, 2011 compared with year ended December 31, 2010

Net revenues. Our net revenues increased by 37.1% from RMB1,217.1 million to RMB1,669.2 million (US$265.2 million) in 2011. This increase was primarily due to business expansion in Tutoring and Career Enhancement segments, as well as higher educational services and software product sales to distributors. The growth in the Tutoring and Career Enhancement segment is driven by organic growth and acquisitions.

Cost of revenues. Our cost of revenues increased by 35.8% from RMB526.8 million in 2010 to RMB715.3 million (US$113.7 million) in 2011. This increase was primarily due to additional costs including teaching fees and rental payments associated with the increase in revenues.

Gross profit. Gross profit as a percentage of our net revenues increased from 56.7% in 2010 to 57.1% in 2011. The increase in our gross margin from 2010 to 2011 was primarily due to better utilization of facilities, increase in the sale of software products as well as the recognition of additional course fees in our college.

Operating expenses. Our total operating expenses increased by 54.7% from RMB483.8 million in 2010 to RMB748.2 million (US$118.9 million) in 2011. This increase resulted from increases in all of our operating cost and expense line items, especially selling and marketing, and general and administrative expenses.

- *Selling and marketing expenses*. Our selling and marketing expenses increased by 49.9% from RMB235.7 million in 2010 to RMB353.4 million (US$56.2 million) in 2011. This increase was primarily due to higher expenses in branding and advertising incurred associated with the growth of Tutoring and Career Enhancement segments.

- *General and administrative expenses*. Our general and administrative expenses increased by 49.5% from RMB220.6 million in 2010 to RMB329.9 million (US$52.4 million) in 2011. The increases were driven by increases in headcount-related expenses, professional service fees, amortization of intangibles and rental expenses associated with new acquisitions and the organic growth of business as well as an increased bad debt provision in 2011.

- *Research and development expenses*. Our research and development expenses increased by 43.1% from RMB27.6 million in 2010 to RMB39.5 million (US$6.3 million) in 2011. This increase was primarily due to increased headcount-related expenses and outside services.

- *Impairment loss*. The impairment loss of RMB 25.3 million (US$4.0 million) relates to Beijing 21st Century International School. The Company has initiated the disposal process of Beijing 21st Century International School in December 2011.

Other income (expense), net. We recorded net other expenses of RMB27.6 million (US$4.4 million) in 2011, compared to net other expenses of RMB12.1 million in 2010. The increase was mainly because of higher imputed interest expense in 2011, though it was partially offset by increased governmental subsidy income.

Income tax expenses. Our income tax expense increased from RMB37.6 million in 2010 to RMB42.2 million (US$6.7 million) in 2011. This change was primarily due to higher taxable income generated in 2011.

Income from continuing operations. Our income from continuing operations decreased from RMB156.7 million in 2010 to RMB135.8 million (US$21.6 million) in 2011. This change was primarily due to higher net revenue generated in 2011 partially offset by increased costs and expenses.

Income(loss) from and (loss) on sale of discontinued operations, net of income tax. Our loss from discontinued operation, net of income tax was RMB 119.6 million (US$19.0 million) in 2011, compared to income from discontinued operations, net of income tax, of RMB 55.0 million in 2010. This change was primarily due to the impairment loss of RMB 9 million (US$1.4 million) arising from Beijing Century College, which the Company has initiated the disposal process in December 2011, as well as the impairment loss of RMB118.0 million (US$18.7 million) recognized prior to the sale of one career enhancement center and three tutoring subdivisions.

Net income. According to above mentioned factors, our net income decreased by 92.3% from RMB211.7 million in 2010 to RMB16.2 million (US$2.6 million) in 2011.

Preferred shares redemption value accretion. Our preferred shares redemption value accretion decreased from RMB94.2 million in 2010 to nil in 2011. This decrease was due to the automatic conversion of all our preferred shares into ordinary shares upon the successful completion of our IPO in August 2010.

Allocation of net income to participating preferred shareholders. Our allocation of net income to participating preferred shareholders decreased from RMB 55.5 million in 2010 to RMB nil million (US$ nil million) in 2011. This decrease was due to the automatic conversion of all our preferred shares into ordinary shares upon the successful completion of our IPO in August 2010.

Net income (loss) attributable to ordinary shareholders. We recorded net income attributable to ordinary shareholders of RMB21.2 million (US$3.4 million) in 2011, compared to a net income attributable to ordinary shareholders of RMB66.3 million in 2010 . This increase was primarily because there was no preferred shares redemption value accretion and allocation of net income to participating preferred shareholders in 2011.

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Year ended December 31, 2010 compared with year ended December 31, 2009

Net revenues. Our net revenues increased by 65.2% from RMB736.7 million in 2009 to RMB1, 217.1 million (US$193.4 million) in 2010. This increase was primarily due to strategic acquisitions and strong demand for our learning engine. Ambow s learning engine is a proprietary intelligence system designed to provide students with an individualized learning experience.

Cost of revenues. Our cost of revenues increased by 47.6% from RMB356.8 million in 2009 to RMB526.8 million (US$83.7 million) in 2010. This increase was primarily due to costs associated with the increase in number of teachers and rental area expansion accompanied by business growth.

Gross profit. Gross profit as a percentage of our net revenues increased from 51.6% in 2009 to 56.7% in 2010. The increase in our gross margin from 2009 to 2010 was primarily due to increased demand for premium services as well as better utilization of facilities in tutoring and career enhancement.

Operating expenses. Our total operating expenses increased by 72.1% from RMB281.1 million in 2009 to RMB483.8 million (US$76.9 million) in 2010. This increase resulted from increases in all of our operating cost and expense line items, especially selling and marketing and general and administrative.

- *Selling and marketing expenses*. Our selling and marketing expenses increased by 84.6% from RMB127.7 million in 2009 to RMB 235.7 million (US$37.4 million) in 2010. This increase was primarily due to corporate branding and advertising.

- *General and administrative expenses*. Our general and administrative expenses increased by 61.6% from RMB136.5 million in 2009 to RMB220.6 million (US$35.1 million) in 2010. The increases were driven by increases in headcount related expenses, professional service fees and ongoing costs of being a public company.

- *Research and development expenses*. Our research and development expenses increased by 62.4% from RMB17.0 million in 2009 to RMB27.6 million (US$4.4 million) in 2010. This increase was primarily due to increased headcount related expenses and outside services.

Other income (expense), net. We recorded net other expenses of RMB12.1 million (US$1.9 million) in 2010, compared to net other expenses of RMB4.1 million in 2009. This change was primarily due to foreign exchange losses in 2010.

Income tax expenses. Our income tax expense increased from RMB2.8 million in 2009 to RMB37.6 million (US$6.0 million) in 2010. This change was primarily due to our subsidiary Ambow Online being subject to 12.5% income tax in 2010 as compared to being exempted from income tax in 2009.

Net income. Our net income increased by 53.4% from RMB138.0 million in 2009 to RMB211.7 million (US$33.6 million) in 2010. This increase was primarily due to higher net revenue generated in 2010 partially offset by increased costs and expenses as we were able to generate higher gross profits from each of our four operating segments in 2010 as compared to 2009.

Preferred shares redemption value accretion. Our preferred shares redemption value accretion decreased from RMB157.9 million in 2009 to RMB94.2 million (US$15.0 million) in 2010. This decrease was due to the automatic conversion of all our preferred shares into ordinary shares upon the successful completion of our IPO in August 2010.

Allocation of net income to participating preferred shareholders. Our allocation of net income to participating preferred shareholders decreased from RMB93.6 million in 2009 to RMB55.5 million (US$8.8 million) in 2010. This decrease was due to the automatic conversion of all our preferred shares into ordinary shares upon the successful completion of our IPO in August 2010.

Net income (loss) attributable to ordinary shareholders. We recorded net income attributable to ordinary shareholders of RMB66.3 million (US$10.5 million), compared to a net loss attributable to ordinary shareholders of RMB113.3 million in 2009. This change was primarily due to decreases in our preferred shares redemption value accretion and allocation of net income to participating preferred shareholders as well as increased net income.

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 Year Ended December 31,			
	2009 RMB	2010 RMB	2011 RMB	2011 US$
	(in thousands)			
Consolidated Statement of Operations Data:				
Net revenues:				
Tutoring	313,245	595,195	777,969	123,607
K-12 schools	131,413	251,635	270,059	42,908
Better Schools net revenues	444,658	846,830	1,048,028	166,515
Career enhancement	249,567	271,350	505,202	80,268

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	For the Year Ended December 31,			
	2009	2010	2011	2011
	RMB	RMB	RMB	US$
	(in thousands)			
College	42,490	98,941	115,982	18,428
Better Jobs net revenues	292,057	370,291	621,184	98,696
Total net revenues of reportable segments and the company	736,715	1,217,121	1,669,212	265,211
Cost of revenues:				
Tutoring	(157,881)	(265,313)	(341,942)	(54,329)
K-12 schools	(81,321)	(141,942)	168,964	(26,846)
Better Schools Cost of revenues	(239,202)	(407,255)	(510,906)	(81,175)
Career enhancement	(97,525)	(77,238)	(168,546)	(26,779)
College	(20,115)	(42,311)	(35,880)	(5,700)
Better Jobs Cost of revenues	(117,640)	(119,549)	(204,426)	(32,480)
Total costs of revenues of reportable segments and the company	(356,842)	(526,804)	(715,332)	(113,655)
Gross profit				
Tutoring	155,364	329,882	436,027	69,278
K-12 schools	50,092	109,693	101,095	16,062
Better Schools gross profit	205,456	439,575	537,122	85,340
Career enhancement	152,042	194,112	336,656	53,489
College	22,375	56,630	80,102	12,727
Better Jobs gross profit	174,417	250,742	416,758	66,216
Total gross profit of reportable segments and the company	379,873	690,317	953,880	151,556
Gross margin				
Tutoring	49.6%	55.4%	56.0%	56.0%
K-12 schools	38.1%	43.6%	37.4%	37.4%
Better Schools gross margin	46.2%	51.9%	51.3%	51.3%
Career enhancement	60.9%	71.5%	66.6%	66.6%
College	52.7%	57.2%	69.1%	69.1%
Better Jobs gross margin	59.7%	67.7%	67.1%	67.1%
Total gross margin of reportable segments and the company	51.6%	56.7%	57.1%	57.1%

Year ended December 31, 2011 compared with year ended December 31, 2010

Tutoring

Net revenues from our tutoring segment increased from RMB595.2 million in 2010 to RMB778.0 million (US$123.6 million) in 2011. This increase was primarily due to the revenue growth resulting from the new centers opened, the increase in the sale of software products as well as acquisitions of two tutoring businesses in 2011.

Cost of revenues from our tutoring segment increased from RMB 265.3 million in 2010 to RMB341.9 million (US$54.3 million) in 2011. This increase was primarily due to higher costs in line with the business growth and new acquisitions.

Gross profit as a percentage of our net revenues from our tutoring segment was 55.4% in 2010 and 56.0% in 2011. The improved gross profit margin was primarily attributable to better utilization of facilities and higher software sales which command a higher gross margin, though offset partly by the effect of opening new centers.

K-12 schools

Net revenues from our K-12 schools segment increased from RMB251.6 million in 2010 to RMB270.1 million (US$42.9 million) in 2011. This increase was primarily due to tuition fee increase in some of our K-12 programs.

Cost of revenues from our K-12 schools segment increased from RMB141.9 million in 2010 to RMB169.0 million (US$ 26.9 million) in 2011. This increase was primarily due to the increase in headcount related-costs and depreciation.

Gross profit as a percentage of our net revenues from our K-12 schools segment was 43.6% in 2010 and 37.4% in 2011. Decrease in the gross profit margin was mainly due to higher headcount-related costs and depreciation.

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Career enhancement

Net revenues from our career enhancement segment increased from RMB271.4 million in 2010 to RMB505.2 million (US$80.3 million) in 2011. This increase was primarily due to acquisitions of five new career enhancement businesses and our expanding offerings such as CCEP and CBS. CCEP teaches students soft skills, including innovation ability, time management, effective communication, and workplace etiquette, through a blended learning approach that integrates offline expert teachers and online learning. CBS is an online interactive management training program targeted for corporate clients. Some CBS modules have been specifically tailored to advertising companies. Included within our CBS sales we made separate sales of RMB 37 million (US$5.9 million) in 2011 to companies which provided us with advertising services.

Cost of revenues in our career enhancement segment increased from RMB77.2 million in 2010 to RMB 168.5 million (US$26.8 million) in 2011, which was primarily due to the higher costs in line with the business growth and new acquisitions.

Gross profit as a percentage of our net revenues from our career enhancement segment was 71.5% in 2010 and 66.6% in 2011. The decline in gross margin was mainly because of a change in the revenue mix.

College

Net revenues from our colleges segment increased from RMB98.9 million in 2010 to RMB116.0 million (US$18.4 million) in 2011. This increase was primarily due to the recognition of additional course fees during 2011. At the time of the acquisition of a college in 2009, these types of fees were considered to be potentially repayable if a student did not complete his or her course and no revenue was recognized. In 2011, sufficient evidence has been obtained to support the recognition of fees upon the graduation of the student, and an adjustment for the change in accounting estimate was made for 2011 and prior years.

Cost of revenues from our colleges segment decreased from RMB42.3 million in 2010 to RMB 35.9 million (US$5.7 million) in 2011. This decrease was primarily because certain student-related costs were netted against the corresponding revenue in 2011, while in 2010, these costs were recorded on a gross basis. The change in accounting arose as a result of changes in student accommodation contracts.

Gross profit as a percentage of our net revenues from our colleges segment was 57.2% in 2010 and 69.1% in 2011. The increase in gross profit margin was because of the recognition of additional course fees.

Year ended December 31, 2010 compared with year ended December 31, 2009

Tutoring

Net revenues from our tutoring segment increased from RMB313.2 million in 2009 to RMB595.2 million (US$94.6 million) in 2010. This increase was primarily due to strategic growth by acquisition as well as the growing demand of learning engine and premium services.

Cost of revenues from our tutoring segment increased from RMB157.9 million in 2009 to RMB265.3 million (US$42.2 million) in 2010. This increase was primarily due to the increase in line with the offering of more premium services.

Gross profit as a percentage of our net revenues from our tutoring segment was 49.6% in 2009 and 55.4% in 2010. The improved gross profit margin was primarily attributable to the better utilization of facilities.

K-12 schools

Net revenues from our K-12 schools segment increased from RMB131.4 million in 2009 to RMB251.6 million (US$40.0 million) in 2010. This increase was primarily due to a full year of net revenues from the acquisitions of three K-12 school acquisitions completed in 2009 and revenue from our international summer and winter program.

Cost of revenues from our K-12 schools segment increased from RMB81.3 million in 2009 to RMB141.9 million (US$22.5 million) in 2010. This increase was primarily due to a full year of cost of revenues from the acquisitions of three K-12 school acquisitions completed in 2009.

Gross profit as a percentage of our net revenues from our K-12 schools segment was 38.1% in 2009 and 43.6% in 2010.

Career enhancement

Net revenues from our career enhancement segment increased from RMB249.6 million in 2009 to RMB271.4 million (US$43.1 million) in 2010. This increase was primarily due to a full year of net revenues from the acquisitions of twelve career enhancement centers completed in 2009, and our expanding offering such as CCEP in the existing learning centers. CCEP teaches students soft skills, including innovation ability, time management, effective communication, and workplace etiquette, through a blended learning approach that integrates offline expert teachers and online learning.

Cost of revenues in our career enhancement segment decreased from RMB97.5 million in 2009 to RMB77.2 million (US$12.3 million) in 2010. This decrease is primarily due to better utilization of our facilities and reduction of costs paid to sales agents for their services under the old sales model deferred from prior years.

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Gross profit as a percentage of our net revenues from our career enhancement segment was 60.9% in 2009 and 71.5% in 2010.

College

Net revenues from our colleges segment increased from RMB42.5 million in 2009 to RMB98.9 million (US$15.7 million) in 2010. We acquired our two colleges in the second and third quarters of 2009, which led to recognition of a full year s revenue for the year of 2010.

Cost of revenues from our colleges segment increased from RMB20.1 million in 2009 to RMB42.3 million (US$6.7 million) in 2010. We acquired our two colleges in the second and third quarters of 2009, of which one college has been classified as discontinued operations and the other one was included in the continuing operations. Full year s cost incurred in 2010 was in relation to the one included in the continuing operations.

Gross profit as a percentage of our net revenues from our colleges segment was 52.7% in 2009 and 57.2% in 2010.

B. Liquidity and Capital Resources

Our principal sources of liquidity have been cash generated from operating activities and financing activities. Our financing activities consist primarily of our private placements of preferred shares to investors, bank loans we started to borrow in 2009 and the issuance of ordinary shares in our IPO. As of December 31, 2011, we had RMB470.7 million (US$74.8 million) in unrestricted cash and cash equivalents. Our cash and cash equivalents consist of cash on hand and liquid investments that are unrestricted as to withdrawal or use, have maturities of three months or less and are placed with banks and other financial institutions. Although we consolidate the results of our VIEs and their respective subsidiaries, we do not have direct access to the cash and cash equivalents or future earnings of our VIEs or their respective subsidiaries. However, a portion of the cash balances of our VIEs and their respective subsidiaries is paid to us pursuant to our contractual arrangements with our VIEs and their respective subsidiaries. See Item 7.B Related Party Transactions Contractual arrangements with our VIEs and their respective subsidiaries and shareholders. As of December 31, 2011. We had RMB402.6 million (US$64.0 million) in unrestricted cash and cash equivalents from our VIEs.

We expect our cash and cash equivalents will be sufficient to fund our operating and capital investment needs for the next twelve months. During 2011, we made strategic acquisitions to grow our business, and therefore had used up a significant amount of cash. Going forward, our focus is more on organic growth, and thus expect our cash requirements for strategic acquisitions will be much lower than prior periods, and the available sources of fund will be used to meet daily operating expenses, financing obligations and construction of training centers.

We have not encountered any difficulties in meeting our cash obligations to date. When considering our liquidity position and our future capital resources and needs, we take into account price controls set by local governments that may affect the tuition fees we are able to charge to students in our K-12 schools and college, annual enrollment quota placed on our college the economic benefits we have received from the subsidiaries of our VIEs attributable to the sale of products or provision of services to these entities and the economic benefits we may receive from our VIEs directly through payments under the Technology Service Agreements or Exclusive Cooperation Agreements. To date, we have

not received any payments under these agreements. We intend to finance future business expansion through various sources of capital, including internally generated cash flow, debt borrowings or other forms of financings.

In 2011, net cash used in the year ended December 31, 2011 primarily related to the purchase of property and equipment of RMB 284.8 million (US$45.3 million), acquisitions of learning centers, net of cash acquired of RMB90.9 million (US$14.4 million), prepayment of a long-term lease of RMB 53.0 million (US$8.4 million), and deposits for leasehold improvements of RMB 65.0 million (US$10.3 million).

In addition to growing our existing business, as part of our expansion strategy, we may also explore with certain of our A+ Alliance partners the option to convert them to our own schools and learning centers through business combinations and, to a lesser extent, make acquisitions of other businesses that complement our operations when suitable opportunities arise.

Condensed summary of our cash flows

	For the Years Ended December 31,			
	2009	**2010**	**2011**	**2011**
	RMB	**RMB**	**RMB**	**US**
	(in thousands)			
Net cash provided by/(used in) operating activities	523,094	456,914	296,705	47,142
Net cash used in investing activities	(802,365)	(392,364)	(494,558)	(78,577)
Net cash provided by/(used in) financing activities	(86,500)	406,598	(46,216)	(7,343)
Cash and cash equivalents included in assets held for sale			(139,099)	(22,101)
Effects of exchange rate changes on cash and cash equivalents	(3,127)	(11,774)	(15,450)	(2,455)
Net change in cash and cash equivalents	(368,898)	459,374	(398,618)	(63.334)
Cash and cash equivalents at beginning of period	778,824	409,926	869,300	138,118
Cash and cash equivalents at end of year	409,926	869,300	470,682	74,784

Operating activities

Net cash provided by operating activities amounted to RMB296.7 million (US$47.1 million) in the year ended December 31, 2011, as compared to net cash provided by operating activities of RMB456.9 million in the year ended December 31, 2010 and net cash provided in operating activities of RMB523.1 million in the year ended December 31, 2009. Net cash provided by operating activities in the year ended December 31, 2011 was primarily attributable to net income of RMB16.2 million (US$2.6 million), depreciation and amortization of RMB138.4 million (US$22.0 million), an increase in amount of impairment loss from continuing and discontinued operations of RMB 152.6 million (US$24.2

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million), an increase in amount accrued and other liabilities of RMB 263.2 million(US$41.8 million), partially offset by an increase in prepaid and other current assets of RMB 335.9 million (US$53.4 million) and an increase in accounts receivable of RMB67.4 million (US$10.7 million), due to the extention of longer credit terms to distributors. Net cash provided by operating activities in the year ended December 31, 2010 was primarily attributable to net income of RMB211.7 million, a decrease in amount due from related parties of RMB32.1 million, an increase in accrued expenses of RMB75.9 million and an increase in tax accrual of RMB42.0 million, partially offset by an increase in accounts receivable of RMB26.8 million and a decrease of accounts payable of RMB51.2 million.

Investing activities

Net cash used in investing activities amounted to RMB494.6 million (US$78.6 million) in the year ended December 31, 2011 as compared to RMB392.4 million in the year ended December 31, 2010 and RMB802.4 million in the year ended December 31, 2009. Net cash used in investing activities in the year ended December 31, 2011 primarily related to the purchase of property and equipment of RMB 284.8 million(US$45.3 million), acquisitions of learning centers, net of cash acquired of RMB90.9 million(US$14.4 million), prepayment of a long-term lease of RMB 53.0 million (US$8.4 million), and deposit for leasehold improvement of RMB 65.0 million(US$10.3 million). Net cash used in investing activities in the year ended December 31, 2010 primarily related to prepayments for acquisitions, the additional investment in learning centers, classrooms and dormitory improvement, and new centers opening.

Financing activities

Our financing activities consist primarily of short-term and long-term borrowings. Net cash used by financing activities amounted to RMB46.2 million (US$7.3 million) in the year ended December 31, 2011, as compared to net cash provided by financing activities of RMB406.6 million in the year ended December 31, 2010 and cash used in financing activities of RMB86.5 million in the year ended December 31, 2009. Net cash used in financing activities in the year ended December 31, 2011 was attributable to repayments on long-term borrowings of RMB71.0 million (US$11.3 million) and repayments on short-term borrowings of RMB168.1 million (US$26.7 million) (partially offset by proceeds from short-term borrowings of RMB168.1 million (US$26.7 million) and proceeds from long-term borrowings of RMB18.5 million (US$2.9 million)). Net cash provided by financing activities in the year ended December 31, 2010 was attributable to the issuance of ordinary shares upon our IPO of RMB 447.6 million, proceeds from short-term borrowings of RMB 224.1 million and long-term borrowings of RMB15.5 million, offset by repayments on short-term borrowings of RMB219.0 million and long-term borrowings of RMB62.5 million.

Cash and cash equivalents included in assets held for sale

Cash and cash equivalents included in assets held for sale amounted to RMB139.1 million (US$22.1 million) in the year ended December 31, 2011, which is the cash balance of Beijing Century College as of December 31, 2011.

Long-term and short-term borrowings

We did not have any long-term borrowings as of December 31, 2009. During 2010 and 2011, we and our affiliated entities entered into various long-term loan agreements in the aggregate amount of RMB115.0 million and RMB 62.5 million, respectively, with local banks with terms ranging from one year to seven years to finance our working capital. None of the loan agreements requires us to comply with financial covenants. Long-term bank borrowings of RMB13.5 million were secured by land and buildings with a net carrying value of approximately RMB34.6 million.

The following table sets forth, as of December 31, 2011 and on an individualized basis, our long-term borrowings loan amounts, interest rates, maturity profiles and their classification as either non-current or current liabilities.

Loan	Loan amount		Annual interest rate	Remaining maturity terms	Maturity date	Outstanding indebtedness	
						Current portion	Non-current portion
	RMB	USD	%			RMB	RMB
1	6,000,000	953,304	6.72%	284 days	October 2012	6,000,000	
2	6,000,000	953,304	6.80%	3 year and 8 months	September 2015		6,000,000
3	6,000,000	953,304	6.80%	4 year and 5 months	May 2016		6,000,000
4	6,000,000	953,304	6.80%	2 year and 8 months	September 2014		6,000,000
5	5,000,000	794,420	6.65%	1 year and 8 months	September 2013		5,000,000
6	5,000,000	794,420	6.65%	249 days	September 2012	5,000,000	
7	8,500,000	1,350,514	8.46%	1 year and 3 months	March 2013		8,500,000
8	4,000,000	635,536	7.98%	1 year and 4 months	May 2013		4,000,000
9	200,000	31,777	7.98%	1 year and 4 months	May 2013		200,000
10	800,000	127,107	7.98%	1 year and 4 months	May 2013		800,000
11	5,000,000	794,420	8.28%	216 days	August 2012	5,000,000	
12	10,000,000	1,588,840	9.31%	1 year and 4 months	May 2013		10,000,000
Total	62,500,000	9,930,250				16,000,000	46,500,000

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As of December 31, 2010, our secured short-term bank loans consisted of the following bank loans:

- RMB3.8 million repayable on January 11, 2011 and bearing interest at 5.56% per annum. The loan was secured by a building with a net carrying value of approximately RMB8.8 million.

- RMB2.0 million repayable on February 4, 2011 and bearing interest at 6.37% per annum. The loan was secured by a building with a net carrying value of approximately RMB8.3 million.

- RMB0.4 million repayable on January 11, 2011 and bearing interest at 5.56% per annum. The loan was secured by a land use right with a new carrying value of approximately RMB0.5 million.

As of December 31, 2011, our secured short-term bank loans consisted of the following bank loans:

- RMB 2 million repayable on January 25, 2012 and bearing interest at 6.97% per annum. The loan was secured by a building with a net carrying value of approximately RMB 8.1 million.

- RMB 22.92 million repayable on January 24, 2012 and bearing interest at 6.56% per annum. The loan was secured by some buildings and land use right, with net carrying value of approximately RMB 12.5 million and RMB 13.6 million respectively.

As of December 31, 2010, we have the following unsecured short-term bank loans:

- RMB20.0 million with a maturity date of April 11, 2011 and bearing interest at 5.35% per annum.

- RMB20.0 million with a maturity date of May 9, 2011 and bearing interest at 5.25% per annum.

- RMB20.0 million with a maturity date of July 19, 2011 and bearing interest at 6.27% per annum. The loan was jointly guaranteed by a third party and a minority shareholder of our company.

- RMB20.0 million with a maturity date of February 28, 2011 and bearing interest at 5.59% per annum. The loan was guaranteed by a third party.

- RMB10.0 million with a maturity date of February 28, 2011 and bearing interest at 5.59% per annum. The loan was guaranteed by a minority shareholder of our company.

- RMB18.8 million with a maturity date of January 11, 2011 and bearing interest at 5.56% per annum. The loan was guaranteed by a minority shareholder of our company.

- RMB3.2 million with a maturity date of January 29, 2011 and bearing interest at 5.56% per annum. The loan was guaranteed by a minority shareholder of our company.

As of December 31, 2011, we have the following unsecured short-term bank loans:

- RMB 20 million with a maturity date of April 13, 2012 and bearing interest at 6.71% per annum.

- RMB 20 million with a maturity date of May 11, 2012 and bearing interest at 6.71% per annum.

- RMB 20 million with a maturity date of July 15, 2012 and bearing interest at 6.71% per annum.

- RMB 20 million with a maturity date of March 29, 2012 and bearing interest at 8.53% per annum. The loan was guaranteed by a third party.

- RMB 3.15 million with a maturity date of January 26, 2012 and bearing interest at 6.56% per annum. The loan was jointly guaranteed by Taishidian, one subsidiary of our minority shareholder and third parties.

- RMB 10 million with a maturity date of May 4, 2012 and bearing interest at 7.98% per annum. The loan was guaranteed by a third party.

The weighted average interest rate of short-term bank loans outstanding as of December 31, 2010 and December 31, 2011 was 5.08% and 6.47% per annum, respectively.

Capital expenditures

Our capital expenditures were RMB84.6 million, RMB119.5 million and RMB284.8 million (US$45.3 million) in the fiscal years ended December 31, 2009, 2010 and 2011 respectively. These capital expenditures were incurred primarily for investments in facilities, leasehold improvements, equipment and technology.

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During the year we entered into an agreement with a third-party contractor to build new training centers in 2011, ready to be operated by us in 2011 and 2012. Under this original agreement, the responsibility for decorating, renting, and running the training centers would be split between the two parties. As of December 31, 2011, deposits totaling RMB 92.8 (US$14.7 million) had been paid pursuant to this agreement of which RMB 27.8 million (US$4.4 million) was capitalized as leasehold improvement in connection with new training centers which were completed and transferred to the Group to operate before December 31, 2011.

On March 23, 2012, we signed a new agreement to terminate the previous arrangement with a third party contractor and transferred all responsibilities and obligations of the centers to us. Under this agreement, we agreed to pay RMB 139.4 million (US$22.1 million) (inclusive of the cumulative deposits already paid) to take over all training centers which the third party contractor has built for us, as well as acquiring a number of additional training centers which the same third party contractor had operated independently.

In 2012, we expect to incur considerable investments in leasehold improvements to open new learning centers across China. In addition, we expect to continue our cooperation with local governments to open a number of career enhancement campuses in 2012 and beyond for providing career enhancement services to students. In connection with the opening of these learning centers and campuses, we expect to invest considerable capital sources in facility upgrades, lab renovation, technology and equipment and similar items to help us provide the best value to our students and to maintain our leading position in these business segments. We currently anticipate financing our capital expenditures in 2012 with the net cash generated from operating activities, bank loans or other forms of financings.

Holding company structure

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

As a result, our ability to pay dividends and to finance any debt we may incur depends primarily upon dividends paid by Ambow Online and fees paid by Ambow Sihua, Ambow Shanghai and Ambow Shida and their subsidiaries to Ambow Online for sales of services and products.

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

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

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

Inflation

Inflation in China has not materially impacted our results of operations in recent years. According to the China Statistics Bureau, the annual average percent change in the consumer price inflation in China was 0.7% in 2009, 3.3% in 2010 and 5.4% in 2011. Although we were not materially affected by inflation in the past, we can provide no assurance that we will not be affected in the future by higher rates of inflation in China.

Recent accounting pronouncements

See Note 2(e) of Notes to consolidated financial statements for recent accounting pronouncements that could have an effect on us.

C. Research and Development, Patents and Licenses

We have a strong in-house research and development team with 191 software and educational professionals as of December 31, 2011 who help to develop and update our educational content based on the latest official local government curriculum of each of our specific subjects. As of December 31, 2011, we also had 317 part-time and full-time instructors in our career enhancement centers, the majority of whom have prior industry experience. We integrate the best content from our acquired schools, tutoring centers, college and career enhancement centers into our qualified content database and then introduce it to our nationwide student user base. We also cooperate with our corporate partners to develop training labs to train students enrolled in our Better Jobs programs with specific skills required by our corporate partners. In 2009, 2010 and 2011, we spent, RMB17.0 million, RMB27.6 million and RMB39.5 million (US$6.3 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 .

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E. Off-balance sheet arrangements

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

On October 26, 2011, Dr Jin Huang, chief executive officer of the Company, and holder of more than 10% interest in the voting power of the Company, entered into a participation agreement with, among others, The Baring Asia Private Equity Fund V., L.P. (the Participation Agreement). Pursuant to this agreement, Campus Holdings Limited (Campus), an affiliate to The Baring Asia Private Equity Fund V., L.P., agreed to invest up to USD 50 million to purchase Class A Shares of the Company through a series of private transactions and on the open market through purchases of American Depositary Shares. See Note 23 to the financial statements for further details.

F. Contractual Obligations

The following table presents a summary of our contractual obligations and payments, by period, as of December 31, 2011.

	Payments Due by Period				
	Total RMB	Less than 1 Year RMB	1-3 Years RMB (in RMB millions)	3-5 Years RMB	More than 5 Years RMB
Short-term borrowings	126.5	126.5			
Operating lease obligations	458.3	109.5	139.2	66.5	143.1
Purchase obligations	48.6	48.6			
Long-term borrowings	69.3	22.8	34.5	12.0	
Consideration payable for acquisitions and others	115.2	54.8	60.4		
Total	817.9	362.2	234.1	78.5	143.1

As of December 31, 2011, our cash consideration obligations related to our past acquisitions were RMB115.2 million (US$18.3 million), among which RMB54.8 million (US$8.7 million) will be paid in 2012 and RMB60.4 million (US$9.6 million) will be paid from 2013 to 2014.

Borrowings include estimated cash interest to be paid over the remaining terms of the debt. In addition to the amounts shown in the table above, we have recorded RMB29.1 million (USD4.6 million) unrecognized tax benefits as liabilities in accordance with ASC 740, and we are uncertain as to if or when such amounts may be settled. We also owe management fees to the universities affiliated with our college for the use of their brand names and administrative support. The amounts of these management fees will be calculated as a percentage of net revenues generated by our college.

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 the date of this annual report.

Name	Age	Position
Jin Huang	46	President, Chief Executive Officer and Chairman of the Board
Huimin Jenny Zhan	43	Chief Strategy Officer
Gareth Kung	47	Chief Financial Officer
Yisi Gu	55	Senior Vice President and Chief Technology Officer
Senlei Huang	42	Vice President, Sales
Xuejun Xie	45	Vice President, Human Resources and Administration and Director
Jianguo Xue	45	Vice President, Sales
Shasha Chang (1)(2)	54	Director
Mark Robert Harris(1)(2)	42	Director
Lisa Lo(2)	45	Director
Daniel Phillips(1)	48	Director

(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

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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.

Huimin Jenny Zhan has served as our Chief Strategy Officer since November 2011. Prior to joining Ambow, since 2002 Ms. Zhan served as a portfolio manager of GMO, a global investment management firm. Ms. Zhan holds a bachelor of engineering degree from East China University of Science and Technology and a master s degree in chemical engineering from the University of Maryland. Ms. Zhan is a Chartered Financial Analyst.

Gareth Kung has served as our Chief Financial Officer since December 2011. Prior to joining Ambow, from November 2009 to July 2011, Mr. Kung served as Chief Financial Officer of Hanwha Solarone Co., Ltd, a China-based Nasdaq-listed solar module manufacturer. From 2003 to 2009, Mr. Kung served as Group Treasurer and subsequently as Group Controller at Semiconductor Manufacturing International Corporation, a China-based technology company listed on the Hong Kong Stock Exchange and NYSE. Mr. Kung is a Certified Public Accountant in Hong Kong, Australia and Singapore, a fellow of the Association of Chartered Certified Accountants and a Chartered Financial Analyst. Mr. Kung holds a bachelor s degree in accountancy from National University of Singapore and an MBA from University of Western Ontario.

Yisi Gu has served as our Senior Vice President and Chief Technology Officer since January 2008. Prior to joining Ambow, Ms. Gu served as a Vice President and Chief Information Officer in the Greater China region of Cisco Systems from December 2005 to January 2008. Prior to that, Ms. Gu served as a Chief Information Officer in the Greater China region and Information Technology Director in the Asia Pacific region of GE Healthcare, a business unit of General Electric Company, from December 2000 to December 2005. Ms. Gu holds an MBA from Staffordshire Business School in the United Kingdom.

Senlei Huang has served as our Vice President, Sales in charge of our tutoring services since July 2007. Prior to joining Ambow, Mr. Huang served as an Executive Principal at the online school of the High School of Peking University, or HSPU, and Managing Director of PKU School and Lenovo Distance Education Company from December 2000 to July 2007. Mr. Huang holds a bachelor s degree majoring in public management and administration from Peking University and an EMBA from Tsinghua University.

Xuejun Xie has served as our Vice President, Human Resources and Administration and as a member of our board of directors since our inception in August 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 EasChina 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.

Shasha Chang has served as a member of our board of directors since July 2010. Ms. Chang joined Wolters Kluwer, a global information services and publishing company, in June 2009 and is currently the Chief Executive Officer of Wolters Kluwer China. Prior to joining Wolters Kluwer, from September 2004 to June 2009, Ms. Chang worked with McGraw-Hill companies in several management functions, including Vice President, General Manager of McGraw-Hill China, and Country Manager of Standard & Poor s China operations. Ms. Chang holds a bachelor s degree from Guangdong Foreign Languages University and a master of arts degree from New York State University.

Mark Robert Harris has served as a member of our board of directors since September 2008. Since September 2006, Mr. Harris has served as a Senior Managing Director of Avenue Asia Singapore Pte Ltd., a wealth management advisor. From April 2004 to September 2006, Mr. Harris served as Corporate Financial Controller of Hutchison Telecommunications International Limited, a provider of telecommunications services. Mr. Harris is an active certified public accountant in the United States. Mr. Harris holds a bachelor s degree in business administration from California Polytechnic State University and an MBA from the University of Chicago, Booth School of Management.

Lisa Lo has served as a member of our board of directors or the board of directors of Ambow Education Co., Ltd. since December 2005. Ms. Lo joined the CID Group, an Asian-based private equity firm in early 2004 and is currently a partner of the CID Group and Managing Director of CID Venture Management & Consulting (Beijing), Ltd. Ms. Lo holds a bachelor s degree in electrical engineering from National Taiwan University and an MBA from National Cheng-Chi University.

Daniel Phillips has served as a member of our board of directors since July 2007. Mr. Phillips joined Macquarie Bank, a provider of banking, financial, advisory and investment services, in 1989 and is currently an Executive Director of Macquarie Group Limited. Mr. Phillips qualifies as an Associate Chartered Accountant in Australia. Mr. Phillips holds a bachelor s degree in business from Kuring-gai College of Advanced Education (Sydney).

The business address of each of our executive officers and directors is Ambow Education Holding Ltd., 18th Floor, Building A, Chengjian Plaza, No.18, BeiTaiPingZhuang Road, Haidian District, Beijing 100088, China.

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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 2011, the aggregate cash compensation that we paid to our executive officers as a group was RMB7.0 million (US$1.1 million), which includes bonuses, salaries and other benefits that were earned in 2010 and paid in 2011. During 2011, we did not pay any cash compensation to our non-employee directors. Our full-time employees in the PRC, including our executive officers, participate in a government-mandated multi-employer defined contribution plan pursuant to which certain pension benefits, medical care, unemployment insurance, employee housing fund and other welfare benefits are provided to qualified employees. Other than the above-mentioned contributions mandated by applicable PRC law, we have set aside a total of US$0.08 million for certain pension and insurance plans for our executives. We do not provide our directors with any pension, retirement or similar benefits on termination.

As of March 31, 2012, options to purchase an aggregate of 6,639,475 Class B ordinary shares under our 2005 Stock Plan had been granted to our executive officers, options to purchase an aggregate of 1,400,000 Class A ordinary shares and 200,000 restricted shares of Class A ordinary shares under 2010 Equity Incentive Plan had been granted to our executive officers. The exercise prices of such equity awards range from US$0.00033 to US$4.63 per ordinary share and have expiration dates ranging from February 3, 2015 to December 4, 2021. For share-based compensation of directors and executive officers, see Equity-based compensation plans.

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

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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 registrable under copyright or similar laws, which such executive officer may solely or jointly conceive, develop or reduce to practice or cause to be conceived, developed or reduced to practice, during the period of employment. Furthermore, each executive officer has agreed to not directly or indirectly solicit, induce, recruit or encourage any employees to leave their employment during the 12 month period immediately following such executive officer s termination of employment.

Equity-based compensation plans

2005 Stock Plan

Our 2005 Stock Plan was initially adopted by the board of directors and shareholders of Ambow Education Co., Ltd. in February 2005. In connection with our restructuring and the formation of Ambow Education Holding Ltd., we assumed and adopted the 2005 Stock Plan, and all options outstanding thereunder, on July 18, 2007.

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Our 2005 Stock Plan provides for the grant of incentive stock options, or ISOs, within the meaning of Section 422 of the Internal Revenue Code of 1986, or Code, to our employees and any of our parent and subsidiary corporations employees, and for the grant of nonstatutory stock options, or NSOs, and shares to our employees, directors and consultants and any of our parent and subsidiary corporations employees and consultants. Following our IPO, we no longer grant any awards under the 2005 Stock Plan. Instead, we will grant awards under our 2010 Equity Incentive Plan. However, the 2005 Stock Plan will continue to govern the terms and conditions of any outstanding awards previously granted thereunder. As of December 31, 2011, options to purchase 15,901,602 Class B ordinary shares were outstanding and 1,914,088 options were exercised under the 2005 Stock Plan.

Administration. Our board of directors or a committee appointed by our board administers our 2005 Stock Plan. Under our 2005 Stock Plan, the administrator has the power to determine the terms of the awards, including the fair market value, the service providers who will receive awards, the number of shares subject to such award, the exercise price, the vesting schedule and exercisability of awards and the form of consideration payable upon exercise.

Options. The administrator may grant ISOs or NSOs under our 2005 Stock Plan. With respect to ISOs, the exercise price must be at least equal to the fair market value of our ordinary shares on the date of grant. With respect to all NSOs, the exercise price must be equal to at least 85% of the fair market value of our ordinary shares on the date of grant. The term of any option may not exceed ten years, except that with respect to any participant who owns more than 10% of the total combined voting power of all classes of our outstanding shares, or of certain of our parent or subsidiary corporations, the term of an ISO must not exceed five years and the exercise price must equal at least 110% of the fair market value on the grant date. The administrator determines the term of all options, subject to the above limitations.

After termination of an employee, director or consultant, he or she may exercise his or her option, to the extent vested as of such date of termination, for the period of time stated in the option agreement. If termination is due to death or disability, the option will remain exercisable for at least 12 months. If termination is for cause, the option will terminate on the termination date or such later date as our board of directors may determine. In all other cases, the option will remain exercisable for at least 90 days. However, in no event may an option be exercised later than the expiration of its term.

Transferability. Our 2005 Stock Plan does not allow for the transfer of awards other than by beneficiary designation, will or the laws of descent and distribution and only the recipient of an award may exercise an award during his or her lifetime.

Certain adjustments. In the event of a subdivision of the outstanding shares, declaration of a share dividend, combination or consolidation of the outstanding shares into a lesser number of shares, recapitalization, spin-off, reclassification or similar occurrence, the administrator shall make appropriate adjustments in the number of shares available for issuance under the 2005 Stock Plan, the number of shares covered by each outstanding option and/or the exercise price of each outstanding option.

Merger and consolidation. In the event of our merger or consolidation, each outstanding option shall be subject to the agreement of merger or consolidation, which may provide for the continuation, assumption or substitution of outstanding options. Such agreement may also provide for the cancellation of each outstanding option for a payment to the optionee of an amount in cash or cash equivalents equal to the fair market value of each option less its aggregate exercise price. Unless provided otherwise in the applicable award agreement, if the repurchase right for each outstanding award is not assigned to the entity or its parent or subsidiary that employs the participant immediately after the change in control, as defined in the 2005 Stock Plan, the award shall fully vest upon such change in control.

2010 Equity Incentive Plan

Our board of directors adopted our 2010 Equity Incentive Plan in March 2010 and our shareholders approved such plan in June 2010. Our 2010 Equity Incentive Plan became effective upon completion of our IPO.

Our 2010 Equity Incentive Plan provides for the grant of ISOs to our employees and any parent and subsidiary corporations employees, and for the grant of NSOs, restricted shares, restricted share units, share appreciation rights, performance units and performance shares to our employees, directors and consultants and any of our parent and subsidiary corporations employees and consultants.

Share reserve. The maximum aggregate number of our ordinary shares that may be issued under our 2010 Equity Incentive Plan is 19,000,000 Class A ordinary shares plus (i) any shares that, as of the completion of our IPO, have been reserved but not issued pursuant to awards granted under our 2005 Stock Plan and are not subject to any awards granted thereunder, and (ii) any shares subject to awards granted under the 2005 Stock Plan that expire or otherwise terminate without having been exercised in full, and shares issued pursuant to awards granted under the 2005 Stock Plan that are forfeited to or repurchased by the company, with the maximum number of shares to be added to the 2010 Equity Incentive Plan pursuant to clauses (i) and (ii) above equal to 10,000,000 Class A ordinary shares. In addition, our 2010 Equity Incentive Plan provides for annual increases in the number of shares available for issuance thereunder on the first day of each fiscal year, beginning with our 2011 fiscal year, equal to the least of:

- 5% of our outstanding ordinary shares on the last day of the immediately preceding fiscal year;
- 25,000,000 Class A ordinary shares; or
- Such lesser number as our board of directors may determine.

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Shares issued pursuant to awards under the 2010 Equity Incentive Plan that we repurchase or that are forfeited, as well as shares used to pay the exercise price of an award or to satisfy the tax withholding obligations related to an award, will become available for future grant under the 2010 Equity Incentive Plan. In addition, to the extent that an award is paid out in cash rather than shares, such cash payment will not reduce the number of shares available for issuance under the 2010 Equity Incentive Plan.

As of December 31, 2011, we have reserved a total of 21,466,663 Class A ordinary shares for issuance pursuant to our 2010 Equity Incentive Plan. As of such date, options to purchase 860,700 Class A ordinary shares were outstanding, no options had been exercised and 20,605,963 Class A ordinary shares were available for future grants under the 2010 Equity Incentive Plan.

Administration. Our board of directors or a committee of our board of directors administers our 2010 Equity Incentive Plan. Different committees with respect to different groups of service providers may administer our 2010 Equity Incentive Plan. In the case of awards intended to qualify as performance based compensation within the meaning of Code Section 162(m), the committee will consist of two or more outside directors within the meaning of Code Section 162(m). Subject to the provisions of our 2010 Equity Incentive Plan, the administrator has the power to determine the terms of the awards, including the recipients, the exercise price, the number of shares subject to each such award, the vesting schedule applicable to the awards, together with any vesting acceleration, and the form of consideration payable upon exercise. The administrator also has the authority to modify or amend awards, to prescribe rules and to construe and interpret the 2010 Equity Incentive Plan and to institute an exchange program whereby the exercise prices of outstanding awards may be reduced, outstanding awards may be surrendered in exchange for awards with a higher or lower exercise price, or outstanding awards may be transferred to a third party.

Options. The administrator may grant ISOs or NSOs under our 2010 Equity Incentive Plan. The exercise price of options granted under our 2010 Equity Incentive Plan must at least be equal to the fair market value of our ordinary shares on the date of grant and its term may not exceed ten years, except that with respect to any participant who owns more than 10% of the total combined voting power of all classes of our outstanding shares, or of certain of our parent or subsidiary corporations, the term of an ISO must not exceed five years and the exercise price of such ISO must equal at least 110% of the fair market value on the grant date. The administrator determines the term of all other options.

After termination of an employee, director or consultant, he or she may exercise his or her option, to the extent vested as of such date of termination, for the period of time stated in the option agreement. In the absence of a specified period of time in the option agreement, the option will remain exercisable for a period of three months following termination (or twelve months in the event of a termination due to death or disability). However, in no event may an option be exercised later than the expiration of its term.

Share appreciation rights. Share appreciation rights may be granted under our 2010 Equity Incentive Plan. Share appreciation rights allow the recipient to receive the appreciation in the fair market value of our ordinary shares between the exercise date and the date of grant. The exercise price of share appreciation rights granted under our 2010 Equity Incentive Plan must at least be equal to the fair market value of our ordinary shares on the date of grant. The administrator determines the terms of share appreciation rights, including when such rights vest and become exercisable and whether to settle such awards in cash or with our ordinary shares, or a combination thereof. Share appreciation rights expire under the same rules that apply to options.

Restricted shares. Restricted shares may be granted under our 2010 Equity Incentive Plan. Restricted share awards are ordinary shares that are subject to various restrictions, including restrictions on transferability and forfeiture provisions. Restricted shares will vest and the restrictions on such shares will lapse, in accordance with terms and conditions established by the administrator. The administrator will determine the number of restricted shares granted to any employee. The administrator may impose whatever conditions to vesting it determines to be appropriate. For example, the administrator may set restrictions based on the achievement of specific performance goals and/or continued service to us.

Recipients of restricted share awards generally will have voting and dividend rights with respect to such shares upon grant without regard to vesting, unless the administrator provides otherwise. Restricted shares that do not vest for any reason will be forfeited by the recipient and will revert to us.

Restricted share units. Restricted share units may be granted under our 2010 Equity Incentive Plan. Each restricted share unit granted is a bookkeeping entry representing an amount equal to the fair market value of an ordinary share. Restricted share units are similar to awards of restricted shares, but are not settled unless the award vests. The awards may be settled in shares, cash, or a combination of both, as the administrator may determine. The administrator determines the terms and conditions of restricted share units including the vesting criteria and the form and timing of payment.

Performance units and performance shares. Performance units and performance shares may be granted under our 2010 Equity Incentive Plan. Performance units and performance shares are awards that will result in a payment to a participant only if performance goals established by the administrator are achieved or the awards otherwise vest. The administrator will establish organizational or individual performance goals in its discretion, which, depending on the extent to which they are met, will determine the number and/or the value of performance units and performance shares to be paid out to participants. Performance units will have an initial dollar value established by the administrator prior to the grant date. Performance shares will have an initial value equal to the fair market value of our ordinary shares on the grant date. Payment for performance units and performance shares may be made in cash or in our ordinary shares with equivalent value, or in some combination, as determined by the administrator.

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Transferability . Unless the administrator provides otherwise, our 2010 Equity Incentive Plan does not allow for the transfer of awards other than by will or the laws of descent and distribution and only the recipient of an award may exercise an award during his or her lifetime.

Certain adjustments. In the event of certain changes in our capitalization, to prevent diminution or enlargement of the benefits or potential benefits available under the 2010 Equity Incentive Plan, the administrator will make adjustments to one or more of the number and class of shares that may be delivered under the plan and/or the number, class and price of shares covered by each outstanding award and the numerical share limits contained in the plan. In the event of our proposed liquidation or dissolution, the administrator will notify participants as soon as practicable and all awards will terminate immediately prior to the consummation of such proposed transaction.

Change in control transactions. Our 2010 Equity Incentive Plan provides that in the event of our merger or change in control, as defined in the 2010 Equity Incentive Plan, each outstanding award will be treated as the administrator determines, except that if the successor corporation or its parent or subsidiary does not assume or substitute an equivalent award for each outstanding award, then such award will fully vest, all restrictions on such award will lapse, all performance goals or other vesting criteria applicable to such award will be deemed achieved at 100% of target levels and such award will become fully exercisable, if applicable, for a specified period prior to the transaction. The award will then terminate upon the expiration of the specified period of time.

Amendment and Termination. Our 2010 Equity Incentive Plan will automatically terminate in 2020, unless we terminate it sooner. Our board of directors has the authority to amend, suspend or terminate the 2010 Equity Incentive Plan provided such action does not impair the rights of any participant with respect to any outstanding awards.

The following table summarizes, as of March 31, 2012, the share options and other equity awards granted to our executive officers under our 2005 Stock Plan and 2010 Equity Incentive Plan or pursuant to other arrangements approved by our board of directors:

Name	**Ordinary Shares Underlying Options Granted**	**Exercise Price (US$/Share)**		**Date of Grant**	**Date of Expiration**
Dr. Jin Huang	2,957,000	US$	4.63	02/25/10	02/24/20
Huimin Jenny Zhan	*	US$	2.98	06/15/11	12/15/12
	*	US$	3.50	11/16/11	11/15/21
Gareth Kung	*	US$	3.45	12/05/11	12/04/21
Paul Chow**	*	US$	1.95	04/08/08	04/07/18
	*	US$	4.63	02/25/10	02/24/20
Yisi Gu	*	US$	1.95	04/08/08	04/07/18
	*	US$	4.63	02/25/10	02/24/20
Senlei Huang	*	US$	1.95	04/08/08	04/07/18
	*	US$	3.73	02/10/09	02/09/19
	*	US$	4.63	02/25/10	02/24/20
	*	US$	2.71	08/23/11	08/22/21

Xuejun Xie	*	US$	0.00033	02/04/05	02/03/15
	*	US$	0.11667	08/04/06	08/03/16
	*	US$	1.95	08/26/08	08/25/18
	*	US$	4.63	02/25/10	02/24/20
Jianguo Xue	*	US$	0.00033	02/04/05	02/03/15
	*	US$	1.95	08/26/08	08/25/18
	*	US$	4.63	02/25/10	02/24/20

* Less than 1% of the outstanding ordinary shares

** Resigned as Chief Financial Officer of the Company in December 2011

Our non-employee directors have not received share options.

C. **Board Practices**

Our board of directors currently consists of six directors. Former director Tao Sun resigned effective as of November 3, 2011. Tao Sun s resignation was due to his resignation from Actis LLP, and not due to any disagreement with us or our board of directors on any matter.

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We believe that each of the non-executive members of our board of directors is an independent director as that term is used in the NYSE corporate governance rules.

No shareholder has the contractual right to designate persons to be elected to our board of directors, and our memorandum and articles of association provides that directors will be elected upon a resolution passed at a duly convened shareholders meeting by holders of a majority of our outstanding shares being entitled to vote in person or by proxy at such meeting, to hold office until the expiration of their respective terms. There is no minimum shareholding or age limit requirement for qualification to serve as a member of our board of directors.

We have a staggered board, with our directors divided into three classes of directors in Class I, Class II and Class III, respectively, with no more than one class eligible for re-election at any annual shareholders meeting. The current two Class I directors were initially elected for a term expiring on the date of our 2011 annual shareholders meeting and two of which were re-elected to serve terms of three years at our 2011 annual shareholder meeting. The two Class II directors were initially elected for a term expiring on the date of our 2012 annual shareholders meeting and thereafter will be elected to serve terms of three years. The two Class III directors were initially elected for a term expiring on the date of our 2013 annual shareholders meeting and thereafter will be elected to serve terms of three years.

The following table sets forth the names and classes of our directors as of the date of this annual report:

Class I	**Class II**	**Class III**
Shasha Chang	Lisa Lo	Jin Huang
Mark Robert Harris	Daniel Phillips	Xuejun Xie

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. We have not formed a separate nominating or corporate governance committee of the board. Our full board of directors will perform the functions performed by such committees.

Audit committee

Our audit committee consists of Daniel Phillips, Mark Robert Harris and Shasha Chang, each of whom meets the independence standards of the NYSE and the SEC. Daniel Phillips is the Chairperson of our audit committee. 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;

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- 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 Lisa Lo, Mark Robert Harris and Shasha Chang, each of whom is an independent director as that term is used in the NYSE corporate governance rules. Lisa Lo 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, 2009, 2010 and 2011, we and our subsidiaries had 3,890, 4,589 and 5,991 full-time employees, respectively, and 5,441, 10,040 and 10,501 part-time employees, respectively. As of December 31, 2011, we had the following numbers of full-time employees by department: 1,279 in selling and marketing, 1,758 in general and administrative functions, 191 in research and development, and 2,763 teachers. None of our employees are represented by collective bargaining arrangements. We consider our relations with our employees to be good.

E. **Share Ownership**

The following table sets forth information regarding the beneficial ownership of our ordinary shares at March 31, 2012 by:

- Each of our directors and executive officers; and

- Each person known by us to own more than 5% of our ordinary shares.

We have determined beneficial ownership in accordance with the rules of the SEC. Except as indicated in the footnotes below, we believe, based on the information furnished to us, that the persons named in the following table have sole voting and investment power with respect to all ordinary shares that they beneficially own, subject to applicable community property laws.

Our ordinary shares are divided into Class A ordinary shares and Class B ordinary shares. Holders of Class A ordinary shares are entitled to one vote per share, while holders of Class B ordinary shares are entitled to ten votes per share. We issued Class A ordinary shares represented by our ADSs in our IPO in August 2010. Holders of Class B ordinary shares may convert their Class B ordinary shares into the same number of Class A ordinary shares at any time.

The percentage of shares beneficially owned and votes held by each listed person is based upon 148,042,781 ordinary shares outstanding as of March 31, 2012, which includes 53,412,913 Class A ordinary shares and 94,629,868 Class B ordinary shares. In computing the number of ordinary shares beneficially owned by a person and the percentage ownership of that person, we deemed outstanding ordinary shares subject to options or warrants held by that person that are currently exercisable or exercisable within 60 days of March 31, 2012. We did not deem these shares outstanding, however, for the purpose of computing the percentage ownership of any other person.

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Unless otherwise indicated, the principal address of each of the shareholders below is c/o Ambow Education Holding Ltd., 18th Floor, Building A, Chengjian Plaza, No. 18, BeiTaiPingZhuang Road, Haidian District, Beijing 100088, China.

Name	Shares beneficially owned Number	%	Percentage of votes held %
Directors and Executive Officers			
Jin Huang(1)	16,186,253	10.8	15.9
Gareth Kung	*	*	
Jenny Zhan	*	*	
Yisi Gu	*	*	
Senlei Huang	*	*	
Xuejun Xie	*	*	
Jianguo Xue	*	*	
Shasha Chang			
Mark Robert Harris(2)	21,599,914	14.6	21.6
Lisa Lo(3)	6,343,697	4.3	6.3
Daniel Phillips(4)	11,563,026	7.8	11.6
All Directors and Executive Officers as a Group (11 persons)(5)	59,463,900	38.8	59.1
Principal shareholders			
GL Asia Mauritius II Cayman Ltd.(6)	21,599,914	14.6	21.6
Investment entities affiliated with Actis(7)	12,972,159	8.8	13.0
Macquarie Investment Holdings (No. 2) Pty Limited(8)	11,563,026	7.8	11.6
EdVenture Inc.(9)	7,500,000	5.1	7.5
Investment entities affiliated with Baring Private Equity (10)	13,525,408	9.1	1.4

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* Less than 1% of the outstanding ordinary shares.

(1) Includes 12,600,000 Class B ordinary shares held by Spin-Rich Ltd., a British Virgin Islands company that is wholly owned by Dr. Huang, of which 6,088,747 Class B ordinary shares are subject to a charge in favor of Campus Holdings Limited as described in Note 23 to our financial statements; 1,922,940 Class B ordinary shares held by Ambow Corporation, a California corporation in which Dr. Huang holds a 35.61% ownership interest; and 1,663,313 Class B ordinary shares subject to options exercisable within 60 days after March 31, 2012. This number of shares excludes the 14,843,024 Class B ordinary shares over which Dr. Huang has been given a voting proxy in connection with the company s acquisitions.

(2) Includes 21,599,914 Class B ordinary shares held by GL Asia Mauritius II Cayman Ltd. Mr. Harris disclaims beneficial ownership of all of our shares held by GL Asia Mauritius II Cayman Ltd., except to the extent of his pecuniary interest therein. The business address of Mr. Harris is c/o Avenue Asia Singapore Pte Ltd., 3 Church Street, #15-04, Singapore 049483.

(3) Includes 3,605,488 Class B ordinary shares held by Asia Pacific Genesis Venture Capital Fund, L.P.; 1,514,305 Class B ordinary shares held by Asia Pacific Century Venture Capital Ltd.; 600,914 Class B ordinary shares held by Asia group Worldwide Limited; 540,821 Class B ordinary shares held by STAR Pacific Worldwide Limited; and 82,169 Class B ordinary shares held by Good Work Consultants Limited. Ms. Lo disclaims beneficial ownership of all of our shares held by the investment entities affiliated with CID, except to the extent of her pecuniary

interest therein. The business address of Ms. Lo is Suite 701, China World Trade Center Tower 2, No. 1 Jianguomenwai Avenue, Chaoyang District, Beijing 100004, China.

(4) Includes 11,563,026 Class B ordinary shares held by Macquarie Investment Holdings (No. 2) Pty Limited. Mr. Phillips disclaims beneficial ownership of all of our shares held by Macquarie Investment Holdings (No. 2) Pty Limited, except to the extent of his pecuniary interest therein. The business address of Mr. Phillips is Macquarie Investment Advisory (Beijing) Co., Ltd., Shanghai Branch, Level 3, The Centre, 989 Changle Road, Xuhui District, Shanghai 200031, China.

(5) Includes Class B ordinary shares and options to purchase Class B ordinary shares held by all of our directors and executive officers as a group.

(6) The registered address of GL Asia Mauritius II Cayman Ltd. is Admiral Financial Center, 5th Floor, 90 Fort Street, Box 32021, Grand Cayman, KY1-1208, Cayman Islands.

(7) Includes 6,486,080 Class B ordinary shares held by Actis Angel (AEM3) Ltd. and 6,486,079 Class B ordinary shares held by Actis Angel (ACF2) Ltd. The registered address of Actis Angel (AEM3) Ltd. and Actis Angel (ACF2) Ltd. is Les Cascades, Edith Cavell Street, Port Louis, Republic of Mauritius.

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(8) The registered address of Macquarie Investment Holdings (No. 2) Pty Limited is c/o Company Secretary, Mezzanine Level, No. 1 Martin Place, Sydney, New South Wales, Australia 2000.

(9) EdVenture Inc. is a company incorporated in the British Virgin Islands controlled by Sundry Ventures Limited, a British Virgin Islands company. The registered address of EdVenture Inc. is P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands.

(10) Includes 1,500,000 Class A ordinary shares held by Baring Private Asia V Holding (4) Limited, and 12,025,048 Class A ordinary shares held by Campus Holdings Limited. Baring Private 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 Asia V Holding (4) Limited and Campus Holdings Limited, may be deemed to have acquired beneficial ownership of an aggregate of 13,525,408 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 13,525,408 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 13,525,408 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.

We are not aware of any arrangement that may, at a subsequent date, result in a change of control of our company.

As of March 31, 2012, approximately 148,042,781 of our ordinary shares were issued and outstanding. Citibank, N.A., the depositary, has advised us that, as of March 31, 2012, 19,160,106 ADSs, representing 38,320,212 underlying ordinary shares, were held of record by DTC, under the nominee name of Cede & Co., on behalf of DTC participants. The number of beneficial owners of our ADS in the United States is likely to be much larger than the number of record holders of our ordinary shares in the United States.

Item 7. Major Shareholders and Related Party Transactions

A. Major Shareholders

Please refer to Item 6.E Directors, Senior Management and Employees Share Ownership.

B. Related Party Transactions

Contractual arrangements with our VIEs and their respective subsidiaries and shareholders

PRC laws and regulations prohibit foreign ownership of primary and middle schools for students in grades one to nine and foreign ownership of Internet content business in China.

We conduct our education business in China primarily through contractual arrangements among our subsidiaries in China and VIEs. Our VIEs and their respective subsidiaries hold the requisite licenses and permits necessary to conduct our education business in China and operate our tutoring and training centers, K-12 schools, career enhancement training centers and college. These contractual arrangements enable us to:

- Exercise effective control over our VIEs and their respective subsidiaries;

- Receive a substantial portion of the economic benefits from our VIEs and their respective subsidiaries in consideration for products sold and technical support, marketing and management consulting services provided by Ambow Online to our VIEs and their respective subsidiaries; and

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

Our subsidiaries and VIEs subsidiaries have engaged, during the ordinary course of business, in a number of customary transactions with each other. All of these inter-company balances have been eliminated in consolidation.

In addition, Ambow Online entered into a service agreement with the Applied Technology College effective as of August 1, 2009 pursuant to which Ambow Online, in exchange for service fee payments from the Applied Technology College, shall provide to the Applied Technology College: (i) consulting services regarding, among other things, business planning, mergers and acquisitions, development, accounting, tax and finance, human resources management and legal compliance; (ii) faculty training services; (iii) student career orientation services; and (iv) marketing services. The term of this service agreement is indefinite unless

terminated by either party upon 30 days notice or by mutual agreement. As of the date of this annual report, Applied Technology College has not yet made any payments under this service agreement.

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

As of December 31, 2011, we had RMB89.0 million due from certain related parties and owed RMB47.5 million to certain related parties. Many of the balances due from the related parties were amounts that had been lent to the school principals, owners or other controlling persons of entities we have acquired, prior to our acquisition dates, to fund the operations of various schools, tutoring centers and career enhancement centers. In addition, some amounts relate to indemnifications provided by the previous owners of the schools we acquired for which we have also recognized a corresponding liability. The remaining balances were mainly revenues collected on our behalf by the related parties and owed to us. The balances owed to related parties represented amounts due to former owners of our schools, tutoring centers and career enhancement centers or entities controlled by such owners for certain operating expenses they had paid, repayments of loans from certain principals of our schools, tutoring centers and career enhancement centers or, in one case, the outstanding payment for the training services provided by the principal of a career enhancement center. 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, 2009, 2010 and 2011, see Note 18 in our Notes 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

Some of our shareholders, including our former preferred shareholders, are parties to an amended and restated investor rights agreement, or the investor rights agreement, that provides for customary registration rights with respect to the ordinary shares issued upon the conversion of our preferred shares. We refer to these ordinary shares below as the registrable securities.

Demand registration rights. Holders of at least 40% of the registrable securities may require us to register or qualify for sale all or part of the registrable securities that such holders request to be registered. We are not obligated to effect any such registration:

- If the anticipated aggregate proceeds from such registration are less than $10 million;

- In any particular jurisdiction in which we would be required to execute a general consent to service of process in effecting such registration, qualification or compliance (unless we are already subject to service in such jurisdiction and except as may be required by the Securities Act);

- After we have initiated three such registrations; or

- During the period starting with the date 60 days prior to our good faith estimate of the date of filing of, and ending 180 days after the effective date of, a registration initiated by us (provided that we are actively employing in good faith commercially reasonable efforts to cause such registration to become effective).

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If we are qualified to do so, holders of registrable securities may also require us, on one occasion in any 12-month period, to register their securities on Form F-3 as long as the anticipated aggregate offering price of the registrable securities to be sold, net of underwriting discounts and commissions, equals or exceeds $2,000,000.

We also have the right to defer a requested registration for a period of not more than 180 days if our board of directors determines in its good faith judgment that the filing of a registration statement covering the registrable securities would be materially detrimental to us and that it is in our best interests to defer the filing of such registration statement. We may not exercise this deferral right more than twice in any 12-month period.

Piggyback registration rights. Holders of registrable securities also have piggyback registration rights, which require us to include their registrable securities when we register our securities.

Underwriters cutback. The number of registrable securities that our shareholders may register pursuant to their demand and piggyback registration rights in an underwritten offering may be limited by the underwriters on a pro rata basis based on marketing factors, provided that the aggregate of the registrable securities to be included in such registration may not be reduced to less than 25% of the total value of all securities included in such registration. No registrable securities that are issued or issuable pursuant to conversion of Series B preferred shares, Series C preferred shares or Series D preferred shares may be reduced until all other securities (other than ordinary shares issued by us in such public offering) are excluded from such public offering.

Expenses of registration. We are generally required to bear all registration expenses relating to demand and piggyback registration rights. However, we are not required to bear the expenses of any demand registration if the request is subsequently withdrawn by the requesting shareholders unless the requesting shareholders agree to forfeit their right to one demand registration.

Indemnification . The investor rights agreement contains customary cross-indemnification provisions pursuant to which we and the requesting shareholders are obligated to provide indemnification to each other and in certain circumstances contribute to payments that we or such shareholders may be required to make in the event of material misstatements or omissions in a registration statement or other filing attributable to the indemnifying party.

Termination of registration rights. The registration rights described above will terminate as to any holder of registrable securities on the earlier of:

- The date on which all shares of registrable securities held or entitled to be held upon conversion by such holder may immediately be sold under Rule 144 promulgated under the Securities Act during any 90-day period; or

- The five-year anniversary of the completion of our IPO.

We also entered into a registration rights agreement with Campus Holdings Limited, or Campus, Dr. Huang and Spin-Rich Ltd., which entitles them certain registration rights, including demand registration rights, Form F-3 registration rights, and piggyback registration, such registration rights are similar to the registration rights granted to our former preferred shareholders.

C. <u>Interests of Experts and Counsel</u>

Not applicable.

Item 8. Financial Information

A. <u>Consolidated Financial Statements and other Financial Information</u>

Please see Item 18. Financial Statements.

Legal Proceedings

From time to time, we are subject to legal proceedings, investigations and claims incidental to the conduct of our business.

In August 2010, Kaidi initiated an action against Beijing Shida Ambow Education & Technology Co., Ltd. (Ambow Shida), and Beijing Ambow Online Software Co., Ltd. (Ambow Online) in the Haidian District Court in Beijing, the People s Republic of China, alleging copyright infringement related to our Core Ebopo English and Ebopo English products. Kaidi applied to the court for an order that would require the defendants to stop the infringement, apologize publicly and pay the plaintiff damages in the amount of RMB 11,000,000. Ambow Shida and Ambow Online replied to the accusation, and Kaidi voluntarily withdrew the lawsuit after the first hearing for the preliminary evidence. In December 2010, Kaidi re-filed its claim for copyright infringement in the Haidian District Court in Beijing, the People s Republic of China, against Ambow Shida and Ambow Online. Amobw Shida and Ambow Online replied to the accusation. The court held a hearing to review the preliminary evidence in March 2011, and adjourned the case.

In March 2011, Mintel Learning Technology, Inc. (Mintel) filed a complaint against Ambow Education Holding Ltd. (***Ambow***) and Ambow s President and CEO, Dr. Jin Huang, in U.S. District Court for the Northern District of California, alleging a claim of trade secret misappropriation. On January 6, 2012, the Court granted Ambow s motion to dismiss the complaint for failure to

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state a claim. In an amended complaint filed on January 12, 2012, Mintel dropped its claim against Dr. Huang. Mintel maintained its claim against Ambow for trade secret misappropriation. In an order dated March 8, 2012, the Court denied Ambow s motion to dismiss the amended complaint. On March 22, 2012, Ambow filed an answer to the complaint, denying Mintel s claim. The parties are currently engaged in the early stages of discovery. Fact discovery will close on October 19, 2012, and expert discovery will close on December 14, 2012. The last day for the parties to file dispositive motions is January 11, 2013. The Court has set a preliminary pretrial conference for February 1, 2013.

In April 2012, Skillsoft Asia Pacific Pty Ltd (Skillsoft) filed a statement of claim against the Company in the High Court of the Hong Kong Special Administrative Region Court of First Instance alleging breach of contract. The complaint seeks a declaration that the contract between the Company and Skillsoft remains in full force and effect as well as monetary damages, interest and costs.

We believe that these claims are not meritorious and intend to defend ourselves vigorously.

On June 20, 2011, Zhuhai Mingfeng Co., Ltd., or Mingfeng, filed an arbitration claim against Ambow Sihua Education and Technology Co., Ltd., or Ambow Sihua, at China International Economic and Trade Arbitration Commission for breach of certain Equity Transfer Agreement dated July 2, 2008 between Ambow Sihua and Mingfeng, or the Equity Agreement. Mingfeng requests Ambow Sihua to return 100% equity interest in Guangzhou Modern Olympic Training School, or the Guangzhou School, and pay damages in an aggregate amount of RMB 22,195,044. On August 2, 2011, Ambow Sihua responded and counterclaimed against Mingfeng for its breach of the Equity Agreement. As a result of such violation, which occurred prior to Mingfeng s filing of the arbitration claim against Ambow Sihua, Ambow Sihua had previously sent a written notice to Mingfeng to terminate the Equity Agreement on February 24, 2011 and requested Mingfeng to return the consideration for the transfer in a total amount of RMB 30 million, including RMB 1 million, USD 1.54 million and 1,008,403 Class B ordinary shares of Ambow held by Prime Honour Holdings Limited, a British Virgin Islands company affiliated to Mingfeng, and to pay RMB 21,065,603 as compensation for damage incurred as a result of such violation. An arbitration award was issued on April 19, 2012 to uphold our claims to rescind the Equity Agreement and receive a total amount of RMB 30 million as compensation, and to pay RMB 14.44 million as compensation to Mingfeng. As a result, Beijing Tongshengle Investment Co., Ltd., or Tongshengle, a transferee of 100% equity interests of the Guangzhou School pursuant to certain equity transfer agreement with Ambow Sihua dated as of December 2, 2011, is entitled to the arbitration award pursuant to the supplementary agreement entered subsequently between Ambow Sihua and Tongshengle, and is responsible for RMB14.44 million compensation award to Mingfeng.

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 C. Markets.

B. Plan of Distribution

Not applicable.

C. Markets

Our ADSs have been quoted on the NYSE under the symbol AMBO since August 5, 2010. Each ADS represents two Class A ordinary shares.

The following table sets forth the high and low trading prices for our ADSs on the NYSE for (1) the years 2010 (from August 5, 2010) and 2011, respectively; (2) the third quarter (from August 5, 2010) and the fourth quarter of 2010 and each quarter of 2011; and (3) each of the past six months.

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	Trading Price	
	High US$	Low US$
Annual High and Low:		
2010 (from August 5, 2010)	14.40	7.75
2011	14.00	4.56
Quarterly Highs and Lows:		
Third quarter 2010 (from August 5, 2010)	10.35	7.75
Fourth quarter 2010	14.40	9.79
First quarter 2011	14.00	7.40
Second quarter 2011	8.59	4.56
Third quarter 2011	7.27	5.00
Fourth quarter 2011	7.40	5.68
Monthly High and Lows:		
October 2011	7.21	5.68
November 2011	7.40	6.57
December 2011	7.28	6.20
January 2012	8.00	6.85
February 2012	8.15	6.81
March 2012	7.72	6.92
April 2012	7.97	7.05
May 2012 (through May 25, 2012)	7.28	4.00

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**

We incorporate by reference into this annual report the description of our fourth amended and restated memorandum and articles of association and the summary of the significant differences between the provisions of the Cayman Islands Companies Law applicable to our company and the laws applicable to Delaware corporations and their shareholders contained in our Registration Statement on Form F-1 (File No. 333-168096) originally filed with the SEC on July 14, 2010. Our fourth amended and restated memorandum and articles of association were adopted by our shareholders by special resolution in June 2010 and took effect upon completion of our IPO.

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.

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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.

People s Republic of China taxation

The CIT Law and the implementing regulations for the CIT Law issued by the PRC State Council, became effective as of January 1, 2008. The CIT Law provides that enterprises established outside of China whose de facto management bodies are located in China are considered resident enterprises and are generally subject to the uniform 25% corporate income tax rate as to their worldwide income. Under the implementing regulations for the CIT Law issued by the PRC State Council, a de facto management body is defined as a body that has material and overall management and control over the manufacturing and business operations, personnel and human resources, finances and treasury, and acquisition and disposition of properties and other assets of an enterprise. Currently no interpretation or application of the CIT Law and its implementing rules is available for non-Chinese enterprise or group enterprise controlled entity. Therefore, it is unclear whether PRC tax authorities would require (or permit) us to be treated as a PRC resident enterprise.

Under the CIT Law and implementing regulations issued by the State Council, PRC income tax at the rate of 10% is applicable to dividends payable to investors that are non-resident enterprises , which do not have an establishment or place of business in the PRC, or which have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such dividends have their sources within the PRC. Similarly, any gain realized on the transfer of ADSs or shares by such investors is also subject to 10% PRC income tax if such gain is regarded as income derived from sources within the PRC. However, under a new PRC tax law that became effective in January 2008 and the *Arrangement between the PRC and the Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion*, or the Double Taxation Arrangement, which became effective on January 1, 2007, dividends from our PRC subsidiaries paid to us through our Hong Kong subsidiary may be subject to a withholding tax at a rate of 5%. If we are considered a PRC resident enterprise , it is unclear whether dividends we pay with respect to our ordinary shares or ADSs, or the gain you may realize from the transfer of our ordinary shares or ADSs, may be treated as income derived from sources within the PRC and would be subject to PRC tax. It is unclear whether, if we are considered a PRC resident enterprise , holders of our ordinary shares or ADSs might be able to claim the benefit of income tax treaties entered into between the PRC and other countries.

United States federal income taxation

The following discussion describes certain material U.S. federal income tax considerations under present law of the ownership and disposition of the ADSs or our ordinary shares. This summary applies only to investors that hold the ADSs or ordinary shares as capital assets and that have the U.S. dollar as their functional currency. This discussion is based on the tax laws of the United States as in effect on the date of this Registration Statement and on U.S. Treasury regulations in effect, or, in some cases, proposed, as of the date of this Registration Statement, as well as judicial and administrative interpretations thereof available on or before such date. All of the foregoing authorities are subject to change, which change could apply retroactively and could affect the tax consequences described below.

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The following discussion does not deal with the tax consequences to any particular investor or to persons in special tax situations, including, without limitation:

- Banks and certain other financial institutions;
- Dealers in securities or currencies;
- Insurance companies, regulated investment companies and real estate investment trusts;
- Brokers and/or dealers;
- Traders that elect the mark-to-market method of accounting;
- Tax-exempt entities;
- Persons liable for alternative minimum tax;
- Persons holding an ADS or ordinary shares as part of a straddle, hedging, constructive sale, conversion transaction or integrated transaction;
- Persons that actually or constructively own 10% or more of our voting stock; or
- Persons holding ADSs or ordinary shares through partnerships or other pass-through entities.

The discussion below of the U.S. federal income tax consequences to U.S. Holders will apply if you are the beneficial owner of ADSs or ordinary shares and you are, for U.S. federal income tax purposes,

- A citizen or resident of the United States;

- A corporation or other entity taxable as a corporation for U.S. federal income tax purposes organized under the laws of the United States, any state thereof or the District of Columbia (or treated as such for U.S. federal income tax purposes);

- An estate whose income is subject to United States federal income taxation regardless of its source; or

- A trust that (1) is subject to the supervision of a court within the United States and the control of one or more United States persons or (2) has a valid election in effect under applicable U.S. Treasury regulations to be treated as a United States person.

If a partnership (including any entity that is treated as a partnership for U.S. federal income tax purposes) holds ADSs or ordinary shares, the tax treatment of a partner in such partnership will depend on the status of the partner and the activities of the partnership. If you are a partner of a partnership holding ADSs or ordinary shares, you should consult your own tax advisors.

The discussion below assumes that the representations contained in the deposit agreement are true and that the obligations in the deposit agreement and any related agreement will be complied with in accordance with their terms. If you hold ADSs, for U.S. federal income tax purposes, you generally will be treated as the owner of the underlying ordinary shares represented by such ADSs. Accordingly, the conversion of ADSs into ordinary shares will not be subject to U.S. federal income tax.

Taxation of dividends and other distributions on ADSs or ordinary shares

Subject to the passive foreign investment company, or PFIC, rules discussed below, the gross amount of our distributions to you with respect to our ADSs or ordinary shares will be included in your gross income as dividend income on the date of receipt either by the depositary, in the case of ADSs, or by you, in the case of ordinary shares, but only to the extent that the distribution is paid out of our current or accumulated earnings and profits (computed under U.S. federal income tax principles). The dividends will not be eligible for the dividends-received deduction allowed to corporations in respect of dividends received from other U.S. corporations.

With respect to non-corporate U.S. Holders, including individual U.S. Holders, under current law, dividends generally may be taxed at the applicable long-term capital gains rate (qualified dividend income) provided that (1) the ADSs or ordinary shares are readily tradable on an established securities market in the United States; (2) we are not a PFIC (as discussed below) for either our taxable year in which the dividend was paid or the preceding taxable year; and (3) certain holding period requirements are met. Under published Internal Revenue Service guidance, our ADSs should be considered for purpose of clause (1) above to be readily tradable on an established securities market in the United States upon listing on the New York Stock Exchange. You should consult your own tax advisors regarding the applicable rate for dividends paid with respect to our ADSs or ordinary shares. The preferential tax rate for qualified dividend income is scheduled to expire on December 31, 2012.

In general, dividends will constitute foreign source income for foreign tax credit limitation purposes. Subject to the discussion below concerning the CIT Law, a U.S. Holder may be eligible, subject to a number of complex limitations, to claim a foreign tax credit with respect to any foreign withholding taxes on dividends received on our ADSs or ordinary shares. A U.S. Holder

that does not elect to claim a foreign tax credit for foreign income tax withheld may instead claim a deduction with respect to such withheld taxes, but only for a year in which such holder elects to do so for all creditable foreign income taxes. The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. For this purpose, dividends distributed by us with respect to ADSs or ordinary shares will generally constitute passive category income but could, in the case of certain U.S. Holders, constitute general category income.

If we are treated as a resident enterprise for PRC tax purposes, we may be required under the CIT Law to withhold PRC income taxes on any dividends paid to U.S. Holders of our ADSs or ordinary shares. For more information regarding the CIT Law, see People s Republic of China taxation. U.S. Holders should consult their own tax advisors regarding the availability of, and limitations on, foreign tax credits with respect to any PRC withholding taxes on dividends received on our ADSs or ordinary shares.

To the extent that the amount of the distribution exceeds our current and accumulated earnings and profits, it will be treated first as a tax-free return of your tax basis in your ADSs or ordinary shares, and to the extent the amount of the distribution exceeds your tax basis, the excess will be taxed as capital gain. We do not intend to calculate our earnings and profits for U.S. federal income tax purposes. Therefore, a U.S. Holder should expect that a distribution with respect to our ADSs or ordinary shares will be reported as a dividend.

Taxation of disposition of ADSs or ordinary shares

Subject to the PFIC rules discussed below, you will recognize taxable gain or loss on any sale, exchange or other taxable disposition of an ADS or an ordinary share equal to the difference between the amount realized (in U.S. dollars) for the ADS or the ordinary share and your adjusted tax basis (in U.S. dollars) in the ADS or the ordinary share. The gain or loss will be capital gain or loss. If you are a non-corporate U.S. Holder, including an individual U.S. Holder, who has held the ADS or ordinary share for more than one year, you will be eligible for long-term capital gains tax rates. The deductibility of capital losses is subject to limitations. Any gain or loss that you recognize, including for foreign tax credit purposes, will be treated as United States source income or loss.

Passive foreign investment company

Based on the market value of our ADSs and ordinary shares, the composition of our assets and income and our operations, we believe that for our taxable year ended December 31, 2011, we were not a PFIC for U.S. federal income tax purposes. However, our PFIC status for the current taxable year ending December 31, 2012 will not be determinable until the close of the current taxable year ending December 31, 2012, and, accordingly, there is no guarantee that we will not be a PFIC for the current taxable year.

A non-U.S. corporation is considered a PFIC for any taxable year if either:

- At least 75% of its gross income is passive income (the income test), or

- At least 50% of the value of its assets (generally based on an average of the quarterly values of the assets during a taxable year) is attributable to assets that produce or are held for the production of passive income (the asset test).

We will be treated as owning our proportionate share of the assets and earning our proportionate share of the income of any other corporation in which we own, directly or indirectly, more than 25% (by value) of the stock. In applying this look-through rule, we intend to include our proportionate share of the assets and income of our VIEs. In the event that the Internal Revenue Service successfully challenges this position, our classification as a non-PFIC could be adversely affected.

A separate determination must be made each year as to whether we are a PFIC. As a result, our PFIC status may change. In particular, because we currently hold a substantial amount of cash or cash equivalents, which are generally treated as passive assets, and because the calculation of the value of our assets for purposes of the asset test generally will take into account the market price of our ADSs, which is likely to fluctuate (and may fluctuate considerably given that market prices of technology companies have been especially volatile), fluctuations in the market price of the ADSs may result in our being a PFIC for any taxable year. If we are a PFIC for any year during which you hold ADSs or ordinary shares, we generally will continue to be treated as a PFIC for all succeeding years during which you hold ADSs or ordinary shares.

If we are a PFIC for any taxable year during which you hold ADSs or ordinary shares, you will be subject to special tax rules with respect to any excess distribution that you receive and any gain you realize from a sale or other disposition (including a pledge) of the ADSs or ordinary shares, unless you make a mark-to-market election as discussed below. Distributions you receive in a taxable year that are greater than 125% of the average annual distributions you received during the shorter of the three preceding taxable years or your holding period for the ADSs or ordinary shares will be treated as an excess distribution. Under these special tax rules:

- The excess distribution or gain will be allocated ratably over your holding period for the ADSs or ordinary shares,

- The amount allocated to the current taxable year, and any taxable year prior to the first taxable year in which we became a PFIC, will be treated as ordinary income, and

- The amount allocated to each other year will be subject to the highest tax rate in effect for that year and the interest charge generally applicable to underpayments of tax will be imposed on the resulting tax attributable to each such year.

The tax liability for amounts allocated to years prior to the year of disposition, or excess distribution, cannot be offset by any net operating losses for such years, and gains (but not losses) realized on the sale of the ADSs or ordinary shares cannot be treated as capital and will be subject to the excess distribution regime described above, even if you hold the ADSs or ordinary shares as capital assets.

A U.S. Holder of marketable stock (within the meaning of Section 1296 of the Internal Revenue Code of 1986, as amended, or the Code) in a PFIC may make a mark-to-market election for such stock of a PFIC to elect out of the excess distribution and gain recognition treatment discussed in the preceding paragraphs. If you make a mark-to-market election for the ADSs or ordinary shares, you will include in income each year an amount equal to the excess, if any, of the fair market value of the ADSs or ordinary shares as of the close of your taxable year over your adjusted basis in such ADSs or ordinary shares. You are allowed a deduction for the excess, if any, of the adjusted basis of the ADSs or ordinary shares over their fair market value as of the close of the taxable year. However, deductions are allowable only to the extent of any net mark-to-market gains on the ADSs or ordinary shares included in your income for prior taxable years. Amounts included in your income under a mark-to-market election, as well as gain on the actual sale or other disposition of the ADSs or ordinary shares, are treated as ordinary income. Ordinary loss treatment also applies to the deductible portion of any mark-to-market loss on the ADSs or ordinary shares, as well as to any loss realized on the actual sale or disposition of the ADSs or ordinary shares, to the extent that the amount of such loss does not exceed the net mark-to-market gains previously included for such ADSs or ordinary shares. Your basis in the ADSs or ordinary shares will be adjusted to reflect any such income or loss amounts. The tax rules that apply to distributions by corporations which are not PFICs would apply to distributions by us.

The mark-to-market election is available only for marketable stock that is traded in other than de minimis quantities for at least 15 days during each calendar quarter on a qualified exchange, including the New York Stock Exchange, or other market, as defined in applicable U.S. Treasury regulations. Because the ADSs will be listed on the New York Stock Exchange, the mark-to-market election would be available to a holder of ADSs if we were to be or become a PFIC, as long as our stock is traded in other than de minimis quantities for at least 15 days during each calendar quarter.

Alternatively, the excess distribution rules described above may generally be avoided by electing to treat us as a qualified electing fund under Section 1295 of the Code. This option is not available to you, however, because we do not intend to comply with the requirements necessary to permit you to make this election.

If you hold ADSs or ordinary shares in any year in which we were a PFIC, you will be required to file Internal Revenue Service Form 8621 regarding any distributions received on the ADSs or ordinary shares and any gain realized on the disposition of the ADSs or ordinary shares, and additional reporting requirements may apply.

You should consult with your tax advisors regarding the U.S. federal income tax consequences of holding ADSs or ordinary shares if we are considered to be a PFIC in any taxable years as well as your eligibility for a mark-to-market election and whether making such an election would be advisable to you in your particular circumstances.

Information reporting and backup withholding

Dividend payments with respect to ADSs or ordinary shares and proceeds from the sale, exchange or redemption of ADSs or ordinary shares may be subject to information reporting to the Internal Revenue Service and possible U.S. backup withholding at a current rate of 28%, which rate is scheduled to increase to 31% for payments made on or after January 1, 2013. Backup withholding will not apply, however, to a U.S. Holder who furnishes a correct taxpayer identification number and makes any other required certification, or who is otherwise exempt from backup withholding. U.S. Holders who are required to establish their exempt status must provide such certification on Internal Revenue Service Form W-9. U.S. Holders should consult their tax advisors regarding the application of the United States information reporting and backup withholding rules.

Backup withholding is not an additional tax. Amounts withheld as backup withholding may be credited against your U.S. federal income tax liability, and you generally may obtain a refund of any excess amounts withheld under the backup withholding rules by timely filing the appropriate claim for refund with the Internal Revenue Service and furnishing any required information.

YOU SHOULD CONSULT WITH YOUR OWN TAX ADVISORS REGARDING THE APPLICATION OF THE U.S. FEDERAL INCOME TAX LAWS TO YOUR PARTICULAR CIRCUMSTANCES, AS WELL AS ANY ADDITIONAL TAX CONSEQUENCES RESULTING FROM AN INVESTMENT IN THE ADSs OR ORDINARY SHARES, INCLUDING THE APPLICABILITY AND EFFECT OF THE TAX LAWS OF ANY STATE, LOCAL OR FOREIGN JURISDICTION, INCLUDING ESTATE, GIFT AND INHERITANCE LAWS.

F. Dividends and Paying Agents

Not applicable.

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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 18th Floor, Building A, Chengjian Plaza, No.18, BeiTaiPingZhuang Road, Haidian District, Beijing 100088, People s Republic of China.

In addition, we previously filed with the SEC our registration statement on Form F-1 (Registration No. 333-168096, as amended) and prospectus under the Securities Act of 1933, with respect to our ordinary shares. We have also filed with the SEC a related registration statement on F-6 (Registration No. 333-168238) to register the ADSs.

We are subject to the periodic reporting and other informational requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Under the Exchange Act, we are required to file reports and other information with the SEC. Specifically, we are required to file annually a Form 20-F within four months after the close of each fiscal year. Copies of reports and other information, when so filed, may be inspected without charge and may be obtained at prescribed rates at the public reference facilities maintained by the Securities and Exchange Commission at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. The public may obtain information regarding the Washington, D.C. Public Reference Room by calling the Commission at 1-800-SEC-0330. The SEC also maintains a web site at www.sec.gov that contains reports, proxy and information statements, and other information regarding registrants that make electronic filings with the SEC using its EDGAR system. As a foreign private issuer, we are exempt from the rules under the Exchange Act prescribing the furnishing and content of quarterly reports and proxy statements, and officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act.

I. Subsidiary Information

See Item 4.C Information on the Company Organizational Structure for information about our subsidiaries.

Item 11. Quantitative and Qualitative Disclosures About Market Risk

Interest rate risk. The primary objective of our investment activities is to preserve principal while maximizing the income we receive from our investments without significantly increasing the risk of loss. We currently invest in time deposits. As such, we are exposed to minimal market risks associated with interest rate changes. Our current cash management policy does not allow us to purchase or hold derivative or commodity

instruments or other financial instruments for trading purposes.

At December 31, 2009, 2010 and 2011, we had RMB275 million, RMB 233.1 million and RMB 180.6 million (US $28.7 million), respectively, of borrowings outstanding. The interest rates on our borrowings are variable and adjust periodically based on the PBOC s base lending rate. A hypothetical 10% increase in interest rates in 2011 would have resulted in an increase of approximately RMB 1.4 million (US $0.2 million) in our interest expense for 2011.

Foreign exchange risk. Substantially all of our revenues and most of our expenses are denominated in RMB. Our exposure to foreign exchange risk primarily relates to cash and cash equivalents denominated in U.S. dollars as a result of our past issuances of preferred shares through private placements and proceeds from our IPO. We do not believe that we currently have any significant direct foreign exchange risk and have not hedged exposures denominated in foreign currencies or any other derivative financial instruments. Although in general, our exposure to foreign exchange risks should be limited, the value of an investment in our ADSs will be affected by the foreign exchange rate between U.S. dollars and RMB because the value of our business is effectively denominated in RMB, while the ADSs are traded in U.S. dollars.

The value of the RMB against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in China s political and economic conditions. The conversion of RMB into foreign currencies, including U.S. dollars, has been based on rates set by the People s Bank of China. 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 People s Bank of China announced it has decided to proceed further with reform of the RMB exchange regime and to enhance the RMB exchange rate flexibility. In 2010, the appreciation of the RMB against the U.S. dollar reached 3.0% in total. There remains significant international pressure on the PRC government to adopt an even more flexible currency policy, which could result in a further and more significant appreciation of the RMB against the U.S. dollar. To the extent that we need to convert U.S. dollar denominated financial assets into RMB for our operations, appreciation of the RMB against the U.S. dollar would have an adverse effect on the RMB amount we receive from the conversion. We have not used any forward contracts or currency borrowings to hedge our exposure to foreign currency exchange risk. A hypothetical 10% appreciation of the RMB against the U.S. dollar would have resulted in a decrease of approximately RMB2.3 million (US$ 0.4 million) in the value of our U.S. denominated cash and cash equivalents as of December 31, 2011.

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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.

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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, 2011, we have accrued US$140,300.5 to be received from Citibank, the depositary bank for our ADS program.

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PART II

Item 13. Defaults, Dividend Arrearages and Delinquencies

Not applicable.

Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds

None.

Item 15. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company s management, under the supervision and with the participation of its Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2011, the end of the period covered by this Report. The term disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports, such as this Form 20-F, that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company s management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company s disclosure controls and procedures were not effective as of December 31, 2011.

The Company s disclosure controls and procedures are designed to provide reasonable, not absolute, assurance that the objectives of its disclosure control system are met. Because of inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, if any, within a company have been detected.

Management s Annual Report on Internal Control over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) promulgated under the Exchange Act) . Internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. GAAP, and that our receipts and expenditures are being made only in accordance with authorizations of our management or our board of directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on our interim or annual consolidated financial statements.

The Company s management, with the participation of the Company s Chief Executive Officer and Chief Financial Officer assessed the effectiveness of the Company s internal control over financial reporting as of the end of the most recent fiscal year, December 31, 2011. In making this assessment, the Company s management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control-Integrated Framework*. Based on its assessment,

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the Chief Executive Officer and Chief Financial Officer concluded that the Company s internal controls over financial reporting were not effective as of December 31, 2011 and that the following material weaknesses in internal control over financial reporting existed as of December 31, 2011:

- The Company s oversight of complex transactions is not effective. Specifically, the analysis by management of certain transactions and the supporting documentation generated are not sufficiently detailed and timely provided to allow the Board of Directors to effectively review and approve the transactions. In addition, communication between the Company s commercial and finance departments is not sufficient to ensure that these transactions are appropriately accounted for.

- The Company did not have sufficient personnel with appropriate levels of accounting knowledge and experience to address the high volume of U.S. GAAP accounting issues and to prepare and review financial statements and related disclosures under U.S. GAAP, including, amongst other things, material adjustments to revenue were not identified on a timely basis.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company s annual or interim financial statements will not be prevented or detected on a timely basis. The above material weaknesses could result in misstatements of accounting for significant transactions and certain financial statement accounts, including, but not limited to, the aforementioned accounts and disclosures that would result in a material misstatement in the Company s annual or interim consolidated financial statements that would not be prevented or detected in a timely manner.

Attestation Report of the Registered Public Accounting Firm

The effectiveness of the Company s internal control over financial reporting as of December 31, 2011 has been audited by PricewaterhouseCoopers Zhong Tian CPAs Limited Company, an independent registered public accounting firm, as stated in their report which is included in Page F-2 of this Annual Report.

Previously Identified Material Weakness

As of December 31, 2011, the Company has made some improvements to address a material weakness in internal control over financial reporting that was included in Item 15 Controls and Procedures contained in the Company s Annual Report on Form 20-F for the fiscal year ended December 31, 2010.

The Company has:

- Recruited more people with sufficient knowledge of U.S. GAAP including but not limited to hiring employees who are qualified Certified Public Accountants registered in the United States to be responsible for understanding and addressing U.S. GAAP issues;

- Provided more trainings on U.S. GAAP to accounting and other relevant personnels; and

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- Established an internal control compliance team with Sarbanes-Oxley Section 404 experience to strengthen internal controls over financial reporting.

The Company s improvements were under the direction of its Chief Executive Officer and Chief Financial Officer. The status of the improvements was reviewed by the audit committee of the board of directors of the Company, who were advised of issues encountered and key decisions made by the management.

Remediation of Existing Material Weaknesses

In order to address the material weaknesses identified as of December 31, 2011, the Company plans to:

- Enforce an enhanced documentation policy to assist the formal sign-off of all significant transactions prior to execution;
- Maintain responsibility for all accounting decisions for unusual and non-routine transactions above a certain threshold in one central location and ensure that documentation is reviewed by the appropriate individuals with significant U.S. GAAP experience before a significant decision or accounting judgement is made;
- Strengthen the level of communication between the commercial departments of the Company and the finance department to ensure that all aspects of a proposed transaction are clearly communicated to the finance department for assessment in advance.
- Provide sufficient training to the finance staff so that they can conduct and document appropriate research prior to making accounting decisions, especially for new or complex transactions; and
- Thoroughly evaluate the staffing needs in all areas of finance to ensure that staff sizes are appropriate given the Company s risks, continue to hire more people with sufficient knowledge of U.S. GAAP to be responsible for understanding and addressing U.S. GAAP issues across the group.

Management believes that the measures described above will satisfactorily address the referenced material weaknesses. Under the direction of the Audit Committee, management will continue to review and make necessary changes to the system of internal controls and the control environment, as well as policies and procedures to improve the overall effectiveness of internal control over financial reporting.

Notwithstanding the conclusion that its internal control over financial reporting was not effective as of the end of the period covered by this report, our Chief Executive Officer and Chief Financial Officer believe that the financial statements and other information contained in this report present fairly, in all material respects, its financial condition, results of operations and cashflows. Nothing has come to the attention of management that causes them to believe that any material inaccuracies or errors exist in the Company s financial statements as of December 31, 2011.

Changes in Internal Control over Financial Reporting

Other than as described above, there were no changes in our internal controls over financial reporting identified in connection with the evaluation required by Rules 13a-15 or 15d-15 that occurred during the period covered by this annual report that has materially affected, or is reasonably likely to materially affect our internal control over financial reporting.

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Limitations on the Effectiveness of Controls

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures or internal control over financial reporting will prevent or detect all errors and all fraud. A control system cannot provide absolute assurance due to its inherent limitations; it is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. A control system also can be circumvented by collusion or improper management override. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of such limitations, disclosure controls and procedures and internal control over financial reporting cannot prevent or detect all misstatements, whether unintentional errors or fraud. However, these inherent limitations are known features of the financial reporting process, therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

Item 16A. Audit Committee Financial Expert

Our board of directors has determined that Daniel Phillips, an independent director (under the standards set forth in Section 303A of the NYSE Listed Company Manual and Rule 10A-3 under the Exchange Act) and the chairman of our audit committee, 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.com.

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 PricewaterhouseCoopers Zhong Tian CPAs Limited Company, our independent registered public accounting firm, for the periods indicated. We did not pay any other fees to our independent registered public accounting firm during the periods indicated below.

	For the year ended December 31,	
	2010	2011
	(U.S. dollars in thousands)	
Audit fees(1)	1,468	2,383

Tax fees(2)	201	64
Other (3)	61	238
Total fees	1,730	2,685

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(1) 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.

(2) Tax fees represents the aggregated fees billed for professional services rendered by our independent registered public accounting firm for tax compliance, tax advice, and tax planning.

(3) Other represents the aggregated fees billed for professional services rendered by our independent registered public accounting firm for permissible services to review and comment on internal control design over financial reporting.

The policy of our audit committee is to pre-approve all audit and non-audit services provided by PricewaterhouseCoopers Zhong Tian CPAs Limited Company, including audit services, audit-related services, tax services and other services as described above, other than those for *de minimis* services which are approved by the audit committee prior to the completion of the audit.

Item 16D. Exemptions from the Listing Standards for Audit Committees

Not applicable.

Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers

Not applicable.

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Item 16F. Change in Registrant s Certifying Accountant

Not applicable.

Item 16G. Corporate Governance

As a foreign private issuer, we are permitted to follow corporate governance practices in accordance with Cayman Islands law in lieu of most of the NYSE corporate governance rules in the NYSE Listed Company Manual, or the NYSE Standards. As a result, our corporate governance practices differ in some respects from those required to be followed by U.S. companies listed on the New York Stock Exchange.

The significant differences between our corporate governance practices and those required to be followed by U.S. companies under the New York Stock Exchange s listing standards include:

The NYSE Standards require U.S. domestic issuers to have a nominating/corporate governance committee composed entirely of independent directors. We are not be subject to this requirement, and we do not intend to establish a nominating/corporate governance committee. We believe that the composition of our board and its committees and their respective duties and responsibilities are otherwise generally responsive to the relevant NYSE Standards applicable to U.S. domestic issuers. However, the charters for our audit and compensation committees may not address all aspects of the NYSE Standards applicable to US domestic issuers.

The NYSE Standards require compensation committees of U.S. domestic issuers to produce a compensation committee report annually and include such report in their annual proxy statements or annual reports on Form 10-K. We are not subject to this requirement, and we have not addressed this in our compensation committee charter.

The NYSE Standards require shareholder approval for certain matters, such as requiring that shareholders must be given the opportunity to vote on all equity compensation plans and material revisions to those plans. We intend to comply with the requirements of Cayman Islands law in determining whether shareholder approval is required on such matters.

Item 16H. Mine Safety Disclosure

Not applicable.

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PART III

Item 17. Financial Statements

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

Item 18. Financial Statements

The consolidated financial statements of Ambow Education Holding Ltd. are included at the end of this annual report.

Item 19. Exhibits

Exhibit No.	Description
1.1	Amended and Restated Memorandum and Articles of Association (incorporated by reference to Exhibit 3.2 of our F-1 registration statement (File No. 333- 168096), as amended, initially filed with the Commission on July 14, 2010 (the **F-1 Registration Statement**)
2.1	Specimen American Depositary Receipt (incorporated by reference to Exhibit (a) of our F-6 registration statement (File No. 333-168238), initially filed with the Commission on July 21, 2010 (the **F-6 Registration Statement**)
2.2	Specimen Certificate for Class A Ordinary Shares (incorporated by reference to Exhibit 4.2 of the F-1 Registration Statement)
2.3	Form of Deposit Agreement among the Company, the depositary and holders of the American Depositary Receipts (incorporated by reference to Exhibit (a) of the F-6 Registration Statement)
2.4	Third Amended and Restated Investor Rights Agreement, among the Company and the other parties therein (incorporated by reference to Exhibit 4.4 of the F-1 Registration Statement)
2.5	Registration Rights Agreement, dated as of October 26, 2011, by and among Campus Holdings Limited, Spin-Rich Ltd., Dr. Jin Huang and Ambow Education Holding Ltd.*
4.1	2005 Stock Plan (incorporated by reference to Exhibit 10.1 of the F-1 Registration Statement)
4.2	2010 Equity Incentive Plan (incorporated by reference to Exhibit 10.2 of the F-1 Registration Statement)
4.3	Form of Indemnification Agreement with the Company s directors and executive officers (incorporated by reference to Exhibit 10.3 of the F-1 Registration Statement)
4.4	English Translation of Lease Agreement by and between Beijing Ambow Online Software Co., Ltd. and Beijing Chengjian Real Estate Co., Ltd., dated December 27, 2005 and amended August 13, 2007 (incorporated by reference to Exhibit 10.4 of the F-1 Registration Statement)
4.5	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)
4.6	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)
4.7	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)
4.8	English Translation of Powers of Attorney, each dated April 26, 2007 (incorporated by reference to Exhibit 10.8 of the F-1 Registration Statement)
4.9	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)
4.10	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)
4.11	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)
4.12	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)
4.13	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)
4.14	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)
4.15	English Translation of Call Option Agreement by and between Beijing Ambow Online Software Co., Ltd. and

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Exhibit No.	Description
	Xiaogang Feng, dated March 4, 2010 (incorporated by reference to Exhibit 10.15 of the F-1 Registration Statement)
4.16	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)
4.17	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)
4.18	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)
4.19	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)
4.20	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)
4.21	English Translation of Powers of Attorney, each dated October 31, 2009 (incorporated by reference to Exhibit 10.21 of the F-1 Registration Statement)
4.22	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)
4.23	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)
4.24	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)
4.25	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)
4.26	English Translation of Powers of Attorney, each dated February 25, 2009 (incorporated by reference to Exhibit 10.26 of the F-1 Registration Statement)
4.27	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)
4.28	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)
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*
15.1	Consent of PricewaterhouseCoopers Zhong Tian CPAs Limited Company*
15.2	Consent of Commerce & Finance Law Offices*
**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 Document

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

** XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of Section 18 of the Securities

Exchange Act of 1934, and otherwise is not subject to liability under these sections.

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SIGNATURE

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

AMBOW EDUCATION HOLDING LTD.
(Registrant)

By: /s/ Jin Huang

Dr. Jin Huang
President and Chief Executive Officer

Date: May 29, 2012

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AMBOW EDUCATION HOLDING LTD.

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Ambow Education Holding Ltd.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of changes in shareholders equity and comprehensive income and of cash flows present fairly, in all material respects, the financial position of Ambow Education Holding Ltd. and its subsidiaries (the Company) at December 31, 2011 and December 31, 2010, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2011 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company did not maintain, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)* because material weaknesses in internal control over financial reporting in relation to both the inadequate oversight over complex transactions and insufficient personnel with appropriate levels of accounting knowledge and experience to address the high volume of U.S. GAAP accounting issues and to prepare and review financial statements and related disclosures under U.S. GAAP existed as of that date. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis. The material weaknesses referred to above are described in Management s Annual Report on Internal Control Over Financial Reporting appearing under Item 15. We considered these material weaknesses in determining the nature, timing, and extent of audit tests applied in our audit of the 2011 consolidated financial statements, and our opinion regarding the effectiveness of the Company s internal control over financial reporting does not affect our opinion on those consolidated financial statements. The Company s management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in Management s Annual Report on Internal Control over Financial Reporting appearing under Item 15. Our responsibility is to express an opinion on these financial statements and on the Company s internal control over financial reporting based on our integrated audits (which was an integrated audit in 2011). We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s 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 the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting 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.

/s/ PricewaterhouseCoopers Zhong Tian CPAs Limited Company

Beijing, the People s Republic of China

May 29, 2012

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AMBOW EDUCATION HOLDING LTD.

CONSOLIDATED BALANCE SHEETS

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

	Note	2010 RMB	As of December 31, 2011 RMB	2011 US$ Note 2(a)
ASSETS				
Current assets:				
Cash and cash equivalents		869,300	470,682	74,784
Restricted cash			2,200	350
Term deposits		59,200	46,205	7,341
Accounts receivable, net	3	48,287	108,247	17,199
Amounts due from related parties	23	150,182	66,521	10,569
Deferred tax assets	17	7,916	17,126	2,721
Prepaid and other current assets	4	528,897	574,123	91,219
Assets classified as held for sale	24		384,401	61,075
Total current assets		1,663,782	1,669,505	265,258
Non-current assets:				
Property and equipment, net	5	673,341	789,016	125,362
Land use rights, net	6	257,445	243,737	38,726
Intangible assets, net	7	529,979	512,047	81,356
Goodwill	8	1,000,555	1,159,386	184,207
Deferred tax assets	17	4,315	4,800	763
Non-current amounts due from related parties	23		22,463	3,569
Other non-current assets	9	109,080	319,673	50,791
Total non-current assets		2,574,715	3,051,122	484,774
Total assets		4,238,497	4,720,627	750,032
LIABILITIES				
Current liabilities:				
Short-term borrowings	11	118,070	118,070	18,759
Current portion of long-term borrowings	12	61,000	16,000	2,542
Deferred revenue		446,084	456,189	72,481
Accounts payable		39,568	51,896	8,245
Accrued and other liabilities	10	303,666	482,476	76,658
Income taxes payable		89,521	132,406	21,037
Amounts due to related parties	23	13,493	47,531	7,552
Liabilities classified as held for sale	24		145,169	23,065
Total current liabilities		1,071,402	1,449,737	230,339
Non-current liabilities:				
Deferred tax liabilities	17	154,793	154,368	24,527
Long-term borrowings	12	54,000	46,500	7,388
Non-current portion of consideration payable for acquisitions and other liabilities		225,309	303,559	48,231
Total non-current liabilities		434,102	504,427	80,146
Total liabilities		1,505,504	1,954,164	310,485

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

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AMBOW EDUCATION HOLDING LTD.

CONSOLIDATED BALANCE SHEETS (CONTINUED)

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

	Note	Years ended December 31, 2010 RMB	2011 RMB	2011 US$ Note 2(a)
Commitments and contingencies	19			
SHAREHOLDERS EQUITY				
Class A ordinary shares				
(US$0.0001 par value; 1,000,000,000 and 1,000,000,000 shares authorized, 21,354,414 and 49,088,096 shares issued and outstanding as of December 31, 2010 and 2011, respectively)	14	14	15	2
Class B ordinary shares				
(US$0.0001 par value; 200,000,000 and 200,000,000 shares authorized, 121,212,562 and 95,392,968 shares issued and outstanding as of December 31, 2010 and 2011, respectively)	14	87	87	14
Additional paid-in capital		2,463,238	2,498,162	396,918
Statutory reserve	21	71,759	122,199	19,415
Warrants	15		1,219	194
Retained earnings		140,672	111,417	17,703
Accumulated other comprehensive income (deficit)		4,181	(21,517)	(3,419)
Total Ambow Education Holding Ltd. s equity		2,679,951	2,711,582	430,827
Non-controlling interest	25	53,042	54,881	8,720
Total shareholders equity		2,732,993	2,766,463	439,547
Total liabilities and shareholders equity		4,238,497	4,720,627	750,032

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

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AMBOW EDUCATION HOLDING LTD.

CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Note	Years ended December 31, 2009 RMB	2010 RMB	2011 RMB	2011 US$ Note 2(a)
NET REVENUES					
- Educational program and services		613,611	1,002,458	1,321,141	209,908
- Software products		123,104	214,663	348,071	55,303
Total net revenues		736,715	1,217,121	1,669,212	265,211
COST OF REVENUES					
- Educational program and services		(346,092)	(513,083)	(684,638)	(108,778)
- Software products		(10,750)	(13,721)	(30,694)	(4,877)
Total cost of revenues		(356,842)	(526,804)	(715,332)	(113,655)
GROSS PROFIT		379,873	690,317	953,880	151,556
Operating expenses:					
Selling and marketing		(127,688)	(235,683)	(353,425)	(56,154)
General and administrative		(136,466)	(220,602)	(329,913)	(52,418)
Research and development		(16,968)	(27,553)	(39,541)	(6,282)
Impairment loss	8			(25,336)	(4,025)
Total operating expenses		(281,122)	(483,838)	(748,215)	(118,879)
OPERATING INCOME		98,751	206,479	205,665	32,677
OTHER INCOME (EXPENSE)					
Interest expenses		(13,184)	(20,942)	(31,354)	(4,982)
Interest income		6,157	10,238	6,751	1,073
Foreign exchange losses, net		(591)	(3,711)	(5,343)	(849)
Other income, net		3,488	2,275	2,312	367
INCOME BEFORE INCOME TAX, NON-CONTROLLING INTEREST, AND DISCONTINUED OPERATIONS		94,621	194,339	178,031	28,286
Income tax expense	17	(2,772)	(37,635)	(42,231)	(6,710)
INCOME FROM CONTINUING OPERATIONS		91,849	156,704	135,800	21,576
Income (loss) from and (loss) on sale of discontinued operations, net of income tax	24	46,172	54,995	(119,581)	(19,000)
NET INCOME		138,021	211,699	16,219	2,576
Non-controlling interest		215	4,333	4,966	789
NET INCOME ATTRIBUTABLE TO AMBOW EDUCATION HOLDING LTD.		138,236	216,032	21,185	3,365
Preferred shares redemption value accretion	13	(157,877)	(94,209)		
Allocation of net income to participating preferred shareholders	13	(93,611)	(55,534)		

NET INCOME (LOSS) ATTRIBUTABLE TO ORDINARY SHAREHOLDERS		(113,252)	66,289	21,185	3,365
Net income (loss) from continuing operations per share basic	18	(4.07)	0.13	0.98	0.16
Net income (loss) from continuing operations per share diluted	18	(4.07)	0.14	0.94	0.15
Net income (loss) from discontinued operations per share basic	18	1.18	0.64	(0.84)	(0.13)
Net income (loss) from discontinued operations per share diluted	18	1.18	0.49	(0.79)	(0.13)
Weighted average shares used in calculating basic net income (loss) per share	18	39,193,092	85,551,412	142,939,038	142,939,038
Weighted average shares used in calculating diluted net income (loss) per share	18	39,193,092	112,122,045	150,432,812	150,432,812
Share-based compensation expense included in:					
- Selling and marketing		4,411	7,204	7,286	1,158
- General and administrative		8,640	26,029	25,220	4,007
- Research and development		480	981	842	134

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

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AMBOW EDUCATION HOLDING LTD.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

AND COMPREHENSIVE INCOME (DEFICIT) (CONTINUED)

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

		Attributable to Ambow Education Holding Ltd s Equity										
		Series A Convertible Preferred Shares		Series B Convertible Preferred Shares		Ordinary shares (note 14)					Retained Earnings (Accumulated deficit)	Accumulated other comprehensive income
	Note	Shares	Amount RMB	Shares	Amount RMB	Shares	Amount RMB	Additional paid-in capital RMB	Statutory reserves RMB	Warrants RMB	RMB	RMB
Balance as of January 1, 2009		**12,900,000**	**14,283**	**17,745,522**	**96,667**	**33,587,586**	**26**	**188,924**	**16,285**	**2,737**	**(5,485)**	**23,413**
Issuance of ordinary shares for acquisitions	14					11,412,077	9	414,018				
Non-controlling interests from acquisitions of subsidiaries												
Preferred shares redemption value accretion	13										(157,877)	
Share-based compensation	16							13,531				
Appropriation to statutory reserves	21								17,870		(17,870)	
Foreign currency translation adjustment												380
Net income											138,236	
Total comprehensive income												
Balance as of December 31, 2009		**12,900,000**	**14,283**	**17,745,522**	**96,667**	**44,999,663**	**35**	**616,473**	**34,155**	**2,737**	**(42,996)**	**23,793**

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

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AMBOW EDUCATION HOLDING LTD.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

AND COMPREHENSIVE INCOME (DEFICIT) (CONTINUED)

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

		Attributable to Ambow Education Holding Ltd s Equity											
		Series A Convertible Preferred Shares		Series B Convertible Preferred Shares		Ordinary shares (note 14)							
	Note	Shares	Amount RMB	Shares	Amount RMB	Shares	Amount RMB	Additional paid-in capital RMB	Statutory reserves RMB	Warrants RMB	Retained Earnings (Accumulated deficit) RMB	Accumulated other comprehensive income RMB	Non control Intere RMI
Balance as of January 1, 2010		**12,900,000**	**14,283**	**17,745,522**	**96,667**	**44,999,663**	**35**	**616,473**	**34,155**	**2,737**	**(42,996)**	**23,793**	**56**
Issuance of ordinary shares on IPO	14					16,221,568	10	422,903					
Exercise of warrants	15					590,193	1	2,736		(2,737)			
Share-based compensation	16							34,214					
Conversion of series A preferred shares	13	(12,900,000)	(14,283)			12,900,000	9	14,274					
Conversion of series B preferred shares	13			(17,745,522)	(96,667)	17,745,522	12	96,655					
Conversion of series C preferred shares	13					23,387,381	16	579,474					
Conversion of series D preferred shares	13					26,722,649	18	792,484					
Expenses related to IPO	13							3,474					
Appropriation to statutory reserves	21								37,604		(37,604)		
Preferred shares redemption value accretion	13							(99,449)			5,240		
Capital injection to Taishidian Holding from minority shareholders													
Foreign currency translation adjustment												(19,612)	
Net income											216,032		(4
Total comprehensive income													

Balance as of December 31, 2010	**142,566,976**	**101**	**2,463,238**	**71,759**	**140,672**	**4,181**	**53**

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

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AMBOW EDUCATION HOLDING LTD.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

AND COMPREHENSIVE INCOME (DEFICIT) (CONTINUED)

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

		Attributable to Ambow Education Holding Ltd s Equity													
		Series A Convertible Preferred Shares		Series B Convertible Preferred Shares		Ordinary shares (note 14)		Additional paid-in capital	Statutory reserves	Warrants	Retained Earnings	Accumulated other comprehensive income(deficit)	Non-controlling Interest	Total Equity	C in
	Note	Shares	Amount RMB	Shares	Amount RMB	Shares	Amount RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	
Balance as of January 1, 2011						**142,566,976**	**101**	**2,463,238**	**71,759**		**140,672**	**4,181**	**53,042**	**2,732,993**	
Issuance of ordinary shares on exercise of options	16					1,914,088	1	2,795						2,796	
Non-controlling interests from acquisitions of subsidiaries													6,805	6,805	
Share-based compensation	16							32,129		1,219				33,348	
Appropriation to statutory reserves	21								50,440		(50,440)				
Foreign currency translation adjustment												(25,698)		(25,698)	
Net income											21,185		(4,966)	16,219	
Total comprehensive income															
Balance as of December 31, 2011						**144,481,064**	**102**	**2,498,162**	**122, 199**	**1,219**	**111,417**	**(21,517)**	**54,881**	**2,766,463**	

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

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AMBOW EDUCATION HOLDING LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	Years ended December 31,			
	2009 RMB	**2010 RMB**	**2011 RMB**	**2011 US$ Note 2(a)**
Cash flows from operating activities				
Net income	138,021	211,699	16,219	2,576
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	68,306	117,388	138,393	21,988
Accretion of long-term payable balances	7,144	10,958	17,150	2,725
Share-based compensation expense	13,531	34,214	33,348	5,299
Bad debt provision	351	458	14,181	2,253
Foreign exchange losses, net	591	3,711	5,343	849
Impairment losses from continuing operations and discontinued operations			152,580	24,243
Deferred tax	(6,265)	(18,619)	(19,855)	(3,155)
Others	1,014	630	1,571	249
Changes in operating assets and liabilities:				
Accounts receivable	391,384	(26,759)	(67,441)	(10,715)
Prepaid and other current assets	33,458	9,321	(335,883)	(53,366)
Amounts due from related parties	24,903	32,144	(8,084)	(1,284)
Other non-current assets	(49,260)	(11,942)	(48,387)	(7,688)
Accounts payable	(121,006)	(51,207)	8,561	1,360
Accrued and other liabilities	27,572	75,873	263,222	41,822
Income tax payable	25,975	41,954	43,343	6,886
Deferred revenue	(39,151)	25,880	62,754	9,971
Amounts due to related parties	6,526	1,211	19,690	3,129
Net cash provided by operating activities	523,094	456,914	296,705	47,142
Cash flows from investing activities				
Proceeds from deposits of restricted cash		10,000		
Deposit for restricted cash			(2,150)	(342)
Placement of term deposits	(129,423)	(67,700)	(58,205)	(9,248)
Maturity of term deposits	11,000	128,123	71,200	11,313
Prepayment for land use right	(6,341)			
Purchase of property and equipment	(84,603)	(119,457)	(284,813)	(45,252)
Proceeds from disposal of property and equipment	213		6,001	954
Purchase of intangible assets	(20,594)	(20,368)	(25,932)	(4,120)
Purchase of subsidiaries (including cash payment in relation to prior acquisitions), net of cash acquired	(626,617)	(91,164)	(90,917)	(14,445)
Prepayments for acquisitions		(283,198)		
Return of prepayments from cancellation of acquisition agreements	69,000	54,000	10,000	1,589
Purchase of operating rights	(15,000)	(2,500)		
Cash balance at disposed entities			(4,481)	(712)
Deposit for leasehold improvements			(65,001)	(10,328)
Deposit for a long-term lease			(53,000)	(8,421)

Others		(100)	2,740	435
Net cash used in investing activities	(802,365)	(392,364)	(494,558)	(78,577)

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

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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,			
	2009 RMB	**2010 RMB**	**2011 RMB**	**2011 US$ Note 2(a)**
Cash flows from financing activities				
Proceeds from issuance of ordinary shares, net of expenses		447,628		
Proceeds from short-term borrowings	201,000	224,070	168,070	26,704
Proceeds from long-term borrowings	10,000	15,500	18,500	2,939
Repayments of short-term borrowings	(129,500)	(219,000)	(168,070)	(26,704)
Repayments of long-term borrowings	(168,000)	(62,500)	(71,000)	(11,281)
Proceeds from issuance of shares upon of exercise of share options			2,684	427
Capital injection from minority shareholders		900	3,600	572
Net cash provided by/(used in) financing activities	(86,500)	406,598	(46,216)	(7,343)
Cash and cash equivalents included in assets held for sale			(139,099)	(22,101)
Effects of exchange rate changes on cash and cash equivalents	(3,127)	(11,774)	(15,450)	(2,455)
Net change in cash and cash equivalents	(368,898)	459,374	(398,618)	(63,334)
Cash and cash equivalents at beginning of year	778,824	409,926	869,300	138,118
Cash and cash equivalents at end of year	409,926	869,300	470,682	74,784
Supplemental disclosure of cash flow information				
Income tax paid	(1,312)	(18,460)	(10,320)	(1,640)
Interest paid	(11,927)	(10,537)	(15,179)	(2,412)
Supplemental disclosure of non-cash investing and financing activities:				
Conversion of Series A convertible redeemable preferred shares into ordinary shares		14,283		
Conversion of Series B convertible redeemable preferred shares into ordinary shares		96,667		
Conversion of Series C convertible redeemable preferred shares into ordinary shares		579,490		
Conversion of Series D convertible redeemable preferred shares into ordinary shares		792,502		
Issuance of ordinary shares for purchases of subsidiaries	414,027			
Issuance of ordinary shares upon exercise of warrants		2,737		
Issuance of share options upon exercise of warrants (Note 15)			1,219	194
Consideration for purchase of subsidiaries net-off against related party receivables due		50,156		
Consideration for purchase of building and land use rights offset by amounts due from related parties			17,407	2,701
Long-term prepayment offset by outstanding prepaid and other current assets			66,000	10,486
	168,781			

Consideration for purchase of subsidiaries net-off against receivables due			
Purchase of property, plant and equipment financed by accounts payable and other payables		21,405	3,401
Purchase of subsidiaries net-off against prepaid amount	14,819	194,698	30,934
Purchase of subsidiaries through financing of payables	95,686	109,961	17,471

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

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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. Pursuant to a group reorganization in February 2005 and a share exchange agreement in July 2007, the Company became the ultimate parent company of the Group.

In 2008 and 2009, the Group entered into 24 acquisitions, 23 of which are accounted for as business combinations. The other one is an acquisition of operating rights for a fixed period of time, which is accounted for as a prepaid operating lease. The 23 acquisitions involved the Group obtaining control of one or more existing businesses in exchange for cash and/or common stock. Therefore, the Group accounts for them as business combinations using the purchase method of accounting.

On August 5, 2010, the Company and certain selling shareholders of the Company (the Selling Shareholders) completed its initial public offering of 10,677,207 American Depositary Shares (ADSs) at US$10.0 per ADS. Each ADS comprises two Class A ordinary shares of the Company. Immediately prior to the completion of the initial public offering (IPO), all of the Company s then outstanding preferred shares automatically converted into an equal number of ordinary shares; and all the 196,731 Series B warrants were exercised at US$0.75 per share to purchase 590,193 ordinary shares on a 1 for 3 share exchange basis. The fair value of the exercised warrants was approximately US$362,922.

In 2011, the Group completed 7 acquisitions, all of which are accounted for as business combinations using the purchase method of accounting. The 7 acquisitions involved the Group obtaining control of one or more existing businesses in exchange for cash.

In December 2011, the Company disposed of 5 legal entities, being Xi an Dragon Continuation School (Xi anTutoring), Shandong North Resource Information Technology Co., Ltd. and Jinan Prosperous Resource Technology Co., Ltd. (a sub-group of the same business and together referred to as the Shandong Software Companies), Guangzhou Modern Olympic Training School (Guangzhou HP Tutoring), and Tianjin Yimatong Technology Development Co., Ltd. (Tianjin Holding) (together the disposed entities are referred to as the 4 Disposed Businesses). Please refer to Note 24 (a) for details.

In December 2011, the Company signed an agreement to sell 3 legal entities, being Beijing Century College and its 100% owned Beijing Siwa Century Facility Management Co. (together Beijing Century College Group) and Beijing 21st Century International School (21st School) to Xihua Investment Group (Xihua Group). As of December 31, 2011, the disposal transaction has not been completed. Beijing Century College Group is currently classified as held for sale on the balance sheet. 21st School remains included as held for use since the Company will have significant continuing involvement in 2lst School following the planned disposal. Please refer to Note 24 (b) for details.

b. Nature of operations

The Group is a national provider of educational and career enhancement services in the People s Republic of China (PRC). 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 is also pursuing opportunities to provide similar services to those outlined above outside of the PRC.

c. Major subsidiaries and VIEs

As of December 31, 2011, 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			

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Name	Date of incorporation or establishment	Place of Incorporation (or establishment) /operation	Principal activity
Beijing Ambow Online Software Co., Ltd. (Ambow Online)	August 24, 2000	PRC	Investment holding
Ambow Education Co., Ltd. (Cayman)	January 25, 2005	Cayman Islands	Investment holding
Ambow Education Ltd. (Cayman)	June 6, 2007	Cayman Islands	Investment holding
Ambow Education (Hong Kong) Ltd.	December 17, 2007	Hong Kong	Investment holding
Beijing Ambow Chuangying Education and Technology Co., Ltd.	January 18, 2008	PRC	Investment holding
Wenjian Gongying Venture Investment Enterprise	July 20, 2009	PRC	Investment holding
Variable interest entities (VIEs)			
Beijing Normal University Ambow Education Technology Co., Ltd.(Ambow Shida)	July 30, 2004	PRC	Investment holding
Shanghai Ambow Education Information Consulting Co., Ltd. (Ambow Shanghai)	May 16, 2006	PRC	Investment holding
Ambow Sihua Education and Technology Co., Ltd. (Ambow Sihua)	April 17, 2007	PRC	Investment holding
Suzhou Wenjian Venture Investment Management Consulting Co., Ltd. (Suzhou Wenjian)	February 25, 2009	PRC	Investment holding
Subsidiaries of VIEs			
Changsha Study School (Changsha Tutoring)	June 1, 1984	PRC	Tutoring
Tianjin Peace School (Tianjin Tutoring)	March 5, 1986	PRC	Tutoring
Beijing Intelligent Training School (Beijing YZ Tutoring)	December 30, 1994	PRC	Tutoring
Hunan Changsha Tongsheng Lake Experimental School (Changsha K-12)	June 18, 1999	PRC	K-12 School
21st School	February 20, 1993	PRC	K-12 School
Jilin Clever Training School (Jilin Tutoring)	May 8, 2000	PRC	Tutoring
Shenyang Universe High School (Shenyang K-12)	December 8, 2003	PRC	K-12 School
Applied Technology College of Soochow University (Applied Technology College)	April 29, 2006	PRC	College
Shuyang Galaxy School (Shuyang K-12)	November 1, 2008	PRC	K-12 School
Beijing Jinghan Yingcai Education and Technology Co., Ltd. (Beijing JY Tutoring)	January 21, 2009	PRC	Tutoring
Guangzhou ZhiShan Education Technology Co., Ltd. (Guangzhou ZS Career Enhancement)	January 1, 2011	PRC	Career Enhancement

Hebei Yuanlong Corporate Management Co., Ltd. (Hebei YL Career Enhancement)	January 13, 2011	PRC	Career Enhancement

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Name	Date of incorporation or establishment	Place of Incorporation (or establishment) /operation	Principal activity
Beijing Genesis Education Group (Genesis Career Enhancement)	May 1, 2011	PRC	Career Enhancement
Beijing Jinghan Taihe Education Technology Co., Ltd. (Beijing JT Tutoring)	Jul 12, 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

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

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 and Suzhou Wenjian 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.

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.

In June 2009, the FASB issued an authoritative pronouncement to amend the accounting guidance for VIE. The amendment effectively replaces a quantitative-based risks-and-rewards calculation for determining which reporting entity, if any, has a controlling financing interest in a variable interest entity with an approach focused on identifying which reporting entity has (1) the power to direct the activities of a VIE that mostly significantly affect the entity s economic performance and (2) the obligation to absorb losses of, or the right to receive benefits from, the entity. Additionally, an enterprise is required to assess whether it has an implicit financial responsibility to ensure that a VIE operates as designed when determining whether it has the power to direct the activities of the VIE that most significantly impact the entity s economic performance. The new guidance also requires additional disclosures about a reporting entity s involvement with VIEs and about any significant changes in risk exposure as a result of that involvement.

The Group adopted the new guidance on January 1, 2010, and the disclosure guidance was retrospectively applied for all periods presented in the financial statements.

As discussed above, the Company had consolidated the VIEs under the authoritative literature prior to the amendment discussed above because it was the primary beneficiary of those entities. Because the Company, through its wholly owned subsidiaries, has (1) the power to direct the activities of the VIEs that most significantly impact the entity s economic performance and (2) the right to receive benefits from the VIE, it continues to consolidate the VIE upon the adoption of the new guidance.

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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; or (vi) restricting or prohibiting the Group s use of its IPO proceeds to finance its business and operations in China. 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 Company s operations depend on the VIEs and their respective shareholders to honor their contractual agreements with the Company. All of these agreements are governed by PRC law and provide for the resolution of disputes through arbitration in the PRC. The management believes that the VIE agreements are in compliance with PRC law 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.

The following combined financial information of the Group s VIEs and, as applicable, a subsidiary of one of the Group s VIEs was included in the accompanying consolidated financial statements of the Group as follows:

	As of December 31, (in thousands)		
	2009	**2010**	**2011**
Total assets	3,438,272	4,032,772	4,421,661
Total liabilities	(2,277,049)	(2,890,190)	(2,959,371)

	For the Year ended December 31, (in thousands)		
	2009	**2010**	**2011**
Net revenue	397,024	956,954	1,192,633
Net loss	(19,287)	(14,311)	(102,892)

	For the Year ended December 31, (in thousands)		
	2009	2010	2011
Net cash provided by operating activities	257,368	265,497	285,147
Net cash provided by (used in) investing activities	67,738	(2,218)	(142, 685)
Net cash provided by financing activities	(146,500)	(21,030)	(68,900)
Cash of discontinued operation classified as held for sale			(139,099)

During 2011, five subsidiaries of VIEs were disposed of (the 4 Disposed Businesses) and the results are included in discontinued operations. For further details, see Note 24 (a) and (c). Two subsidiaries of VIEs were classified as assets held for sale (Beijing Century College Group) and included in discontinued operations. For further details, see Note 24 (b).

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 its subsidiaries, the Company may provide such support on a discretional basis in the future, which could expose the Company to a loss.

As disclosed in Note 24 (b), the Company is in the process of disposing of 21st School, a subsidiary of a VIE, but will retain a continuing involvement in the operations of the school, and so it continues to be included as a continuing operation.

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2. SIGNIFICANT ACCOUNTING POLICIES

a. Basis of presentation

The consolidated financial statements of the Group have been prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP). All amounts in the accompanying consolidated financial statements and notes are expressed in Renminbi (RMB). Amounts in United States dollars (US$) are presented solely for the convenience of readers and use an exchange rate of RMB 6.2939, representing the noon buying rate as set forth in the H.10 statistical release of the U.S. Federal Reserve Board on December 30, 2011. No representation is made that the RMB amounts could have been, or could be, converted into US$ at such rate.

As mentioned in Note 1 (a), the 4 Disposed Businesses have been disposed of in 2011 and classified as discontinued operations, and Beijing Century College Group has been classified as held for sale and is also classified under discontinued operations.

b. Comparability due to disposal and reclassification

Amounts in the consolidated financial statements for the year ended December 31, 2010 were reclassified to conform to the presentation used in the year ended December 31, 2011. See Note 24- Discontinued Operations for a discussion relating to these reclassifications. The results of the discontinued operations have been reflected separately in the statement of operations as a single line-item in accordance with U.S. GAAP.

The consolidated statements of operations and segment reporting information for the two years ended December 31, 2009 and 2010 were also revised. The revisions relate to i) a reclassification of amortization expense attributable to student populations, and ii) to include the disclosure of cost of sales for software products. The amortization charge was previously reported within general and administrative expenses, and has now been reclassified into cost of sales in 2011. The 2009 and 2010 cost of sales and general and administrative expenses have been restated by RMB 12,126 and RMB 18,155, respectively to ensure comparability. The Company considers the current classification to be more appropriate given that student populations contribute directly to the generation of Educational program and services revenue.

c. Use of estimates

The preparation of consolidated financial statements in conformity with US 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, goodwill and other intangible assets, income taxes, bad debt provision 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.

d. 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.

e. Significant risks and uncertainties

The Group participates in a regulated and dynamic industry and believes that changes in any of the following areas could have a material adverse effect on the Group s future financial position, results of operations or cash flows: the share market performance and public interest in companies operating in the PRC that are listed on the share market in the United States; competition from other competitors; regulatory or other PRC related factors including risk in relation to the VIE structure ; risks associated with the Group s ability to attract and retain employees necessary to support its growth; risks associated with the Group s success in managing and integrating businesses acquired; and general risks associated with the education industry in the PRC.

f. 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.

g. Restricted cash

Restricted cash relates to cash deposited into banking institutions as a security deposit to enable further borrowings from the bank.

h. Term deposits

Term deposits consist of bank deposits with an original maturity of between three to twelve months.

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i. Allowance for doubtful accounts

Accounts receivable mainly represent the amounts due from the customers, distributors, or students of the Company s various subsidiaries and VIEs. 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. Accounts receivable balances are written off after all collection efforts have been exhausted and the potential for recovery is considered remote.

j. Land use rights, net

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.

k. Property and equipment, net

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 50 years
Motor vehicles	5 years
Office and computer equipments	3 5 years
Leasehold improvements	Shorter of the remaining lease terms or estimated useful lives

l. Construction in progress

Construction in progress represents property and equipment under construction or installation, which is recorded at actual cost. Cost comprises the original cost of equipment, installation costs and construction costs. Borrowing costs on qualifying assets are capitalized as part of the cost of the fixed assets until the assets are ready for their intended use. Construction in progress is transferred to fixed assets when the assets are ready for their intended use, at which time depreciation begins.

m. Intangible assets, net

Finite lived intangible assets are initially recorded at fair value when acquired in a business combination and 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 7- Intangible assets, net for additional information):

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

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

n. Segments

The Group determined its reporting units in accordance with ASC 280, Segment Reporting (ASC 280). The group evaluates a reporting unit by first identifying its operating segments under ASC 280, 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 meet the definition of a business, the Group evaluate 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 currently has four operating segments and eight reporting units. Please refer to Note 20 Segment information for details.

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o. Goodwill

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

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 judgement 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. 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. Therefore, 21st school was tested for impairment as its own reporting unit at the date that a decision was made to dispose of the school and this led to an impairment charge of RMB 25,336 for the year ended December 31, 2011. Please refer to Note 8 of the financial statements for details.

The Group performs impairment tests in the fourth quarter of each year. At the latest impairment test date, the fair value of our reporting units was significantly in excess of carrying value. As of September 30, 2011, if the discount rates (weighted average cost of capital used in our analysis) had been 100 basis points higher than those estimated for each reporting unit and all other assumptions were held constant, the goodwill impairment test would have resulted in the same conclusion. Similarly, if the long-term growth rates had been 100 basis points lower than those estimated for each reporting unit and all other assumptions were held constant, the goodwill impairment test would have resulted in the same conclusion.

Future changes in the judgements and estimates underlying our 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.

Except for the impairment loss recognized in relation to entities disposed or in the process of being disposing in 2011, no other goodwill impairment loss was recognized for any years presented.

p. 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 based on the fair value of the assets. In addition to the impairment loss recognized in relation to discontinued operations, no other, impairment loss related to long-lived assets during the years ended December 31, 2009, 2010 and 2011.

q. Revenue recognition

The Group s revenue is primarily generated from delivering educational programs and services and sales of software products. The Group s customers include mainly students attending classes at its own schools, training centers or college; students attending classes run by our cooperative partners; corporate clients attending our outbound and management training classes; and distributors whom the Group sells its software products or services to.

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

Sales to distributors

Sales to distributors include sales of educational programs and services which mainly consist of career enhancement and corporate training programs where the end user accesses content through the Company s server or sales of software products where the end user accesses content on a compact disk with no further interaction with the Company.

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

Sales to distributors in 2011 represented 20.7% of total net revenues in 2011 (2010: 15.5%; 2009: 18.4%).

Educational programs and services

Educational programs and services primarily consist of primary and secondary curriculum education, university curriculum education, tutoring programs that supplement primary and secondary curriculum education and career enhancement and other corporate training programs that are

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

Educational programs and services also include programs offered online which could be accessed through a username and password. Career enhancement services such as CCEP, CBS and the Career GPS System have been offered to students and other customers either directly or through sales to distributors. Revenue attributable to these service offerings is recognized on a straight-line basis over the length of the course, which is typically one to three months.

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

Sales of software products

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

If a sales contract stipulates more than one deliverable and includes the sale of software products, the deliverables are considered as multiple accounting units in accordance with ASC Topic 985, Revenue , the total revenue on such arrangements is allocated among the individual deliverables based on their relative fair values. For example, the Company has arrangements where sales of software products are bundled with sales of educational services. In such arrangements, the software product is delivered initially before the provision of services. If sufficient vendor-specific objective evidence of fair value does not exist for the allocation of revenue, the fee for the entire arrangement is recognized ratably over the term of the arrangement. Revenue is recorded net of business tax and surcharges.

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Ambow Online, Ambow Yuhua, and Shandong Software Companies, which are the companies from which the Group sells its software products, are each subject to 17% value added tax (VAT) for the revenues from software products sold in the PRC. Companies that fulfill certain criteria set by the relevant authorities including developing their own software products and registering the software product with the relevant authorities in the PRC are entitled to a refund of VAT equivalent to the excess of VAT paid over and above 3% of net revenues.

For all years presented, Ambow Online and the Shandong Software Companies have met these criteria and therefore were entitled to the VAT refund. Ambow Yuhua has met these criteria and was entitled to the VAT refund since 2011.

Suzhou Yisi Chuangyi Technology Co., Ltd. (Suzhou Career Enhancement) was a small scale VAT taxpayer in 2009, and was subject to 3% VAT on the revenue from software products sold within the PRC. From January 1, 2010, Suzhou Career Enhancement was changed from a small scale VAT taxpayer to a general VAT tax payer and is subject to 17% VAT on the revenues from software products sold in the PRC.

The Company has adopted gross presentation for VAT, by which VAT is included in revenues and cost of revenues, because the Company considers its 17% VAT obligation and its entitlement to a 14% VAT refund as one integrated preferential VAT policy.

Barter transactions

For barter transactions, the Company recognizes revenue and expense at fair value. For barter transactions involving the receipt of advertising services, the Company recognizes revenue and expense at fair value only if the fair value of the advertising services received in the transaction are determinable. The Company had no barter transactions in 2009 and 2010. In 2011, the Company had software sales of RMB 37.3 million to companies with which the Company had also entered into arrangements for those customers to provide the Company advertising services. Both the software sales and the advertising services were separate cash transactions, but given the timing proximity of the transaction to each other, the Company accounted for these in accordance with its barter transaction accounting policy.

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, and costs paid to sales agents for their services.

Cost of revenues for software products primarily consists of raw material costs of compact disks and packaging and license fees.

s. Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Payments made under operating leases are charged to the consolidated statements of operations on a straight-line basis over the lease term. The Group normalizes rent expense on operating leases that involve rent concessions.

t. Research and development

Research and development expenses comprise of: i) payroll, employee benefits, and other headcount-related costs associated with the development of online education technology platforms and courseware, and ii) 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.

i) Software to be sold, leased or marketed

The Group recognizes costs to develop its online education technology platform and courseware in accordance with the guidance in ASC Topic 985-20, Costs of Software to be Sold, Leased or Marketed . Costs incurred for the development of online education technology platforms and courseware, prior to the establishment of technological feasibility, are expensed when incurred. Once an online education technology platform or courseware has reached technological feasibility with a proven ability to operate in the market, all subsequent online education technology platform or courseware development costs are capitalized until the product is available for general release. Technical feasibility is evaluated on a product-by-product basis, but typically encompasses technical design documentation.

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ii) Internal use software

The Group recognizes internally used software development costs in accordance with the guidance in Internal Use Software subtopic of ASC Topic 350. Accordingly, 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.

For the years ended December 31, 2009, 2010 and 2011, the Group capitalized certain internal use software development costs of continuing operations totaling approximately RMB 10,285, RMB 25,536, and RMB 9,973, respectively. The estimated useful life of costs capitalized is evaluated for each specific project as four years. For the years ended December 31, 2009, 2010 and 2011, the amortization of capitalized costs amounted to approximately RMB 1,519, RMB 4,409, and RMB 10,007, respectively, and have been included as part of general and administrative expenses and research and development expenses. Capitalized internal use software and website development costs are included in intangible assets: others, net.

u. Advertising costs

The Group expenses advertising costs as incurred. Total advertising expenses of continuing operations were RMB 41,240, RMB 70,521 and RMB 138,825 for the years ended December 31, 2009, 2010 and 2011, respectively, and have been included as part of selling and marketing expenses.

v. Foreign currency translation

The Group uses RMB as its reporting currency. The functional currency of the Company and its subsidiaries incorporated in the Cayman Islands, Hong Kong and the British Virgin Islands is the US$, while the functional currency of the other entities in the Group is the RMB. In the consolidated financial statements, the financial information of the Company and its subsidiaries, which use US$ as their functional currency, has been translated into RMB. Assets and liabilities are translated from each subsidiary s functional currency at the exchange rates on the balance sheet date, equity amounts are translated at historical exchange rates, and revenues, expenses, gains, and losses are translated using the average rate for the year. Translation adjustments are reported as cumulative translation adjustments and are shown as a separate component of other comprehensive income or loss in the statement of shareholders equity and comprehensive income.

Foreign currency transactions denominated in currencies other than functional currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are 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 China, 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 China Foreign Exchange Trading System market. Cash and cash equivalents and term deposits of the Group included aggregate amounts of RMB 550,290 and RMB 450,901 at December 31, 2010 and 2011, respectively, which were denominated in RMB.

x. Fair value of financial instruments

Financial instruments include cash and cash equivalents, accounts receivable, accounts payable, borrowings and amounts due from and due to related parties. Except for accounts receivable and accounts payable arising from school acquisitions, which are determined based on the incremental borrowing rate discounted using the effective interest method, the carrying values of other financial instruments approximate their fair values due to their short-term maturities.

y. Net income (loss) per share

In accordance with US GAAP guidance on Computation of Earnings Per Share and Participating Securities and the Two-Class Method , basic earnings per share is computed by dividing net income attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year using the two-class method. Under the two-class method, net income is allocated between ordinary shares and other participating securities based on their respective participating rights. All of the preferred shares of the Company are participating securities on a fixed basis (refer to Note 13 for dividend provisions of all preferred shares). Diluted earnings per share is calculated by dividing net income 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 conversion of the convertible

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preferred shares (using the if-converted method) and ordinary shares issuable upon the exercise of outstanding share options (using the treasury stock method). Ordinary share equivalents are excluded from the computation of the diluted net income per share in years when their effect would be anti-dilutive.

z. Income taxes

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

aa. Uncertain tax positions

The Group adopted the guidance on accounting for uncertainty in income taxes as of January 1, 2007. The guidance prescribes a more likely than not threshold for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Guidance was also provided on the derecognition 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. See Note 17 Income Taxes for additional information. For the years ended December 31, 2009, 2010 and 2011, the Group did not have any interest and penalties associated with tax positions. See Note 17 for details of the Group s tax position as of December 31, 2011.

bb. Comprehensive income

Comprehensive income includes net income and foreign currency translation adjustments. Comprehensive income is reported as a component of the consolidated statements of shareholders equity.

cc. Imputation of interest on long-term receivables and payables

The Group imputes interest on non-current receivables and payables in accordance with ASC Topic 835-30. Four long-term payable balances amounted to RMB 108 million (maturity dates range from January 2013 to December 2013) and two long-term receivable balances amounted to

RMB 22 million (maturity date is December 2031) arose as part of the Group s business combinations during the year 2009 and 2011. For the years ended December 31, 2010 and 2011, net interest expense of RMB 6,915 and RMB 10,647 were imputed on the outstanding long-term receivable and payable balances using the incremental borrowing rate of approximately 7.01% and 6.99%, respectively.

dd. Share-based compensation

The Group grants share options/ warrants to its employees, directors and non-employees. 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.

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

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

ee. Business combinations

The Group adopted on a prospective basis SFAS 141(R) business combinations (now codified as ASC Topic 805, Business Combinations) in January 2009. This guidance significantly changed how business acquisitions were accounted for and impacts financial statements both on the acquisition date and in subsequent periods. The Group accounted for acquisitions made in the years ended December 31, 2009 and 2011 using the acquisition method in accordance with ASC Topic 805.

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ff. Borrowing costs

The Group capitalizes the borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset in accordance with ASC Topic 835-20, Capitalization of Interest.

gg. Long-lived assets to be disposed of

The Group accounts for a long-lived asset to be disposed of other than by sale in accordance with the provisions of ASC sub-topic 360-10 (ASC 360-10), Impairment and Disposal of Long-lived Assets , where such long-lived asset continues to be classified as held and used until it is disposed of. When a long-lived asset ceases to be used, the carrying amount of the asset is written down to its salvage value, if any.

The Group accounts for a long-lived asset or disposal group to be sold in accordance with the provisions ASC 360-10, where such long-lived asset or disposal group is classified as held for sale in the period in which all six criteria are met: (1) a plan to sell the asset has been committed to by management; (2) the asset can be sold in its current condition; (3) an active plan has been initiated to find a buyer; (4) it is probable that the asset will be sold and the sale will be completed within one year and will qualify as a complete sale; (5) the sales price is reasonable relative to the asset s current fair value and the entity is actively marketing the asset; and (6) it is unlikely that the plan to sell the asset will be withdraw or changed significantly.

A long-lived asset or disposal group classified as held for sale is measured at the lower of its carrying amount or fair value less cost to sell, and it is presented separately in the balance sheets. Long-lived assets reclassified as held for sale are not depreciated or amortized. The Group follows ASC 205-20 in its accounting for a component of the Company that has been disposed of or is classified as held for sale and has operations and cash flows that can be clearly distinguished from the rest of the Company. Such component is reported as discontinued operations. In the period in which a component has been disposed of or classified as held for sale, the results of operations, including any gain or loss after tax recognized in accordance with ASC 360-10, less applicable income taxes (benefit), for the periods presented are reclassified into line items of income separately from net income (loss) from continuing operations before extraordinary items (if applicable), in the statements of operations.

hh. Discontinued Operations

For a component of the Group that either has been disposed of or is classified as held for sale, the Group accounted for the result of operations of the component as a discontinued operation in accordance with ASC sub-topic 205-20 (ASC 205-20), Presentation of Financial Statements , when (1) the operations and cash flows of the component have been or will be eliminated from the ongoing operations of the Group as a result of the disposal transaction; and (2) the Group will not have any significant continuing involvement in the operations of the component after the disposal transaction.

ii. Recently issued accounting pronouncements

In May 2011, the FASB issued ASU 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in GAAP and IFRSs . This ASU represents the converged guidance of the FASB and the International Accounting Standards Board (IASB) on fair value measurement and is intended to result in common requirements for measuring fair value and for disclosing information about fair value measurements, including a consistent meaning of the term fair value. The amendments in ASU 2011-04 are effective for public entities for interim and fiscal year beginning after December 15, 2011, and should be applied prospectively. Early adoption is not permitted for public entities. The Company does not expect this ASU to have a material impact on the Company s financial statements.

In June 2011, the FASB issued ASU 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income , to require an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of equity. ASU 2011-05 will be applied retrospectively. The amendments in ASU 2011-05 are effective for public entities for interim and fiscal year beginning after December 15, 2011. Early adoption is permitted. Based on the Company s evaluation of this ASU, the adoption of this amendment will only impact the presentation of comprehensive income on the Company s consolidated financial statements.

In September 2011, the FASB issued ASU 2011-08, Intangibles - Goodwill and Other (Topic 350), Testing Goodwill for Impairment . Annually, the ASU permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If an entity determines the fair value of a reporting unit is greater than its carrying amount, it is not required to perform the step 1 quantitative goodwill impairment test for the reporting unit. ASU 2011-08 is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted. The Company did not adopt this ASU in its goodwill testing.

In December 2011, the FASB issued revised guidance on Disclosures about Offsetting Assets and Liabilities . The revised guidance specifies that an entity should disclose both gross information and net information about both instruments and transactions eligible for offset in the statement of financial position and instruments and transactions subject to an agreement similar to a master netting arrangement. The revised guidance affects all entities that have financial instruments and derivative instruments. The revised guidance is effective for interim or annual periods beginning after December 15, 2011. The Company does not expect this ASU to have a material impact on the Company s financial statements.

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3. ACCOUNTS RECEIVABLE, NET

Accounts receivable, net consisted of the following:

	As of December 31,		
	2009	**2010**	**2011**
	RMB	**RMB**	**RMB**
Accounts receivable	21,879	48,745	122,886
Less: allowance for doubtful accounts			
Balance at beginning of year		(351)	(458)
Additional provision for bad debt	(351)	(107)	(14,181)
Balance at end of year	(351)	(458)	(14,639)
Accounts receivable, net	21,528	48,287	108,247

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4. PREPAID AND OTHER CURRENT ASSETS

Prepaid and other current assets consisted of the following:

	As of December 31,	
	2010 RMB	**2011 RMB**
Prepayments and deposits for acquisition	316,943	76,707
Current portion of prepaid advertising expense	431	72,080
Prepayment for new training centre project		65,609
Receivables arising from the termination of arrangements (Note (i))	72,444	98,061
Value added tax refund	18,771	45,800
Rental deposits	21,790	27,045
Receivables resulting from disposals (Note 24(a))		35,000
Receivable from Zhenjiang operating rights (Note 9(i))		35,000
Prepaid rental fees	13,671	28,433
Prepayment for cooperative rights to cooperating universities	9,640	10,710
Staff advances	8,545	8,891
Prepaid professional services fees	7,995	8,475
Deposit for purchase of land use rights	4,122	982
Prepaid channel fees/Prepaid Commission	3,672	647
Others	50,873	60,683
Total	528,897	574,123

(Note i) The balance includes RMB 24 million for the cancellation of an acquisition, RMB 30 million from the result of an arbitration hearing in respect of Guangzhou HP Tutoring (See Note 19 for further details), RMB 44 million for the cancellation of a proposed land use right purchase.

5. PROPERTY AND EQUIPMENT, NET

Property and equipment, net consisted of the following:

	As of December 31,	
	2010 RMB	**2011 RMB**
Buildings	539,149	503,204
Motor vehicles	12,446	16,074
Office and computer equipment	140,827	176,165
Leasehold improvements	52,407	229,333
	744,829	924,776
Less: accumulated depreciation	(85,820)	(165,460)
Add: construction in progress	14,332	29,700

Total	673,341	789,016

For the years ended December 31, 2009, 2010 and 2011, depreciation expenses of continuing operations were RMB 20,031, RMB 44,233 and RMB 57,977, respectively, and are recorded in cost of revenues, selling and marketing expenses and general and administrative expenses.

As of December 31, 2011, 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 67,527.

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6. LAND USE RIGHTS, NET

Land use rights, net consisted of the following:

	As of December 31,	
	2010 RMB	2011 RMB
Land use rights	267,700	259,321
Less: accumulated amortization	(10,255)	(15,584)
Land use rights, net	257,445	243,737

Amortization expenses for land use rights of continuing operations amounted to RMB 3,694, RMB 5,828 and RMB 6,098 for the years ended December 31, 2009, 2010 and 2011, respectively, and are recorded in cost of revenues and general and administrative expenses.

Based on the current land use rights held, future amortization expenses of continuing operations are estimated to be RMB 6,098 per year for each of the next five years through December 31, 2016.

7. INTANGIBLE ASSETS, NET

The following table summarizes the Company s intangible assets, net:

	As of December 31, 2010			As of December 31, 2011		
	Gross Carrying Amount RMB	Accumulated Amortization RMB	Net Carrying Amount RMB	Gross Carrying Amount RMB	Accumulated Amortization RMB	Net Carrying Amount RMB
Trade name	303,686		303,686	363,559		363,559
Student populations	64,060	(33,035)	31,025	74,740	(47,933)	26,807
Software	73,199	(23,983)	49,216	87,304	(49,043)	38,261
Customer relationship	9,940	(6,485)	3,455	7,390	(1,090)	6,300
Cooperative agreement*	101,963	(17,651)	84,312	22,843	(4,918)	17,925
Favorable lease	63,237	(4,952)	58,285	63,237	(7,135)	56,102
Non-compete agreement				3,188	(95)	3,093
Intangible assets	616,085	(86,106)	529,979	622,261	(110,214)	512,047

*In connection with the acquisitions completed in 2009 and 2011, the Group identified certain cooperative agreements as intangible assets, which were entered into by the sellers prior to the acquisitions. These cooperative agreements offer the Group the right to be affiliated with certain reputable universities in China.

Amortization expenses for intangible assets of continuing operations amounted to RMB 21,771, RMB 36,412 and RMB 50,831 for the years ended December 31, 2009, 2010 and 2011, respectively, of which RMB 10,404, RMB 16,900, and RMB 16,560 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: 2012: RMB 21,996, 2013: RMB 17,361, 2014: RMB 13,395, 2015: RMB 11,930, 2016: RMB 10,812 and cumulatively thereafter: RMB 72,994.

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8. GOODWILL

The changes in the carrying amount of goodwill by segment for the years ended December 31, 2010 and 2011 were as follows:

	Better Schools			Better Jobs			
	Tutoring RMB	K-12 Schools RMB	Subtotal RMB	Career Enhancement RMB	Colleges RMB	Subtotal RMB	Consolidated RMB
Balance as of January 1, 2010	460,521	244,865	705,386	165,425	157,781	323,206	1,028,592
Foreign currency translation adjustments	(11,529)	(7,382)	(18,911)	(3,876)	(5,250)	(9,126)	(28,037)
Balance as of December 31, 2010	448,992	237,483	686,475	161,549	152,531	314,080	1,000,555
Goodwill acquired during the year	100,266		100,266	266,963		266,963	367,229
Goodwill impairment on assets held for use (See note (i) below)		(25,336)	(25,336)				(25,336)
Goodwill balance reclassified as assets held for sale (Note 24(b))					(51,754)	(51,754)	(51,754)
Goodwill impairment upon reclassification as held for sale (Note 24(b))					(8,928)	(8,928)	(8,928)
Goodwill impairment on disposals (Note 24(c))	(75,528)		(75,528)	(12,354)		(12,354)	(87,882)
Foreign currency translation adjustments	(18,830)	(2,946)	(21,776)	(7,083)	(5,639)	(12,722)	(34,498)
Balance as of December 31, 2011	454,900	209,201	664,101	409,075	86,210	495,285	1,159,386

Note (i) As set out in Note 24 (b) the Company plans to dispose of 21st School. Due to the Company s significant continuing involvement in the school beyond the disposal date the school remains as held for use. Due to the decision to dispose of the school and enter into an agreement for the operating rights, 21st School was classified as a separate asset group. The expectation that 21st School will be sold is a triggering event to assess impairment. 21st School s net assets including the related goodwill were RMB 342 million, which was greater than the recoverable amount of the asset group, and so failed Step 1 of the impairment test. Step 2 of the impairment test, comparing this to the estimated proceeds of RMB 317 million, or fair value, resulted in an impairment loss of RMB 25 million on 21st school which was allocated to the long-lived assets of the group on a pro rata basis using the relative carrying amounts of those assets. However, as the impairment loss that can be allocated to any individual long-lived asset is limited to its fair value, all of this impairment charge was allocated to the goodwill of the 21st school reporting unit.

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9. OTHER NON-CURRENT ASSETS

Other non-current assets consisted of the following:

	As of December 31	
	2010 RMB	2011 RMB
Prepaid operating rights (note i)	37,778	
Deposit for training centers under construction (note ii)		65,001
Deposit for long-term leases (note iii)	60,000	191,600
Non-current portion of prepaid advertising fees	7,519	46,446
Non-current portion of receivables arising from the cancellation of an agreement		7,500
Others	3,783	9,126
Total	109,080	319,673

(note i) At the beginning of the third quarter of 2011, the Company reverted the operating right for the Junior High portion of Zhenjiang Ambow International School (Zhenjiang K-12) back to the original owner. This is in line with the Company s strategy to focus on the International High School Program, which the Company developed in conjunction with the Zhenjiang school over the last three years. Total revenue contributed from the Junior High portion of Zhenjiang K-12 from the beginning of 2011 to the disposal date was RMB 10.6 million (US$1.7 million). Upon the termination, the Company s receivable and payable balances in respect of the Junior High portion of Zhejiang K-12 were RMB 37.7 million (including RMB 35 million prepaid operating rights) and RMB 34.6 million (RMB 20.5 million is classified as Payable to Zhenjiang Foreign Language School , while the remaining is included in Accrued payroll and welfare in Note 10), respectively. The prepaid operating rights have been reclassified to prepaid and other current assets (See Note 4).

(note ii) During the year the Group entered into an agreement with a third-party contractor to build new training centers in 2011, ready to be operated by the Group in 2011 and 2012. Under this original agreement, the responsibility for decorating, renting, and running the training centers would be split between the two parties. As of December 31, 2011, deposits totaling RMB 92.8 million (US$ 14.7 million) had been paid pursuant to this agreement of which RMB 27.8 million (US$ 4.4 million) was capitalized as leasehold improvements in connection with new training centers which were completed and transferred to the Group to operate before December 31, 2011.

On March 23, 2012, the Group signed a new agreement to terminate the previous arrangement with this third party contractor and transfer all responsibilities for the centers to the Group. Under this termination agreement, the Group agreed to pay RMB 139.4 million (inclusive of the cumulative deposits already paid) to take over all training centers which the third party contractor has built for the Group, as well as acquiring 16 training centers which the same third party contractor had operated independently. At the same time, the Group also paid a deposit of RMB 40 million towards the build of new centers in 2012.

(note iii) In December 2011, the Group recognized a deposit of RMB 134,000 for a 25-year lease of a new Career Enhancement education facility in Beijing to commence in March 2012. The remaining balance of RMB 57,600 is a deposit for a 15-year lease of a new Career Enhancement education facility in Guangzhou.

10. ACCRUED AND OTHER LIABILITIES

Accrued and other liabilities consisted of the following:

	As of December 31,	
	2010 RMB	2011 RMB
Other taxes payable	64,228	109,538
Accrued payroll and welfare	56,952	85,878
Current portion of consideration payable for acquisitions	2,000	54,762
Payable from the termination of sale of land use right	49,800	49,800
Accrual for rental	7,438	35,128
Professional service fees payable	26,513	21,815
Amounts due to cooperating partners	12,603	20,558
Payable to Zhenjiang Foreign Language School (Note 9 (i))		20,523
Payments in advance	22,772	20,609
Payable arising from the cancellation of an agreement*		14,440
Others	61,360	49,425
Total	303,666	482,476

* In relation to cancellation of Guangzhou Modern Olympic Training School, please refer to Note 19 Contingencies for further details.

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11. SHORT-TERM BORROWINGS

Short-term borrowings consisted of the following:

	As of December 31	
	2010 RMB	2011 RMB
Secured short-term bank loans	6,160	24,920
Unsecured short-term bank loans	111,910	93,150
Total	118,070	118,070

As of December 31, 2011, secured short-term bank loans consisted of the following two bank loans:

- RMB 2,000 repayable on January 25, 2012 and bearing interest at 6.97% per annum. The loan was collateralized by a building with a net carrying value of approximately RMB 8,055.

- RMB 22,920 repayable on January 24, 2012 and bearing interest at 6.56% per annum. The loan was collateralized by some buildings and land use right, with net carrying value of approximately RMB 12,532 and RMB 13,588, respectively.

As of December 31, 2011, the Group has the following unsecured short-term bank loans:

- RMB 20,000 with a maturity date of April 13, 2012 and bearing interest at 6.71% per annum.

- RMB 20,000 with a maturity date of May 11, 2012 and bearing interest at 6.71% per annum.

- RMB 20,000 with a maturity date of July 15, 2012 and bearing interest at 6.71% per annum.

- RMB 20,000 with a maturity date of March 29, 2012 and bearing interest at 8.53% per annum. The loan was guaranteed by a third party.

- RMB 3,150 with a maturity date of January 26, 2012 and bearing interest at 6.56% per annum. The loan was jointly guaranteed by Taishidian and one subsidiary of the Group s minority shareholder and third parties.

- RMB 10,000 with a maturity date of May 4, 2012 and bearing interest at 7.98% per annum. The loan was guaranteed by a third party.

The above short-term borrowings incurred interest expenses for the years ended December 31, 2010 and 2011 of RMB 3,914 and RMB 8,418, respectively, of which RMB 0 and RMB 0 was capitalized as additions to construction in-progress in the same respective years, and incurred guarantee fees of RMB 0 for the year ended December 31, 2011. The weighted average interest rate of bank loans outstanding as of December 31, 2011 was 6.47% per annum. The fair values of the short-term bank loans approximate their carrying amounts.

12. LONG-TERM BORROWINGS

Long-term borrowings consisted of the following:

	As of December 31	
	2010 RMB	2011 RMB
Secured long-term bank loans	44,000	13,500
Unsecured long-term bank loans	71,000	49,000
Total	115,000	62,500
Less: current portion of long-term bank loans	(61,000)	(16,000)
Non-current portion of long-term bank loans	54,000	46,500

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As of December 31, 2011, the Group has entered into twelve long-term loan agreements with local banks with terms ranging from one year to seven years to finance its working capital requirements. Ten of them bear a floating interest rate at 120% and one bears 140% of the People s Bank of China (PBOC) s base lending rate per annum and are re-priced annually. The other loan bears a floating interest rate at PBOC s base lending rate per annum and is re-priced annually. The weighted average interest rate of bank loans outstanding as of December 31, 2011 was 6.88% per annum and all were denominated in RMB. None of the loan agreements contains any financial covenant.

Secured long-term bank loans of RMB 13,500 were collateralized by land use rights and buildings with a net carrying value of approximately RMB 34,601. Unsecured long-term bank loans were guaranteed by the following parties:

- Bank loans of RMB 28,000 were guaranteed by a related party, Shanghai Yunhai Group.
- Bank loans of RMB 5,000 were guaranteed by an independent guarantee company, Jiangsu Donghaoling Investment Co., Ltd.
- Bank loans of RMB 6,000 were guaranteed by an independent guarantee company, Suzhou Agriculture Guarantee Co., Ltd.
- Bank loans of RMB 10,000 were guaranteed by a subsidiary, Beijing Ambow Online Software Co., Ltd.

The above long-term loans incurred guarantee fees of RMB 166, RMB 208 and interest expenses of RMB 9,228, RMB 6,751 for the years ended December 31, 2010 and 2011, of which RMB 680 and RMB 82 were capitalized in additions to construction in-progress in 2010 and 2011, respectively. The fair values of the long-term bank loans approximate their carrying amounts.

The repayment schedule of the long-term borrowings is as follows:

	As of December 31, 2011 **RMB**
Within one year	16,000
Between one and two years	28,500
Between two and three years	6,000
Between three and four years	6,000
Between four and five years	6,000
Beyond five years	

Balances related to indemnifications from the sellers are RMB 41,491, RMB 41,491 and RMB 27,894 as of December 31, 2009, 2010 and 2011, respectively.

As of December 31, 2011, short-term bank loans of RMB 3,150 and long-term bank loans of RMB 28,000 were guaranteed by minority shareholders of the Group and one of a minority shareholder s subsidiaries. And long-term loans of RMB 10,000 were guaranteed by Ambow Online.

13. CONVERTIBLE PREFERRED SHARES

Series A Convertible Preferred Shares

On February 10, 2005, the shareholders of Ambow Online, which were the predecessor of the Company, exchanged their shareholdings in Ambow Online for 1,800,000 Series A convertible preferred shares issued by AECL. At the same time as this reorganization, AECL issued 2,500,000 Series A convertible preferred shares to a creditor in exchange for the extinguishment of its loan outstanding at the time. The loan extinguishment was accounted for based on the fair value of Series A convertible preferred shares issued to the creditor.

These preferred shares were then exchanged on a 1 for 3 basis for preferred shares of the Company with equivalent rights, preferences, and privileges on July 18, 2007.

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The Group initially has classified the Series A convertible preferred shares as equity as these preferred shares cannot be redeemed. On August 5, 2010, upon completion of the IPO, all Series A convertible preferred shares outstanding were converted into Class B ordinary shares on a 1 for 1 basis. For further details, see the section redemption rights below.

Series B Convertible Preferred Shares

On December 2, 2005 and April 19, 2006, the Company issued an aggregate of 5,803,567 Series B convertible preferred shares for a purchase price of US$2.24 per share, net of issuance costs of US$801. Upon the first closing, the Company issued an additional 111,607 Series B convertible preferred shares upon the automatic conversion of US$150 convertible promissory notes held by a creditor at the time. A beneficial conversion feature of US$100 was recognized upon the automatic conversion of the convertible promissory notes based upon the fair value of the preferred shares received by the creditor.

In December 2005, in conjunction with the issuance of the Series B convertible preferred shares, the Company issued to its placement agent warrants to purchase an aggregate of 196,731 Series B convertible preferred shares at an exercise price of US$2.24 per share.

These preferred shares were then exchanged on a 1 for 3 basis for preferred shares of the Company with equivalent rights, preferences, and privileges on July 18, 2007. On July 20, 2007 the holders of the Series B convertible preferred shares waived their redemption rights at the time the Series C convertible redeemable preferred shares were issued.

The Group has determined that there was no embedded beneficial conversion feature attributable to the Series B convertible preferred shares because the initial effective conversion price of Series B convertible preferred shares was higher than the fair value of the Group s ordinary shares determined based on an independent third party valuation.

The Group has initially classified the Series B convertible preferred shares as equity as these preferred shares could not be redeemed. On August 5 2010, upon completion of the IPO, all Series B convertible preferred shares outstanding were converted into Class B ordinary shares on a 1 for 1 basis. For further details, see the section redemption rights below.

Series C Convertible Redeemable Preferred Shares

On July 27, 2007 and September 6, 2007, the Company issued an aggregate of 20,922,307 Series C convertible redeemable preferred shares for a purchase price of US$2.3181 per share, net of issuance costs of US$1,111. Upon the first closing, the Company issued an additional 2,465,074 Series C convertible redeemable preferred shares upon the automatic conversion of US$4,000 convertible promissory notes held by a creditor at the time. A beneficial conversion feature of US$1,714 was recognized upon the automatic conversion of the convertible promissory notes based upon the fair value of the preferred shares received by the creditor.

The Group has determined that there was no embedded beneficial conversion feature attributable to the Series C convertible redeemable preferred shares because the initial effective conversion price of Series C convertible redeemable preferred shares was higher than the fair value of the Group s ordinary shares determined based on an independent third party valuation.

The Group has initially classified the Series C convertible redeemable preferred shares as mezzanine equity as these preferred shares could be redeemed at the option of the holders after July 20, 2012. These shares were converted into Class B ordinary shares on August 5, 2010. For further details, see the section redemption rights below.

Series D Convertible Redeemable Preferred Shares

On September 8, 2008, September 23, 2008 and September 26, 2008, the Company issued an aggregate of 26,722,649 Series D convertible redeemable preferred shares for a purchase price of US$3.8544 per share, net of issuance costs of US$328.

The Group has determined that there was no embedded beneficial conversion feature attributable to the Series D convertible redeemable preferred shares because the initial effective conversion price of Series D convertible redeemable preferred shares was higher than the fair value of the Group s ordinary shares determined based on an independent third party valuation.

The Group has initially classified the Series D convertible redeemable preferred shares as mezzanine equity as these preferred shares could be redeemed at the option of the holders after July 20, 2012. These shares were converted into Class B ordinary shares on August 5, 2010. For further details, see the section redemption rights below.

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The key terms of the preferred shares are summarized as follows:

Dividend provisions

The holders of the preferred shares are entitled to receive non-cumulative dividends in preference of any payment of any dividend on ordinary shares, as and when declared by the Board of Directors as follows:

Series A convertible preferred shares	US$0.0050 per share, per annum
Series B convertible preferred shares	US$0.0597 per share, per annum
Series C convertible redeemable preferred shares	US$0.1855 per share, per annum
Series D convertible redeemable preferred shares	US$0.3084 per share, per annum

Liquidation rights

In the event of any liquidation, dissolution or winding up of the Company, either voluntarily or involuntarily, the holders of preferred shares shall be entitled to receive an amount as shown below, plus all declared and unpaid dividends. After such payment has been paid to holders of preferred shares, any remaining assets of the Company shall be distributed to the holders of ordinary shares and preferred shares pro rata on an as-converted basis:

Series A convertible preferred shares	US$0.0833 per share
Series B convertible preferred shares	US$0.7467 per share
Series C convertible redeemable preferred shares	US$2.3181 per share
Series D convertible redeemable preferred shares	US$3.8544 per share

Conversion rights

Each preferred share is convertible, at the option of the holder, at any time after the date of issuance of such preferred share according to a conversion ratio, subject to adjustments for dilution, including but not limited to stock splits, stock dividends and recapitalization. Each preferred share is convertible into a number of ordinary shares determined by dividing the applicable original issuance price by the conversion price. The conversion price of each preferred share is the same as its original issuance price and no adjustments to conversion price have occurred, other than for the preferred shares outstanding at the time of the 1 for 3 share exchange in July 2007. At December 31, 2009, each preferred share is convertible into one ordinary share.

Each preferred share automatically converts into ordinary shares upon the earlier of (i) the closing of an initial public offering at a price per share that reflects a pre-offering valuation of the Company of not less than US$600,000 (a Qualified Public Offering), or (ii) the written consent of holders of a majority of the outstanding shares of such series of preferred shares; provided that the conversion of Series C convertible redeemable preferred shares and Series D convertible redeemable preferred shares into ordinary shares pursuant to the foregoing clause shall

also require the written consent of at least two thirds of the outstanding shares of such series of preferred shares.

Voting rights

The holders of the preferred shares each has the right to one vote for each common share into which such series of preferred shares could then be converted, and with respect to such vote, such holder has full voting rights and powers equal to the voting rights and powers of the holders of common shares.

Redemption rights

At the date of issuance, subject to certain conditions, the holders of a majority of the outstanding Series B convertible preferred shares could require the Company to redeem the preferred shares in cash at the original purchase price plus all declared but unpaid dividends. However, the holders of the Series B convertible preferred shares waived their redemption rights at the time the Series C convertible redeemable preferred shares were issued. Since July 20, 2007, the Series B convertible preferred shares were no longer redeemable and so were reclassified from mezzanine equity to equity.

At any time after July 20, 2012, provided that a Qualified Public Offering has not occurred, the holders of a majority of the outstanding Series C convertible redeemable preferred shares or the holders of at least two thirds of the outstanding Series D convertible redeemable preferred shares may require the Company to redeem all of such series of preferred shares in cash equal to the greater of (i) original purchase price plus all declared but unpaid dividends, or (ii) their fair market value.

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The fair market value of the Series C convertible redeemable preferred shares and Series D convertible redeemable preferred shares are greater than their original purchase price as of December 31, 2009 and August 4, 2010. The accretion to the redemption value using the effective interest method was reflected as a reduction to net income to arrive at net (loss) income available to common shareholders in the accompanying consolidated statements of operations and amounted to RMB 157,877 and RMB 94,209 for the years ended December 31, 2009 and 2010.

On August 5, 2010, upon completion of the IPO, all preferred shares outstanding were converted into Class B ordinary shares on a 1 for 1 basis. Further, 590,193 Class B ordinary shares were issued upon exercise of the Series B warrants outstanding on August 5, 2010, at an exercise price of US$0.75 per share.

14. ORDINARY SHARES

Upon completion of the Company s initial public offering (IPO) in August 2010, 7,500,000 American depositary shares (ADSs) were issued through the IPO, and the selling share holders offered an additional 3,177,207 ADSs. Each ADS represents two Class A ordinary shares, par value US$0.0001 per share. 80,755,877 Class B Ordinary shares were issued upon conversion of all convertible preferred shares at a par value of US$0.0001 per share.

Holders of Class A ordinary shares and Class B ordinary shares have the same rights except for the following:

(1) Each Class A ordinary share is entitled to one vote, and each Class B ordinary share is entitled to ten votes and is convertible to one Class A ordinary share at any time; and

(2) Class A ordinary shares are not convertible into Class B ordinary shares under any circumstances.

As of December 31, 2010 there were 21,354,414 and 121,212,562 Class A and Class B ordinary shares issued and outstanding, respectively.

In 2011, there were 1,914,088 Class A ordinary shares issued and 25,819,594 Class B ordinary shares converted to Class A ordinary shares. As of December 31, 2011 there were 49,088,096 and 95,392,968 Class A and Class B ordinary shares issued and outstanding, respectively.

15. WARRANTS

In December 2005, in conjunction with the placement of Series B convertible preferred shares, the Company issued the placement agent with warrants to purchase an aggregate of 196,731 Series B Preferred Shares at an exercise price of US$2.24 per share (590,193 Series B Preferred Shares at an exercise price of US$0.75 per share, as adjusted for the 1 for 3 share exchange in July 2007). These warrants were to expire upon

the earlier of (i) five years after their issuance, or (ii) the initial public offering of the Company s equity securities. The warrants were initially recorded as a liability based on their estimated fair value in accordance with ASC Topic 480 Distinguishing Liabilities From Equity . Since July 20, 2007, the Series B convertible preferred shares were no longer redeemable and the warrants were reclassified from a liability to equity.

The aggregate fair value of the placement agent warrants at issuance and on July 20, 2007 was US$196 and US$393, respectively. In August 2010, all the 196,731 warrants were exercised at US$0.75 to purchase 590,193 ordinary shares on the 1 for 3 share exchange basis. The fair value of the exercised warrants was approximately US$362,922. The fair value of these warrants was estimated on the basis of the Black-Scholes option pricing model with the following assumptions:

	Issuance	July 20, 2007
Expected volatility	43% to 45%	34%
Risk-free interest rate	5.00%	4.53%
Expected dividend		
Expected life of the warrant	5 years	3 years
Fair value of preferred share	US$2.20	US$3.69

In July 2011, the Company granted 500,000 warrants to one of the senior management to purchase 500,000 Class A ordinary shares of the Company in exchange for services provided. Compensation cost was recognized based upon the fair value of the grant date. Please refer to Note 16 for additional information.

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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 1,500,000 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 20,282,353 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 thereunder. 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.

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 19,000,000 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 thereunder, 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 10,000,000 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) 25,000,000 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.

Warrants

In 2011, the Company granted 500,000 warrants to one of the senior management to purchase 500,000 Class A ordinary shares of the Company. The warrant awards vest on a quarterly basis over one year continuous service period, and will expire after eighteen months after the date of grant. The exercise price per share is RMB 19.01, which was the fair market value of the Company s ordinary shares on the date of Board of Director s approval. The aggregate intrinsic value at the date of grant was RMB 841. As of December 31, 2011, 500,000 warrants were outstanding, of which 250,000 were exercisable. The remaining contractual term was 1 year. The aggregate intrinsic value of warrants outstanding and exercisable was RMB 1,679 and RMB 840, respectively. The substance of this grant is similar to the grant of an option; this grant was accounted for as share-based compensation under ASC 718.

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As of December 31, 2009, 2010 and 2011, options granted to employees to purchase 9,901,485, 16,276,585 and 14,987,302 shares of ordinary shares and to non-employees to purchase 2,020,000, 2,045,000 and 1,775,000 shares of ordinary shares were outstanding, and options to purchase 8,360,868 and 20,960,768 and 20,605,963 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, 2009, 2010 and 2011 is as follows:

	Year ended December 31, 2009				Year ended December 31, 2010				Year ended December 31, 2011			
	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at beginning of year	9,940,800	4.23	7.5	163,835	11,921,485	8.01	6.9	253,681	18,321,585	15.90	7.1	553,155
Granted	3,373,885	25.98		(3,920)	6,701,100	31.61		(5,341)	992,700	32.91		(12,449
Exercised									(1,914,088)	1.47		36,433
Forfeited	(1,393,200)	24.48			(301,000)	21.43			(637,895)	27.73		
Outstanding at end of year	11,921,485	8.01	6.9	253,681	18,321,585	15.90	7.1	553,155	16,762,302	17.25	6.5	85,750
Exercisable at end of year	7,459,076	2.32	6.0	201,160	9,521,087	4.97	5.5	391,562	11,733,255	12.66	5.8	113,896

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Management of the Group is responsible for determining the fair value of options and warrants granted and has considered a number of factors when making this determination, including valuations. Before 2011 fair values of option awards to employee were estimated as of the date of grant using the Black-Scholes option valuation model. With a number of employees exercising their vested options in 2011, management has reassessed the exercise pattern and determined that going forward a Binomial Pricing model is a better model for estimating the fair values of options and warrants. From 2011, the fair values of option and warrants awards to employee were estimated as of the date of grant using the Binomial Pricing model. The Binominal Pricing model typically incorporates a large number of very short time periods to reflect a realistic range of possible prices that a share could achieve over the option s contractual term, which could result in several hundred total nodes. In addition, various probabilities could be assigned to each node to reflect the impact that a node is expected to have in conjunction with exercise and post-vesting termination assumption. Key inputs used in the Binomial Pricing model including: current stock price, exercise price, contractual life, risk free rate, expected volatility, exercise multiple, and post-vesting forfeit. Expected volatility is estimated based on historical volatility of comparable public companies for the period before the grant date with length commensurate to expected term of the options. The risk free rate is estimated based on the yield to maturity of China Sovereign bonds denominated in USD as at the grant date. Exercise multiple is the ratio of fair value of stock over the exercise price as at the time the option is exercises. The post vesting forfeit rate was based on historical statistical data of the Company. Assumptions used in the Binomial Pricing model are presented below:

	Year ended December 31, 2011
Risk-free rate of return	1.20%~4.40%
Exercise multiple (applicable to awards granted to employees only)	2~3
Post-vesting forfeiture rate (applicable to awards granted to employees only)	3%
Expected term	1.5~10
Volatility rate	41.00%~50.00%
Weighted average volatility rate	46.54%
Dividend yield	

The Black-Scholes model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable and requires the input of subjective assumptions, including the expected stock price volatility and estimated option life. Expected volatility is estimated based on historical volatility of comparable public companies for the period before the grant date with length commensurate to expected term of the options. Expected term is the period the options is expected to remain unexercised. The risk free rate is estimated based on the yield to maturity of China Sovereign bonds denominated in USD as at the grant date. No dividends were assumed in the Company s estimated option values. Assumptions used in the Black-Scholes model are presented below:

	Year ended December 31, 2009	Year ended December 31, 2010
Risk-free rate of return	3.30%~4.50%	2.04%~4.24%
Expected term	5.2~9.7	4.2~10.0
Volatility rate	44.04%~50.87%	45.80%~52.10%
Weighted average volatility rate	45.62%	47.42%
Dividend yield		

The Company estimates the forfeiture rate to be 3% for the share options granted as of December 31, 2009, 2010 and 2011.

The Company recorded share-based compensation expenses of RMB 13,531, RMB 34,214 and RMB 33,348 during the years ended December 31, 2009, 2010 and 2011, respectively, attributed based on a straight-line basis over the requisite service period for the entire award.

Total fair values of option and warrants vested are RMB 8,300, RMB 14,535 and RMB 48,414 for employees and RMB 5,610, RMB 3,778 and RMB 2,015 for non-employees during the years ended December 31, 2009, 2010 and 2011, respectively. Weighted average grant date fair values per share are RMB 12.10, RMB 15.07 and RMB 7.13 during the years ended December 31, 2009, 2010 and 2011. The Company did not capitalize any of the share-based compensation expenses as part of the cost of any asset during the years ended December 31, 2009, 2010 and 2011.

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As of December 31, 2011, there was RMB 53,972 of total unrecognized compensation expense related to non-vested share-based compensation arrangements. That cost is expected to be recognized over a weighted-average period of 1.68 years. During 2011, the Company has received RMB 2,684 as the proceeds of option exercise from employee and non-employee.

17. TAXATION

a. VAT

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

For all years presented, Ambow Online and the Shandong Software Companies have met these criteria and therefore were entitled to the VAT refund. Ambow Yuhua has met these criteria and was entitled to the VAT refund since 2011. For the years ended December 31, 2009, 2010 and 2011, the VAT payable amounted to approximately RMB 12,568, RMB 10,198 and RMB 10,161, respectively.

Suzhou Yisichuangyi Technology Co., Ltd. (Suzhou Career Enhancement) was a small scale VAT taxpayer in 2009, and was subject to 3% VAT on the revenue from software products sold within the PRC. From January 1, 2010, Suzhou Career Enhancement was changed from a small scale VAT taxpayer to a general VAT taxpayer and is subject to 17% VAT on the revenues from software products sold in the PRC.

b. Business tax

In China, business taxes are imposed by the government on the revenues arising from the provision of taxable services, the transfer of intangible assets and the sale of immovable properties in China. 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.

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 17.5% on assessable profits in 2007, and at 16.5% since the beginning of 2008, the effective date that the Hong Kong government promulgated a 1% decrease in the profit tax rate.

PRC

Significant components of the provision for income taxes on earnings for the years ended December 31, 2009, 2010 and 2011 are as follows:

	Years ended December 31,		
	2009 RMB	2010 RMB	2011 RMB
Current:			
PRC	6,665	51,812	58,904
Deferred:			
PRC	(3,893)	(14,177)	(16,673)
Provision for income tax	2,772	37,635	42,231

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Corporate entities

In March 2007, the Chinese government enacted the new Corporate Income Tax Law (CIT Law), and promulgated the related Implementing Regulations for the PRC Corporate Income Tax Law. The law and regulation came into effect on January 1, 2008. CIT Law, among other things, imposes a unified income tax rate of 25% for both domestic and foreign invested enterprises. High and New Technology Enterprises can still enjoy a favorable tax rate of 15%.

CIT Law provides a five-year transitional period for those entities established before March 16, 2007, which enjoyed a favorable income tax rate of less than 25% under the previous income tax laws and rules, to gradually change their rates to 25%. In addition, the Corporate Income Tax Law provides grandfather treatment for enterprises which were qualified as High and New Technology Enterprises under the previous income tax laws and were established before March 16, 2007, if they continue to meet the criteria for High and New Technology Enterprises after January 1, 2008. The grandfather provision allows these enterprises to continue to enjoy their unexpired tax holiday provided by the previous income tax laws and rules.

CIT 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 China. 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 China 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 CIT Law, if the earnings of a tax resident enterprise are distributed to another tax resident enterprise, the withholding tax can be exempted. According to CIT Law and CIT 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 China 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 China for the years ended December 31, 2009, 2010 and 2011.

A summary of the preferential tax treatments available to the Group s significant PRC entities of December 31, 2011 is as follows:

(i) Ambow Online was recognized as a Software Enterprise and a High and New Technology Enterprises , and was exempted from income tax on its profits for 2008 and 2009, and is subject to a 50% reduction in income tax rate from 2010 to 2012.

(ii) Ambow Yuhua obtained the certificate as a Software Enterprise , and is entitled to a preferential tax treatment for income tax on its profits beginning in 2011. Ambow Yuhua will be exempted from income tax for 2011 and 2012 and is subject to 50% reduction in income tax rate from 2013 to 2015.

During the years ended December 31, 2009, 2010 and 2011, if the Company s corporate subsidiaries and VIEs in the PRC had not been awarded tax holidays or received preferential tax treatment, the increase in tax expense and its net income per share effects would have been as follows:

	Years ended December 31,		
	2009 RMB	2010 RMB	2011 RMB
Increase in tax expense	(25,523)	(28,285)	(59,580)
Net income per share-basic	(0.65)	(0.33)	(0.42)
Net income per share-diluted	(0.65)	(0.25)	(0.40)

Private schools and colleges

For the Group s companies providing education services they are taxed as corporate enterprises as referred to above. For private schools or colleges operated for reasonable returns they are subject to income taxes at 25% after January 1, 2008 but were sometimes subject to deemed amounts or 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 between 1.75% to 4.0% on gross revenue or a fixed tax amount.

CIT Law includes specific criteria that need to be met by an entity to qualify as a not-for-profit organization in order to be exempted from corporate income tax. In November 2009, the MOF and SAT jointly issued the Circular on Management Issues Concerning

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Not-for-Profit Organizations Eligibility for Tax Exemption . This circular set out further clarification of the requirements for not-for-profit organizations, and stipulated that only not-for-profit organizations certified jointly by finance and taxation authorities are entitled to tax exemption, and the circular shall be implemented as of January 1, 2008. However, as of December 31, 2011 the detailed implementation guidance has not been provided to local tax authorities on how to apply these changes to schools and colleges.

The principal components of the Group s deferred tax assets and liabilities were as follows:

	As of December 31,	
	2010	**2011**
	RMB	**RMB**
Current deferred tax assets	7,916	22,280
Less: valuation allowance on current deferred tax assets		(5,154)
Total current deferred tax assets	7,916	17,126
Non-current deferred tax assets	21,937	50,265
Less: valuation allowance on non-current deferred tax assets*	(17,622)	(45,465)
Total non-current deferred taxes, net	4,315	4,800
Total deferred tax assets, net	12,231	21,926
Non-current deferred tax liabilities:		
- Unrecognized valuation surplus and deficit Acquisition	167,553	167,309
- Unrecognized valuation surplus and deficit Decrease due to amortization	(12,760)	(12,941)
Total deferred tax liabilities	154,793	154,368

* As certain of the Company s subsidiaries are moving from a loss making position to a profitable situation, only a partial valuation allowance was provided.

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The following represents a roll-forward of the valuation allowance for each of the years:

	As of December 31,		
	2009	2010	2011
	RMB	RMB	RMB
Balance at beginning of the year	2,926	17,468	17,622
Allowance made during the year	14,542	10,211	36,002
Reversals		(10,057)	(3,005)
Balance at end of the year	17,468	17,622	50,619

Reconciliation between total income tax expense and the amount computed by applying the weighted average statutory income tax rate to income before income taxes is as follows:

	Years ended December 31,		
	2009	2010	2011
	%	%	%
Weighted average statutory tax rate	23%	25%	25%
Tax effect of preferential tax treatments	(27)%	(15)%	(33)%
Tax effect of non-deductible expenses	6%	3%	5%
Tax effect of non-taxable income*	(15)%	(1)%	(1)%
Tax effect of tax-exempt entities	4%	7%	9%
Changes in valuation allowance	12%		19%
Effective tax rates	3%	19%	24%

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* The non-taxable income mainly includes a VAT refund. Due to the tax bureau changed the treatment of VAT refunds in 2010, the non-taxable income decreased in 2010.

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,		
	2009	2010	2011
	RMB	RMB	RMB
Unrecognized tax benefits, beginning of year	1,663	26,435	34,966
Increases due to business combinations*	19,738		
Increases related to current tax positions	5,034	8,531	11,356
Decrease due to business disposal			(551)
Unrecognized tax benefits, end of year	26,435	34,966	45,771

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* In 2009, the Group received an indemnification from every seller for unrecognized tax benefits payable arising from business combinations (see Note 22 Acquisitions for additional information) and recognized a corresponding tax indemnification asset at the acquisition date. The indemnification asset will continue to be measured on the same basis as the related unrecognized tax benefits payable, subject to collectability and contractual limitations on the indemnified amount until they are collected, sold, cancelled, or expire. Accordingly, the entire amount of unrecognized tax benefits arising from business combinations, if recognized, would not have any effect on the Group s annual effective tax rate.

The amounts of unrecognized tax benefits listed above are based on the recognition and measurement criteria of FIN 48, now codified as 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. The Group does not expect changes in unrecognized tax benefits recognized as of December 31, 2011 to be material in the next twelve months.

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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 claw back 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 tax years from 2006 to 2010 remain subject to examination by the tax authorities. There are no ongoing examinations by taxing authorities as of December 31, 2011.

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,		
	2009 RMB	**2010 RMB**	**2011 RMB**
Numerator:			
Net income from continuing operations attributable to Ambow Education Holding Ltd.	92,064	161,037	140,766
Preferred shares redemption value accretion	(157,877)	(94,209)	
Allocation of net income to participating preferred shareholders*	(93,611)	(55,534)	
Numerator for basic income (loss) from continuing operations per share	(159,424)	11,294	140,766
Numerator for basic income (loss) from discontinued operations per share	46,172	54,995	(119,581)
Numerator for diluted income (loss)) from continuing operations per share	(159,424)	15,849	140,766
Numerator for diluted income (loss)) from discontinued operations per share	46,172	54,995	(119,581)
Denominator:			
Denominator for basic income (loss) per share weighted average ordinary shares outstanding	39,193,092	85,551,412	142,939,038
Denominator for diluted income (loss) per share weighted average ordinary shares outstanding	39,193,092	112,122,045	150,432,812
Basic income (loss) per share- continuing operations	(4.07)	0.13	0.98
Basic income (loss) per share- discontinued operations	1.18	0.64	(0.84)
Diluted income (loss) per share- continuing operations	(4.07)	0.14	0.94
Diluted income (loss) per share- discontinued operations	1.18	0.49	(0.79)

* Net income for the periods has been allocated to preferred shares and ordinary shares based on their respective rights to share in dividends.

Basic net income per share is computed using the weighted average number of the ordinary shares outstanding during the period. Diluted net income per share is computed using the weighted average number of ordinary shares and ordinary share equivalents outstanding during the period. For the years ended December 31, 2009, 2010 and 2011, warrants that were anti-dilutive and excluded from the calculation of diluted net income per share were approximately 0.6 million shares, nil, and nil, respectively, preferred shares that were anti-dilutive and excluded from the calculation of diluted net income per share were approximately 80.8 million shares, nil and nil, respectively, options including the 0.5 million warrants issued to the senior management as discussed in Note 15 to purchase ordinary shares that were anti-dilutive and excluded from the calculation of diluted net income per share were approximately 11.9 million shares, 7.2 million shares and 9.3 million shares, respectively.

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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, 2011 were as follows:

	Amount RMB
2012	109,452
2013	84,558
2014	54,626
2015	38,401
2016	28,744
Thereafter	139,926
Total	455,707

Rent expenses for all cancelable and non-cancelable leases were approximately RMB 57,508, RMB 98,913 and RMB 131,595 for years ended December 31, 2009, 2010 and 2011, respectively.

Capital commitment

	Amount RMB
Capital commitment for purchase of property and equipment	2,619
Capital commitment for purchase of intangible assets	45,997
Total	48,616

Contingencies

In August 2010, Kaidi initiated an action against Beijing Shida Ambow Education & Technology Co., Ltd. (Ambow Shida), and Beijing Ambow Online Software Co., Ltd. (Ambow Online) in the Haidian District Court in Beijing, the People s Republic of China, alleging copyright infringement related to our Core Ebopo English and Ebopo English products. Kaidi applied to the court for an order that would require the defendants to stop the infringement, apologize publicly and pay the plaintiff damages in the amount of RMB 11,000,000. Ambow Shida and Ambow Online replied to the accusation, and Kaidi voluntarily withdrew the lawsuit after the first hearing for the preliminary evidence. In December 2010, Kaidi re-filed its claim for copyright infringement in the Haidian District Court in Beijing, the People s Republic of China, against Ambow Shida and Ambow Online. Ambow Shida and Ambow Online replied to the accusation. The court held a hearing to review the preliminary evidence in March 2011, and adjourned the case. The Company believes that it is still too early to assess the potential outcome of Kaidi s action but intends to defend itself vigorously. At this stage the amount of any potential loss cannot be reasonably estimated.

In March 2011, Mintel Learning Technology, Inc. (Mintel) filed a complaint against Ambow Education Holding Ltd. (Ambow) and Ambow s President and CEO, Dr. Jin Huang, in U.S. District Court for the Northern District of California, alleging a claim of trade secret misappropriation. On January 6, 2012, the Court granted Ambow s motion to dismiss the complaint for failure to state a claim. In an amended complaint filed on January 12, 2012, Mintel dropped its claim against Dr. Huang. Mintel maintained its claim against Ambow for trade secret misappropriation. In an order dated March 8, 2012, the Court denied Ambow s motion to dismiss the amended complaint. On March 22, 2012, Ambow filed an answer to the complaint, denying Mintel s claim. The parties are currently engaged in the early stages of discovery. Fact discovery will close on October 19, 2012, and expert discovery will close on December 14, 2012. The last day for the parties to file dispositive motions is January 11, 2013. The Court has set a preliminary pretrial conference for February 1, 2013. The Company believes that it is still too early to assess the potential outcome of Mintel s complaint but intends to defend itself vigorously.

On June 20, 2011, Zhuhai Mingfeng Co., Ltd. (Mingfeng) filed an arbitration claim against Ambow Sihua Education and Technology Co., Ltd. (Ambow Sihua) at China International Economic and Trade Arbitration Commission for breach of certain

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Equity Transfer Agreement dated July 2, 2008 between Ambow Sihua and Mingfeng (the Equity Agreement). Mingfeng requested Ambow Sihua to return 100% equity interest in Guangzhou Modern Olympic Training School (also referred to as Guangzhou HP Tutoring) and pay damages in an aggregate amount of RMB 22,195,044. On August 2, 2011, Ambow Sihua responded and counterclaimed against Mingfeng for its breach of the Equity Agreement. As a result of such violation, which occured prior to Mingfeng s filing of the arbitration claim against Ambow Sihua, Ambow Sihua had previously sent a written notice to Mingfeng to terminate the Equity Agreement on February 24, 2011 and requested Mingfeng to return the consideration for the transfer in a total amount of RMB 30 million, including RMB 1 million, USD 1.54 million and 1,008,403 Class B ordinary shares of Ambow held by Prime Honour Holdings Limited, a British Virgin Islands company affiliated to Mingfeng, and to pay RMB 21,065,603 as compensation for damage incurred as a result of such violation. An arbitration award was issued on April 19, 2012 to uphold our claims to rescind the Equity Agreement and receive a total amount of RMB30 million as compensation, and to pay RMB 14.44 million as compensation to Mingfeng. As a result, Beijing Tongshengle Investment Co., Ltd., (Tongshengle) a transferee of 100% equity interests of the Guangzhou School pursuant to certain equity transfer agreement with Ambow Sihua dated as of December 2, 2011, is entitled to the arbitration award pursuant to the supplementary agreement entered subsequently between Ambow Sihua and Tongshengle and is responsible for RMB 14.44 million compensation award to Mingfeng . As of December 31, 2011, Ambow Sihua s receivable and payable from and to Mingfeng were RMB 30 million and RMB 14.44 million, respectively. At the same time, Ambow Sihua booked payable to Tongshengle RMB 15.56 million.

In April 2012, Skillsoft Asia Pacific Pty Ltd (Skillsoft) filed a statement of claim against the Company in the High Court of the Hong Kong Special Administrative Region Court of First Instance alleging breach of contract. The complaint seeks a declaration that the contract between the Company and Skillsoft remains in full force and effect as well as monetary damages, interest and costs. The Company believes that it is still too early to assess the potential outcome of Skillsoft s claim but intends to defend itself vigorously.

The Rules Relating to the Establishment and Regulation of Independent Colleges, or Independent College Rules, promulgated by the Ministry of Education on February 22, 2008 and effective as of April 1, 2008, provide that an independent college established thereafter shall hold the land use right certificate or construction planning permit for land covering at least 500 mu (333,334 square meters), and independent colleges established prior to April 1, 2008 are required to meet this land requirement within a grace period of five years, namely prior to March 31, 2013. Our college, the Applied Technology College, was established prior to April 1, 2008 and is subject to such minimum land requirements and does not currently comply. To satisfy such requirements would require us to incur significant expenses that we are not able to quantify. Our failure to comply with the land requirements before the deadline or the capital commitment requirement may subject us to penalties, including fines of an unknown amount.

20. SEGMENT INFORMATION

US GAAP guidance on ASC Topic 280, Segment Reporting , establishes standards for reporting information about operating segments on a basis consistent with the Group s internal organizational structure as well as information about geographical areas, business segments and major customers in financial statements for details on the Group s business segments.

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 Colleges. 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 and colleges are grouped under the Better Jobs division because the segments offer services and programs that facilitate post-secondary students to obtain more attractive employment opportunities.

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, and gross profit. The CODM does not review balance sheet information to measure the performance of the reportable segments, nor is this part of the segment information regularly provided to the CODM.

Revenues, cost of revenues, and gross profit by segment were as follows. Please note the segment information has been recast to exclude discontinued operations.

For the year ended December 31, 2009

	Better School			Better Job			
	Tutoring RMB	**K-12 RMB**	**Subtotal RMB**	**Career Enhancement RMB**	**College RMB**	**Subtotal RMB**	**Consolidated RMB**
Net Revenues	313,245	131,413	444,658	249,567	42,490	292,057	736,715
Cost of revenue	(157,881)	(81,321)	(239,202)	(97,525)	(20,115)	(117,640)	(356,842)
Gross profit	155,364	50,092	205,456	152,042	22,375	174,417	379,873

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For the year ended December 31, 2010

	Better School			Better Job			
	Tutoring RMB	K-12 RMB	Subtotal RMB	Career Enhancement RMB	College RMB	Subtotal RMB	Consolidated RMB
Net Revenues	595,195	251,635	846,830	271,350	98,941	370,291	1,217,121
Cost of revenue	(265,313)	(141,942)	(407,255)	(77,238)	(42,311)	(119,549)	(526,804)
Gross profit	329,882	109,693	439,575	194,112	56,630	250,742	690,317

For the year ended December 31, 2011

	Better School			Better Job			
	Tutoring RMB	K-12 RMB	Subtotal RMB	Career Enhancement RMB	College RMB	Subtotal RMB	Consolidated RMB
Net Revenues	777,969	270,059	1,048,028	505,202	115,982	621,184	1,669,212
Cost of revenue	(341,942)	(168,964)	(510,906)	(168,546)	(35,880)	(204,426)	(715,332)
Gross profit	436,027	101,095	537,122	336,656	80,102	416,758	953,880

The Group primarily operates in the PRC. Substantially all the Group s long-lived assets are located in the PRC.

21. MAINLAND CHINA 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 25,200, RMB 40,216 and RMB 57,700 for the years ended December 31, 2009, 2010 and 2011, respectively.

In accordance with the Regulations on Enterprises with Foreign Investment of China and their articles of association, the Company s subsidiaries in the PRC, being foreign invested enterprises established in China, 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 China Company Laws, the Group s VIEs established in China 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 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 China 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 China 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 for the years ended December 31, 2009, 2010 and 2011:

		As of December 31,	
	2009	**2010**	**2011**
	RMB	**RMB**	**RMB**
Statutory surplus reserve	24,090	52,269	99,000
Education development reserve	10,065	19,490	23,199
Total	34,155	71,759	122,199

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The general reserve and statutory surplus reserve are restricted to set-off against losses, expansion of production and operation and increasing registered capital of the respective company. The education development fund is restricted to investment in fixed assets and the expansion of the respective school. The other reserves are not allowed to be transferred to the Company in terms of cash dividends, loans or advances, nor can they be distributed except in the event of liquidation.

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22. ACQUISITIONS

In 2009 and 2011, the Group entered into 13 and 7 acquisitions, respectively. The following table summarizes the business combinations completed during the years ended December 31, 2009 and 2011. The Group did not enter into any acquisition during the year ended December 31, 2010.

		Date of acquisition	Purchase price RMB	Goodwill RMB	Intangibles with indefinite life RMB	Amortizable intangibles RMB
Entities acquired during the year ended December 31, 2009						
(1)	Tianjin Tutoring	Jan 1, 2009	104,223	68,292	22,870	9,390
(2)	Shanghai Hero Educational Technology Training School (Shanghai Career Enhancement)	Jan 9, 2009	29,643	27,706	8,600	
(3)	Guangzhou Modern Olympic Training School (Guangzhou HP Tutoring)	Feb 5, 2009	33,182	20,373	8,950	7,100
(4)	Beijing SIWA Future Education Enterprise Co., Ltd (SIWA Future Holding)	Apr 3, 2009	450,060	178,180	40,580	81,173
(5)	Beijing Century Bersen Consulting Co., Ltd (Beijing Century Tutoring)	Apr 20, 2009	50,578	43,362	12,500	
(6)	Kunshan Zhouzhuang Taishidian Tourism Scenic Area Development Co., Ltd (Taishidian Holding)	Aug 8, 2009	187,271	81,714		17,580
(7)	Changsha K-12	Aug 31, 2009	155,755	108,036	29,400	45,480
(8)	Medium Range Online (Beijing) Technology Co., Ltd. (Beijing IT Career Enhancement)	Sep 2, 2009	35,401	27,652	8,070	2,120
(9)	Suzhou Career Enhancement	Sep 24, 2009	7,920	4,317		
(10)	Shenyang K-12	Sep 30, 2009	79,348	34,915	27,390	34,290
(11)	Changsha Bull s Ear Education Consulting Co., Ltd. (Changsha Career Enhancement)	Sep 30, 2009	86,777	67,216	21,200	5,290
(12)	Beijing JY Tutoring	Sep 30, 2009	123,008	99,900	36,380	5,150
(13)	Guangzhou Depth Pools Education Training Center (Guangzhou DP Tutoring)	Oct 9, 2009	60,800	47,804	14,970	1,760
		Sub-total	**1,403,966**	**809,467**	**230,910**	**209,333**
Entities acquired during the year ended December 31, 2011						
(14)	Guangzhou ZS Career Enhancement	Jan 1, 2011	96,644	87,147	19,800	5,233
(15)	Jinan Wangrong Investment Consulting Co., Ltd (Jinan WR Career Enhancement)	Jan 5, 2011	50,278	38,363	13,800	920
(16)	Hebei YL Career Enhancement	Jan 13, 2011	89,796	74,929	14,276	4,660
(17)	Chongqing Xiate Technology and Development Co., Ltd (Chongqing XT Career Enhancement)	Jan 21, 2011	34,739	26,743	9,227	310

(18)	Beijing Haidian Xin ganxian Training School and Beijing Huairou Xin ganxian Training School (Beijing XGX Tutoring)	March 10, 2011	34,531	27,771	6,400	1,923
(19)	Genesis Career Enhancement	May 1, 2011	53,185	39,781	19,300	5,270
(20)	Beijing JT Tutoring	Jul 12, 2011	80,000	72,495		10,295
		Sub-total	**439,173**	**367,229**	**82,803**	**28,611**

In connection with the acquisitions completed in 2009, the total purchase price generally consisted of cash and equity consideration. For the acquisitions completed in 2011, the purchase price only consisted of cash consideration. The acquisition date is determined based on the date at which the Group obtained control of the acquiree and the terms of the acquisition were agreed with the seller. Management of the Group is responsible for determining the fair value of equity issued, assets acquired, liabilities assumed and

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intangible assets identified as of the acquisition date and considered a number of factors including valuations from Marsh (Beijing) Risk Consulting Company Limited, an independent appraiser.

The fair value of the equity consideration relating to acquisitions in 2009 and 2010 was estimated using an average of the values determined using the market approach and the income approach as the combination of approaches is deemed to be the most indicative of the Group s fair value in an orderly transaction between market participants. Under the market approach, the Group utilizes publicly-traded comparable company information to determine the revenue and earnings multiples that are used to value the Group. Under the income approach, the Group determines the fair value based on estimated future cash flow of the Group discounted by an estimated weighted-average cost of capital, which reflects the overall level of inherent risk of the Group and the rate of return an outside investor would expect to earn. The cash flow projections for the Group are based on a six-year forecast of cash flows, derived from the most recent annual financial forecast, and a terminal value based on the perpetuity growth model. The Group determines the fair value of the Group as a whole on a quarterly basis. The fair value of equity exchanged is expected to approximate the fair value of the Group as of the acquisition date.

The Group will recognize additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date that, if known, would have resulted in the recognition of those assets and liabilities as of that date. The measurement period shall not exceed one year from the acquisition date. Further, any associated restructuring costs will be expensed in future periods. Goodwill represents the excess of costs over the fair value of assets and liabilities of businesses acquired. 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 Company used the following valuation methodologies to value assets acquired, liabilities assumed and intangible assets identified:

- Property and equipment land was valued using the market approach; buildings and equipment were valued using the cost approach;
- Trade names were valued using the income approach, specifically the relief from royalty method, which represents the benefits of owning the intangible asset rather than paying royalties for its use;
- Customer relationships, Student populations and Cooperative agreements were valued using the income approach, specifically the excess earnings method;
- Favorable leases were valued using the income approach, specifically the cost-saving method; and
- All other current assets and current liabilities carrying value approximated fair value at the time of acquisition.

Acquisition-related costs incurred for the acquisitions are not material and have been expensed as incurred in general and administrative expense.

Acquisitions completed in 2009:

(1) Tianjin Tutoring

On January 1, 2009, Ambow Sihua acquired a 100% equity interest in Tianjin Tutoring, an entity engaged in providing tutoring services. The Group believes the acquisition of Tianjin Tutoring is an integral piece of the Group s strategy to increase its market shares in providing after school tutoring services in China. The purchase price exceeded the fair value of the net tangible and intangible assets acquired from Tianjin Tutoring and as a result, the Group recorded goodwill in connection with this transaction. The total purchase price of RMB 104,223 consisted of RMB 47,349 in cash consideration and RMB 56,874 in equity exchanged through the issuance of 2,745,000 ordinary shares. The RMB 47,349 of total cash consideration less cash acquired of RMB 11,779 resulted in a net cash outlay of RMB 35,570.

The purchase price was allocated based on the fair values of the acquired assets and liabilities as follows:

	RMB	Weighted average amortization period at acquisition date (in years)
Cash and cash equivalents	11,779	
Prepaid and other current assets	4,407	
Indemnifications from the seller	3,735	
Property and equipment	101	

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	RMB	Weighted average amortization period at acquisition date (in years)
Intangible assets:		
Trade name	22,870	Indefinite
Student population	9,390	9.0
Goodwill	68,292	
Total assets acquired	120,574	
Deferred revenue	(4,407)	
Other liabilities assumed	(4,679)	
Deferred tax liability	(7,265)	
Total	104,223	

In accordance with the acquisition agreement, the seller agreed to indemnify the Group against certain liabilities incurred prior to the acquisition date. As such, the Group has estimated the total business tax liabilities, income tax liabilities and social welfare liabilities (included above within other liabilities assumed) at the acquisition date to be RMB 3,735 and has recorded a corresponding asset for the indemnifications from the seller as of the acquisition date. The Group has assessed the recoverability of the indemnifications from the seller at each reporting period. As of December 31, 2011, the Group concluded that the indemnifications from the seller continue to be recoverable.

Of the RMB 32,260 of acquired intangible assets, RMB 22,870 was assigned to a trade name that is not subject to amortization. The remaining amortizable intangible assets of RMB 9,390 have a useful life of 9.0 years. Goodwill is not tax deductible for tax purposes and is included in the Tutoring segment.

(2) Shanghai Career Enhancement

On January 9, 2009, Kunshan Ambow Education and Technology Co., Ltd. (Ambow Kunshan) acquired a 100% equity interest in Shanghai Career Enhancement, an entity engaged in providing career enhancement services. The Group believes the acquisition of Shanghai Career Enhancement is an integral piece of the Group s strategy to increase its market share for providing career enhancement services in China. The purchase price exceeded the fair value of the net tangible and intangible assets acquired from Shanghai Career Enhancement and as a result, the Group recorded goodwill in connection with this transaction. The total purchase price of RMB 29,643 consisted of RMB 18,447 in cash consideration and RMB 11,196 in equity exchanged through the issuance of 540,371 ordinary shares. The RMB 18,447 of total cash consideration less cash acquired of RMB 49 resulted in a net cash outlay of RMB 18,398.

The purchase price was allocated based on the fair values of the acquired assets and liabilities as follows:

	RMB	Weighted average amortization period at acquisition date (in years)
Cash and cash equivalents	49	
Indemnifications from the seller	1,598	
Intangible assets:		
Trade name	8,600	Indefinite

Goodwill	27,706
Total assets acquired	37,953
Deferred revenue	(3,661)
Other liabilities assumed	(2,499)
Deferred income taxes	(2,150)
Total	29,643

In accordance with the acquisition agreement, the seller agreed to indemnify the Group against certain liabilities incurred prior to the acquisition date. As such, the Group has estimated the total business tax liabilities, income tax liabilities and social welfare liabilities (included above within other liabilities assumed) at the acquisition date to be RMB 1,598 and has recorded a corresponding asset for

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the indemnifications from the seller as of the acquisition date. The Group has assessed the recoverability of the indemnifications from the seller at each reporting period. As of December 31, 2011, the Group concluded that the indemnifications from the seller continue to be recoverable.

The RMB 8,600 of acquired intangible assets relates to a trade name with an indefinite life that is not subject to amortization. Goodwill is not tax deductible for tax purposes. For the purposes of presenting operating segments Shanghai Career Enhancement and the goodwill arising on its acquisition are classified within the Career Enhancement segment.

(3) Guangzhou HP Tutoring

On February 5, 2009, Ambow Sihua acquired a 100% equity interest in Guangzhou HP Tutoring, an entity engaged in providing after-school tutoring services for junior high and high school students. The Group believes the acquisition of Guangzhou HP Tutoring is an integral piece of the Group s strategy to increase its market share for providing after school tutoring services in China. The purchase price exceeded the fair value of the net tangible and intangible assets acquired from Guangzhou HP Tutoring and as a result, the Group recorded goodwill in connection with this transaction. The total purchase price of RMB 33,182 consisted of RMB 11,530 in cash consideration and RMB 21,652 in equity exchanged through the issuance of 1,008,403 ordinary shares. The RMB 11,530 of total cash consideration less cash acquired of RMB 693 resulted in a net cash outlay of RMB 10,837.

The purchase price was allocated based on the fair values of the acquired assets and liabilities as follows:

	RMB	**Weighted average amortization period at acquisition date (in years)**
Cash and cash equivalents	693	
Indemnifications from the seller	371	
Prepaid and other current assets	403	
Other non-current assets	866	
Property and equipment	121	
Intangible assets:		
Trade name	8,950	Indefinite
Student population	4,040	4.4
Cooperative agreement	3,060	5.2
Goodwill	20,373	
Total assets acquired	38,877	
Deferred revenue	(669)	
Other liabilities assumed	(1,022)	
Deferred income taxes	(4,004)	
Total	33,182	

In accordance with the acquisition agreement, the seller agreed to indemnify the Group against certain tax liabilities incurred prior to the acquisition date. As such, the Group has estimated the total business tax liabilities and income tax liabilities (included above within other liabilities assumed) at the acquisition date to be RMB 371 and has recorded a corresponding asset for the indemnifications from the seller as of the acquisition date. The Group has assessed the recoverability of the indemnifications from the seller at each reporting period. As of

December 31, 2011, the Group concluded that the indemnifications from the seller continue to be recoverable.

Of the RMB 16,050 of acquired intangible assets, RMB 8,950 was for a trade name with an indefinite life that is not subject to amortization. The remaining amortizable intangible assets of RMB 7,100 have a useful life of 4.7 years. Goodwill is not tax deductible for tax purposes. For the purposes of presenting operating segments Guangzhou HP Tutoring and the goodwill arising on its acquisition are classified within the Tutoring segment.

(4) SIWA Future Holding

On April 3, 2009, Ambow Sihua and Ambow Shanghai acquired a 100% equity interest in SIWA Future Holding, an entity engaged in providing education services to students from primary level through to college level in Beijing.

SIWA Future Holding owns a privately operated school providing services to primary, junior high and high school students. SIWA Future Holding also has training centers that provide after school tutoring services. Furthermore, SIWA Future Holding has

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established the wholly owned Beijing Century College through a cooperation arrangement with Beiyou Daxue. The Group believes the acquisition of SIWA Future Holding is an integral piece of the Group s strategy to become one of the most comprehensive private education service providers in China.

The total purchase price of RMB 450,060 consisted of RMB 390,360 in cash consideration and RMB 59,700 in equity exchanged through the issuance of 2,925,687 ordinary shares on the acquisition date. Furthermore, the Group agreed to extend payment terms with the seller whereby the remaining RMB 350,000 would be paid over 18 years, RMB 20,000 for the first 17 years and RMB 10,000 for the 18th year of the payment term. This payment term starts at the earlier of (a) March 7, 2016 or (b) upon obtainment of an updated education license before the fifth anniversary of the effective date of the acquisition agreement. The extended payment terms are only contingent upon the passage of time. Accordingly, the Group discounted the extended payment based on its incremental borrowing rate with the expectation that the education license will be obtained by the fifth anniversary of the effective date of this acquisition agreement. The net present value of the extended payment term is estimated to be RMB 160,360. The RMB 390,360 of total cash consideration less cash acquired of RMB 46,916 resulted in a net cash outlay of RMB 343,444.

With the acquisition of SIWA Future Holding, the Group also acquired significant land use rights that are allocated by the Chinese government. To account for the fair value of acquired allocated land use rights, the Group used a combination of sales comparisons and benchmark land sale price adjustment methods to arrive at the valuation results.

The purchase price exceeded the fair value of the net tangible and intangible assets acquired from SIWA Future Holding and as a result, the Group recorded goodwill in connection with this transaction.

The purchase price was allocated based on the fair values of the acquired assets and liabilities as follows:

	RMB	**Weighted average amortization period at acquisition date (in years)**
Cash and cash equivalents	46,916	
Term deposits	1,000	
Accounts receivable	1,383	
Indemnifications from the seller	12,312	
Prepaid and other current assets	145,141	
Other non-current assets	539	
Property and equipment	206,173	
Prepayments for land use rights	158,590	
Intangible assets:		
Trade name	40,580	Indefinite
Cooperative agreement	81,173	10.3
Goodwill	178,180	
Total assets acquired	871,987	
Deferred revenue	(68,729)	
Short-term and long-term borrowings	(170,000)	
Termination liability	(22,135)	
Other liabilities assumed	(100,840)	

Deferred tax liability	(60,223)
Total	450,060

In connection with the acquisition agreement, the Group has entered into the following key arrangements:

The Group entered into a contingent refundable arrangement with the seller of SIWA Future Holding, whereby the seller agreed to refund a portion of the paid consideration to the Group should the acquired entity fail to meet certain minimum enrollment requirements in the first year after acquisition. As of the acquisition date, the Group estimated the fair value of the refundable consideration to be RMB 0 based on estimated probability of receiving such a refund. Hence, the Group did not record any refundable consideration. As of December 31, 2011, the Group had confirmed with the seller that no refund is required.

The Group assumed a termination liability in connection with the cooperation agreement entered into between SIWA Future Holding and Beiyou Daxue. Upon the end of the agreement period, Beiyou Daxue will be eligible for 35% of the undistributed net assets of

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Beijing Century College even though Beiyou Daxue has no equity interest in Beijing Century College. Should the Group decide to terminate the cooperative agreement prior to the end of the agreement, the Group is required to pay a RMB 40,000 termination penalty. As of the acquisition date, the Group estimated the liabilities to be RMB 22,135, after applying a discount rate of 5.94%. As of December 31, 2011, the Group recorded an accretion expense of RMB 10,691 in connection with this termination liability.

In accordance with the acquisition agreement, the seller agreed to indemnify the Group against certain liabilities incurred prior to the acquisition date. As such, the Group has estimated the maximum total business tax liabilities, income tax liabilities and social welfare liabilities (included above within other liabilities assumed) at the acquisition date to be RMB 12,312 and has recorded a corresponding asset for the indemnifications from the seller as of the acquisition date. The Group calculated the amount of such indemnification it expects to receive based on SIWA Future Holding s incurred business tax and income tax liabilities of past years and unpaid social welfare balances. The Group has assessed the recoverability of the indemnifications from the seller at each reporting period. As of December 31, 2011, the Group reclassified the indemnifications balances related to Beijing Century College Group to assets held for sale because of the initiating disposal transaction. The remaining indemnifications from the seller continue to be recoverable.

Of the RMB 121,753 of acquired intangible assets, RMB 40,580 relates to trade names with indefinite lives that are not subject to amortization. The remaining amortizable intangible assets of RMB 81,173 have a useful life of 10.3 years. Goodwill is not tax deductible for tax purposes. For the purposes of presenting operating segments the various schools and colleges of SIWA Future Holding and the goodwill arising on its acquisition are classified within the Colleges and K-12 schools segments. The allocation of goodwill to the Colleges and K-12 schools segments is RMB 76,154 and RMB 102,026, respectively.

Revenue and income after tax of SIWA Future Holding from the date of acquisition to December 31, 2009 were RMB 152,922 and RMB 29,063, respectively. And these amounts have been included in the consolidated financial statements.

In December 2011, the Group commenced proceedings to dispose Beijing Century College Group and 21st School back to the original owner, Xihua Group. Refer to Note 24(b) for details.

(5) Beijing Century Tutoring

On April 20, 2009, Ambow Shida acquired the 100% equity interest in Beijing Century Tutoring, an entity engaged in providing tutoring services. The Group believes the acquisition of Beijing Century Tutoring is an integral piece of the Group s strategy to increase its market share of providing after school tutoring services in China. The purchase price exceeded the fair value of the net tangible and intangible assets acquired from Beijing Century Tutoring and as a result, the Group recorded goodwill in connection with this transaction. The total purchase price of RMB 50,578 consisted of RMB 29,242 in cash consideration and RMB 21,336 in equity exchanged through the issuance of 856,461 ordinary shares. The RMB 29,242 of total cash consideration less cash acquired of RMB 1,047 resulted in a net cash outlay of RMB 28,195.

The purchase price was allocated based on the fair values of the acquired assets and liabilities as follows:

	RMB	Weighted average amortization period at acquisition date (in years)
Cash and cash equivalents	1,047	
Indemnifications from the seller	758	
Prepaid and other current assets	3,110	
Other non-current assets	8	
Property and equipment	14	
Intangible assets:		
Trade name	12,500	Indefinite
Goodwill	43,362	
Total assets acquired	60,799	
Deferred revenue	(5,400)	
Other liabilities assumed	(1,696)	
Deferred tax liability	(3,125)	
Total	50,578	

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In accordance with the acquisition agreement, the seller agreed to indemnify the Group against certain tax liabilities incurred prior to the acquisition date. As such, the Group has estimated the total business tax liabilities and income tax liabilities (included above within other liabilities assumed) at the acquisition date to be RMB 758 and has recorded a corresponding asset for the indemnifications from the seller as of the acquisition date. The Group has assessed the recoverability of the indemnifications from the seller at each reporting period. As of December 31, 2011, the Group concluded that the indemnifications from the seller continue to be recoverable.

The RMB 12,500 of acquired intangible assets relates to a trade name with an indefinite life that is not subject to amortization. Goodwill is not tax deductible for tax purposes. For the purposes of presenting operating segments Beijing Century Tutoring and the goodwill arising on its acquisition are classified within the Tutoring segment.

(6) Taishidian Holding

On August 8, 2009, Ambow Shida acquired a 70% equity interest in Taishidian Holding, an entity engaged in providing education services to college students. Taishidian Holding has established a wholly owned entity called Applied Technology College in cooperation with Soochow University. The Group believes the acquisition of Taishidian Holding is an integral piece of the Group s strategy to increase its market shares in providing college services in China. The purchase price exceeded the fair value of the net tangible and intangible assets acquired from Taishidian Holding and as a result, the Group recorded goodwill in connection with this transaction. The total purchase price of RMB 187,271 consisted of RMB 171,524 in cash consideration and RMB 15,747 in equity exchanged through the issuance of 538,596 ordinary shares on the acquisition. The RMB 171,524 of total cash consideration less cash acquired of RMB 7,370 resulted in a net cash outlay of RMB 164,154.

The purchase price was allocated based on the fair values of the acquired assets and liabilities as follows:

	RMB	**Weighted average amortization period at acquisition date (in years)**
Cash and cash equivalents	7,370	
Restricted cash	10,000	
Term deposits	200	
Accounts receivable	273	
Indemnifications from the seller	9,806	
Prepaid and other current assets	34,286	
Land use rights	104,330	
Property and equipment	259,298	
Intangible assets:		
Cooperative agreement	17,580	10.0
Goodwill	81,714	
Total assets acquired	524,857	
Deferred revenue	(316)	
Short-term and long-term borrowings	(191,500)	
Other liabilities assumed	(86,645)	
Deferred tax liability	(11,295)	
Non-controlling interest	(47,830)	
Total	187,271	

The fair value of the non-controlling interest is based on significant inputs that are not observable in the market and thus represents Level 3 measurements as defined in SFAS 157. Key assumptions include:

(1) discount rate of 23%;

(2) a terminal value based on a multiple of approximately five times the annual EBITDA forecast five years after the acquisition date;

(3) financial multiples of companies deemed to be similar to the acquired schools; and

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(4) adjustments because of the lack of control or lack of marketability that market participants would consider when estimating the fair value of the non-controlling interest of the acquired schools.

In accordance with the acquisition agreement, the seller agreed to indemnify the Group against certain tax liabilities (included within other liabilities assumed) incurred prior to the acquisition date. As such, the Group has estimated the maximum income tax liabilities at the acquisition date to be RMB 9,806 and has recorded a corresponding asset for the indemnifications from the seller as of the acquisition date. The Group calculated the amount of such indemnifications it expects to receive based on Taishidian Holding s income tax liabilities of past years.

The Group has assessed the recoverability of the indemnifications from the seller at each reporting period. As of December 31, 2011, the Group concluded that the indemnifications from the seller continue to be recoverable.

The RMB 17,580 was assigned to amortizable intangible assets that have a useful life of 10.0 years. Goodwill is not tax deductible for tax purposes. For the purposes of presenting operating segments, Taishidian Holding and the goodwill arising on its acquisition is included in the Colleges segment.

Revenue and income after tax of Taishidian Holding from the date of acquisition to December 31, 2009 was RMB 46,195 and RMB 4,201, respectively, and these amounts have been included in the consolidated financial statements.

(7) Changsha K-12

On August 31, 2009, Ambow Shida acquired a 100% equity interest in Changsha K-12, an entity engaged in providing K-12 education services for junior high and high school students. 30% of the equity interest was acquired contractually and such interest will be transferred to the Group in 25 years unconditionally. The Group believes the acquisition of Changsha K-12 is an integral piece of the Group s strategy to increase the market shares in providing K-12 education services in China. The purchase price exceeded the fair value of the net tangible and intangible assets acquired from Changsha K-12 and as a result, the Group recorded goodwill in connection with this transaction. The total purchase price of RMB 155,755 consisted of RMB 83,910 in cash consideration and RMB 71,845 in equity exchanged through the issuance of 2,457,272 ordinary shares. The RMB 83,910 of total cash consideration less cash acquired of RMB 12,801 resulted in a net cash outlay of RMB 71,109.

The purchase price was allocated based on the fair values of the acquired assets and liabilities as follows:

	RMB	**Weighted average amortization period at acquisition date (in years)**
Cash and cash equivalents	12,801	
Indemnifications from the seller	10	
Prepaid and other current assets	27,070	

Property and equipment	28,227	
Intangible assets:		
Trade name	29,400	Indefinite
Student population	15,270	15.0
Favorable lease	30,210	20.0
Goodwill	108,036	
Total assets acquired	251,024	
Deferred revenue	(42,401)	
Other liabilities assumed	(34,486)	
Deferred tax liability	(18,382)	
Total	155,755	

In accordance with the acquisition agreement, the seller agreed to indemnify the Group against certain tax liabilities incurred prior to the acquisition date. As such, the Group has estimated the income tax liabilities (included within other liabilities assumed) at the acquisition date to be RMB 10 and has recorded a corresponding asset for the indemnification from the seller as of the acquisition date. The Group has assessed the recoverability of the indemnification from the seller at each reporting period. As of December 31, 2011, the Group concluded that the indemnification from the seller continues to be recoverable. Of the RMB 74,880 of acquired intangible assets, RMB 29,400 was assigned to trade names that are not subject to amortization. The remaining amortizable intangible assets of RMB 45,480 have a useful life of 18.3 years. No value was assigned to the 30% of equity interest acquired contractually that

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will be transferred to the Group in 25 years unconditionally without providing any additional consideration. Goodwill is not tax deductible for tax purposes. For the purposes of presenting operating segments, Changsha K-12 and the goodwill arising on its acquisition are classified within the K-12 schools segment.

Revenue and income after tax of Changsha K-12 from the date of acquisition to December 31, 2009 was RMB 32,466 and RMB 11,169, respectively, and these amounts have been included in the consolidated financial statements.

(8) Beijing IT Career Enhancement

On September 2, 2009, Ambow Kunshan acquired a 100% equity interest in Beijing IT Career Enhancement, an entity engaged in providing career enhancement services. The Group believes the acquisition of Beijing IT Career Enhancement is an integral piece of the Group s strategy to increase its market shares in providing career enhancement services in China. The purchase price exceeded the fair value of the net tangible and intangible assets acquired from Beijing IT Career Enhancement and as a result, the Group recorded goodwill in connection with this transaction. The total purchase price of RMB 35,401 consisted of RMB 19,402 in cash consideration and RMB 15,999 in equity exchanged through the issuance of 547,400 ordinary shares. The RMB 19,402 of total cash consideration less cash acquired of RMB 1,292 resulted in a net cash outlay of RMB 18,110.

The purchase price was allocated based on the fair values of the acquired assets and liabilities as follows:

	RMB	**Weighted average amortization period at acquisition date (in years)**
Cash and cash equivalents	1,292	
Accounts receivable	439	
Indemnifications from the seller	833	
Prepaid and other current assets	105	
Property and equipment	186	
Intangible assets:		
Trade name	8,070	Indefinite
Customer relationship	2,120	4.3
Goodwill	27,652	
Total assets acquired	40,697	
Deferred revenue	(438)	
Other liabilities assumed	(2,446)	
Deferred tax liability	(2,412)	
Total	35,401	

In accordance with the acquisition agreement, the seller agreed to indemnify the Group against certain tax liabilities incurred prior to the acquisition date. As such, the Group has estimated the total business tax liabilities and income tax liabilities (included above within other liabilities assumed) at the acquisition date to be RMB 833 and has recorded a corresponding asset for the indemnifications from the seller as of the acquisition date. The Group has assessed the recoverability of the indemnifications from the seller at each reporting period. As of December 31, 2011, the Group concluded that the indemnifications from the seller continue to be recoverable.

Of the RMB 10,190 of acquired intangible assets, RMB 8,070 was assigned to trade names that are not subject to amortization. The remaining amortizable intangible assets of RMB 2,120 have a useful life of 4.3 years. Goodwill is not tax deductible for tax purposes. For the purposes of presenting operating segments, Beijing IT Career Enhancement and the goodwill arising in its acquisition are classified within the Career Enhancement segment.

(9) Suzhou Career Enhancement

On September 24, 2009, Ambow Kunshan acquired a 100% equity interest in Suzhou Career Enhancement, an entity engaged in providing career enhancement services. The Group believes the acquisition of Suzhou Career Enhancement is an integral piece of the Group s strategy to increase its market shares in providing career enhancement services in China. The purchase price exceeded the fair value of the net tangible and intangible assets acquired from Suzhou Career Enhancement and as a result, the Group recorded goodwill in connection with this transaction. The total purchase price is RMB 7,920. The RMB 7,920 of total cash consideration less cash acquired of RMB 2,027 resulted in a net cash outlay of RMB 5,893.

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The purchase price was allocated based on the fair values of the acquired assets and liabilities as follows:

	RMB
Cash and cash equivalents	2,027
Accounts receivable	529
Prepaid and other current assets	50
Other non-current assets	960
Property and equipment	147
Goodwill	4,317
Total assets acquired	8,030
Other liabilities assumed	(110)
Total	7,920

In accordance with the acquisition agreement, the seller agreed to indemnify the Company against certain liabilities incurred prior to the acquisition date. At the acquisition date and as of December 31, 2011 the Group has estimated that no such liabilities existed.

Goodwill is not tax deductible for tax purposes. For the purpose of presenting operating segments, Suzhou Career Enhancement and the goodwill arising on its acquisition are classified within the Career Enhancement segment.

(10) Shenyang K-12

On September 30, 2009, Ambow Shida acquired a 90% equity interest in Shenyang K-12, an entity engaged in providing K-12 education services for junior high and high school students. The Group believes the acquisition of Shenyang K-12 is an integral piece of the Group s strategy to increase its market share in providing K-12 education services in China. The purchase price exceeded the fair value of the net tangible and intangible assets acquired from Shenyang K-12 and as a result, the Group recorded goodwill in connection with this transaction. The total purchase price of RMB 108,968 consisted of RMB 59,760 in cash consideration and RMB 49,208 in equity exchanged through the issuance of 1,679,656 ordinary shares. The RMB 59,760 of total cash consideration less cash acquired of RMB 404 resulted in a net cash outlay of RMB 59,356.

The purchase price was allocated based on the fair values of the acquired assets and liabilities as follows:

	RMB	Weighted average amortization period at acquisition date (in years)
Cash and cash equivalents	404	
Indemnifications from the seller	44	
Prepaid and other current assets	38,818	
Property and equipment	5,786	
Intangible assets:		
Trade name	27,390	Indefinite

Student population	2,190	5.9
Favorable lease	32,100	20.0
Goodwill	64,535	
Total assets acquired	171,267	
Deferred revenue	(30,629)	
Other liabilities assumed	(7,411)	
Deferred tax liability	(15,399)	
Non-controlling interest	(8,860)	
Total	108,968	

In December 2009, Ambow and the original shareholder of Shenyang K-12 signed supplemental agreements to reduce the total consideration of Shenyang K-12. Total consideration was revised down by RMB 29,620 which consisted of RMB 16,200 in cash consideration and RMB 13,420 in equity exchanged through the reduction of 458,088 ordinary shares. The change in total consideration arose due to new information identified subsequent to the acquisition date that affected the determination of the total consideration. Since the new information related to circumstances existing as of the acquisition date, this has been accounted for as a

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measurement period adjustment and reduces goodwill in the measurement period. This directly revised down the amount of goodwill from RMB 64,535 to RMB 34,915.

As of December 31, 2009, 1,221,568 ordinary shares due to the seller of Shenyang K-12 had not been issued and were subsequently issued in February 2010. The fair value of these outstanding shares has been reflected in Additional Paid-In Capital at the acquisition date.

The fair value of the non-controlling interest is based on significant inputs that are not observable in the market and thus represents Level 3 measurements as defined in SFAS 157. Key assumptions include:

(1) discount rate of 23%;

(2) a terminal value based on a multiple of approximately five times the annual EBITDA forecast five years after the acquisition date;

(3) financial multiples of companies deemed to be similar to the acquired schools; and

(4) adjustments because of the lack of control or lack of marketability that market participants would consider when estimating the fair value of the non-controlling interest of the acquired schools.

In accordance with the acquisition agreement, the seller agreed to indemnify the Group against certain tax liabilities incurred prior to the acquisition date. As such, the Group has estimated income tax liabilities (include above within other liabilities assumed) at the acquisition date to be RMB 44 and has recorded a corresponding asset for the indemnification from the seller as of the acquisition date. The Group has assessed the recoverability of the indemnification from the seller at each reporting period. As of December 31, 2011, the Group concluded that the indemnification from the seller continue to be recoverable.

Of the RMB 61,680 of acquired intangible assets, RMB 27,390 was assigned to a trade name that is not subject to amortization. The remaining amortizable intangible assets of RMB 34,290 have a useful life of 19.1 years. Goodwill is not tax deductible for tax purposes. For the purposes of presenting operating segments, Shenyang K-12 and the goodwill arising on its acquisition are classified within the K-12 schools segment.

(11) Changsha Career Enhancement

On September 30, 2009, Ambow Shanghai acquired a 100% equity interest in Changsha Career Enhancement, an entity engaged in providing career enhancement services. The Group believes the acquisition of Changsha Career Enhancement is an integral piece of the Group s strategy to increase its market share in providing career enhancement services in China. The purchase price exceeded the fair value of the net tangible and intangible assets acquired from Changsha Career Enhancement and as a result, the Group recorded goodwill in connection with this transaction. The total purchase price of RMB 86,777 consisted of RMB 47,525 in cash consideration and RMB 39,252 in equity exchanged through the issuance of 1,339,837 ordinary shares. The RMB 47,525 of total cash consideration less cash acquired of RMB 7,637 resulted in a net cash outlay of RMB 39,888.

The purchase price was allocated based on the fair values of the acquired assets and liabilities as follows:

	RMB	**Weighted average amortization period at acquisition date (in years)**
Cash and cash equivalents	7,637	
Prepaid and other current assets	4,172	
Indemnifications from the seller	1,702	
Other non-current assets	590	
Property and equipment	4,740	
Intangible assets:		
Trade name	21,200	Indefinite
Student population	5,290	2.8
Goodwill	67,216	
Total assets acquired	112,547	
Deferred revenue	(16,246)	
Other liabilities assumed	(3,592)	

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	RMB	Weighted average amortization period at acquisition date (in years)
Deferred tax liability	(5,932)	
Total	86,777	

In accordance with the acquisition agreement, the seller agreed to indemnify the Group against certain tax liabilities incurred prior to the acquisition date. As such, the Group has estimated the total business tax liabilities (included above within other liabilities assumed) at the acquisition date to be RMB 1,702 and has recorded a corresponding asset for the indemnification from the seller as of the acquisition date. The Group has assessed the recoverability of the indemnification from the seller at each reporting period. As of December 31, 2011, the Group concluded that the indemnification from the seller continue to be recoverable.

Of the RMB 26,490 of acquired intangible assets, RMB 21,200 was assigned to trade names that are not subject to amortization. The remaining amortizable intangible assets of RMB 5,290 have a useful life of 2.8 years. Goodwill is not tax deductible for tax purpose. For the purposes of presenting operating segments, Changsha Career Enhancement and the goodwill arising on its acquisition are classified within the Career Enhancement segment.

(12) Beijing JY Tutoring

On September 30, 2009, Ambow Sihua acquired a 100% equity interest in Beijing JY Tutoring, an entity engaged in providing after-school tutoring services for junior high and high school students. The Group believes the acquisition of Beijing JY Tutoring is an integral piece of the Group s strategy to increase its market shares in providing after school tutoring services in China. The purchase price exceeded the fair value of the net tangible and intangible assets acquired from Beijing JY Tutoring and as a result, the Group recorded goodwill in connection with this transaction. The total purchase price of RMB 123,008 consisted of RMB 79,979 in cash consideration and RMB 43,029 in equity exchanged through the issuance of 1,468,744 ordinary shares. The RMB 79,979 of total cash consideration less cash acquired of RMB 305 resulted in a net cash outlay of RMB 79,674.

The purchase price was allocated based on the fair values of the acquired assets and liabilities as follows:

	RMB	Weighted average amortization period at acquisition date (in years)
Cash and cash equivalents	305	
Accounts receivable	50,140	
Prepaid and other current assets	5,581	
Other non-current assets	53	
Property and equipment	519	
Intangible assets:		
Trade name	36,380	Indefinite
Student population	5,150	5.3
Goodwill	99,900	
Total assets acquired	198,028	

Deferred revenue	(63,764)
Other liabilities assumed	(1,000)
Deferred tax liability	(10,256)
Total	123,008

In accordance with the acquisition agreement, the seller agreed to indemnify the Company against certain liabilities incurred prior to the acquisition date. At the acquisition date and as of December 31, 2011, the Group has estimated that no such liabilities existed.

Of the RMB 41,530 of acquired intangible assets, RMB 36,380 was assigned to a trade name that is not subject to amortization. The remaining amortizable intangible assets of RMB 5,150 have a useful life of 5.3 years. Goodwill is not tax deductible for tax purposes.

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For the purposes of presenting operating segments, Beijing JY Tutoring and the goodwill arising on its acquisition are classified within the Tutoring segment.

(13) Guangzhou DP Tutoring

On October 9, 2009, Ambow Sihua acquired a 100% equity interest in Guangzhou DP Tutoring, an entity engaged in providing tutoring services for kindergarten and primary school students. The Group believes the acquisition of Guangzhou DP Tutoring is an integral piece of the Group s strategy to increase its market shares in providing tutoring services in China. The purchase price exceeded the fair value of the net tangible and intangible assets acquired from Guangzhou DP Tutoring and as a result, the Group recorded goodwill in connection with this transaction. The total purchase price of RMB 60,800 consisted of RMB 39,191 in cash consideration and RMB 21,609 in equity exchanged through the issuance of 737,709 ordinary shares. The RMB 39,191 of total cash consideration less cash acquired of RMB 137 resulted in a net cash outlay of RMB 39,054.

The purchase price was allocated based on the fair values of the acquired assets and liabilities as follows:

	RMB	Weighted average amortization period at acquisition date (in years)
Cash and cash equivalents	137	
Indemnifications from the seller	5,010	
Prepaid and other current assets	4,733	
Property and equipment	171	
Intangible assets:		
Trade name	14,970	Indefinite
Student population	1,760	2.9
Goodwill	47,804	
Total assets acquired	74,585	
Other liabilities assumed	(9,602)	
Deferred tax liability	(4,183)	
Total	60,800	

In accordance with the acquisition agreement, the seller agreed to indemnify the Group against certain liabilities incurred prior to the acquisition date. As such, the Group has estimated the total business tax liabilities, income tax liabilities and social welfare liabilities (included above within other liabilities assumed) at the acquisition date to be RMB 5,010 and has recorded a corresponding asset for the indemnifications from the seller as of the acquisition date. The Group has assessed the recoverability of the indemnifications from the seller at each reporting period. As of December 31, 2011, the Group concluded that the indemnifications from the seller continue to be recoverable.

Of the RMB 16,730 of acquired intangible assets, RMB 14,970 was assigned to a trade name that is not subject to amortization. The remaining amortizable intangible assets of RMB 1,760 have a useful life of 2.9 years. Goodwill is not tax deductible for tax purposes. For the purposes of presenting operating segments, Guangzhou DP Tutoring and the goodwill arising on its acquisition are classified within the Tutoring segment.

The aggregate revenue and income after tax of Tianjin Tutoring, Shanghai Career Enhancement, Guangzhou HP Tutoring, Beijing Century Tutoring, Beijing IT Career Enhancement, Suzhou Career Enhancement, Shenyang K-12, Changsha Career Enhancement, Beijing JY Tutoring and Guangzhou DP Tutoring from their date of acquisition to December 31, 2009 was RMB 136,849 and RMB 26,203, respectively, and these amounts have been included in the consolidated financial statements.

Acquisitions completed in 2011:

(14) Guangzhou ZS Career Enhancement

On January 1, 2011, Ambow Shanghai acquired a 100% equity interest in Guangzhou ZS Career Enhancement, an entity engaged in providing career enhancement services. The Group believes the acquisition of Guangzhou ZS Career Enhancement is an integral piece of the Group s strategy to increase its market share in providing career enhancement services in China. The purchase price exceeded the fair value of the net tangible and intangible assets acquired from Guangzhou ZS Career Enhancement and as a result, the Group

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recorded goodwill in connection with this transaction. The total purchase price of RMB 96,644 is in cash consideration. The RMB 96,644 of total cash consideration less cash acquired of RMB 2,948 resulted in a net cash outlay of RMB 93,696.

The purchase price was allocated based on the fair values of the acquired assets and liabilities as follows:

	RMB	Weighted average amortization period at acquisition date (in years)
Cash and cash equivalents	2,948	
Accounts receivable	3,966	
Prepaid and other current assets	4,273	
Property and equipment	2,299	
Intangible assets:		
Trade name	19,800	Indefinite
Student population	5,200	3.0
Non-compete agreement	33	3.0
Goodwill	87,147	
Total assets acquired	125,666	
Deferred revenue	(11,726)	
Other liabilities assumed	(7,799)	
Deferred tax liability	(6,292)	
Non-controlling interest	(3,205)	
Total	96,644	

Of the RMB 25,033 of acquired intangible assets, RMB 19,800 was assigned to trade names that are not subject to amortization. The remaining amortizable intangible assets of RMB 5,233 have a useful life of 3.0 years. Goodwill is not tax deductible for tax purposes. For the purposes of presenting operating segments, Guangzhou ZS Career Enhancement and the goodwill arising on its acquisition are classified within the Career Enhancement segment.

(15) Jinan WR Career Enhancement

On January 5, 2011, Ambow Shanghai acquired a 100% equity interest in Jinan WR Career Enhancement, an entity engaged in providing career enhancement services. The Group believes the acquisition of Jinan WR Career Enhancement is an integral piece of the Group s strategy to increase its market share in providing career enhancement services in China. The purchase price exceeded the fair value of the net tangible and intangible assets acquired from Jinan WR Career Enhancement and as a result, the Group recorded goodwill in connection with this transaction. The total purchase price of RMB 50,278 is in cash consideration. The RMB 50,278 of total cash consideration less cash acquired of RMB 766 resulted in a net cash outlay of RMB 49,512.

The purchase price was allocated based on the fair values of the acquired assets and liabilities as follows:

	RMB	Weighted average amortization period at acquisition date (in years)
Cash and cash equivalents	766	
Accounts receivable	1,323	
Prepaid and other current assets	1,269	
Other non-current assets	11	
Property and equipment	109	
Intangible assets:		
Trade name	13,800	Indefinite
Cooperative agreement	900	10.0
Non-compete agreement	20	3.0
Goodwill	38,363	
Total assets acquired	56,561	
Deferred revenue	(1,003)	
Other liabilities assumed	(1,606)	
Deferred tax liability	(3,674)	
Total	50,278	

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Of the RMB 14,720 of acquired intangible assets, RMB 13,800 was assigned to trade names that are not subject to amortization. The remaining amortizable intangible assets of RMB 920 have a useful life of 9.9 years. Goodwill is not tax deductible for tax purposes. For the purposes of presenting operating segments, Jinan WR Career Enhancement and the goodwill arising on its acquisition are classified within the Career Enhancement segment.

(16) Hebei YL Career Enhancement

On January 13, 2011, Ambow Shanghai acquired a 100% equity interest in Hebei YL Career Enhancement, an entity engaged in providing career enhancement services. The Group believes the acquisition of Hebei YL Career Enhancement is an integral piece of the Group s strategy to increase its market share in providing career enhancement services in China. The purchase price exceeded the fair value of the net tangible and intangible assets acquired from Hebei YL Career Enhancement and as a result, the Group recorded goodwill in connection with this transaction. The total purchase price of RMB 89,796 is in cash consideration. The RMB 89,796 of total cash consideration less cash acquired of RMB 1,131 resulted in a net cash outlay of RMB 88,665.

The purchase price was allocated based on the fair values of the acquired assets and liabilities as follows:

	RMB	Weighted average amortization period at acquisition date (in years)
Cash and cash equivalents	1,131	
Accounts receivable	363	
Prepaid and other current assets	3,267	
Property and equipment	462	
Intangible assets:		
Trade name	14,276	Indefinite
Cooperative agreement	4,180	10.0
Non-compete agreement	480	3.0
Goodwill	74,929	
Total assets acquired	99,088	
Deferred revenue	(3,948)	
Other liabilities assumed	(607)	
Deferred tax liability	(4,737)	
Total	89,796	

Of the RMB 18,936 of acquired intangible assets, RMB 14,276 was assigned to trade names that are not subject to amortization. The remaining amortizable intangible assets of RMB 4,660 have a useful life of 9.9 years. Goodwill is not tax deductible for tax purposes. For the purposes of presenting operating segments, Hebei YL Career Enhancement and the goodwill arising on its acquisition are classified within the Career Enhancement segment.

(17) Chongqing XT Career Enhancement

On January 21, 2011, Ambow Shanghai acquired a 100% equity interest in Chongqing XT Career Enhancement, an entity engaged in providing career enhancement services. The Group believes the acquisition of Chongqing XT Career Enhancement is an integral piece of the Group s strategy to increase its market share in providing career enhancement services in China. The purchase price exceeded the fair value of the net tangible and intangible assets acquired from Chongqing XT Career Enhancement and as a result, the Group recorded goodwill in connection with this transaction. The total purchase price of RMB 34,739 is in cash consideration. The RMB 34,739 of total cash consideration less cash acquired of RMB 649 resulted in a net cash outlay of RMB 34,090.

The purchase price was allocated based on the fair values of the acquired assets and liabilities as follows:

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	RMB	Weighted average amortization period at acquisition date (in years)
Cash and cash equivalents	649	
Accounts receivable	111	
Prepaid and other current assets	2,156	
Property and equipment	316	
Intangible assets:		
Trade name	9,227	Indefinite
Non-compete agreement	310	3.0
Goodwill	26,743	
Total assets acquired	39,512	
Deferred revenue	(1,020)	
Other liabilities assumed	(1,444)	
Deferred tax liability	(2,309)	
Total	34,739	

Of the RMB 9,537 of acquired intangible assets, RMB 9,227 was assigned to trade names that are not subject to amortization. The remaining amortizable intangible assets of RMB 310 have a useful life of 3.0 years. Goodwill is not tax deductible for tax purposes. For the purposes of presenting operating segments, Chongqing XT Career Enhancement and the goodwill arising on its acquisition are classified within the Career Enhancement segment.

(18) Beijing XGX Tutoring

On March 10, 2011, Ambow Sihua acquired a 100% equity interest in Beijing XGX Tutoring, an entity engaged in providing exam preparation tutorial classes for students wishing to retake the national high school entrance exam or college entrance examination. The Group believes the acquisition of Beijing XGX Tutoring is an integral piece of the Group s strategy to increase its market share in providing tutoring services in China. The purchase price exceeded the fair value of the net tangible and intangible assets acquired from Beijing XGX Tutoring and as a result, the Group recorded goodwill in connection with this transaction. The total purchase price of RMB 34,531 is in cash consideration. The RMB 34,531 of total cash consideration less cash acquired of RMB 1,996 resulted in a net cash outlay of RMB 32,535.

The purchase price was allocated based on the fair values of the acquired assets and liabilities as follows:

	RMB	Weighted average amortization period at acquisition date (in years)
Cash and cash equivalents	1,996	
Accounts receivable	96	
Prepaid and other current assets	2,686	
Property and equipment	104	
Intangible assets:		
Trade name	6,400	Indefinite
Student population	1,900	1.8

Non-compete agreement	23	3.0
Goodwill	27,771	
Total assets acquired	40,976	
Deferred revenue	(1,348)	
Other liabilities assumed	(3,011)	
Deferred tax liability	(2,086)	
Total	34,531	

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Of the RMB 8,323 of acquired intangible assets, RMB 6,400 was assigned to a trade name that is not subject to amortization. The remaining amortizable intangible assets of RMB 1,923 have a useful life of 1.8 years. Goodwill is not tax deductible for tax purposes. For the purposes of presenting operating segments, Beijing XGX and the goodwill arising on its acquisition are classified within the Tutoring segment.

(19) Genesis Career Enhancement

On May 1, 2011, Ambow Shanghai acquired a 100% equity interest in Genesis Career Enhancement, an entity engaged in providing career enhancement services. The Group believes the acquisition of Genesis Career Enhancement is an integral piece of the Group s strategy to increase its market share in providing career enhancement services in China. The purchase price exceeded the fair value of the net tangible and intangible assets acquired from Genesis Career Enhancement and as a result, the Group recorded goodwill in connection with this transaction. The total purchase price of RMB 53,185 is in cash consideration. The RMB 53,185 of total cash consideration less cash acquired of RMB 9,422 resulted in a net cash outlay of RMB 43,763.

The purchase price was allocated based on the fair values of the acquired assets and liabilities as follows:

	RMB	**Weighted average amortization period at acquisition date (in years)**
Cash and cash equivalents	9,422	
Accounts receivable	6,461	
Prepaid and other current assets(a)	10,258	
Property and equipment	2,060	
Intangible assets:		
Trade name	19,300	Indefinite
Customer relationship	5,270	5.7
Goodwill	39,781	
Total assets acquired	92,552	
Deferred revenue	(4,400)	
Dividend payable	(4,905)	
Other liabilities assumed(a)	(23,731)	
Deferred tax liability	(6,331)	
Total	53,185	

Of the RMB 24,570 of acquired intangible assets, RMB 19,300 was assigned to trade names that are not subject to amortization. The remaining amortizable intangible assets of RMB 5,270 have a useful life of 5.7 years. Goodwill is not tax deductible for tax purposes. For the purposes of presenting operating segments, Genesis Career Enhancement and the goodwill arising on its acquisition are classified within the Career Enhancement segment.

Note a: The Prepaid and other current assets primarily relate to the shareholder transactions with previous owner. The Other liabilities assumed primarily relate to the payments made by the previous owner on behalf of the acquiree. Further, only RMB 2.3 million of other receivable was outstanding as of December 31, 2011.

(20) Beijing JT Tutoring

On July 12, 2011, Ambow Sihua acquired a 100% equity interest in Beijing JT Tutoring, an entity engaged in providing after-school tutoring services for junior high and high school students. The Group believes the acquisition of Beijing JT Tutoring is an integral piece of the Group s strategy to increase its market share in providing tutoring services in China. The purchase price exceeded the fair value of the net tangible and intangible assets acquired from Beijing JT Tutoring and as a result, the Group recorded goodwill in connection with this transaction. The total purchase price of RMB 80,000 is in cash consideration. The RMB 80,000 of total cash consideration less cash acquired of RMB 9,519 resulted in a net cash outlay of RMB 70,481.

The purchase price was allocated based on the fair values of the acquired assets and liabilities as follows:

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	RMB	Weighted average amortization period at acquisition date (in years)
Cash and cash equivalents	9,519	
Accounts receivable	65	
Prepaid and other current assets	1,703	
Property and equipment	146	
Intangible assets:		
Student population	7,940	5.5
Non-compete agreement	2,355	4.5
Goodwill	72,495	
Total assets acquired	94,223	
Deferred revenue	(9,461)	
Other liabilities assumed	(2,189)	
Deferred tax liabilities	(2,573)	
Total	80,000	

The RMB 10,295 was assigned to amortizable intangible assets that have a useful life of 5.3 years. Goodwill is not tax deductible for tax purposes. For the purposes of presenting operating segments, Beijing JT Tutoring and the goodwill arising on its acquisition are classified within the Tutoring segment.

Pro-forma net revenue and net income of the Group reflecting acquisitions made in 2011

The net revenue and net income arising from acquisitions made in 2011 that are included in the Group s consolidated income statement for the year ended December 31, 2011 are RMB 161,517 and RMB 21,887, respectively. The following summary of unaudited pro forma results of operations of the Group for the years ended December 31, 2010 and 2011 is presented using the assumption that the acquisitions made in 2011 were completed as of January 1, 2010. These pro-forma results of the Group have been prepared for comparative purposes only and do not purport to be indicative of the results of operations which would have resulted had the significant acquisitions occurred as of January 1, 2010, nor is it indicative of future operating results.

	For the year ended December 31	
	2010 RMB (Unaudited)	2011 RMB (Unaudited)
Pro forma net revenue	199,518	192,029
Pro forma net income	39,731	18,082

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23. RELATED PARTY TRANSACTIONS

The Group has entered into a number of transactions with related parties:

(a) Transactions

The Group entered into the following transactions with related parties:

Transactions	Years ended December 31,		
	2009 RMB	2010 RMB	2011 RMB
Receipt of consulting services from a company owned by a family member of Jilin Tutoring principal	9,573		
Payments to the minority shareholder of Taishidian Holding and one of the subsidiaries of the minority shareholder of Taishidian Holding (Note (i))	222,964	196,871	123,697
Receipts from the minority shareholder of Taishidian Holding and one of the subsidiaries of the minority shareholder of Taishidian Holding (Note (i))	185,559	205,982	107,206
Purchase of buildings and land use right from a subsidiary of the minority shareholder of Taishidian Holding (Non-cash transaction) (Note (i))			17,407
Receipt of amount due from a subsidiary of the minority shareholder of Taishidian Holding (Non-cash transaction) (Note (i))			17,407
Sales of software to companies owned by a family member of Jilin Tutoring principal	11,198		
Sales of software to a company owned by the principal of Shanghai Career Enhancement	6,460		
Sales of software to a company owned by a family member of Changsha Career Enhancement chairman of the board of directors	3,525		
Sales of software to a company owned by CEO of Beijing Century Tutoring	2,947		
Receipt of consulting services from a company owned by the family member of the principal of Tianjin Tutoring	1,805	320	
Receipt of consulting services from a company owned by principal of Beijing YZ Tutoring	1,505		

Receipt of property management services from one school founded by the principal of Shuyang K-12		1,800	1,800
Receipt of property management services from the former shareholder of Changsha K-12	2,559	3,787	7,470
Receipt of rental services from subsidiary of former shareholder of Shenyang Universe High School		1,100	1,100

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Transactions	**Years ended December 31,**		
	2009	**2010**	**2011**
	RMB	**RMB**	**RMB**
Sales of software and providing services to former shareholder of Jinan WR Career Enhancement			6,800
Others	200	596	1,627

Note (i) During 2011 Taishidian Holding entered into a number of short-term financing transactions with the minority shareholder of Taishidian Holding, including a loan of RMB 40 million to a subsidiary of the minority shareholder. A portion of this loan was subsequently extinguished by being offset against the purchase price of land use rights and buildings acquired by Taishidian Holding from a subsidiary of the minority shareholder in the first half of 2011. The volume of transactions between Taishidian Holding and the minority shareholder has reduced significantly from October 2011.

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(b) The Group had the following balances with related parties:

Relationship	Amounts due from related parties As of December 31,			Amounts due to related parties As of December 31,		
	2009	2010	2011	2009	2010	2011
	RMB	RMB	RMB	RMB	RMB	RMB
Principal of Xi an Tutoring*	2,774	1,768			34	
Principal of Beijing YZ Tutoring	8,593	4,940	4,940			
Principal of Jilin Tutoring	481	681	681	110	603	603
Former owner of Beijing Away United Technology Co., Ltd.	1,000	2,677	2,677		1,083	1,081
Former principal of Dalian Hope School (Dalian Career Enhancement) and a senior manager of the Group	1,064	714	464			2
Family member of Changsha Tutoring Principal	171	171	171			
Principal of Shuyang K-12	1,556	400			1,338	
A company established by the director of SIWA Future Holding and its subsidiary*	92,071	85,136		701	700	
Subsidiary of the minority shareholder of Taishidian Holding	5,110		600			
Minority shareholder of Taishidian Holding	11,892	11,142	32,619	4,000		22,200
The chairman of the board of directors of Taishidian Holding	20,400	400				
Former shareholder of Changsha K-12	28,566	10	10	1,262	5,049	9,767
Subsidiary of former shareholder of Shenyang K-12	29,350		44	275	1,375	2,475
Principal of Shanghai Career Enhancement	3,178	3,178	3,178			
Principal of Changsha Career Enhancement	5,379	1,702	1,702			
Principal of Tianjin Tutoring	5,783	6,103	5,783			
Principal of Tianjin Changcheng Occupational Training School*	193	153		2,174	2,020	
Former owner of Jinan Prosperous Resource Technology Co., Ltd.	1,490	16,888				
Subsidiary of the former shareholder of Changsha K-12	52			2,844	621	
Former Owner of Beijing IT Career Enhancement	833	833	833	670	670	670
CEO of Beijing Century Tutoring	4,737	2,318	2,318			
Former owner and currently general manager of Beijing JY Tutoring	800	800	800			
Former owner of Guangzhou DP Tutoring	5,010	8,590	8,590			125
CEO of Suzhou Career Enhancement	784	784	784			
Former shareholder of Jinan WR Career Enhancement			650			
Former owner of Chongqing XT Career Enhancement			3,807			408
Former shareholder of Beijing XGX Tutoring			1,360			

Former shareholder of Genesis Career Enhancement			11,324			9,074
Former shareholder of Hebei YL Career Enhancement			1,000			700
Former owner of Jinan WR Career Enhancement			3,900			
Others	1,215	794	749	246		426
	232,482	**150,182**	**88,984**	**12,282**	**13,493**	**47,531**

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* On December 31, 2011, these companies were no longer related parties following the disposal transactions Note 24(a) and (b).

Principal shareholder transaction

On October 26, 2011, Dr Jin Huang, chief executive officer of the Company, and holder of more than 10% interest in the voting power of the Company, entered into a participation agreement with, among others, the Baring Asia Private Equity Fund V., L.P. (the Participation Agreement). Pursuant to this agreement, Campus Holdings Limited (Campus), an affiliate to the Baring Asia Private Equity Fund V., L.P., agreed to invest up to USD 50 million to purchase Class A Shares of the Company through a series of private transactions and on the open market through purchases of American Depositary Shares.

The return on the investment in Class A Shares as contemplated by the Participation Agreement will be shared between Campus and Dr. Huang after Campus has received a minimum return on its investment following the occurrence of agreed transfer events. Dr. Huang s share of such return will be dependent on the portfolio values of the Class A Shares acquired by Campus plus the value of all other property delivered as a dividend or other distribution on such Class A Shares (the Portfolio Value) expressed as a multiple of Campus net investment amount as set forth in the Participation Agreement and can be paid to Dr. Huang in cash, in Class A Shares or a combination of cash and Class A Shares.

To secure Campus obligations under the Participation Agreement, Campus entered into a charge (the Campus Share Charge) in favor of Spin-Rich over 1,818,182 Class A Shares that Campus may acquire from time to time after the date of the Campus Share Charge to secure Campus obligations under the Participation Agreement, including, without limitation, Campus obligations to share with Dr. Huang its investment return on the Class A Shares in accordance with the terms of the Participation Agreement. Spin-Rich in turn entered into a charge over 6,077,747 Class B Shares of the Company that it owns in favor of Campus to secure Campus agreed-upon minimum return on its investment. Spin-Rich shall be entitled to exercise all voting and/or consensual powers pertaining to the Class B Shares and dividends or other distributions received thereon by Spin-Rich or any part thereof charged in favor of Campus unless and until enforcement event occurs.

Between November 9, 2011 and January 25, 2012, Campus purchased an aggregate of 11,944,600 Class A Shares equivalent of the Company through privately negotiated transactions or in open market transactions. The aggregate consideration paid was USD 50,000,001. None of the sellers in the privately negotiated transactions were the employees of the Company.

Management has assessed the accounting treatment for this transaction and considered there to be no significant impact to the Company s financial statements for the year ended December 31, 2011.

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24. DISCONTINUED OPERATIONS

(a) Disposal of 4 Disposed Businesses

In the fourth quarter of 2011, the Company decided to concentrate its resources and focus on the Company s core businesses. On December 2, 2011, the Company sold Xi an Tutoring, Shandong Software Companies, Guangzhou HP Tutoring, Tianjin Holding, to Tongshengle for cash consideration of RMB 35 million (US$5.5 million). The total impairment loss recognized prior to the disposal of the above 4 Disposed Businesses was RMB 118.3 million (US$18.8 million) and after the recognition of the impairment loss no disposal loss was recorded regarding the above 4 Disposed Businesses. Three of the businesses were part of the Tutoring segment, and Tianjin Holding was part of the Career Enhancement segment. The Company completed the disposal before the end of December 2011.

The Company will not generate any further cash flows and will have no significant continuing involvement in the operations of the 4 Disposed Businesses after December 30, 2011. The revenues and expenses related to the operations of the 4 Disposed Businesses have been segregated from continuing operations and reported as discontinued operations for all periods in accordance with ASC360-10-35. The cumulative translation adjustment related to each of the entities has been recognized as part of the loss on disposal given they had been sold and each meets the definition of a business under ASC810-10.

Prior to the disposal of the above businesses, the Group was negotiating with Tongshengle to acquire the leasehold of a school campus in Beijing. The transaction was completed on December 10, 2011 and an upfront deposit of RMB 134 million was paid before December 31, 2011 (see Note 9 (iii)).

(b) Assets and liabilities classified as held for sale

On December 30, 2011, the Group entered into a sale and purchase agreement to sell Beijing Century College Group and 21st School back to Xihua Group for total consideration of RMB 556 million. At the same time, the Group retained the right to operate the 21st School on behalf of Xihua Group for a further 15 years, at which point the operating right will revert back to Xihua Group, unless Xihua Group should exercise its option to terminate the operating rights agreement at an earlier date.

According to the sale and purchase agreement, total consideration for the sale of Beijing Century College Group and 21st School of RMB 556 million is made up of RMB 183 million (US$ 29.1 million) in cash and shares, a waiver of liabilities of RMB 203 million (US$ 42.4 million), and the 15-year operating rights. The consideration allocated to Beijing Century College Group and 21st School is RMB 239 million and RMB 317 million, respectively, based on their estimated fair values.

As of December 31, 2011, the transaction had not been completed as the parties were still in the process of clarifying final terms regarding operating rights and commencing the legal transfer process. Beijing Century College Group has been classified as assets and liabilities held for sale since the Group will have no continuing involvement in the College following the disposal. 21st School, remains included as held for use since the Group will have significant continuing involvement in 21st School following the disposal through the operating rights arrangement.

(Please see Note 8 for further details on goodwill impairment on 21st School).

As of December 31, 2011, the assets and liabilities held by Beijing Century College Group after recognition of a goodwill impairment loss of RMB 8,928 are as follows:

	2011 RMB
Assets held for sale	
Cash and cash equivalents	139,099
Other current assets	8,490
Goodwill	55,724
Intangible assets, net	59,885
Property, plant and equipment, net	99,892
Land use right, net	18,113
Other non-current assets	3,198
	384,401
Liabilities held for sale	
Deferred revenue	(67,787)
Income tax payable	(7,745)
Accruals and other liabilities	(29,284)
Other current liabilities	(3,467)
Deferred tax liabilities non-current	(12,029)
Other non-current liabilities	(24,857)
	(145,169)

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(c) Discontinued operations

Following are revenues, income from discontinued operation and gain on sale of discontinued operations:

(1) Xi an Tutoring

	Year ended December, 31		
	2009	**2010**	**2011**
	RMB	**RMB**	**RMB**
Revenues	20,101	25,800	26,756
Impairment loss (note (i))			(36,303)
Income/(loss) before income taxes	5,012	8,113	(36,876)
Income tax expense	(47)		
Income/(loss) from discontinued operation, net of tax	4,965	8,113	(36,876)
Loss on sale of discontinued operation before income taxes			
Income tax expense			
Loss on sale of discontinued operation, net of tax			
Loss from and on sale of discontinued operation, net of tax			(36,876)

note (i) Foreign currency translation adjustment included in the impairment loss is RMB 1,488 for the year ended December 31, 2011.

(2) Shandong Software Companies

	Year ended December, 31		
	2009	**2010**	**2011**
	RMB	**RMB**	**RMB**
Revenues	18,400	15,020	
Impairment loss (note (i))			(39,758)
Income/(loss) before income taxes	6,518	6,304	(43,315)
Income tax expense	488	(259)	533
Income/(loss) from discontinued operation, net of tax	7,006	6,045	(42,782)
Loss on sale of discontinued operation before income taxes			
Income tax expense			
Loss on sale of discontinued operation, net of tax			
Loss from and on sale of discontinued operation, net of tax			(42,782)

note (i) Foreign currency translation adjustment included in the impairment loss is RMB 2,668 for the year ended December 31, 2011.

(3) Guangzhou HP Tutoring

	Year ended December, 31		
	2009 RMB	2010 RMB	2011 RMB
Revenues	8,314	8,620	
Impairment loss (note (i))			(29,073)
Income/(loss) before income taxes	2,922	3,383	(30,074)
Income tax expense	425	360	316
Income/(loss) from discontinued operation, net of tax	3,347	3,743	(29,758)
Loss on sale of discontinued operation before income taxes			
Income tax expense			
Loss on sale of discontinued operation, net of tax			
Loss from and on sale of discontinued operation, net of tax			(29,758)

note (i) Foreign currency translation adjustment included in the impairment loss is RMB 1,285 for the year ended December 31, 2011.

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(4) Tianjin Holding

	Year ended December, 31		
	2009 RMB	2010 RMB	2011 RMB
Revenues	16,737	13,146	5,161
Impairment loss (note (i))			(13,183)
Income/(loss) before income taxes	5,387	1,693	(16,518)
Income tax expense	(17)	(378)	6
Gain/(loss) from discontinued operation, net of tax	5,370	1,315	(16,512)
Loss on sale of discontinued operation before income taxes			
Income tax expense			
Loss on sale of discontinued operation, net of tax			
Loss from and on sale of discontinued operation, net of tax			(16,512)

note (i) Foreign currency translation adjustment included in the impairment loss is RMB 585 for the year ended December 31, 2011.

(5) Beijing Century College Group

The revenues and income of Beijing Century College Group as reflected in income from discontinued operations are as follows:

	Year ended December, 31		
	2009 RMB	2010 RMB	2011 RMB
Revenues	103,059	126,330	128,870
Impairment loss			(8,928)
Income before income taxes	25,123	36,310	5,439
Income tax expense	361	(531)	908
Income from discontinued operations, net of tax	25,484	35,779	6,347

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25. NON-CONTROLLING INTERESTS

The Group s majority-owned subsidiaries which are consolidated in the Group s financial statements while at the same time recognizing a non-controlling interest are a subsidiary of Guangzhou ZS Career Enhancement, Shenyang K-12, Taishidian Holding, Ambow Jingxue and a subsidiary of Genesis Career Enhancement. As of December 31, 2011, the Group recognized a non-controlling interest in the consolidated statements of operations to reflect the 5%, 10%, 30%, 36% and 23% economic interest in Guangzhou ZS Career Enhancement, Shenyang K-12, Taishidian Holding, Ambow Jingxue and Genesis Career Enhancement, respectively, that is attributable to the shareholders other than the Group.

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26. FAIR VALUE MEASUREMENTS

At the beginning of the 2008 fiscal year, the Group adopted ASC Topic 820, Fair Value Measurements and Disclosures . ASC Topic 820 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles and expands financial statement disclosure requirements for fair value measurements. The Group s initial adoption of ASC Topic 820 was limited to its fair value measurements of financial assets and financial liabilities, as permitted by ASC Topic 820. At the beginning of the 2009 fiscal year, the Group adopted ASC Topic 820 for the remainder of the Group s fair value measurements. The implementation of the fair value measurement guidance of ASC Topic 820 did not result in any material changes to the carrying values of the Group s assets and liabilities.

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 Marsh (Beijing) Risk Consulting Company Limited, an 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:

Term deposits. At December 31, 2011, the Group s term deposits consist of bank deposits with original maturity of three to twelve months. The Group s term deposits are valued using observable inputs that reflect quoted prices for similar securities with identical characteristics, therefore

considered Level 1 valuation techniques.

At December 31, 2010 and 2011 information about inputs into the fair value measurements of the assets and liabilities that the Group makes on a recurring basis was as follows:

	Total Fair Value and Carrying Value on Balance Sheet	Fair Value Measurements at Reporting Date Using		
		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, 2010				
Assets:				
Cash and cash equivalents	869,300	869,300		
Term deposits	59,200	59,200		
As of December 31, 2011				
Assets:				
Cash and cash equivalents	470,682	470,682		
Restricted cash	2,200	2,200		

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	Total Fair Value and Carrying Value on Balance Sheet	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Term deposits	46,205	46,205		

27. CONCENTRATIONS

Financial instruments that potentially expose the Group to concentrations of credit risk consist primarily of cash and cash equivalents, term deposits, accounts receivable, other receivable, amounts due from related parties and other non-current assets, and advances to suppliers. 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. To date, the Group has not experienced significant losses from uncollectible accounts. The Group evaluates its collection experience and long outstanding balances to determine the need for an allowance for doubtful accounts.

(a) Major customers

No single customer represented 10% or more of the Group s total revenues for the years ended December 31, 2010 and 2011.

(b) Credit risk

A summary of the debtors who accounted for 10% or more of the Group s consolidated accounts receivable, other receivables amounts due from related parties, and other non-current assets was as follows:

Debtors	As of December 31.			
	2010		2011	
	RMB	%	RMB	%
Accounts receivable				
Company A	5,946	12%		
Company B			12,000	11%
Company C			11,056	10%

Debtors	As of December 31,			
	2010		2011	
	RMB	%	RMB	%

Other receivables				
Company D	72,444	16%	24,000	4%
Company E	51,200	11%		
Company F	51,000	11%		
Amounts due from related parties				
Company G			11,324	13%
Company H	8,590	6%	8,590	10%
Company I	11,142	7%	32,619	37%
Other non-current assets				
Company J			134,000	42%
Company K			55,936	17%
Company L			57,600	18%

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(c) PRC Regulations

The Chinese market in which the Group operates exposes the Company 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 our 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 Company s ability to conduct business in the PRC.

28. SUBSEQUENT EVENTS

(1) Tianjin Geha

In April 2010, the Group paid RMB 4 million under the exclusivity agreement with Tianjin Geha Technology Development Co., Ltd. (Geha). In November 2010, the Company signed the sale and purchase agreement (S&P Agreement) with Geha to acquire Tianjin Guanghua Company Management Consulting Co., Ltd. and paid an additional RMB 11.5 million by December 31, 2010. The acquisition was not closed as of December 31, 2011. Subsequently on April 20, 2012, the Company and Geha signed a termination agreement to terminate the S&P Agreement. The RMB 15.5 million paid previously will be fully repaid to the Company by April 2013. The portion to be repaid after December 31, 2012 of RMB 7.5 million is classified as a non-current asset as of December 31, 2011.

(2) Operating rights in relation to 21st school

As disclosed in Note 1(a), in December 2011, the Group signed an agreement to sell its 21st School to Xihua Group. As of December 31, 2011, the disposal transaction has not been completed, and 21st School remains classified as held for use since the Group will have significant continuing involvement in 21st School following the planned disposal. In March 2012, the Group finalised a 15 year operating rights arrangement with Xihua Group. The arrangement stipulates the rights and responsibilities of the individual parties during the 15 year period. Based on the contractual terms, these rights give Ambow the ability to continue operating the school on behalf of Xihua Group, and the right to extract any earnings arising over the next 15 years. Xihua Group has the right to terminate the operating rights arrangement at any time, and will be required to compensate the Group for any early termination in accordance with the terms of the original disposal agreement.

(3) Option grants

In March 2012, the Company granted 2,200,000 stock options and 200,000 restricted shares to management and employees of the Company.

29. 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 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 s share of income and losses from its subsidiaries are reported as share of income from subsidiaries in the condensed financial statements.

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 US GAAP have been condensed or omitted.

As of December 31, 2010 and 2011, 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.

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AMBOW EDUCATION HOLDING LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Financial information of Parent Company

Balance Sheets

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

	As of December 31,		
	2010 RMB	**2011 RMB**	**2011 US$ Note 2(a)**
ASSETS			
Current assets:			
Cash and cash equivalents	194,376	6,641	1,055
Accounts receivable, net	103		
Amounts due from related parties	503,899	638,333	101,421
Prepaid expenses and other current assets	27,788	3,790	602
Total current assets	726,166	648,764	103,078
Non-current assets:			
Intangible assets, net	738	547	87
Investment in subsidiaries	2,010,652	2,151,159	341,785
Total non-current assets	2,011,390	2,151,706	341,872
Total assets	**2,737,556**	**2,800,470**	**444,950**
LIABILITIES			
Current liabilities:			
Deferred revenue	6,623	5,417	861
Accounts payable	328	557	88
Amounts due from related parties		7,532	1,197
Accrued and other liabilities	50,654	58,444	9,286
Total current liabilities	57,605	71,950	11,432
Total non-current liabilities		16,938	2,691
Total liabilities	**57,605**	**88,888**	**14,123**
SHAREHOLDERS EQUITY			
Class A ordinary shares			
(US$0.0001 par value; 1,000,000,000 and 1,000,000,000 shares authorized, 21,354,414 and 49,088,096 shares issued and outstanding as of December 31, 2010 and 2011, respectively)	14	15	2
Class B ordinary shares			
(US$0.0001 par value; 200,000,000 and 200,000,000 shares authorized, 121,212,562 and 95,392,968 shares issued and outstanding as of December 31, 2010 and 2011, respectively)	87	87	14
Additional paid-in capital	2,463,238	2,498,162	396,918
Warrants		1,219	194

Retained earnings	212,431	233,616	37,118
Accumulated other comprehensive income	4,181	(21,517)	(3,419)
Total shareholders equity	**2,679,951**	**2,711,582**	**430,827**
Total liabilities and shareholders equity	**2,737,556**	**2,800,470**	**444,950**

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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,			
	2009 RMB	**2010 RMB**	**2011 RMB**	**2011 US$ Note 2(a)**
NET REVENUES				
- Educational program and services		2,001	1,008	160
- Software products			192	31
Total net revenues		2,001	1,200	191
Cost of revenues				
- Educational program and services		(11,878)	(16,822)	(2,673)
- Software products				
Total cost of revenues		(11,878)	(16,822)	(2,673)
GROSS PROFIT:		**(9,877)**	**(15,622)**	**(2,482)**
Operating expenses:				
Selling and marketing	(4,411)	(6,832)	(7,286)	(1,158)
General and administrative	(11,706)	(35,752)	(38,335)	(6,090)
Research and development	(480)	(981)	(842)	(134)
Total operating expenses	(16,597)	(43,565)	(46,463)	(7,382)
OPERATING LOSS	**(16,597)**	**(53,442)**	**(62,085)**	**(9,864)**
Share of income from subsidiaries	153,204	268,960	83,356	13,244
OTHER INCOME (EXPENSE)				
Interest income	1,629	514	64	10
Interest expenses			(1,040)	(165)
Foreign exchange losses, net				
Other income/(expenses)			896	141
Income tax			(6)	(1)
NET INCOME	**138,236**	**216,032**	**21,185**	**3,365**

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Financial Information of Parent Company

Statements of Cash Flows

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

	Years ended December 31,			
	2009 RMB	**2010 RMB**	**2011 RMB**	**2011 US$ Note 2(a)**
Cash flows from operating activities	(467,126)	(257,026)	(180,407)	(28,664)
Cash flows from investing activities				
Cash flows from financing activities				
Proceeds from issuance of ordinary shares, net of expenses		447,628		
Proceeds from issuance of exercise of options			2,684	426
Effects of exchange rate changes on cash and cash equivalents	(403)	(105)	(10,012)	(1,591)
Net change in cash and cash equivalents	(467,529)	190,497	(187,735)	(29,829)
Cash and cash equivalents at beginning of year	471,408	3,879	194,376	30,883
Cash and cash equivalents at end of year	3,879	194,376	6,641	1,054
Supplemental disclosure of cash flow information				
Supplemental disclosure of non-cash investing and financing activities				
Conversion of Series A convertible redeemable preferred shares into ordinary shares		14,283		
Conversion of Series B convertible redeemable preferred shares into ordinary shares		96,667		
Conversion of Series C convertible redeemable preferred shares into ordinary shares		579,490		
Conversion of Series D convertible redeemable preferred shares into ordinary shares		792,502		
Issuance of ordinary shares for purchases of subsidiaries	414,027			
Issuance of share options upon exercise of warrants (Note 15)		2,737		
Issuance of share options upon warrants			1,219	194