Ambow Education Holding Ltd.
Form 20-F
July 08, 2014

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, 2012**
	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)

Kia Jing Tan, Chief Financial Officer

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

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*

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* 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.

55,368,641 Class A Ordinary Shares and

90,606,843 Class B Ordinary Shares,

par value $0.0001 per share, as of December 31, 2012

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 x 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 o	Non-accelerated filer x

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.

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

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

- GaoKao refers to university entrance exams administered in China.

- IPO refers to the initial public offering of our ADSs.

- RMB or Renminbi refers to the legal currency of China.

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

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

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

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

FORWARD-LOOKING STATEMENTS

This annual report on Form 20-F includes forward-looking statements that relate to future events or our future financial performance and involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to differ materially from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. Words such as, but not limited to, believe, expect, anticipate, estimate, intend, plan, likely, will, would, could, anc 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 ability to create and maintain our positive brand awareness and brand loyalty;
- Our ability to manage growth; and
- Economic and business conditions in China.

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All forward-looking statements involve risks, assumptions and uncertainties. You should not rely upon forward-looking statements as predictors of future events. The occurrence of the events described, and the achievement of the expected results, depend on many events, some or all of which are not predictable or within our control. Actual results may differ materially from expected results. See the information under Item 3.D Key Information Risk Factors and elsewhere in this annual report for a more complete discussion of these risks, assumptions and uncertainties and for other risks and uncertainties. These risks, assumptions and uncertainties are not necessarily all of the important factors that could cause actual results to differ materially from those expressed in any of our forward-looking statements. Other unknown or unpredictable factors also could harm our results. We undertake no obligation, 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, 2010, 2011 and 2012 and as of December 31, 2011 and 2012 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, 2008 and 2009, and as of December 31, 2008, 2009 and 2010 is derived from our unaudited consolidated financial data for those years that are not included in this annual report (which are unaudited as they have been revised from previously issued audited financial statements to reflect the classification of discontinued operations as a separate line item in the income statement), which were prepared in accordance with U.S. GAAP.

We have completed seven acquisitions in 2011 and one acquisition in 2012. We also disposed of several companies in the year of 2011, 2012 and 2013. This has affected period-to-period comparisons of our selected consolidated financial data. The results presented in our selected financial data reflect all of our continuing operations since January 1, 2008 or the subsequent date of acquisition. Any entities disposed of or in the process of being disposed between 2011 and 2013 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 (21st School), whose financial results were included as part of continuing operations in 2012 because the plan of disposal of 21st School started in 2013 and it did not meet the critera of discontinued operation in accordance with U.S. GAAP as of December 31, 2012.

We have deconsolidated Tianjin Huaying School (Tianjin Tutoring) on September 2013, and deconsolidated Guangzhou ZS Career Enhancement and Guangzhou Tianhe Depushi Education Training Center (Guangzhou DP Tutoring) on December 2013. All the deconsolidations were due to loss of control.

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[redacted]						
Consolidated Statement of Operations Data:						
[redacted]						
Educational programs and services	451,115	613,611	899,992	1,205,771	1,276,877	204,953
[redacted]						
Total net revenues	489,941	736,715	1,114,655	1,572,371	1,343,763	215,689
[redacted]						
GROSS PROFIT	170,405	379,873	634,870	889,727	485,849	77,985
[redacted]						
Selling and marketing (1)	(39,649)	(127,688)	(235,683)	(353,425)	(596,324)	(95,717)
[redacted]						
Research and development (1)	(11,696)	(16,968)	(27,553)	(39,541)	(31,842)	(5,111)
[redacted]						
Total operating expenses	(104,092)	(281,122)	(426,086)	(692,000)	(2,200,839)	(353,259)
[redacted]						
OTHER INCOME/(EXPENSE)	5,577	(4,130)	(3,653)	(21,123)	(10,111)	(1,622)
[redacted]						
Income tax expense	(7,629)	(2,772)	(37,850)	(38,841)	58,768	9,433
[redacted]						
Income/(Loss) from sale of discontinued operations, net of income tax	3,099	46,172	44,418	(121,544)	(7,182)	(1,153)
[redacted]						
NET INCOME/(LOSS)	67,360	138,021	211,699	16,219	(1,673,515)	(268,616)
[redacted]						
[redacted]						
Preferred shares redemption value accretion	(67,768)	(157,877)	(94,209)			
[redacted]						
[redacted]						
[redacted]						

[redacted]						
Basic	(2.49)	(4.07)	0.22	0.99	(11.10)	(1.78)
[redacted]						
[redacted]						
Basic	0.13	1.18	0.56	(0.85)	(0.03)	(0.01)
[redacted]						
[redacted]						
Basic	(4.98)	(8.14)	0.44	1.98	(22.20)	(3.56)
[redacted]						
[redacted]						
Basic	0.26	2.36	1.12	(1.70)	(0.06)	(0.02)
[redacted]						
[redacted]						
Basic	23,038,853	39,193,092	85,551,412	142,939,038	145,659,940	145,659,940
[redacted]						

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(1) Share-based compensation expense included in:

	For the Year Ended December 31,					
	2008	**2009**	**2010**	**2011**	**2012**	**2012**
	RMB	**RMB**	**RMB**	**RMB**	**RMB**	**US$**
	(in thousands, except share, per share and per ADS information)					
Selling and marketing	1,194	4,411	7,204	7,286	6,286	1,009
General and administrative	8,370	8,640	26,029	25,220	88,019	14,128
Research and development	426	480	981	842	872	140

(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.

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[redacted]						
Consolidated Balance Sheet Data:						
[redacted]						
Total current assets	1,578,712	1,133,515	1,663,782	2,188,813	1,263,931	202,875
[redacted]						
Total current liabilities	502,738	1,131,901	1,071,402	1,536,494	1,664,559	267,181
[redacted]						
Total equity	336,850	801,622	2,732,993	2,766,463	1,383,955	222,140

	For the Year Ended December 31,					
	2008	**2009**	**2010**	**2011**	**2012**	**2012**
	RMB	**RMB**	**RMB**	**RMB**	**RMB**	**US$**
	(in thousands)					
Consolidated Statement of Cash Flow Data:						
Net cash provided by/(used in) operating activities	(63,630)	523,094	456,914	296,705	(32,004)	(5,137)
Net cash used in investing activities	(261,831)	(802,365)	(392,364)	(494,558)	(457,855)	(73,490)
Net cash provided by/(used in) financing activities	700,041	(86,500)	406,598	(46,216)	76,838	12,334
Cash and cash equivalents included in assets held for sale			(160,517)	(207,279)	(985)	(158)

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 31, 2012, which was RMB6.2301 to US$1.00. We make no representation that the RMB or U.S. dollar amounts referred to in this annual report could have been converted into U.S. dollars or RMB, as the case may be, at any particular rate or at all. The PRC government imposes control over its foreign currency reserves in part through direct regulation of the conversion of RMB into foreign exchange and through restrictions on foreign trade. On May 30, 2014, the daily exchange rate reported by the Federal Reserve Board was RMB6.2471 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.

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Period	High (1)	Low (1)
2011	6.6364	6.2939
2012	6.3879	6.2221
2013	6.2438	6.0537
October	6.1209	6.0815
November	6.0993	6.0903
December	6.0927	6.0537
2014		
January	6.0600	6.0402
February	6.1448	6.0591
March	6.2273	6.1183
April	6.2591	6.1966
May	6.2591	6.2255

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

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Factors

Risks related to our business and industry

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

The success of our business largely depends on the number of student enrollments in our programs and the amount of course fees that our students are willing to pay. Therefore, our ability to continue to attract students to enroll in our programs without a significant decrease in course fees is critical to the continued success and growth of our business. This will depend on several factors, including our ability to develop new programs and enhance existing programs to respond to changes in market trends and student demands, expand our geographic reach, manage our growth while maintaining the consistency of our teaching quality, effectively market our programs to a broader base of prospective students, develop and license additional high-quality educational content and respond to competitive pressures. Our college is subject to the government imposed annual enrollment quota limit. If we were to violate requirements to which we are subject, the Ministry of Education of the People s Republic of China (MOE), could reduce the annual enrollment quota at our college or restrict the programs we offer at our college or the methods by which we recruit new students. If we are unable to continue to attract students to enroll in our programs without a significant decrease in course fees, our net revenues may decline and we may not be able to 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. On January 11, 2014, MOE promulgated the Measures for Punishment for Violation of Professional Ethics of Primary and Secondary School Teachers (the Measures) related to some of our substantial business operations in provinces and cities such as Beijing, Tianjin, Chengdu, Jiangsu, Hunan and Hubei. The Measures prohibit teachers of public schools from teaching, on a part-time basis, at private schools during the work week or at any time. We believe that some of our teachers also work in public schools. If these education professionals choose to leave, or are forced to leave, our learning centers to comply with relevant local regulations, we will need to seek new teachers to replace them which we cannot assure you that we will be able to do at a reasonable cost or at all. If these regulations become the trend and are adopted in more provinces and cities or become more restrictive, we may need to seek additional new teachers in more places, which will further increase the difficulty of our recruiting efforts. While there has been no existing nationwide regulations imposing any penalty on private schools like ours for hiring teachers who also teach at public schools, we cannot assure you that such regulations will not be adopted in the future. In addition, we may not be able to hire and retain enough qualified education professionals to keep pace with our anticipated growth or at acceptable costs while maintaining consistent teaching quality across many different schools, learning centers and programs in different geographic locations. Shortages of qualified education professionals, or decreases in the quality of our instruction, whether actual or perceived in one or more of our markets, or an increase in hiring costs, may have a material and adverse effect on our business and our reputation. Further, our inability to retain our education professionals may hurt the brands we are trying to develop, and retaining qualified teachers at additional costs may have a material adverse effect on our business and results of operations.

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

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

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

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

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

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

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

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

We have completed a number of acquisitions, 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. Between 2011 and 2012, we disposed of several companies. This was done to sharpen our focus on the organic growth and business portfolio with stronger performance, greater capital efficiency and better asset turnover. Due to loss of control, we have deconsolidated Tianjin Tutoring after September 2013 and deconsolidated Guangzhou ZS Career Enhancement and Guangzhou DP Tutoring after December 2013.

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 RMB1,114.7 million in 2010 to RMB1,572.4 million in 2011, and decreased to RMB1,343.8 million (US$215.7 million) in 2012. 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:

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

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

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

Our future success depends heavily upon the continuing services of the members of our senior management team and, in particular, upon our retaining the services of our founder, Chairman and Chief Executive Officer, Dr. Jin Huang. If one or more of our senior executives or other key personnel are unable or unwilling to continue in their present positions, we may not be able to replace them easily or at all, and as a result our business may be disrupted and our financial condition and results of operations may be materially and adversely affected. In addition, if any member of our senior management team or any of our other key personnel joins a competitor or forms a competing company, we may lose teachers, students, key professionals and staff members. Competition for experienced management personnel in the private education sector is intense, the pool of qualified candidates is very limited, and we may not be able to retain the services of our senior executives or key personnel, or attract and retain high-quality senior executives or key personnel in the future, which could have a material adverse effect on our business and results of operations.

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

Our online programs, services and products are vital to the success of our business. The market for such programs, services and products is characterized by rapid technological changes and innovation, unpredictable product life cycles and user preferences. We must quickly modify our online programs, services and products to adapt to changing student needs and preferences, technological advances and evolving Internet practices. Ongoing enhancement of our online offerings and related technologies may entail significant expense and technical risk. We may use new technologies ineffectively or fail to adapt our online services or products and related technologies on a timely and cost-effective basis. If our improvements to our online offerings and the related technology are delayed, 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, 2012 were generated from tutoring services focused on preparing for ZhongKao and GaoKao. There have been changes in some areas in the way ZhongKao is administered. For example, beginning in 2010, Yunnan Province stopped administering ZhongKao. Instead, high schools will admit students based on a combination of a comprehensive evaluation of the students aptitude (provided by their middle schools) and the students middle school academic performance. To ensure the success of the educational reform and cultivate students comprehensive abilities, Yunnan Province also prohibits subject competitions in elementary and middle schools, including Olympic math competitions, and standardizes admission policies regarding adding points to middle school test scores based on a student s extracurricular activities. As for GaoKao, some top universities such as Peking University have been allowed to recruit students through independently administered tests and admission procedures in recent years. The candidates still need to take GaoKao and their scores in GaoKao may not be lower than certain thresholds, but such GaoKao scores will not be the sole determining factor in the admission process. Students admitted in this manner generally should not exceed 5% of the annual enrollment quotas of these universities as approved by the MOE. To the extent ZhongKao, or even GaoKao, becomes less prevalent throughout China, our business and results of operations may be materially adversely affected.

If we are unable to 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, 2012, our total bank borrowings amounted to RMB181.2 million which were all our short-term bank loans. 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 December 31, 2012, RMB60.0 million was from domestic banks in China and US$20.0 million was from International Finance Corporation (IFC). We cannot assure you that the People s Bank of China (PBOC) will not in the future take actions that may result in a tightening of the credit market in China. Our ability to obtain bank loans from domestic Chinese banks will be significantly impacted by the PBOC s policies, over which we have no control. If we are unable to 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.

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

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

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

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

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 (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.

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In August 2010, Beijing Kaidi Chenguang Education Science Technology Development Co., Ltd. (Kaidi), initiated an action against Beijing Ambow Shida Education Technology (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 Ambow Shida and Ambow Online to stop the infringement, apologize publicly and pay the plaintiff damages in the amount of RMB11.0 million. 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. On June 18, 2013, the court rejected Kaidi s appeal. Kaidi re-filed again, on August 28, 2013, the court rejected Kaidi s appeal and affirmed the original verdict, this is the final verdict. The company believes it has no further obligation.

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. On or about January 21, 2014, the parties reached a tentative settlement, which was formalized on or about February 17, 2014. The key terms of the settlement includes: a) a payment of US$0.1 million to be paid to the Mintel Trustee in two installments (which was fully paid on March 10, 2014); b) the Mintel Trustee agreed to dismiss the Action, with prejudice, no later than June 10, 2014. The company has recognized the liability of US$100 as of December 31, 2012. And the lawsuit was subsequently dismissed with prejudice on June 10, 2014.

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

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

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

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

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

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

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

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

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

- Any infection by or spread of computer viruses.

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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.

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

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

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

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

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

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.

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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 of Soochow University (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. 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. The capital commitment to the Applied Technology College is fully paid in cash, but we had not contributed the land use rights. For the year ended December 31, 2012, the Applied Technology College was in the process of being disposed of and the transaction was completed in the first half of 2013.

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

In accordance with U.S. GAAP, we account for our acquisitions using the acquisition method of accounting, and such acquisitions have resulted in significant goodwill and intangible assets. These assets may become impaired in the future, which could have a material adverse effect on our results of operations following such acquisitions. We are required under U.S. GAAP to review our amortizable intangible assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Goodwill is required to be tested for impairment annually, or more frequently, if facts and circumstances warrant a review. Factors that may be considered a change in circumstances indicating that the carrying value of our amortizable intangible assets may not be recoverable include a decline in stock price and market capitalization and slower or declining growth rates in our industry. During 2012, we recognized an impairment loss of RMB856.7 million (US$137.5 million) due to decline of business. In the future, we may be required to record a significant charge to earnings in our financial statements during the period in which any impairment of our goodwill or amortizable intangible assets is determined, which could have a material adverse effect on our results of operations.

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

We adopted a stock option plan in 2005, or 2005 Stock Plan, as well as an equity incentive plan in 2010, or 2010 Equity Incentive Plan. We have granted options and restricted shares under these plans to our employees and consultants. U.S. GAAP prescribes how we account for share-based compensation, and may have an adverse or negative impact on our results of operations. U.S. GAAP requires us to recognize share-based compensation as compensation expense in the statement of operations based on the fair value of equity awards on the date of the grant, with the compensation expense recognized over the period in which the recipient is required to provide service in exchange for the equity award. These statements also require us to adopt a fair value-based method for measuring the compensation expense related to share-based compensation. As of December 31, 2012, we had RMB43.4 million (US$7.0 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 1.84 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.

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In order to enjoy the preferential tax treatment to be exempted from income tax on its profits and to be entitled to a 50% reduction in income tax rate and to maintain the Software Enterprise status, the entity is required to obtain a Certificate of Software Enterprise issued by the provincial IT industry administration authorities through meeting the following conditions: (a) its primary business includes computer software development and production, system integration, application services and other related technical services because an enterprise which only engages in software trading is not qualified, (b) it has developed one or more software products or has intellectual property rights to such products, or provides such services as certified computer information system integration, (c) it has the technical equipment and business location required to engage in software development and related technical services, (d) it has the means and ability to control the quality of its software products and technical services, (e) its technicians engaging in product development and technical services make up no less than 50% of the staff, (f) its research and development expenses for software technology and products make up more than 6% of its software revenues, and (g) its annual software sales make up more than 35% of its total annual revenue and the sales of self-produced software make up more than 50% of the software sales. Pursuant to the Criteria for Recognition and Administrative Measures of Software Enterprises, Software Enterprises are subject to annual inspections by the local software industry associations or other relevant associations authorized by the Ministry of Industry and Information Technology (MIIT). Software Enterprises which fail such annual inspections may not, for the current year, enjoy the relevant incentive policies including the preferential tax treatment. Ambow Online has obtained the Certificate of Software Enterprise. For the years ended December 31, 2010, 2011 and 2012, 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 RMB28.3 million, RMB59.6 million, and nil, 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.

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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 2012 was 7.8%, compared to a growth rate of 9.2% in 2011. 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 (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, 2012, have performed an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2012 and reported to our board of directors the material weaknesses as of December 31, 2012. 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. In addition, disposal of certain significant assets were not reviewed by Ambow s legal department, financial department or under effective oversight by Board of Directors. See Item 15. Controls and Procedures.

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

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

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

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

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

According to the Foreign Investment Industries Guidance Catalog, or Foreign Investment Catalog, which was amended and promulgated by the National Development and Reform Commission (NDRC), and the Ministry of Commerce (MOFCOM) on December 24, 2011 and became effective on January 30, 2012, foreign investment is encouraged to participate in higher education and vocational training services. The foreign investment in higher education has to take the form of a Sino-foreign equity or cooperative joint venture. Senior high school education in grades 10-12 is a restricted industry. The foreign investment in senior high school education has to take the form of a cooperative joint venture. Foreign investment is banned from compulsory education, which means grades 1-9. Foreign investment is allowed to invest in after-school tutoring services, which do not grant diplomas. However, many local government authorities do not allow foreign-invested entities to establish private schools to engage in tutoring services, other than in the forms of Sino-foreign cooperative schools or international schools. Under current PRC laws, the foreign contributors of Sino-foreign cooperative schools shall be foreign educational institutions such as universities or colleges instead of foreign companies. As of December 31, 2012, we had a total of 226 centers and schools, comprised of 183 tutoring centers, five K-12 schools, 19 career enhancement centers, 16 training offices, 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 our education business in China and operate our tutoring centers, K-12 schools, career enhancement centers and colleges.

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

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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.

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. If VIEs or their shareholders fail to perform the obligations secured by the pledges under the equity pledge agreements, one of the remedies for default is to require the pledgors to sell the equity interests of VIEs in an auction or sale of the shares and remit the proceeds to Ambow Online, net of all related taxes and expenses. Such an auction or sale of the shares may not result in our receipt of the full value of the equity interests or the business of VIEs.

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

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

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

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

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

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

• Specify the formula for calculating reasonable returns.

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

As of December 31, 2012, we had across our four operating segments a total of 36 schools that were registered as private schools as opposed to companies. Of the 36 schools, five schools that we continue to own were registered as schools not requiring reasonable returns. In addition 21st Century School, for which we hold a 15-year operating right, was also registered as a school not requiring reasonable returns. The other 30 schools were registered as schools requiring reasonable returns. The total net revenue of the schools requiring reasonable returns accounted for 33.1% of our consolidated total net revenue for the year ended December 31, 2012. The total net revenue of the schools not requiring reasonable returns accounted for 7.9% of our consolidated total net revenue for the year ended December 31, 2012. These schools (those requiring reasonable returns and those not requiring reasonable returns) reported a net loss position for the period ending December 31, 2012.

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

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

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

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

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

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

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

According to the 2004 Implementing Rules, private schools that do not require reasonable returns enjoy the same preferential tax treatment as public schools. While it is indicated in the 2004 Implementing Rules that the relevant authorities under the State Council may consider formulating separate preferential tax treatment policies applicable to private schools requiring reasonable returns, no such tax preferential policy has been promulgated yet. In March 2007, the Chinese government enacted the CIT Law, and promulgated the Implementing Regulations for the PRC Corporate Income Tax Law in December 2007, both of which came into effect on January 1, 2008. On February 22, 2008, the Ministry of Finance and State Taxation Administration issued a subsequent notice, or the 2008 Tax Notice, that effectively abolished our preferential tax treatment under the 2004 Implementing Rules. The CIT Law and 2008 Tax Notice, among other things, impose a unified income tax rate of 25% for all private schools regardless of whether they require a reasonable return or not unless the school qualifies as a not-for-profit organization as defined in the PRC tax regime effective January 1, 2008. If a school qualifies as a not-for-profit organization in accordance with the tax law, it will be exempt from corporate income tax for certain of its income qualified for exemption under the relevant laws and rules. In November 2009, the Ministry of Finance and State Taxation Administration further issued rules providing the criteria for a not-for-profit organization to qualify for exemption of corporate income tax. These rules are relatively new and contain many ambiguities. In practice, tax treatments for private schools vary across different cities in China. In some cities, private schools are subject to a 25% standard corporate income tax, while in other cities, private schools are subject to a 1.75% 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.

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Under PRC laws and regulations, an enterprise that qualifies as a new and high-technology enterprise or a software enterprise may enjoy preferential tax benefits. An enterprise qualified as both a new and high-technology enterprise and as a software enterprise may choose one of the more preferential tax treatments. For example, Ambow Online is a certified new and high-technology enterprise and a software enterprise and has chosen to enjoy preferential tax treatments as a software enterprise. As a result, Ambow Online is entitled to a two-year exemption from the first year it generates taxable income and a 12.5% corporate income tax rate for another three years, which might be followed by a 15% tax rate so long as Ambow Online continues to qualify as a new or high-technology enterprise . 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. If PRC laws and regulations were to phase out preferential tax benefits currently granted to software enterprises or new and high-technology enterprises , Ambow Online 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.

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

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

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

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

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

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Currently, we still retain part of the software sales to some small distributors, and although reduced, our R&D team has been maintaining the basic software developing codes and databases. So the company didn t consider this suspension as a discontinuation of the software business.

Risks related to doing business in China

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

On 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.

In addition, SAFE promulgated a circular on November 19, 2010, or Circular 59, which requires the authenticity of settlement of net proceeds from offshore offerings to be closely examined and the net proceeds to be settled in the manner described in the offering documents. Furthermore, SAFE has issued an internal guideline to its local counterparts, referred to as Circular 45, in November 2011. Circular 45 has never been formally announced by SAFE to the public or posted on SAFE s website. Based on the version of Circular 45 made publicly available by certain local governmental authorities on their websites, we understand that Circular 45 stipulates SAFE s local counterparts to strengthen the control imposed by Circulars 142 and 59 over the conversion of a foreign-invested company s capital contributed in foreign currency into RMB. Circular 45 stipulates that a foreign-invested company s RMB funds, if converted from such company s capital contributed in foreign currency, may not be used by such company to (i) extend loans (in the form of entrusted loans), (ii) repay borrowings between enterprises, or (iii) repay bank loans it has obtained and lent to third parties. In May 2013, SAFE promulgated the Circular on Printing and Distributing the Provisions on Foreign Exchange Administration over Domestic Direct Investment by Foreign Investors and the Supporting Documents, which specifies that the administration by SAFE or its local counterparts over direct investment by foreign investors in the PRC are to be conducted by way of registration and banks are to process foreign exchange business relating to the direct investment in the PRC based on the registration information provided by SAFE and its local counterparts.

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

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

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

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

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

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

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

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

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

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

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

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.

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

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

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

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

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

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

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

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

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

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

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Risks related to ownership of our ADSs 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.

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. To consummate these transactions, we may issue additional shares in these acquisitions that will dilute our shareholders. The sale of additional equity securities could result in additional dilution to our shareholders. The incurrence of indebtedness would result in increased debt service obligations and could result in operating and financing covenants that would restrict our operations or our ability to pay dividends. Our ability to raise additional funds in the future is subject to a variety of uncertainties, including:

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

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

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

Under our amended and restated memorandum and articles of association, our ordinary shares are divided into Class A ordinary shares and Class B ordinary shares. Holders of Class A ordinary shares are entitled to one vote per share, while holders of Class B ordinary shares are entitled to ten votes per share. 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.

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

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

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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, 2012 and December 31, 2013. However, a separate determination must be made each year as to whether we are a PFIC (after the close of each taxable year) and we cannot assure you that we will not be a PFIC for the year ending December 31, 2014 or any future taxable year. A non-United States corporation will be considered a PFIC for any taxable year if either (1) at least 75% of its gross income is passive income or (2) or least 50% of the value of its assets (generally based on an average of the quarterly values of the assets during a taxable year) is attributable to assets that produce or are held for the production of passive income. PFIC status depends on the composition of our assets and income and the value of our assets (including, among others, a pro rata portion of the income and assets of each subsidiary in which we own, directly or indirectly, at least 25% (by value) of the equity interest) from time to time. Because we currently hold, and expect to continue to hold, a substantial amount of cash or cash equivalents, which are generally treated as passive assets, and, because the calculation of the value of our assets may be based in part on the value of our ADSs, which is likely to fluctuate (and may fluctuate considerably given that market prices of technology companies historically have been especially volatile), we may be a PFIC for any taxable year. If we were treated as a PFIC for any taxable year during which a United States holder held an ADS or an ordinary share, certain adverse United States federal income tax consequences could apply to such United States holder. See Item 10.E Taxation United States federal income taxation Passive foreign investment company.

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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.

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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 (the Court) may stay proceedings if concurrent proceedings are being brought elsewhere. Moreover, the PRC does not have treaties with the United States or many other countries providing for the reciprocal recognition and enforcement of judgment of courts. As a result of all of the above, our public shareholders may have more difficulty in protecting their interests through actions against us or our officers, directors or major shareholders than would shareholders of a corporation incorporated in a jurisdiction in the United States.

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

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

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

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

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

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

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

Your ADSs are transferable on the books of the 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.

Public shareholders of China-based, U.S.-listed companies and other market participants may have limited or no access to a wide array of corporate records of such listed companies PRC entities filed with industry and commerce administration authorities in China. The inability to access such information may adversely affect overall investor confidence in such companies reported results or other disclosures, including those of our Company, and may cause the trading price of our ADSs to decline.

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

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

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

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

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Item 4. Information on the Company

A. History and Development of the Company

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

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

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

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

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

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

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

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

Board meeting on December 19, 2012, management proposed and was authorized by the board to explore possible sale of Applied Technology College, which was disposed in July 2013, to Kunshan government.

In the year of 2012, two former employees of the company made allegations of financial impropriety and wrongful conduct in connection with the company s prior year acquisitions of training schools. The Audit Committee of the Board of Directors of the company determined that it would conduct an internal investigation to thoroughly review these allegations. This investigation was conducted with the assistance of independent outside counsel.

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

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

In the year of 2013, the company deconsolidated Tianjin Tutoring, Guangzhou ZS Career Enhancement and Guangzhou DP Tutoring due to loss of control.

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

Prior to the JPLs appointment, the Audit Committee of the company had commenced an investigation into allegations of certain financial improprieties and wrongful conduct by certain senior executives within the group of entities of which the company is the parent (the Audit Committee Investigation). In July 2012, the Audit Committee engaged Fenwick & West LLP (Fenwick & West) and Ernst & Young LLP

(Ernst & Young) to assist with the investigation. At that time, the company s auditor was PricewaterhouseCoopers Zhong Tian CPAs Limited Company (PwC).

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

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

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

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

A restructuring agreement, between the company and CEIHL provides for a loan facility for the company, comprising approximately RMB299.1 million (US$48.0 million) less the amounts paid, or procured to be paid, by CEIHL or its nominee in satisfaction of and/or discharge of and/or to purchase and cancel the onshore debt with estimated pay off value of approximately RMB83.0 million (US$13.3 million) and includes the amount of the existing facility provided by CEIHL pursuant to which the sum of approximately RMB105.9 million (US$17.0 million) of principal is due, leaving the rest of the cash being injected into the company, and includes, inter alia, the necessary conversion rights to enable CEIHL to become the holder of 50.1% of the voting rights (equating to 85% of the economic interest) in the company.

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Under the Second Amended and Restated Loan Agreement and related financing documents, a) the outstanding US$17.0 million convertible loan originally borrowed from the IFC that was indirectly assigned to CEIHL has been amended and extended; b) CEIHL, Baring Private Equity Asia V Holding (4) Limited (Baring) and SummitView Investment Fund I, L.P. (SummitView) funded a total of approximately US$31.0 million in new loans under lending commitments, among which, CEIHL assigned approximately RMB31.2 million (US$5.0 million) each of its commitments to Baring and SummitView, and Baring and SummitView each funded a loan of US$5.0 million to the company.

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

In connection with the Restructuring Plan, CEIHL and the company entered into a Working Capital Facility Agreement, which makes available to the company working capital of up to approximately RMB31.2 million (US$5.0 million) at an interest rate of 3% per annum for a term of 3 years, subject to certain conditions.

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

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

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, 2012, we had a total of 226 centers and schools, comprised of 183 tutoring centers, five K-12 schools, 19 career enhancement centers, 16 training centers, two career enhancement campuses and one college, which are located in 19 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 career enhancement services target students at universities, colleges and community colleges, recent graduates of these institutions and employees and management in corporate. 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.

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.

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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 RMB1,114.7 million in 2010 to RMB1,572.4 million in 2011 to RMB1,343.8 million (US$215.7 million) in 2012. Our growth from 2010 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. The decrease from 2011 to 2012 was mainly due to the suspension of software sales and continuing negative impact of internal independent investigation and negative publicity in the media in the last quarter of 2012.

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 75.3%, 66.7% and 76.7% of our total net revenues from continuing operations in the fiscal years of 2010, 2011 and 2012, respectively. Revenues from our Better Jobs division accounted for 24.7%, 33.3% and 23.3% of our total net revenues from continuing operations in 2010, 2011 and 2012, respectively. We recorded net income from continuing operations of RMB167.3 million, RMB137.8 million, and net loss of RMB1,666.3 million (US$267.5 million) in 2010, 2011 and 2012, respectively. Our total student enrollments from continuing operations in our Better Schools division were approximately 881,000 and 759,000 for the fiscal year ended December 31, 2011 and 2012 respectively; and in our Better Jobs division were approximately 110,400 and 127,000 for the fiscal year ended December 31, 2011 and 2012 respectively.

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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.

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

Currently, the company still retains part of the software sales to some small distributors, and although reduced the R&D team has been maintaining the basic software developing codes and databases. The company didn t consider this suspension to be a discontinuation of the software business.

The following map sets forth the service coverage and the geographic coverage of our tutoring centers and K-12 schools (marked as Better Schools), and our career enhancement centers, career enhancement campuses and college (marked as Better Jobs) as of December 31, 2012:

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Better Schools

Our Better Schools division consists of 183 tutoring centers and five K-12 schools as of December 31, 2012, which are located in or around our 16 provinces and 3 municipalities directly under the Central Government across China.

Our tutoring centers are designed to help students perform better in school and prepare for important tests, specifically high school and university entrance exams. In addition to our classroom-based teaching services, we offer educational curriculum and software products through our web-based applications to allow our students access to our tutoring services from anywhere at any time. Combined with our proprietary learning engine, our software features such functions as online video classes, practice questions, discussion forums and prior actual tests. Our educational software products include eBoPo (meaning energy and impact in Chinese), which offers full subjects, online practice tests and instruction for K-12 level students. Our software products and web-based applications complement our in-person classes and offer individualized services and tailored content based on each student s specific needs. Our tutoring centers offer the classroom instruction, small class and one-on-one tutoring. Total student enrollments of these tutoring centers were approximately 740,000 for the fiscal year ended December 31, 2012.

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Our K-12 schools, which are accredited by the local equivalent of the MOE, provide full-subject national curriculum, including mathematics, language, history, sciences and arts. Our five K-12 schools had an aggregate capacity of up to 20,000 students in 2012. 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 19 career enhancement centers, 16 training offices, two career enhancement campuses and one college as of December 31, 2012, which are located in the Bohai Rim Area, Central South Area (Changsha, Zhuzhou and Xiangtan) and the Yangtze River Delta. Our career enhancement centers are designed to help university level students and graduates enhance their practical skills and improve their competitive positioning upon graduation as they look to start their career. We have located our service network in regional economic centers within China where there is a high concentration of companies in high-growth industries. We cooperate with universities to provide our career enhancement services to their students. Our 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.

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, 2012, student enrollments in our career enhancement services were approximately 127,000.

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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.

We acquired Genesis Career Enhancement in 2011which 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. 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. During the year of 2013, the company had disposed the only college left in the College segment, Applied Technology College.

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.

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Continued tracking

As part of the learning engine, our learning tracking system comprehensively records a student s progress and achievements throughout the learning experience. The system assesses a student s knowledge and competency level when he or she starts, and continually monitors the interactions between the student and his or her computer, keeping on file the student s learning process and progress. The system is able to capture and memorize the way a student learns and creates a unique learning profile, which we refer 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. This means that no matter where students are living in urban centers or rural villages across China they can be confident of receiving the same high standard of resources and support at all times.

Operational management platform

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

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Development and deployment platform

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

Intellectual property

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

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

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Selling and marketing

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

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

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

- Hosting industry summits with key corporate partners;

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

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

Our partners

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

Partner schools

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

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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 31 separate acquisitions through business combinations and one acquisition of long-term operating rights from 2008 to 2012. 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 Foreign Language School and Zhenjiang International School to use the schools 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. In 2012, we acquired 16 tutoring centers, which were owned and operated by a third party. Please refer to Note 22 to the financial statements. The company believes the acquisition of the 16 training centers is an integral piece of the company s strategy to increase its market share in providing tutoring services in China.

At the beginning of the third quarter of 2011, we reverted the operating right for the Zhenjiang Foreign Language School back to the original owner. Zhenjiang International School and Zhenjiang Foreign Language School are public schools in nature, which were established by government funding. Zhenjiang Municipal Education Bureau authorized Zhenjiang Education Development Investment Center (Investment Center) to own and operate Zhenjiang International School and Zhenjiang Foreign Language School. As an educational reform measure, Zhenjiang International School and Zhenjiang Foreign Language School were permitted by local government to be operated by private institutions. On August 18, 2008, we concluded a cooperation agreement with Investment Center and both of these two schools, pursuant to which we, through Zhenjiang Ambow International School, a private school we established for this purpose, acquired the right to operate Zhenjiang International School and Zhenjiang Foreign Language School for RMB47.5 million for a period of 12 years, from September 2008 to August 2020. Throughout this period, we would have been entitled to obtain all the economic returns from the operation of these two schools. According to the provisions of the cooperation agreement, in the event that the publicly-funded privately-run nature of Zhenjiang International School or Zhenjiang Foreign Language School should change due to reasons attributable to local government and Investment Center is unable to perform its responsibilities under the cooperation agreement any more, the Investment Center may terminate the company s right to operate one or both of the schools provided that Investment Center returns a portion of the consideration paid by us for the right to run the schools based on the remaining period of the cooperation agreement. According to an announcement jointly issued by Jiangsu Provincial Department of Education and Jiangsu Supervision Department on January 27, 2011, Zhenjiang Foreign Language School was to be re-registered as a publicly-funded publicly run school. This meant that Zhenjiang Foreign Language School had to provide compulsory education to its new students free of charge starting from September 2011. Therefore, the Investment Center asked the Operating Right of Zhenjiang Foreign language School to be reverted back to the original owner. We agreed this with the Investment Center and withdrew from running Zhenjiang Foreign Language School in July 2011.

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In the fourth quarter of 2011, we sold to Beijing Tongshengle Investment Co, Ltd., four subdivisions, including three in the tutoring segment, for total consideration of RMB35.0 million, which was due to be received by December 31, 2012. In December 2012, the company received cash payment of RMB21.0 million.

In December 2011, the company signed an agreement to sell Beijing Century College Group and part of the interest of 21st School to Xihua Group. By December 2012, the transaction to sell Beijing Century College Group had been completed while the company maintained the control and legal title on 21st School for an additional fifteen years.

On the board meeting at December 19, 2012, management proposed and was authorized by the board to explore possible sale of Applied Technology College, which was disposed in July 2013, to Kunshan government.

We believe that these disposals assisted us in focusing on organic growth, greater capital efficiency and better asset turnover because: (i) as to the transaction with Xihua Group, Beijing Century College would not be able to meet the land requirement to continue to be registered as an independent college without significant cost and efforts. Not being registered as an independent college could greatly restrict its future development. Furthermore, the company anticipated that to continue to maintain and upgrade 21st School s buildings it would need to invest a large amount of funds. For example, to incur costs to reinforce its school buildings to protect against earthquakes. These expenditures could adversely affect the company s future cash flows and results of operations, (ii) as to disposals of the four subdivisions, all four subdivisions market shares were shrinking or not growing in accordance with previous expectations due to intense local competition or certain changes in government policies such as more stringent restrictions on tutoring programs for Mathematical Olympiad at one of these subdivisions. We believe that these disposals assisted us in consolidating our resources and focusing on the core businesses, which in turn resulted in organic growth, greater capital efficiency and better asset turnover.

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Subsequent to December 31, 2012, we planned to continue to strengthen our operations primarily through organic growth.

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.

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Seasonality

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

Regulations

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

Regulations on private education

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

Education Law of the PRC

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

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

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

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

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

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.

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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, 2012, we had across our four operating segments a total of 36 schools that are registered as private schools as opposed to companies, of which six 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 is the Rules Relating to the Establishment and Regulation of Independent Colleges promulgated by MOE and effective as of April 1, 2008. Under the regulation, 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.

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For the due establishment of independent colleges, these regulations impose a series of requirements, including (i) the universities jointly establishing an independent college that 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. The disposal of Applied Technology College was completed in the year of 2013. As a result, as of the date, we do not have independent college.

Foreign investment in education service industry

According to the Foreign Investment Industries Guidance Catalog, or Foreign Investment Catalog, which was amended and promulgated by the NDRC, and the MOFCOM on December 24, 2011 and became effective on January 30, 2012, foreign investment is encouraged to participate in higher education and vocational training services. The foreign investment in higher education has to take the form of a Sino-foreign equity or cooperative joint venture. Senior high school education in grades 10-12 is a restricted industry. The foreign investment in senior high school education has to take the form of a cooperative joint venture. Foreign investment is banned from compulsory education, which means grades 1-9. Foreign investment is allowed to invest in after-school tutoring services, which do not grant diplomas. However, many local government authorities do not allow foreign-invested entities to establish private schools to engage in tutoring services, other than in the forms of Sino-foreign cooperative schools or international schools. Under current PRC laws, the foreign contributors of Sino-foreign cooperative schools shall be foreign educational institutions such as universities or colleges instead of foreign companies. As of December, 2012, we had a total of 226 centers and schools, comprised of 183 tutoring centers, five K-12 schools, 19 career enhancement centers, 16 training offices, 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 our education business in China and operate our tutoring centers, K-12 schools, career enhancement centers and colleges.

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Regulations on Chinese-foreign cooperation in operating schools

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

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

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

By December 31, 2012, only 21st School was 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.

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

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

Regulation of the software industry

Policies to Encourage the Development of Software

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

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

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

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

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

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

- Implementing measures to enhance intellectual property protection in China.

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To qualify for preferential treatments, an enterprise must be recognized as a software enterprise by governmental authorities. A software enterprise is subject to annual inspection, failure of which in a given year will cause the enterprise to lose the relevant benefits. Ambow Online, our wholly-owned subsidiary, has qualified as software enterprises and is 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.

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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, 2012, we have been issued 69 registration certificates for computer software copyrights, of which we use 34 of such registration certificates to operate our business.

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

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Regulations on Internet information services

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

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

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

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

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

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

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

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

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Regulations on information security

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

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

Regulations on Protection of the Right of Dissemination through Information Networks

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

Regulation of domain names and website names

PRC law requires owners of Internet domain names to register their domain names with qualified domain name registration agencies approved by MIIT and obtain registration certificates from such registration agencies. A registered domain name owner has an exclusive use right over its domain name. Unregistered domain names may not receive proper legal protections and may be misappropriated by unauthorized third parties. As of December 31, 2012, we have registered 102 domain names relating to our websites, with the Internet Corporation for Assigned Names and Numbers and the China Internet Network Information Center.

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PRC law requires entities operating commercial websites to register their website names with the SAIC or its local offices and obtain commercial website name registration certificates. If any entity operates a commercial website without obtaining such a certificate, it may be charged a fine or imposed other penalties by the SAIC or its local offices. On November 5, 2004, the MIIT amended the Measures for Administration of Domain Names for the Chinese Internet, or the Domain Name Measures. The Domain Name Measures regulate the registration of domain names, such as the first tier domain name .cn . In February 2006, China Internet Network Information Center (CNNIC), issued the Implementing Rules for Domain Name Registration and the Measures on Domain Name Disputes Resolution, pursuant to which CNNIC can authorize a domain name dispute resolution institution to decide disputes. As of December 31, 2012, we have registered 10 website names used in connection with our online education business with Beijing Municipal Bureau of Industry and Commerce.

Regulation of privacy protection

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

Regulation of copyright and trademark protection

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

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

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To address the problem of copyright infringement related to the content posted or transmitted over the Internet, the National Copyright Administration and MIIT jointly promulgated the Administrative Measures for Copyright Protection Related to the Internet on April 29, 2005. These measures became effective on May 30, 2005.

Trademark. The PRC Trademark Law, adopted in 1982 and revised in 2001, 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 SAIC in China.

Regulation of foreign exchange

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

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

Regulation of foreign exchange in certain onshore and offshore transactions

In October 2005, SAFE issued the Notice on Issues Relating to the Administration of Foreign Exchange in Fund-Raising and Return Investment Activities of Domestic Residents Conducted via Offshore Special Purpose Companies, or SAFE Circular 75, which became effective as of November 1, 2005. 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.

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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. Additionally, these foreign-invested enterprises are required to set aside certain amounts of their accumulated profits each year, if any, to fund certain reserve funds. These reserves are not distributable as cash dividends.

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Regulation of overseas listings

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

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

SAFE regulations on employee share options

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

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

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

C. Organizational Structure

The diagrams below illustrate our corporate structure with respect to each of our significant subsidiaries and VIEs and the place of incorporation of each named entity as of December 31, 2012.

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

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

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

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Notes:

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

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

(3) Shareholders of Ambow Sihua are Xuejun Xie and Xiaogang Feng, one of our employees, who own 57.4% and42.6% 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.

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Exhibit A: Entities owned by Shanghai Ambow Education Information Consulting Co., Ltd. (33)

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Exhibit B: Entities owned by Beijing Ambow Shida Education Technology Co., Ltd. (12)

Exhibit C: Entities owned by Ambow Sihua Education and Technology Co., Ltd. (24)

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

- Receive economic benefits from the pre-tax profits of our VIEs and their respective subsidiaries in consideration for products sold and technical support, marketing and management consulting services provided by Ambow Online to our VIEs and their respective subsidiaries. Such economic benefits, being net revenues of, RMB162.3 million, RMB72.4 million and RMB88.2 million (US$14.2 million) for the years ended December 31, 2010, 2011 and 2012, 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.

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Similar to Ambow Online, Ambow Yuhua was recognized as a software enterprise and owned by Ambow College Management Limited (Hong Kong), Ambow Sihua and Ambow Shida with shares ownership of 87.23%, 11.49%, and 1.28% respectively. It provided softwares products and related technical services to our VIEs and their respective subsidiaries through contractual arrangements. The economic benefits from the pre-tax profits of our VIEs and their respective subsidiaries in consideration for products sold and technical support provided by Ambow Yuhua, being net revenues of nil, RMB82.8 million, and RMB8.9 million (US$1.4 million) for the years ended December 31, 2010, 2011 and 2012, respectively (which have been eliminated upon consolidation) were earned by Ambow Yuhua.

Accordingly, we treat these domestic PRC companies as variable interest entities and have consolidated their historical financial results in our financial statements in accordance with U.S. GAAP. These domestic PRC companies and their subsidiaries hold the requisite licenses and permits necessary to conduct our education business in China 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, 2012:

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 11 tutoring centers;

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

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(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 Center, which operates six 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 four tutoring centers;

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

(10) Ambow Sihua owns the 100% equity interest in Beijing JY Tutoring, which operates 94 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 95% equity interest in Beijing SIWA Future Education Enterprise Co., Ltd., which operates one tutoring center;

(13) Ambow Sihua owns the 100% equity interest in Beijing Xin Gan Xian Tutoring, which operates three tutoring centers;

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

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

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

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

(18) Shanghai Ambow Educatin Information operates eight tutoring centers.

2. Career Enhancement Centers and Campuses

(1) Ambow Shanghai owns the 100% equity interest in Shanghai Hero Further Education Institute, which operates 10 career enhancement service centers;

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

(3) Ambow Shanghai owns the 100% equity interest in Medium Range Online (Beijing) Technology Co., Ltd. (Zhong Cheng Zai Xian), which operates one career enhancement service centers;

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

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

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

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

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

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

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

(11) 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.

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In addition, Ambow Shanghai also owns 100% equity interest in Genesis Career Enhancement (Shanghai Renzhongren), a group of three companies which provide outbound and in-house management trainings tailored for employees and management teams through their 16 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). The land and premises are leased to Changsha K-12 Experimental School and Changsha Kindergarten for 20 years, from October 1, 2009 to September 30, 2029, and free of charge for the first six years, i.e, from October 1, 2009 to September 30, 2015; and

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

In addition, in March 2012 we disposed of equity interest of 21st School to Xihua Group, while at the same time obtained the 15-year operating rights of 21st School. In first quarter 2013, Management planed to seek for potential buyer to dispose 21st School to improve the cash flows positions. Subsequently, we have returned the remaining operating rights back to Xihua Group in April 2013.

(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, which was in the process of being disposed in 2012 and the transaction was completed during the year of 2013.

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

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

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

Agreements that provide effective control over Ambow Shida and its subsidiaries

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

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

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

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

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

Agreements that provide effective control over Ambow Shanghai and its subsidiaries

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

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

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

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

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

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Agreements that provide effective control over Ambow Sihua and its subsidiaries

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

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

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

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

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

Agreements that provide effective control over Suzhou Wenjian

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

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Share Pledge Agreement. Pursuant to the share pledge agreement, dated February 25, 2009, among Ambow Online, Xuejun Xie, Xiaogang Feng and Yisi Gu, each a shareholder of Suzhou Wenjian, each of Xuejun Xie, Xiaogang Feng and Yisi Gu pledged all of his or her equity interest in Suzhou Wenjian to Ambow Online to secure the performance of Suzhou Wenjian under a technology service agreement between Ambow Online and Suzhou Wenjian dated February 25, 2009. If (a) Suzhou Wenjian fails to fulfil its payment obligation or other related obligations to pledgee in accordance with the provisions of technology service agreement, or (b) pledgors breach their duties or obligations thereunder, pledgee shall have the right to exercise the pledge in any manner at any time it deems appropriate to the extent permitted by applicable laws during the term of pledge, including without limitation: (a) to negotiate with pledgors to discharge the secured debt with the pledged equity at a discount rate; (b) to sell off the pledged equity and use the proceeds thereof to discharge the secured debt; (c) to retain a relevant agency to auction all or part of the pledged equity; and/or (d) to otherwise dispose of the pledged equity appropriately to the extent permitted by applicable laws. Each shareholder of Suzhou Wenjian also agreed that, without the prior written consent of Ambow Online, such shareholder shall not transfer, dispose of or otherwise create any encumbrance over his or her equity interest in Suzhou Wenjian. The share pledge will expire three years after all obligations related to the technology service agreement are fully performed. Without Ambow Online s prior written consent, pledgors shall not transfer any of their rights or obligations under the share pledge agreement to any other party. Ambow Online shall have the right to transfer to any third party any of its rights or obligations under the share pledge agreement and any of its rights or obligations under other agreements contemplated by the share pledge agreement without pledgor s prior consent. The share pledge agreement shall remain in effect until the secured debt is fully repaid. The share pledge agreement may be unilaterally terminated by Ambow Online. None of Xuejun Xie, Xiaogang Feng and Yisi Gu is entitled to unilaterally terminate the share pledge agreement. If any dispute arises between the parties in connection with the interpretation and performance of the provisions thereunder, the parties shall resolve such dispute in good faith through discussions. If no agreement can be reached within sixty days after one party receives the notice of the other party requesting the beginning of discussions or as otherwise agreed, either party shall have the right to submit such dispute to CIETAC for arbitration in accordance with its then-effective rules. The arbitration shall be held in Beijing. The award of the arbitration shall be final and binding upon the parties. The share pledge has been registered with the local SAIC.

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

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

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

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Agreements that transfer economic benefits to us

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

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

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

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

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

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

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

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

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

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Agreement that transfer economic benefits to us from Suzhou Wenjian

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

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D. Property, Plant and Equipment

Our headquarters are located in Beijing, China, where we lease approximately 2,357 square meters of office space. In addition, we lease an aggregate of approximately 1,315,448 square meters of space for our tutoring centers, K-12 schools, career enhancement centers and college. We own an aggregate of approximately 627,355 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 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 183 tutoring centers, five K-12 schools, 19 career enhancement centers, 16 training offices, two career enhancement campuses and one college as of December 31, 2012, 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.

Our net revenues from continuing operations increased from RMB1,114.7 million in 2010 to RMB1,572.4 million in 2011 and droped to RMB1,343.8 million (US$215.7 million) in 2012. Our growth from 2010 to 2011 was primarily driven by the expansion of our service network across both Better Schools and Better Jobs, through acquisitions, and organic growth. The decrease from 2011 to 2012 was primarily due to the suspension of software sales and continuing negative impact of internal independent investigation and negative publicity in the media in the last quarter of 2012.

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We recorded income from continuing operations of RMB167.3 million, RMB137.8 million and loss of RMB1,666.3million (US$267.5 million) in 2010, 2011 and 2012, respectively.

Net revenues from our Better Schools division, which includes tutoring and K-12 schools, accounted for 75.3%, 66.7% and 76.7% of our total net revenues from continuing operations in 2010, 2011 and 2012, respectively. Net revenues from our Better Jobs, which includes continuing operations of Career Enhancements and Colleges, accounted for 24.7%, 33.3% and 23.3% of our total net revenues from continuing operations in 2010, 2011 and 2012, 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, 2012, we had approximately a total of 886,000 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.

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Factors affecting our results of operations

General factors affecting our results of operations

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

- Rapid growth in disposable household income;
- Intense competition in the education sector and the job market;
- Rapid economic growth;
- Increasing hiring needs of existing and new companies doing business in China; and
- The increased availability and utilization of advanced learning technologies to supplement the traditional education delivery model.

The overall economic growth and the increase in the GDP per capita in China have led to a significant increase in spending on education in China. In addition, education is a welcomed and supported industry in China, which means that education service providers often get preferential treatment in terms of infrastructure support and tax rates. We anticipate that the demand for private education and career enhancement training in China will continue to increase as the economy in China continues to grow and as disposable income of urban households continues to rise. However, any adverse changes in the economic conditions or regulatory environment in China may have a material adverse effect on the education and career enhancement industries in China, which in turn may harm our business and results of operations. We are subject to a legal regime consisting of regulations governing various aspects of our business such as regulations on education, software, internet, audio-video broadcasting, tax, information security, privacy, copyright and trademark protection and foreign exchange. These regulations are evolving and are subject to frequent changes which may materially adversely affect our business in all aspects such as the operation of our K-12 schools, tutoring centers, 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. However, with the disposal of the Applied Technology College in 2013, the risk of being adversely affected by such issues is remote.

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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 continue to add new offerings to better attract students of different needs and provide cross-selling opportunities, and we intend to keep the current K-12 schools student enrollments, which are almost at its full capacity.

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

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

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Sales to our distributors

For the years ended December 31, 2010, 2011 and 2012, sales to distributors were RMB188.1 million, RMB346.2 million, and RMB96.6 million, respectively and sales to distributors were approximately 16.9%, 22.0% and 7.2%, respectively, of our net revenues from continuing operations. The decrease in sales to our distributors in 2012 was mainly due to the suspense of the software sales.

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

Terms of sales

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.

In late 2012, Ambow decided to suspend the software sales temporarily and gradually, mostly due to the negative impact of internal independent investigation and negative publicity in the media in the last quarter of 2012. Management only considered this suspension of the software sales as a temporary strategy, would resume the software sales later when the company s business had recovered and got sufficient funding for rebuilding the R&D team.

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Currently, the company still retained part of the software sales to some small distributors, and the stripped-down R&D team has been maintaining the basic software developing codes and databases. So the company didn t consider this suspension as discontinue of the software business.

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. In 2012, we acquired 16 training centers, which provided after-school tutoring services for K-12 students. The company believes the acquisition of the 16 training centers is an integral piece of the company s strategy to increase its market share in providing tutoring services in China. 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. 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 Zhenjiang Foreign Language School back to the original owner. We also initiated the disposal of Beijing Century College Group, and part of the interest of 21st School to Xihua Group. By December 2012, the transaction to sell Beijing Century College Group had been completed while the company maintained the control and legal title on 21st School for an additional fifteen years, which was returned to its original owner in 2013. On the board meeting at December 19, 2012, management proposed and was authorized by the board to explore possible sale of Applied Technology College to Kunshan government, which was disposed in July 2013. For additional information, see Note 24 and Note 25 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.

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	For the Year Ended December 31,						
	2010		2011		2012		
	RMB	%	RMB	%	RMB	US$	%
	(in thousands, except percentages)						
-Educational program and services	899,992	80.7	1,205,771	76.7	1,276,877	204,953	95.0
-Software products	214,663	19.3	366,600	23.3	66,886	10,736	5.0
Net revenues	1,114,655	100.0	1,572,371	100.0	1,343,763	215,689	100.0
-Educational program and services	(466,064)	(41.8)	(633,421)	(40.3)	(845,738)	(135,750)	(62.9)
-Software products	(13,721)	(1.2)	(49,223)	(3.1)	(12,176)	(1,954)	(0.9)
Cost of revenues	(479,785)	(43.0)	(682,644)	(43.4)	(857,914)	(137,704)	(63.8)
-Educational program and services	433,928	39.0	572,350	36.4	431,139	69,203	32.1
-Software products	200,942	18.0	317,377	20.2	54,710	8,782	4.1
Gross Profit	634,870	57.0	889,727	56.6	485,849	77,985	36.2

Net revenues

In 2010, 2011 and 2012, we generated net revenues of RMB1,114.7 million, RMB1,572.4 million and RMB1,343.8 million (US$215.7 million), respectively from continuing operations.

Revenue increases from 2010 to 2011 was primarily driven through acquisitions and organic growth. Revenue decrease from 2011 to 2012 was mainly due to the suspension of software sales and student withdrawl following the negative publicity in the media during 2012.

Our total software product revenues were RMB214.7 million, RMB366.6 million and RMB66.9 million (US$10.7 million) in 2010, 2011 and 2012 respectively. These revenues as a percentage of our total net revenues from continuing operations were 19.3%, 23.3% and 5.0% in 2010, 2011 and 2012, respectively. Our product sales include value added tax (VAT).

We derived net revenues from our four operating segments in terms of percentages of our overall net revenues from continuing operations as follows in 2010, 2011 and 2012:

	For the Year Ended December 31,		
	2010	2011	2012
	%	%	%
Better Schools:			
Tutoring	52.8	49.5	57.6
K-12 schools	22.5	17.2	19.1
Total Better Schools	75.3	66.7	76.7
Better Jobs:			
Career enhancement	24.3	32.1	23.1
College	0.4	1.2	0.2
Total Better Jobs	24.7	33.3	23.3

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The following table sets forth our approximate student enrollments under our four operating segments in 2010, 2011 and 2012, which exclude enrollments from the disposed entities as well as Beijing Century College Group that is in the process of being disposed of:

	2010	**2011**	**2012**
		(in thousands)	
Better Schools:			
Tutoring (1)	760,000	860,000	740,000
K-12 schools (2)	22,400	21,000	19,000
Total Better Schools	782,400	881,000	759,000
Better Jobs:			
Career enhancement (1)	51,800	105,000	127,000
College (3)			
Total Better Jobs	51,800	105,000	127,000

(1) We disclose our student enrollments in our tutoring and career enhancement centers here during the fiscal year because these students can enroll in multiple classes during the fiscal year. 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 fiscal year, we count only student enrollments after the acquisition becomes effective.

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

(3) College has been excluded from continuing operation for the year of 2010, 2011 and 2012..

Tutoring. We provided educational services in our 183 tutoring centers as of December 31, 2012. These services consist primarily of test preparation courses and tutoring. We recognize revenues from course fees collected for enrollment in the courses we offer at our tutoring centers proportionally as we deliver the instruction over the period of the course. Course fees collected are recorded as deferred revenues until they are recognized as revenues over the period when the course is taught, which typically ranges from one to six months. We also generated revenues in our tutoring segment through sales of software products, which were suspended in the year of 2012. For sales directly to students and to distributors with a proven payment history with us, we recognize these net revenues upon delivery of our software products or education services to our students or distributors. For sales to distributors without a proven payment history, we recognize revenue upon collection of cash if delivery has occurred. The most significant factors that directly affect our net revenues in our tutoring segment are the number of student enrollments in the courses and the amount of course fees. Although similar courses have comparable rates, course fees vary among our numerous courses. Tuition fees in our tutoring centers range from 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.

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K-12 schools. We operated five K-12 schools as of December 31, 2012. 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 35 career enhancement centers, which include 19 career centers and 16 training offices. In addition, there are two career enhancement campuses as of December 31, 2012. 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.

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College. As of December 31, 2012, we operated one college, the Applied Technology College, which was in the process of being disposed of and being classified as discontinued operations. In addition, we completed the disposal of the other college, Beijing Century College Group during the year. As a result, there was nil business in College segment for continuing operations. 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 connectionwith their services other than teaching. Compensation of our part-time teachers is comprised primarily of teaching fees based on hourly rates and performance-linked bonuses based on student evaluations and other factors;

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

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

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

- Amortization of student population intangible assets.

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

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• *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.

Gross profit

For continuing operations, gross profit as a percentage of our net revenues was 57.0%, 56.6% and 36.2% in 2010, 2011 and 2012, respectively. From 2010 to 2011, improvement in gross margin (from RMB634.9 million in 2010 to RMB889.7 million in 2011) was attributable to increased demand for premium services, better utilization of facilities in tutoring and career enhancement as well as higher software sales. From 2011 to 2012, the decrease in gross margin (from RMB889.7 million in 2011to RMB485.8 million in 2012) was mainly resulted from the suspension of software sales and negative publicity impact in media.

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,						
	2010		2011		2012		
	RMB	%	RMB	%	RMB	US$	%
	(in thousands, except percentages)						
Net revenues	1,114,655	100.0	1,572,371	100.0	1,343,763	215,689	100.0

Operating expenses:							
Selling and marketing	(235,683)	(21.1)	(353,425)	(22.5)	(596,324)	(95,717)	(44.4)
General and administrative	(162,850)	(14.6)	(273,698)	(17.4)	(715,977)	(114,922)	(53.3)
Research and development	(27,553)	(2.5)	(39,541)	(2.5)	(31,842)	(5,111)	(2.4)
Impairment loss			(25,336)	(1.6)	(856,696)	(137,509)	(63.8)
Total operating expenses	(426,086)	(38.2)	(692,000)	(44.0)	(2,200,839)	(353,259)	(163.8)

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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 selling and marketing expenses will continue to increase as our continued efforts 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, as well as bad debt provisions. Our general and administrative expenses as a percentage of net revenues increased from 17.4% in 2011 to 53.3% in 2012 mainly due to increased bad debt provision in 2012 and less revenue from software sales. The increase of bad debt was mainly due to broken relationship with some debtors and the uncollectable deposits for terminated contracts and worse financial position of debtors. In addition, with the negative publicity in the media since later 2012, the management expects the total amount of bad debt provision will continue to increase, but with a slower rate because we have spent time re-evaluating certain of our sales channels and continuing to strengthen our credit checks and control policies.

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 decrease in absolute dollar term as a result of our business strategy shift to focusing on organic growth in the near future.

Impairment loss. Our impairment loss from continuing operations consists of an impairment loss incurred when a decision was made to dispose of 21st School in 2011, which school was classified as a separate asset group. Impairment loss occurred for both 2011 and 2012 as 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, 2012, the disposal transaction had not been completed and the school remains recorded as an asset held and used. In addition, there were impairment loss related to Property and Equipment and Other Non-current Assets mostly in the Career Enhancement segment which was due to decline of the business. These were based on the impairment test by the management assisted with an independent valuation specialist.

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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,						
	2010		2011		2012		
	RMB	%	RMB	%	RMB	US$	%
	(in thousands, except percentages)						
Allocation of share-based expenses:							
Selling and marketing	(7,204)	21.0	(7,286)	21.9	(6,286)	(1,009)	6.6
General and administrative	(26,029)	76.1	(25,220)	75.6	(88,019)	(14,128)	92.5
Research and development	(981)	2.9	(842)	2.5	(872)	(140)	0.9
Total share-based expenses	(34,214)	100.0	(33,348)	100.0	(95,177)	(15,277)	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 2010, 2011 and 2012, we granted 6,701,100 and 992,700 and 2,205,250 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.

On October 26, 2011, Dr. Jin Huang, chief executive officer of the company, and holder of more than 10% interest in the voting power of the company, entered into a participation agreement with, among others, the Baring Asia Private Equity Fund V., L.P. (the Participation Agreement). Pursuant to this agreement, Campus Holdings Limited (Campus), an affiliate to the Baring Asia Private Equity Fund V., L.P., agreed to invest up to US$ 50.0 million to purchase Class A Shares of the company through a series of private transactions and on the open market through purchases of American Depositary Shares. As disclosed in Item 5.E Off-balance sheet arrangements . See Note 23 to the financial statements for further details.

Taxation

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

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

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

Business tax

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

Income tax

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

Corporate entities

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

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

The CIT Law also imposes a withholding income tax rate of 10% on dividends distributed by an FIE to its immediate holding company outside of China. However, a lower withholding income tax rate of 5% would be applied after the immediate holding company was registered in Hong Kong and could satisfy the criteria of a beneficial owner set out in Circular Guoshuihan (2009) No. 601, a circular issued by the State Administration of Taxation on October 27, 2009 on how to understand and identify a beneficial owner in tax treatments. Such withholding income tax was exempted under the previous income tax laws. A joint circular issued by the Ministry of Finance and State Administration of

Taxation on February 22, 2008 clarified that the withholding income tax is only to be paid for earnings generated after January 1, 2008. According to the CIT Law and a circular promulgated by the PRC State Administration of Taxation on December 10, 2009, in addition to the withholding income tax on dividends distributed by an FIE, the immediate holding company of an FIE will also be subject to an income tax at the rate of 10% for capital gain realized from transferring the equity interests in such FIE to third parties, and shall file and pay such tax within seven days after the date of the transferring agreement. Furthermore, when the de facto controlling shareholder who controls an FIE through an intermediate controlling entity, indirectly transfers the equity interests in such FIE by selling the intermediate controlling entity, such de facto controlling shareholder shall also file with the PRC tax authorities in some cases and may be subject to the PRC corporate income tax for the capital gain realized in such sale.

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

In March 2007, Ambow Online was certified as a new and high-technology enterprise and a software enterprise , from which Ambow Online was entitled to choose to enjoy preferential tax treatment in either name. Ambow Online chose to apply for preferential tax treatment as a software enterprise . As a result, it has been entitled to a two-year income tax exemption since 2008 and 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.

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

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

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

The determination of our provision for income taxes, particularly for private schools and college is subject to uncertainty. The strict application of the CIT Law indicates that certain of our private schools and college are subject to income tax of 25% after January 1, 2008. For those private schools and college where the tax authorities have not determined a deemed fixed amount or deemed fixed rate for the purposes of calculating income tax payable, we have assumed that income tax of 25% is payable. However, as of December 31, 2012, no detailed implementation guidance has been provided to local tax authorities on how to apply the CIT Law to private schools and college. It is possible that, upon the introduction of the detailed implementation guidance, we may find ourselves in a position whereby income tax is not payable for periods prior to the release of the detailed guidance.

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

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Critical accounting policies and estimates

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

Basis of consolidation

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

The entities apart from the consolidated VIEs mainly include Ambow, Ambow Online, Ambow Dalian (which is the Dalian Career Enhancement Campus) and two holding companies registered in Hong Kong. Assets and liabilities of these entities mainly include cash, current accounts balances of inter-group financing and transactions and leasehold improvement. Operations of these entities are mainly software research, development and sales, financing, and business management. Ambow Online also makes software sales to distributors, as well as software sales to schools that we own and their students.

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The separated VIE and Non-VIE net revenue and net income during the year of 2010 were as follows (in RMB thousands):

	VIEs Consolidated	Non-VIEs Consolidated	Inter-company Elimination	Group Consolidated
Net Revenue	854,488	469,682	(209,515)	1,114,655
Net Income	(14,311)	226,010		211,699

The separated VIE and Non-VIE financial information as at December 31, 2011 were as follows (in RMB thousands):

	VIEs Consolidated	Non-VIEs Consolidated	Inter-company Elimination	Group Consolidated
Cash and cash equivalent	334,435	68,067		402,502
Inter-Group balances due from VIEs/Non VIEs	32,072	1,472,114	(1,504,186)	
Investment to VIEs		81,960	(81,960)	
Assets classified as held for sale	1,045,520			1,045,520
Other current assets	282,986	278,610	179,195	740,791
Non-current assets	2,726,648	462,969	(657,803)	2,531,814
Total Assets	4,421,661	2,363,720	(2,064,754)	4,720,627
Inter-Group balances due to VIEs/Non VIEs	1,472,114	32,072	(1,504,186)	
Liabilities classified as held for sale	465,855			465,855
Other current liabilities	786,158	310,121	(25,640)	1,070,639
Non current liabilities	235,244	16,938	165,488	417,670
Total Liabilities	2,959,371	359,131	(1,364,338)	1,954,164
Equity	1,462,290	2,004,589	(700,416)	2,766,463
Net Revenue	1,077,263	631,930	(136,822)	1,572,371
Net Income	(102,892)	119,111		16,219

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

	VIEs Consolidated	Non-VIEs Consolidated	Inter-company Elimination	Group Consolidated
Cash and cash equivalent	151,597	36,619		188,216
Inter-Group balances due from VIEs/Non VIEs	143,128	1,747,979	(1,891,107)	
Investment to VIEs		81,960	(81,960)	
Assets classified as held for sale	649,787			649,787
Other current assets	374,590	51,338		425,928
Non-current assets	1,646,563	187,904	81,960	1,916,427
Total Assets	2,965,665	2,105,800	(1,891,107)	3,180,358
Inter-Group balances due to VIEs/Non VIEs	1,750,121	116,971	(1,867,092)	
Liabilities classified as held for sale	292,895			292,895
Other current liabilities	923,322	448,342		1,371,664
Non current liabilities	108,740	23,104		131,844
Total Liabilities	3,075,078	588,417	(1,867,092)	1,796,403
Equity	(109,413)	1,517,385	(24,017)	1,383,955

Net Revenue	1,290,290	138,794	(85,320)	1,343,763
Net Income	(852,927)	(820,626)	39	(1,673,515)

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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

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

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

Sales to distributors in 2012 represented 7.2% of total net revenues in 2012 (2011: 22.0%; 2010: 16.9%).

Starting from later of the year 2012, management has decided to gradually suspend the software sales to distributors.

Educational programs and services

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

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

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

Sales of software products

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

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

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For all years presented, Ambow Online 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.

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

Starting from the year 2012, management has decided to gradually suspend the sales of software products bundled with sales of educational services.

Business combinations

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

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

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

Intangible assets, net

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

Other finite lived intangible assets are initially recorded at fair value when acquired in a business combination, in which the finite intangible assets are amortized on a straight-line basis except student populations and customer relationships, which are amortized using an accelerated method to reflect the expected departure rate over the remaining useful life of the asset. The company reviews identifiable amortizable intangible assets to be held and used for impairment whenever events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. Determination of recoverability is based on the lowest level of identifiable estimated undiscounted cash flows resulting from use of the asset and its eventual disposition. Measurement of any impairment loss is based on the excess of the carrying value of the asset over its fair value. The intangible assets have original estimated useful lives as follows (see Note 8- Intangible assets, net to the financial statements for additional information):

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

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

Starting from 2012, we have performed impairment testing of indefinite-lived intangible assets in accordance with ASU 2012-02, which requires an entity to evaluate events and circumstances that may affect the significant inputs used to determine the fair value of the indefinite-lived intangible assets when performing qualitative assessment.

Goodwill

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

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

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

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

Impairment of long-lived assets

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

Income taxes

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

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, 2010, 2011 and 2012, 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 and transactions

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

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

Foreign currency transactions denominated in currencies other than functional currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are 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

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

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

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For a component of our company that either has been disposed of or is classified as held for sale, we account for the result of operations of the component as a discontinued operation when (1) the operations and cash flows of the component have been or will be eliminated from the ongoing operations of our company as a result of the disposal transaction; and (2) we will not have any significant continuing involvement in the operations of the component after the disposal transaction.

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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,			
	2010	2011	2012	2012
	RMB	RMB	RMB	US$
	(in thousands)			
Consolidated Statement of Operations Data:				
NET REVENUES:				
Educational programs and services	899,992	1,205,771	1,276,877	204,953
Software products	214,663	366,600	66,886	10,736
Total net revenues	1,114,655	1,572,371	1,343,763	215,689
COST OF REVENUES:				
Educational programs and services	(466,064)	(633,421)	(845,738)	(135,750)
Software products	(13,721)	(49,223)	(12,176)	(1,954)
Total cost of revenues	(479,785)	(682,644)	(857,914)	(137,704)
GROSS PROFIT	634,870	889,727	485,849	77,985
Operating expenses:				
Selling and marketing (1)	(235,683)	(353,425)	(596,324)	(95,717)
General and administrative (1)	(162,850)	(273,698)	(715,977)	(114,922)
Research and development (1)	(27,553)	(39,541)	(31,842)	(5,111)
Impairment loss (1)		(25,336)	(856,696)	(137,509)
Total operating expenses	(426,086)	(692,000)	(2,200,839)	(353,259)
OPERATING INCOME/(LOSS)	208,784	197,727	(1,714,990)	(275,274)
OTHER INCOME (EXPENSE)	(3,653)	(21,123)	(10,111)	(1,622)
Income/(Loss) before income tax, non-controlling interest, and discontinued operations	205,131	176,604	(1,725,101)	(276,896)
Income tax benefit (expense)	(37,850)	(38,841)	58,768	9,433
INCOME/(LOSS) FROM CONTINUING OPERATIONS	167,281	137,763	(1,666,333)	(267,463)
Income/(Loss) from sale of discontinued operations, net of income tax	44,418	(121,544)	(7,182)	(1,153)
NET INCOME/(LOSS)	211,699	16,219	(1,673,515)	(268,616)
Add: Net loss attributable to non-controlling interest	4,333	4,966	52,349	8,402
NET INCOME/(LOSS) ATTRIBUTABLE TO AMBOW EDUCATION HOLDING LTD.	216,032	21,185	(1,621,166)	(260,214)
Preferred shares redemption value accretion	(94,209)			
Allocation of net income to participating preferred shareholders	(55,534)			
NET INCOME/(LOSS) ATTRIBUTABLE TO ORDINARY SHAREHOLDERS	66,289	21,185	(1,621,166)	(260,214)

(1) Includes depreciation and amortization of RMB68.0 million, RMB96.1 million and RMB114.5 million (US$18.4 million) for the years ended December 31, 2010, 2011 and 2012, respectively.

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Year ended December 31, 2012 compared with year ended December 31, 2011

Net revenues. Our net revenues decreased by 14.5% from RMB1,572.4 million in 2011 to RMB1,343.8 million (US$215.7 million) in 2012. This decrease was primarily due to the suspension of software sales to focus company s resources on educational programs and services as part of the strategic business development.

Cost of revenues. Our cost of revenues increased by 25.7% from RMB682.6 million in 2011 to RMB857.9 million (US$137.7 million) in 2012. The increase was primarily due to additional costs including teaching fees and performance-linked bonuses and rental expense associated with the business expansion of tutoring segment and career enhancement segment.

Gross profit. Gross profit as a percentage of our net revenues decreased from 56.6% in 2011 to 36.2% in 2012. The decrease was primarily due to the suspension of software sales, and it takes a longer period of time for the newly acquired centers to be integrated and to become a higher contribution to the company s profit.

Operating expenses. Our total operating expenses increased by 218.0% from RMB692.0 million in 2011 to RMB2,200.8 million (US$353.3 million) in 2012. 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 68.7% from RMB353.4 million in 2011 to RMB596.3 million (US$95.7 million) in 2012. 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 161.6% from RMB273.7 million in 2011 to RMB716.0 million (US$114.9 million) in 2012. The increases were driven by increased cost associated with new acquisitions and the organic growth of business as well as higher bad debt provision in 2012.

- *Research and development expenses*. Our research and development expenses decreased by 19.5% from RMB39.5 million in 2011 to RMB31.8 million (US$5.1 million) in 2012. This decrease was primarily due to restructuring of the R&D department as part of the strategic growth plan.

- *Impairment loss*. The impairment loss of RMB856.7 million (US$137.5 million) in 2012 related to fixed assets, tradenames and goodwill. The impairment loss of RMB25.3 million in 2011 was related to goodwill of 21st School.

- *Other income (expense), net*. We recorded net other expenses of RMB10.1 million (US$1.6 million) in 2012, compared to net other expenses of RMB21.1 million in 2011. The decrease was mainly due to lower interest expense imputed based on less long-term liability.

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Income tax benefit (expenses). Our income tax benefit (expense) changed from RMB38.8 million expense in 2011 to RMB58.8 million benefit (US$9.4 million) in 2012. This change was primarily related to the tax loss carry forward in 2012.

Income/(loss) from continuing operations. Our income from continuing operations decreased from RMB137.8 million in 2011 to loss RMB1,666.3 million (loss US$267.5 million) in 2012. This change was primarily due to the suspension of software sales and higher allowance for doubtful accounts as well as higher impairment loss.

Income/(loss) from discontinued operations, net of income tax. Our loss from discontinued operation, net of income tax was RMB7.2 million (US$1.2 million) in 2012, compared to loss from discontinued operations, net of income tax was RMB121.5 million in 2011. The loss from sales of discontinued operation in 2012 reflected the financial position of Taishidian Holding during the year.

Net income. According to above mentioned factors, our net income decreased from RMB16.2 million in 2011 to net loss RMB1,673.5 million (US$268.6 million) in 2012.

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

Net revenues. Our net revenues increased by 41.1% from RMB1,114.7 million in 2010 to RMB1,572.4 million (US$249.8 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 42.3% from RMB479.8 million in 2010 to RMB682.6 million (US$108.5 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 slightly decreased from 57.0% in 2010 to 56.6% in 2011.

Operating expenses. Our total operating expenses increased by 62.4% from RMB426.1 million in 2010 to RMB692.0 million (US$109.9 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.

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- *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 68.0% from RMB162.9 million in 2010 to RMB273.7 million (US$43.5 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 RMB25.3 million (US$4.0 million) relates to 21st School.

Other income (expense), net. We recorded net other expenses of RMB21.1 million (US$3.4 million) in 2011, compared to net other expenses of RMB3.7 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 RMB37.9 million in 2010 to RMB38.8 million (US$6.2 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 RMB167.3 million in 2010 to RMB137.8 million (US$21.9 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 discontinued operations, net of income tax. Our loss from discontinued operation, net of income tax was RMB121.5 million (US$19.3 million) in 2011, compared to income from discontinued operations, net of income tax was RMB44.4 million in 2010. For details, see Note 24 (d) to the financial statements.

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.

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Allocation of net income to participating preferred shareholders. Our allocation of net income to participating preferred shareholders decreased from RMB55.5 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.

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.

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,			
	2010 RMB	2011 RMB	2012 RMB	2012 US$
	(in thousands)			
Consolidated Statement of Operations Data:				
Net revenues:				
Tutoring	588,098	777,969	773,611	124,173
K-12 schools	251,635	270,059	257,441	41,322
Better Schools net revenues	839,733	1,048,028	1,031,052	165,495
Career enhancement	271,350	505,202	310,016	49,761
College	3,572	19,141	2,695	433
Better Jobs net revenues	274,922	524,343	312,711	50,194
Total net revenues of reportable segments and the company	1,114,655	1,572,371	1,343,763	215,689
Cost of revenues:				
Tutoring	(256,212)	(341,942)	(492,087)	(78,985)
K-12 schools	(141,942)	(168,964)	(176,951)	(28,403)
Better Schools Cost of revenues	(398,154)	(510,906)	(669,038)	(107,388)
Career enhancement	(77,238)	(168,546)	(185,697)	(29,806)
College	(4,393)	(3,192)	(3,179)	(510)
Better Jobs Cost of revenues	(81,631)	(171,738)	(188,876)	(30,316)
Total costs of revenues of reportable segments and the company	(479,785)	(682,644)	(857,914)	(137,704)
Gross profit				
Tutoring	331,886	436,027	281,524	45,188
K-12 schools	109,693	101,095	80,490	12,919
Better Schools gross profit	441,579	537,122	362,014	58,107
Career enhancement	194,112	336,656	124,319	19,955
College	(821)	15,949	(484)	(77)
Better Jobs gross profit	193,291	352,605	123,835	19,878
Total gross profit of reportable segments and the company	634,870	889,727	485,849	77,985
Gross margin				
Tutoring	56.4%	56.0%	36.4%	36.4%

K-12 schools	43.6%	37.4%	31.3%	31.3%
Better Schools gross margin	52.6%	51.3%	35.1%	35.1%
Career enhancement	71.5%	66.6%	40.1%	40.1%
College	-23.0%	83.3%	-18.0%	-18.0%
Better Jobs gross margin	70.3%	67.2%	39.6%	39.6%
Total gross margin of reportable segments and the company	57.0%	56.6%	36.2%	36.2%

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Year ended December 31, 2012 compared with year ended December 31, 2011

Tutoring

Net revenues from our tutoring segment decreased from RMB778.0 million in 2011 to RMB773.6million (US$124.2 million) in 2012. The slight decrease was primarily due to the suspension of software sales, partially offset by the revenue growth resulting from the new centers opened.

Cost of revenues from our tutoring segment increased from RMB341.9 million in 2011 to RMB492.1 million (US$79.0 million) in 2012. 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 56.0% in 2011 and 36.4% in 2012. The decrease was mainly due to the suspension of software sales as well as higher cost of revenue for business growth.

K-12 schools

Net revenues from our K-12 schools segment decrease from RMB270.1 million in 2011 to RMB257.4 million (US$41.3 million) in 2012. The decrease was primarily due to more refund as a result of the negative media impact during the year.

Cost of revenues from our K-12 schools segment increased from RMB169.0 million in 2011 to RMB177.0 million (US$ 28.4 million) in 2012. The increase was insignificant.

Gross profit as a percentage of our net revenues from our K-12 schools segment was 37.4% in 2011 and 31.3% in 2012. 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 decreased from RMB505.2 million in 2011 to RMB310.0 million (US$49.8 million) in 2012. The decrease was primarily due to the suspension of software sales and more refunds as a result of the negative media impact during the year.

Cost of revenues in our career enhancement segment increased from RMB168.5 million in 2011 to RMB185.7 million (US$29.8 million) in 2012, 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 66.6% in 2011 and 40.1% in 2012. The decline in gross margin was mainly due to the nagative media impact during the year.

College

Net revenues from our college segment decreased from RMB19.1 million in 2011 to RMB2.7 million (US$0.4 million) in 2012. The decrease was mainly due to the suspension of software sales.

Cost of revenues in our college segment kept flat at RMB3.2 million in both 2011 and 2012 (US$0.5 million).

Gross profit as a percentage of our net revenues from our college segment was gross profit of 83.3% in 2011 and gross loss of 18.0% in 2012. The decline in gross margin was mainly due to the suspension of software sales.

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

Tutoring

Net revenues from our tutoring segment increased from RMB588.1 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 RMB256.2 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 56.4% in 2010 and 56.0% in 2011. The gross profit margin remained stable.

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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$ 26.8 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.

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 RMB37.0 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 RMB168.5 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 RMB3.6 million in 2010 to RMB19.1 million (US$3.0 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.

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Cost of revenues from our colleges segment decreased from RMB4.4 million in 2010 to RMB3.2 million (US$0.5 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 gross loss of 23.0% in 2010 and gross profit of 83.3% in 2011. The increase in gross profit margin was because of the recognition of additional course fees.

B. Liquidity and Capital Resources

The company incurred a net income of RMB 21.2 million and net loss of RMB 1,621.2 million for the years ended December 31, 2011 and 2012, respectively. The Company s operating results for future periods are subject to numerous uncertainties and it is uncertain if the company will be able to reduce or eliminate its net losses for the foreseeable future. If management is not able to increase revenue and/or manage operating expenses in line with revenue forecasts, the company may not be able to achieve profitability.

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, 2012, we had RMB188.2 million (US$30.2 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, 2012, we had RMB151.4 million (US$24.3 million) in unrestricted cash and cash equivalents from our VIEs. The company s consolidated current liabilities exceeded its consolidated current assets by approximately RMB400.6 million as of December 31, 2012. In addition the company has lease commitment and capital commitment within one year totaling RMB176.4 million as of December 31, 2012.

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

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Over the past several years, the Company has completed several acquisitions to expand its business and school operations. These exposed us to significant risks and uncertainties during the time period of each entity was trying to adapt to the company s culture. In the year of 2012, two former employees of the company made allegations of financial impropriety and wrongful conduct in connection with the company s prior year acquisitions of training schools. The Audit Committee of the Board of Directors of the company conducted an internal investigation with the assistance of independent outside counsel to thoroughly review these allegations. Though the result proved that the allegations were not supported by sufficient evidence, the adverse impact on the company s business was unavoidable. Impacted by the negative news in media since the start of internal investigation, our share price have dropped and the market halt existed in the first quarter of 2013 with price below US$1. Subsequently, there was an increasing request for fee refund from customers and with a shortage of debt and equity capital, the company s revenue and cash flow has been significantly lowered. As a result, management has reassessed the alternative ways to achieve goals of business growth and has instituted a series of initiatives aimed at conserving and generating cash over the next twelve months.

(i) On May 1, 2014, the Company signed the restructuring agreement with China Education International Holdings Limited (CEIHL), which includes a combination of intended loans and funding by CEIHL and associated entities for approximately RMB 290.5 million (US$48 million). This amount is intended to return the Company to solvency and provide the onshore business with funding to meet its repayment obligations with respect to the onshore loans falling due, enabling it to continue as a going concern. For more details, refer to Note 30 (1), (2) and (3) of the financial statements.

(ii) Management is seeking potential buyer for the 23 years lease of the Career Enhancement education facility in Beijing (Ambow Beijing Campus), with the carrying amount of RMB 158,961 as of Dec 31, 2013.

(iii) Management has obtained financial support commitment from Summit View, which will retain in force for a period of at least twelve months afterthe date of issuance of the financial statements.

(iv) Management has been seeking potential opportunities for disposal of certain entities to achieve positive cash flow.

(v) Management would continue on the cost cutting plan, seeking more effectiveness of the business management.

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During 2013, management implemented a series of measures and continues to evaluate opportunities intended to maintain and develop its business. Such measures included obtaining financing from financial institution other than bank, disposal of non-perormance assets, the elimination of executive and employee merit increases, suspension of software sales, R&D department reductions, and enhancing expense control. The Company has also significantly lowered its spending on capital expenditures and focused on improving the management of its working capital.

With the opportunity provided by the Restructuring Agreement, the Company will continue to remain focused on cash flow while accessing a range of strategic options for the purpose of maximizing shareholder value, including the potential sale of certain entities, keep reducing the R&D team size and improving our relationship with our creditors and third parties.

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

Condensed summary of our cash flows

	For the Years Ended December 31,			
	2010	**2011**	**2012**	**2012**
	RMB	**RMB**	**RMB**	**US$**
	(in thousands)			
Net cash provided by/(used in) operating activities	456,914	296,705	(32,004)	(5,137)
Net cash used in investing activities	(392,364)	(494,558)	(457,855)	(73,490)
Net cash provided by/(used in) financing activities	406,598	(46,216)	76,838	12,334
Cash and cash equivalents included in assets held for sale	(160,517)	(207,279)	(985)	(158)
Effects of exchange rate changes on cash and cash equivalents	(11,774)	(15,450)	(7,559)	(1,213)
Net change in cash and cash equivalents	347,092	(306,281)	(214,286)	(34,395)
Cash and cash equivalents at beginning of period	361,691	708,783	402,502	64,606
Cash and cash equivalents at end of year	708,783	402,502	188,216	30,211

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Operating activities

Net cash used in operating activities amounted to RMB32 million (US$5.1 million) in the year ended December 31, 2012, as compared to net cash provided by operating activities of RMB296.7 million in the year ended December 31, 2011 and net cash provided in operating activities of RMB456.9 million in the year ended December 31, 2010.

Net cash used in operating activities in the year ended December 31, 2012 was primarily attributable to net loss of RMB1,673.5 million (US$268.6 million), and deferred tax of RMB117.5 million (US$18.9 million), partially offset by an increase in amount of impairment loss from continous operations of RMB856.7 million (US$137.5 million) depreciation and amortization of RMB138.6 million (US$22.2 million), an increase in amount of bad debt provision of RMB306.4 million (US$49.2 million), an decrease in prepaid and other current assets of RMB64.4 million (US$10.3 million), an increase in other non-current assets of RMB50.2 million (US$8.1 million), and an increase of deferred revenue of RMB122.1 million (US$19.6 million). Net cash provided by operating activities in the year ended December 31, 2011 was primarily attributable to net income of RMB16.2 million, depreciation and amortization of RMB138.4 million, an increase in amount of impairment loss from continuing and discontinued operations of RMB152.6 million, an increase in amount accrued and other liabilities of RMB263.2 million, partially offset by an increase in prepaid and other current assets of RMB335.9 million and an increase in accounts receivable of RMB67.4 million, due to the extention of longer credit terms to distributors.

Investing activities

Net cash used in investing activities amounted to RMB457.9 million (US$73.5 million) in the year ended December 31, 2012 as compared to RMB494.6 million in the year ended December 31, 2011 and RMB392.4 million in the year ended December 31, 2010.

Net cash used in investing activities in the year ended December 31, 2012 primarily related to the purchase of property and equipment of RMB204.9 million (US$32.9 million), purchase of new training centers of RMB152.2 million (US$24.4 million), and net payment due to disposal of subsidiaries of RMB94.1 million (US$15.1 million) partially offset by the proceed from disposal of 21 st school of RMB67.9 million (US$10.9 million). Net cash used in investing activities in the year ended December 31, 2011 primarily related to the purchase of property and equipment of RMB284.8 million, acquisitions of learning centers, net of cash acquired of RMB90.9 million, prepayment of a long-term lease of RMB53.0 million, and deposit for leasehold improvement of RMB65.0 million.

Financing activities

Our financing activities consist primarily of short-term and long-term borrowings. Net cash provided by financing activities amounted to RMB76.8 million (US$12.3 million) in the year ended December 31, 2012, as compared to net cash used by financing activities of RMB46.2 million in the year ended December 31, 2011 and cash provided in financing activities of RMB406.6 million in the year ended December 31, 2010.

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Net cash provided in financing activities in the year ended December 31, 2012 was attributable to proceeds from issuing convertible notes of RMB121.2 million (US$19.4 million), and proceeds from short-term borrowings of RMB62.0 million (US$10.0 million), partially offset by repayments on short-term borrowings of RMB114.1 million (US$18.3 million). 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 and repayments on short-term borrowings of RMB168.1 million, partially offset by proceeds from short-term borrowings of RMB168.1 million and proceeds from long-term borrowings of RMB18.5 million.

Cash and cash equivalents included in assets held for sale

Cash and cash equivalents included in assets held for sale amounted to RMB1.0 million (US$0.2 million) in the year ended December 31, 2012, which was the cash balance of Taishidian Holding as of December 31, 2012.

Short-term and Convertible borrowings

During 2010, 2011 and 2012, we and our affiliated entities entered into various short-term loan agreements in the aggregate amount of RMB40.0 million, RMB60.0 million and RMB60.0 million, respectively, with local banks with terms ranging from one year to seven years to finance our working capital. The convertible loan agreement requires certain financial covenants, and the company is not compliance with loan covenant as of December 31, 2012.

Loan	Loan amount RMB	Loan amount USD	Annual interest rate %	Remaining maturity terms	Maturity date	Current portion RMB
1	20,000,000	3,181,927	7.22	103 days	April 2013	20,000,000
2	20,000,000	3,181,927	7.22	134 days	May 2013	20,000,000
3	20,000,000	3,181,927	6.60	197 days	July 2013	20,000,000
Total	60,000,000	9,545,781				60,000,000

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

- RMB20.0 million with a maturity date of April 13, 2012 and bearing interest at 6.71% per annum.
- RMB20.0 million with a maturity date of May 11, 2012 and bearing interest at 6.71% per annum.
- RMB20.0 million with a maturity date of July 15, 2012 and bearing interest at 6.71% per annum.

As of December 31, 2012, the company had the following unsecured short-term bank loans:

- RMB20.0 million with a maturity date of April 13, 2013 and bearing interest at 7.22% per annum.
- RMB20.0 million with a maturity date of May 14, 2013 and bearing interest at 7.22% per annum.
- RMB20.0 million with a maturity date of July 16, 2013 and bearing interest at 6.60% per annum.

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As of December 31, 2012, the company did not have secured short-term bank loans.

The weighted average interest rate of short-term bank loans outstanding as of December 31, 2011 and December 31, 2012 was 5.63% and 6.87% per annum, respectively.

On October 24, 2012, the company entered into a loan agreement (Loan Agreement) with IFC, in which IFC granted the company a convertible loan (IFC Loan). IFC may, at its option, convert a minimum of $1,000,000 or its integral multiple of the IFC Loan in whole or in part, at any time prior to the fifth anniversary of the date of the first disbursement of the IFC Loan, into Class A Ordinary Shares at the conversion price of $10, subject to dilution protection adjustment and registration or an exemption from registration under the Securities Act. IFC Loan bears variable rate of 4.5% per annum above 6-month LIBOR, subject to step down provisions. The IFC loan was disbursed to the company on October, 2012, with repayment schedule of 2 equal semi-annual installments starting on November 15, 2017. The IFC Loan may not be prepaid.

In connection with the Loan Agreement, the company signed a registration rights agreement, which provides for liquidated damages in the amount of 0.5% of the aggregate outstanding principal amount of the IFC Loan for each 30 day period subject to a liquidated damages cap of 6.0% of the aggregate outstanding principal amount of the IFC Loan, should the company fail to comply with the following significant terms:

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

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

As of December 31, 2012, Management estimated the impact of the liquidated damage is immaterial and no such liability was accrued.

In connection with the Debt Transaction, the CEO of the company and the company also signed a Share Retention Agreement with the following significant terms: (a) So long as any amount of the Loan remains available for disbursement by IFC and, thereafter, until all the IFC Indebtedness has been paid in full, the CEO shall maintain directly or indirectly, not less than 5% of the legal and beneficial ownership of the shares free from all prohibited transfers; and (b) the CEO shall not transfer the shares she now owns directly or indirectly.

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The Loan Agreement requires certain financial covenants, and the company is not compliance with loan covenant as of December 31, 2012. IFC may require the company to immediately repay the IFC Loan. The IFC Loan was callable as of December 31, 2012 and was classified as current liabilities accordingly.

In April 2013, the company signed an amendment agreement with IFC. Pursuant to the amendment agreement, the IFC loan of US$20.0 million will be repaid based on an agreed schedule before September 30, 2013. The company repaid approximately RMB18.7 million (US$3.0 million) by December 31, 2013, with approximately RMB105.9 million (US$17.0 million) outstanding.

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

The outstanding US$ 17.0 million loan originally borrowed from the IFC that was indirectly assigned to CEIHL has been amended and extended under the Second Amended and Restated Loan Agreement as previously announced. In addition, CEIHL, Baring Private Equity Asia V Holding (4) Limited (Baring) and SummitView Investment Fund I, L.P. (SummitView) funded a total of approximately US$31.0 million in new loans under lending commitments under the Second Amended and Restated Loan Agreement and related financing documents. In connection with the entry into the Second Amended and Restated Loan Agreement, the parties agreed to terminate the registration rights agreement dated June 12, 2012 between Ambow Education Ltd and IFC.

Capital expenditures

Our capital expenditures were RMB119.5 million, RMB284.8 million and RMB204.9 million (US$32.9 million) in the fiscal years ended December 31, 2010, 2011 and 2012, respectively. These capital expenditures were incurred primarily for investments in facilities, leasehold improvements, equipment and technology.

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 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.

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In 2012, in connection with the opening of the new centers, considerable capital sources were invested 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.

Holding company structure

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

As a result, our ability to pay dividends and to finance any debt we may incur depends primarily upon dividends paid by Ambow Online and fees paid by Ambow Sihua, Ambow Shanghai and Ambow Shida and their subsidiaries to Ambow Online for sales of services and products. Fees paid by VIEs and subsidiaries are mainly for sales of services and products and management consulting fees. The aggregate amount that VIEs and subsidiaries had paid to Ambow Online were RMB66.8 million, RMB39.9 million and RMB81.1 million for the years ended December 31, 2010, 2011 and 2012, respectively, and the aggregate amount of fees payable from the VIE and subsidiaries to Ambow Online were RMB118.0 million, RMB150.3 million and RMB88.2 million, as of December 31, 2010, 2011 and 2012, respectively.

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

Ambow Sihua, Ambow Shanghai and Ambow Shida own and/or operate private schools, tutoring and career enhancement centers in China. At the end of each fiscal year, every private school in China is required to allocate a certain amount to its development fund for the construction or maintenance of the school or procurement or upgrade of educational equipment. In the case of a private school that requires reasonable returns, this amount shall be no less than 25% of the annual net income of the school, while in the case of six 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.

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Inflation

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

Recent accounting pronouncements

See Note 3(gg) 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 had a in-house research and development team with 171 full-time software and educational professionals as of December 31, 2012 who help to develop and update our educational content based on the latest official local government curriculum of each of our specific subjects. We integrate the best content from our acquired schools, tutoring centers, college and career enhancement centers into our qualified content database and then introduce it to our nationwide student user base. In 2010, 2011 and 2012, we spent RMB27.6 million, RMB39.5 million and RMB31.8 million (US$5.1 million), respectively, on research and development expenses. Due to the swift of business strategy to focus on organic business growth after the series of events happened and the negative publicity in media during the year of 2012 and subsequent years, we have reduced the size of our research and development team in subsequent years.

D. Trend Information

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

E. Off-balance sheet arrangements

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

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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, an affiliate to The Baring Asia Private Equity Fund V., L.P., agreed to invest up to US$50.0 million to purchase Class A 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, 2012.

	Payments Due by Period				
	Total RMB	Less than 1 Year RMB	1-3 Years RMB (in millions)	3-5 Years RMB	More than 5 Years RMB
Short-term borrowings	60.0	60.0			
Operating lease obligations	519.1	127.0	194.2	81.6	116.3
Consideration payable for acquisitions and others	15.3	15.3			
Total	594.4	202.3	194.2	81.6	116.3

As of December 31, 2012, our cash consideration obligations related to our past acquisitions were RMB15.3 million (US$2.5 million).

Item 6. Directors, Senior Management and Employees

A. Directors and Senior Management

The table below sets forth the certain information relating to our directors and executive officers as of December 31, 2012.

Name	Age	Position
Jin Huang	47	President, Chief Executive Officer and Chairman of the Board
Huimin Jenny Zhan	44	Chief Strategy Officer
Gareth Kung *	48	Chief Financial Officer
Senlei Huang	43	Vice President, Sales
Xuejun Xie	46	Vice President, Human Resources and Administration and Director
Jianguo Xue	46	Vice President, Sales
Shasha Chang (1)(2)	55	Director
Mark Robert Harris (1)(2)	43	Director

Lisa Lo (2)	46	Director
Daniel Phillips (1)	49	Director

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(1) Member of the audit committee

(2) Member of the compensation committee

* Resigned as Chief Financial Officer of the company in July 2012 and Kia Jing Tan started to perform as Chief Financial Officer of the company in January 2013.

Jin Huang has served as our President and Chief Executive Officer and as a member of our board of directors since our inception in August 2000. Dr. Huang has over 15 years of academic and industry experience in Silicon Valley. Prior to founding Ambow, Dr. Huang was a founding engineer at Avant!, where she was responsible for product design and engineering management. Dr. Huang holds a bachelor s degree in Computer Science, a master s degree in Computer Science and a Ph.D. in Electronic Engineering from the University of Electronic Science & Technology of China. From 1990 to 1993, Dr. Huang was doing research and completed her Ph.D. dissertation at the University of California, Berkeley.

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. Mr. Kung resigned as Chief Financial Officer of the company in July 2012.

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 East China Normal University.

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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.

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.

The company s new Board of Directors of seven directors was constituted on May13, 2014. It consists of Dr. Jin Huang, Mr. Justin Chen, Mr. Ping Wu, Mr. Winston Sim, Mr. John Porter, Mr. Ralph Parks and Dr. Yan Hui-Ma.

Terms of executive officers

Our executive officers are appointed by, and serve at the discretion of, our board of directors.

B. Compensation

During 2012, the aggregate cash compensation that we paid to our executive officers as a group was RMB7.6 million (US$1.2 million), which includes bonuses, salaries and other benefits that were earned in 2011 and paid in 2012. During 2012, we did not pay any cash compensation to our non-employee directors. Our full-time employees in the PRC, including our executive officers, participate in a government-mandated multi-employer defined contribution plan pursuant to which certain pension benefits, medical care, unemployment insurance, employee housing fund and other welfare benefits are provided to qualified employees. We do not provide our directors with any pension, retirement or similar benefits on termination.

As of May 31, 2014, options to purchase an aggregate of 6,049,475 Class B ordinary shares under our 2005 Stock Plan had been granted to our executive officers, options to purchase an aggregate of 250,000 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 December 15, 2012 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.

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In the event that we terminate Dr. Huang s employment for cause, or if Dr. Huang voluntarily resigns (other than a resignation for good cause following a change of control), Dr. Huang will not be entitled to receive any severance benefits; provided, that Dr. Huang will be able to exercise any vested and unexercised awards under our equity incentive plans in accordance with the terms set forth therein.

In the event that we terminate Dr. Huang s employment under circumstances other than a change of control and for any reason other than for cause or voluntary termination, or if within 24 months after a change of control Dr. Huang is involuntarily terminated (other than for cause) or voluntarily resigns for good cause, Dr. Huang will be entitled to certain severance benefits, including:

- A lump sum payment consisting of: (i) an amount equal to one time Dr. Huang s then annual salary; (ii) a prorated bonus based on target opportunity for the year; and (iii) an amount equal to 12 months housing allowance;

- The right to exercise any and all unexercised stock options granted under our equity incentive plans in accordance with their terms, as if all such unexercised stock options were fully vested, within one year of the effective date of such termination; and

- Any other bonus amounts or benefits to which Dr. Huang may be entitled under any of our benefit plans.

Pursuant to the service contract, Dr. Huang also has agreed to certain non-competition undertakings during the term of her employment and for a period of one-year following any termination of her employment. These non-competition undertakings include that Dr. Huang may not, during the one-year period following any termination of her employment, (i) solicit or entice away any of our clients or prospective clients, (ii) have any business dealings with any of our clients or prospective clients, (iii) solicit or entice away any individual who is employed by us as a director or in a managerial, executive or technical capacity, or employ or engage any such individual, or (iv) carry on, set up, be employed, engaged or interested in a business anywhere in the PRC which is in competition with our business as of the termination date. These non-competition undertakings will not prohibit Dr. Huang from seeking or doing any business that is not in direct or indirect competition with our business, nor will they prevent Dr. Huang from holding shares or other capital not amounting to more than 5% of the total issued share capital of any company which is listed on a regulated market. Dr. Huang is entitled to receive one-half her annual base salary over the post-termination non-competition period as consideration for her non-competition undertakings, which are subject to our making such payments.

Cause means that Dr. Huang habitually neglects her duties to us or engages in gross misconduct during the term of the service agreement and gross misconduct means her misappropriation of funds, securities fraud, insider trading, unauthorized possession of corporate property, the sale, distribution, possession or use of a controlled substance, conviction of any criminal offense or entry of a plea of nolo contendere (or similar plea) to a charge of such an offense or a breach of the service agreement and failure to cure such breach within ten days after written notice thereof.

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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.

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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, we assumed and adopted the 2005 Stock Plan, and all options outstanding thereunder, on July 18, 2007.

Our 2005 Stock Plan provides for the grant of incentive stock options (ISOs), within the meaning of Section 422 of the Internal Revenue Code of 1986, or Code, to our employees and any of our parent and subsidiary corporations employees, and for the grant of nonstatutory stock options, or NSOs, and shares to our employees, directors and consultants and any of our parent and subsidiary corporations employees and consultants. Following our IPO, we no longer grant any awards under the 2005 Stock Plan. Instead, we will grant awards under our 2010 Equity Incentive Plan. However, the 2005 Stock Plan will continue to govern the terms and conditions of any outstanding awards previously granted thereunder.

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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.

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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.

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

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

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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.

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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.

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.

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

The following table summarizes, as of December 31, 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$	NA***	05/12/11	06/07/12
	*	US$	3.45	05/12/11	04/12/21
Senlei Huang	*	US$	1.95	04/08/08	04/07/18
	*	US$	3.73	02/10/09	02/09/19
	*	US$	4.63	02/25/10	02/24/20
	*	US$	2.71	08/23/11	08/22/21
Xuejun Xie	*	US$	0.00033	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 July 2012

*** Restricted Shares with no price indicated

Our non-employee directors have not received share options.

C. <u>Board Practices</u>

As of December 31, 2012, our board of directors consists of six directors.

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Under our Fourth Amended and Restated Articles of Association, our board of directors shall consist of up to seven members divided into three classes, each with a term of three years. We complied with this board structure through December 31, 2012 and set forth below is the disclosure required with respect to the board through that time. However, in 2013 and 2014, as a result of the resignation of certain Board members and due to the appointment of the JPLs, as fully described in Item 4A., we were unable to comply with this structure. As previously disclosed, upon the satisfaction of conditions and deliverables under the Restructuring Agreement and associated agreements to implement the Restructuring Plan, the Cayman Court approved the return of management to the our Board of Directors as reconstituted pursuant to the Restructuring Plan. The reconstitution of the Board occurred on May 13, 2014, which resulted from the resignation of two directors and the appointment of three new directors (two of whom are independent directors). The new Board consists of four existing directors: Dr. Jin Huang, Mr. Justin Chen, Mr. Ping Wu, and Mr. Winston Sim; and three new directors: Mr. John Porter, Mr. Ralph Parks and Dr. Yan Hui-Ma.

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

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

We have a staggered board. The Directors are divided into three classes as Class I, Class II and Class III, respectively and are assigned to each class in accordance with a resolution or resolutions adopted by the Board of Directors.

- At the first annual general meeting of Members (a person whose name is entered in the Register of Members as the holder of a share or shares) following the initial meeting, the term of office of the Class I Directors shall expire and Class I Directors shall be elected for a full term of three years.

- At the second annual general meeting of Members following the initial meeting, the term of office of the Class II Directors shall expire and Class II Directors shall be elected for a full term of three years.

- At the third annual general meeting of Members following the initial meeting, the term of office of the Class III Directors shall expire and Class III Directors shall be elected for a full term of three years.

- At each succeeding annual general meeting of Members, Directors shall be elected for a full term of three years to succeed the Directors of the class whose terms expire at such annual general meeting.

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After the restructuring of the Company happened in May 2014, we will review and re-elect the directors for another full term of three years.

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

Class I	Class II	Class III
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.

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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;

- 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:

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- 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, 2012, we and our subsidiaries had 5,801 full-time employees, and 10,412 part-time employees and contractors, respectively. As of December 31, 2012, we had the following numbers of full-time employees by department: 1,431 in selling and marketing, 1,575 in general and administrative functions, 171 in research and development, and 2,624 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 May 31, 2014 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.

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The percentage of shares beneficially owned and votes held by each listed person is based upon 160,642,687 ordinary shares outstanding as of May 31, 2014, which includes 71,099,426 Class A ordinary shares and 89,543,261Class 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 May 31, 2014. We did not deem these shares outstanding, however, for the purpose of computing the percentage ownership of any other person.

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

	Shares beneficially owned						Percentage of votes held		
Name	**Number of Class A ordinary shares**	**Percentage of Class A ordinary share (%)**	**Number of Class B ordinary shares**	**Percentage of Class B ordinary share (%)**	**Number of total ordinary shares**	**Percentage of total ordinary shares (%)**	**Based on total Class A ordinary shares (%)**	**Based on total Class B ordinary shares (%)**	**Based on total ordinary shares (%)**
Directors and Executive Officers									
Jin Huang (1)			17,479,940	18.9	17,479,940	10.7		18.9	27.3
Huimin Jenny Zhan			*	*	*	*			
Kia Jing Tan			*	*	*	*			
Senlei Huang			*	*	*	*			
Xuejun Xie			*	*	*	*			
Jianguo Xue			*	*	*	*			
Shasha Chang									
Mark Robert Harris (2)			21,599,914	24.1	21,599,914	13.5		24.1	22.4
Lisa Lo (3)			6,343,697	7.1	6,343,697	4.0		7.1	6.6
Daniel Phillips (4)			11,563,026	12.9	11,563,026	7.2		12.9	12.0
All Directors and Executive Officers as a Group (10 persons) (5)	189,624	0.3	59,979,052	62.8	60,168,676	36.1	0.3	62.8	58.5
Principal shareholders									
GL Asia Mauritius II Cayman Ltd. (6)			21,599,914	24.1	21,599,914	13.5		24.1	22.4
Investment entities affiliated with Actis (7)			12,972,159	14.5	12,972,159	8.1		14.5	13.4
Spin-Rich Ltd.			12,600,000	14.1	12,600,000	7.8		14.1	13.0
Macquarie Investment Holdings (No. 2) Pty Limited (8)			11,563,026	12.9	11,563,026	7.2		12.9	12.0
EdVenture Inc. (9)			7,500,000	8.4	7,500,000	4.7		8.4	7.8
Investment entities affiliated with Baring	14,828,680	20.9			14,828,680	9.2	20.9		1.5

Private Equity (10)	

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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 6,077,747 Class B ordinary shares are subject to a charge in favor of Campus 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 35.6% ownership interest; and 2,957,000 Class B ordinary shares subject to options exercisable within 60 days after May 31, 2014. This number of shares excludes the 9,464,462 Class B ordinary shares over which Dr. Huang has been given a voting proxy in connection with the company s acquisitions. For purpose of calculating percentage of votes held by Dr. Huang, such 9,464,462 Class B ordinary shares are included. Pursuant to these voting proxies, each shareholder, who executed the voting proxy, appoints Dr. Huang as his or her proxy to attend and vote at the company s shareholders meeting and demand or join a poll with the same force and effect as such shareholder could do, provided that Dr. Huang shall not act on behalf of such shareholder at any shareholder meeting at which such shareholder is in attendance to the extent such action would precluded such shareholder from participating in any other actions at such meeting. The proxy shall continue until it is revoked in writing by such shareholder.

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(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 Center, 989 Changle Road, Xuhui District, Shanghai 200031, China.

(5) Includes Class A and Class B ordinary shares and options to purchase Class A and 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 Center, Road Town, Tortola, British Virgin Islands.

(10) Includes 2,884,080 Class A ordinary shares held by Baring Private Equity Asia V Holding (4) Limited, and 11,944,600 Class A ordinary shares held by Campus Holdings Limited. Baring Private Equity Asia V Holding (4) Limited and Campus Holdings Limited each has its principal office at Columbus Center, 2nd Floor, Suite 210, Road Town, Tortola, British Virgin Islands. The Baring Asia Private Equity Fund V, L.P. and The Baring Asia Private Equity Fund V Co-Investment L.P. as the joint shareholders of Baring Private Equity Asia V Holding (4) Limited and Campus Holdings Limited, may be deemed to have acquired beneficial ownership of an aggregate of 14,828,680 Class A ordinary shares. Baring Private Equity Asia GP V Limited, as the general partner of Baring Private Equity Asia GP V, L.P., and Baring Private Equity Asia GP V, L.P., which in turn acts as the general partner of The Baring Private Asia Private Equity Fund V, L.P. and The Baring Asia Private Equity Fund V Co-Investment L.P., each may be deemed to have acquired beneficial ownership of an aggregate of 14,828,680 Class A ordinary shares. The Baring Asia Private Equity Fund V, L.P., The Baring Asia Private Equity Fund V 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 14,828,680 Class A ordinary shares. Mr. Salata disclaims beneficial ownership of such shares except to the extent of his economic interest. Mr. Salata s principal office is at 3801 Two International Finance Center, 8 Finance Street, Central, Hong Kong.

As mentioned in Item 4.A - History and Development of the Company , subsequently in May 2014, as part of the restructuring agreement, A Second Amended and Restated Loan Agreement, between us and CEIHL provides for a loan facility for us and conversion rights to enable CEIHL to become the holder of 50.1% of the voting rights (equating to 85.65% of the economic interest) in our Company.

Three shareholders of the VIEs, namely Yisi Gu, Xuejun Xie and Jianguo Xue are also beneficial owners of the company. As of May 31, 2014, the aggregated beneficial ownership of the three individuals was less than 2% of the company.

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Name	Contractual Arrangement (share pledge agreement, call option agreement, powers of attorney and loan agreement)*	Employment
Yisi Gu	Contractual arrangement that provides us with effective control over Suzhou Wenjian	Our Senior Vice President and Chief Technology Officer
Xuejun Xie	Contractual arrangement that provides us with effective control over Ambow Shida, Ambow Shanghai, Ambow Sihua and Suzhou Wenjian	Our Vice President, Human Resources and Administration and Director
Jianguo Xue	Contractual arrangement that provides us with effective control over Ambow Shida	Our Vice President, Sales

* For more details of such contractual arrangement, please refer to Item 4 Information on the Company C. Organizational Structure Agreements that provide effective control over our VIEs and their respective subsidiaries

Except as disclosed in this annual report, including contractual control arrangements and VIE shareholders beneficial ownership in us and equity interest in VIEs, there are no relationships between the parties. Other than the voting proxies given to Dr. Jin Huang, and the contractual control arrangements disclosed in this annual report, our officers, directors or shareholders do not have any written or oral agreement with the VIE shareholders. We are not aware of any relationship or arrangement between or among any shareholders that would enable any of them to control, in substance or contractually, any other shareholder s vote.

We believe that under our current corporate structure, where the shareholders of the VIEs are also our shareholders and officers, the interests of the VIEs and their shareholders largely are aligned with us and our shareholders as a practical matter. In addition, each shareholder of the VIEs has signed a power of attorney for Ambow Online to exercise his or her voting power. If shareholders of VIEs attempt to revoke the powers of attorney, the company will instruct AECL, one of our subsidiaries, to exercise its exclusive option to designate other PRC persons to acquire the equity interests in such VIE from its current shareholders pursuant to call option agreements. Before the current shareholders transfer the equity interests of the VIE to other PRC persons designated by AECL, it is prohibited from transferring the equity interests of the VIE to anyone else without the AECL prior written consent under the equity pledge agreements. Moreover, pursuant to call option agreements, VIEs shareholders agree not to, and shall cause VIEs not to, sell, assign, mortgage or otherwise dispose of any assets, lawful income and business revenues of VIEs, or enter into any transactions that may substantially affect the company s assets, liabilities, operations, equity and other legitimate interests (other than those made in the ordinary course of business or have been disclosed to and approved by AECL in writing) before AECL or an entity designated by AECL in writing exercises call option to obtain all the equity interest and assets. As a cumulative result of the foregoing, we are of the view that shareholders of VIEs are unable to effectively revoke the powers of attorney under the VIE agreements. For the risk relating to potential conflicts of interests between shareholders of VIE with us, please also refer to the risk factor captioned. The shareholders of our VIEs may have potential conflicts of interest with us, which may harm our business and financial condition.

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As of May 31, 2014, approximately 160,642,687 of our ordinary shares were issued and outstanding. Citibank, N.A., the depositary, has advised us that, as of May 31, 2014, 1,183,648 ADSs, representing 2,367,296 underlying ordinary shares, were held of record by DTC, the Depository Trust Company, under the nominee name of Cede & Co., on behalf of DTC participants. The number of beneficial owners of our ADS in the United States is likely to be much larger than the number of record holders of our ordinary shares in the United States.

Item 7. Major Shareholders and Related Party Transactions

A. Major Shareholders

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

B. Related Party Transactions

Contractual arrangements with our VIEs and their respective subsidiaries and shareholders

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

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

- 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.

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

As of December 31, 2012, we had RMB0.5 million due from certain related parties and owed RMB4.2 million to certain related parties. The amount due from related parties mainly included deposit for land use right and building purchase contract which eventually didn t happen and the amount due to related parties mainly included rental expense and other payments to related parties. For a list of these transactions we have entered into with and the outstanding balances to and from such related parties for the years ended December 31, 2010, 2011 and 2012, see Note 23 in our Notes to consolidated financial statements. We do not believe that such transactions with the related parties require approval from the government.

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.

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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 US$10.0 million;

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

- After we have initiated three such registrations; or

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

If we are qualified to do so, holders of registrable securities may also require us, on one occasion in any 12-month period, to register their securities on Form F-3 as long as the anticipated aggregate offering price of the registrable securities to be sold, net of underwriting discounts and commissions, equals or exceeds US$2.0 million.

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.

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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, Dr. Huang and Spin-Rich Ltd., which entitles them certain registration rights, including demand registration rights, Form F-3 registration rights, and piggyback registration, such registration rights are similar to the registration rights granted to our former preferred shareholders.

In addition, the company has signed Registration Rights Agreements in connection with IFC Loan in 2012, which was terminated in 2014. For details, please refer to Item 5. B. Liquidity and Capital Resources - Long-term and short-term borrowings .

C. Interests of Experts and Counsel

Not applicable.

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Item 8. Financial Information

A. Consolidated Financial Statements and other Financial Information

Please see Item 18. Financial Statements.

Legal Proceedings

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

In August 2010, Kaidi initiated an action against Ambow Shida, and Ambow Online in the Haidian District Court in Beijing, PRC, alleging copyright infringement related to the company s 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 RMB11.0 million. 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 court, 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. On June 18, 2013, the court rejected Kaidi s appeal. Kaidi re-filed again, on August 28, 2013, the court rejected Kaidi s appeal and affirmed the original verdict, this is the final verdict. The company believes it has no further obligation.

In March 2011, Mintel filed a complaint against the company and the company 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 May 31, 2012, Mintel filed for bankruptcy relief under for Chapter 7 of the Bankruptcy Code in the U.S. Bankruptcy Court for the Central District of California, Heide Kurtz was appointed the Chapter 7 trustee (Mintel Trustee). On or about January 21, 2014, the company and Mintel Trustee reached a tentative settlement, which was formalized on or about February 17, 2014. The key terms of the settlement includes: a) a payment of US$0.1 million to be paid to the Mintel Trustee in two installments (which was fully paid on March 10, 2014); b) the Mintel Trustee agreed to dismiss the Action, with prejudice, no later than June 10, 2014. The company has recognized the liability of US$100 as of December 31, 2012. And the lawsuit was subsequently dismissed with prejudice on June 10, 2014.

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. On 12 December 2013, the Hong Kong court has ordered a summary judgment in favor of Skillsoft for US$0.6 million with interest from October 2011(accrued in 2012 financials). In addition, Skillsoft filed two claims: a) on June 7, 2013, seeking a payment of US$2.5 million for breach of the contract and US$2.0 million in respect of invoices for pre-paid licensing fees; b) on October 21, 2013 seeking a payment of US$2.0 million for breach of the contract. A without prejudice offer for settlement was made on 18 June 2014: the Company pays to Skillsoft the sum of US$0.6 million with interest (US$0.1 million as at 12 June 2014) and costs (estimated at HK$0.4 million and yet to be agreed). Subsequently the offer of settlement was not accepted by Skillsoft prior to expiry on 3 July 2014 and has accordingly lapsed. The company believes that it is still too early to assess the potential outcome of Skillsoft s claim but intends to defend itself vigorously.

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During the year of 2013, Changsha K-12 Experimental School was involved in a civil lawsuit in Hunan Province High Court, a cooperation dispute on host right of Tongshenghu, amounting to RMB168.0 million as the plaintiff s claim. However, since the case was not yet entered into hearing, it was too early to make an estimate of result.

On June 11, 2012, the company was named as a defendant in a putative securities class action filed in the U.S. District Court for the Central District of California. The complaint also named as defendants current officer of Ambow, Jin Huang, and former officer Paul Chow. On June 22, 2012, a second putative securities class action complaint was filed in the Central District of California against Ambow, Chow and Huang. On November 19, 2012, the Judge issued an order consolidating the two cases and appointing Tianqing Zhang as lead plaintiff. On February 18, 2013, plaintiffs filed a consolidated amended complaint against Ambow and eight individual defendants, sought recovery on behalf of all persons and entities that purchased or otherwise acquired Ambow s American Depositary Shares on the New York Exchange from the date of its initial public offering on August 5, 2010 through July 5, 2012 for allegedly false and misleading statements concerning Ambow s operations and financial results in the company s public filings with the U.S. Securities and Exchange Commission. On May 3, 2013, plaintiffs filed a second consolidated amended Complaint. On March 17, 2014, plaintiffs filed a third amended complaint asserting the same claims against the same defendants. On March 24, 2014, Judge entered a scheduling order pursuant to which defendants motions to dismiss the third amended complaint are due by May 19, 2014. The company anticipates filing a motion to dismiss this complaint, and believes that it is still too early to assess the potential outcome.

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.

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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), 2011, 2012, 2013 and 2014, respectively; (2) the third quarter (from August 5, 2010) and the fourth quarter of 2010 and each quarter of 2011, 2012, 2013, and the first quarter of 2014; and (3) each of the past six months in 2012 and twelve months in 2013 and five months in 2014. The market halt existed on March 25, 2013 with a price of 0.9497.

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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
2012	8.15	2.12
2013	2.55	0.91
2014	0.95	0.95
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
First quarter 2012	8.15	6.81
Second quarter 2012	7.97	4.00
Third quarter 2012	4.83	2.12
Fourth quarter 2012	3.00	2.23
First quarter 2013	2.55	0.91
Second quarter 2013 to First quarter 2014	0.95	0.95
Monthly High and Lows:		
July 2012	4.83	2.12
August 2012	3.55	2.54
September 2012	3.34	2.23
October 2012	3.00	2.28
November 2012	2.88	2.29
December 2012	2.88	2.23
January 2013	2.55	1.78
February 2013	1.85	1.11
March 2013	1.64	0.91
April 2013 to May 2014	0.95	0.95

D. **Selling Shareholders**

Not applicable.

E. **Dilution**

Not applicable.

F. **Expenses of the Issue**

Not applicable.

Item 10. Additional Information

A. **Share Capital**

Not applicable.

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B. Memorandum and Articles of Association

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.

E. Taxation

The following summary of the material Cayman Islands, People s Republic of China and United States federal income tax consequences of any investment in our ADSs or ordinary shares is based upon laws and relevant interpretations thereof in effect as of the date of this annual report, all of which are subject to change. This summary does not deal with all possible tax consequences relating to an investment in our ADSs or ordinary shares, such as the tax consequences under state, local and other tax laws. Prospective investors should consult their professional advisers on the possible tax consequences of buying, holding or selling any ADSs or ordinary shares under the laws of their country of citizenship, residence or domicile.

Cayman Islands taxation

The following is a discussion on certain Cayman Islands income tax consequences of an investment in the ADSs or ordinary shares. The discussion is a general summary of present law, which is subject to prospective and retroactive change. It is not intended as tax advice, does not consider any investor s particular circumstances, and does not consider tax consequences other than those arising under Cayman Islands law.

No stamp duty, capital duty, registration or other issue or documentary taxes are payable in the Cayman Islands on the creation, issuance or delivery of the ADSs or ordinary shares. The Cayman Islands currently have no form of income, corporate or capital gains tax and no estate duty, inheritance tax or gift tax. There are currently no Cayman Islands taxes or duties of any nature on gains realized on a sale, exchange, conversion, transfer or redemption of the ADSs or ordinary shares. Payments of dividends and capital in respect of the ADSs or ordinary shares will not be subject to taxation in the Cayman Islands and no withholding will be required on the payment of interest and principal or a dividend or capital to any holder of the ADSs or ordinary shares, nor will gains derived from the disposal of the ADSs or ordinary shares be subject to Cayman Islands income or corporation tax as the Cayman Islands currently have no form of income or corporation taxes.

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We have been incorporated under the laws of the Cayman Islands as an exempted company with limited liability and, as such, have applied for and obtained an undertaking from the Governor of the Cayman Islands that no law enacted in the Cayman Islands during the period of 20 years from the date of the undertaking imposing any tax to be levied on profits, income, gains or appreciation shall apply to us or our operations and no such tax or any tax in the nature of estate duty or inheritance tax shall be payable (directly or by way of withholding) on the ADSs or ordinary shares, debentures or other obligations of ours.

People s Republic of China taxation

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

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

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United States federal income taxation

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

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

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

- Persons that actually or constructively own 10% or more of our voting stock; or

- Persons holding ADSs or ordinary shares through partnerships or other pass-through entities.

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,

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- 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.

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In general, dividends will constitute foreign source income for foreign tax credit limitation purposes. Subject to the discussion below concerning the CIT Law, a U.S. Holder may be eligible, subject to a number of complex limitations, to claim a foreign tax credit with respect to any foreign withholding taxes on dividends received on our ADSs or ordinary shares. A U.S. Holder that does not elect to claim a foreign tax credit for foreign income tax withheld may instead claim a deduction with respect to such withheld taxes, but only for a year in which such holder elects to do so for all creditable foreign income taxes. The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. For this purpose, dividends distributed by us with respect to ADSs or ordinary shares will generally constitute passive category income but could, in the case of certain U.S. Holders, constitute general category income.

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

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

Taxation of disposition of ADSs or ordinary shares

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

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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, 2012 and December 31, 2013, we were not a PFIC for U.S. federal income tax purposes. However, our PFIC status for the year ending December 31, 2014 will not be determinable until the close of the year ending December 31, 2014, and, accordingly, there is no guarantee that we will not be a PFIC for the current taxable year.

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:

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- 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.

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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.

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F. Dividends and Paying Agents

Not applicable.

G. Statements by Experts

Not applicable.

H. Documents on Display

The documents concerning our company referred to in this document and required to be made available to the public are available at our principal executive offices located at 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.

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At December 31, 2010, 2011 and 2012, we had RMB40.0 million, RMB60.0 million and RMB181.2 million (US$28.8 million), respectively, of borrowings outstanding. The interest rates on our borrowings are variable and adjust periodically based on the PBOC s base lending rate (domestic loans) and LIBOR rate (IFC Loan) as defined in respective loan agreements. A hypothetical 10% increase in interest rates in 2012 would have resulted in an increase of approximately RMB1.0 million (US$0.2 million) in our interest expense for 2012.

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 PBOC. On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the RMB to the U.S. dollar. Under the policy, the RMB is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy resulted in an approximately 21.3% appreciation of the RMB against the U.S. dollar between July 21, 2005 and December 31, 2009. In June 2010, the PBOC announced it has decided to proceed further with reform of the RMB exchange regime and to enhance the RMB exchange rate flexibility. 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 RMB1.9 million (US$0.3 million) in the value of our U.S. denominated cash and cash equivalents as of December 31, 2012.

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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.

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, 2012, there was nil to be received from Citibank, the depositary bank for our ADS program.

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PART II

Item 13. Defaults, Dividend Arrearages and Delinquencies

Not applicable.

Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds

None.

Item 15. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The company s management, under the supervision and with the participation of its Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2012, 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, 2012.

The company s disclosure controls and procedures are designed to provide reasonable, not absolute, assurance that the objectives of its disclosure control system are met. Because of inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, if any, within a company have been detected.

Management s Annual Report on Internal Control over Financial Reporting

Management of the company is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) promulgated under the Exchange Act). Internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. GAAP, and that our receipts and expenditures are being made only in accordance with authorizations of our management or our board of directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on our interim or annual consolidated financial statements.

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The company s management, with the participation of the company s Chief Executive Officer and Chief Financial Officer assessed the effectiveness of the company s internal control over financial reporting as of the end of the most recent fiscal year, December 31, 2012. 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 in 1992. Based on its assessment, the Chief Executive Officer and Chief Financial Officer concluded that the company s internal controls over financial reporting were not effective as of December 31, 2012 and that the following material weaknesses in internal control over financial reporting existed as of December 31, 2012:

- 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.

- Disposal of certain significant assets were not reviewed by Ambow s legal department, finance department or under effective oversight by board of directors.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company s annual or interim financial statements will not be prevented or detected on a timely basis. The above material weaknesses could result in misstatements of accounting for significant transactions and certain financial statement accounts, including, but not limited to, the aforementioned accounts and disclosures that would result in a material misstatement in the company s annual or interim consolidated financial statements that would not be prevented or detected in a timely manner.

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Attestation Report of the Registered Public Accounting Firm

To the Audit Committee of the

Board of Directors and Shareholders of

Ambow Education Holding Ltd.

We have audited Ambow Education Holding Ltd. s (the Company) internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 1992. The Company s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Annual Report on Internal Control over Financial Reporting . Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audit 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 effective internal control over financial reporting was maintained in all material respects. 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 audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides 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 (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) 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 (3) 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 the 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 degree of compliance with the policies or procedures may deteriorate.

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In our opinion, the Company did not maintained, in all material aspects, effective internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 1992. The following material weaknesses has been identified and included in Management s Annual Report on Internal Control Over financial Reporting :

(1) 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.

(2) 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

(3) Disposal of certain significant assets were not reviewed by Ambow s legal department, finance department or under effective oversight by board of directors.

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 2012 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.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of December 31, 2012 and the related consolidated statements of operations and comprehensive loss, equity and cash flows for the year then ended of the Company and our report dated July 8, 2014 expressed an unqualified opinion on those financial statements.

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/s/ Marcum Bernstein & Pinchuk llp

Marcum Bernstein & Pinchuk LLP

New York, New York

July 8, 2014

Previously Identified Material Weaknesses

As of December 31, 2012, the company has made some improvements to address material weaknesses in internal control over financial reporting that was included in Item 15 Controls and Procedures contained in the company s Annual Report on Form 20-F for the fiscal year ended December 31, 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.

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, 2012, 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.

- Strengthen the level of communication between the legal departments of the company and the finance department to ensure that disposal of certain significant assets are clearly communicated and effectively reported to the Board 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.

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Management believes that the measures described above will satisfactorily address the referenced material weaknesses. Under the direction of the Audit Committee, management will continue to review and make necessary changes to the system of internal controls and the control environment, as well as policies and procedures to improve the overall effectiveness of internal control over financial reporting.

Notwithstanding the conclusion that its internal control over financial reporting was not effective as of the end of the period covered by this report, our Chief Executive Officer and Chief Financial Officer believe that the financial statements and other information contained in this report present fairly, in all material respects, its financial condition, results of operations and cashflows. Nothing has come to the attention of management that causes them to believe that any material inaccuracies or errors exist in the company s financial statements as of December 31, 2012.

Changes in Internal Control over Financial Reporting

Other than as described above, there were no changes in our internal controls over financial reporting identified in connection with the evaluation required by Rules 13a-15 or 15d-15 that occurred during the period covered by this annual report that has materially affected, or is reasonably likely to materially affect our internal control over financial reporting.

Limitations on the Effectiveness of Controls

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures or internal control over financial reporting will prevent or detect all errors and all fraud. A control system cannot provide absolute assurance due to its inherent limitations; it is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. A control system also can be circumvented by collusion or improper management override. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of such limitations, disclosure controls and procedures and internal control over financial reporting cannot prevent or detect all misstatements, whether unintentional errors or fraud. However, these inherent limitations are known features of the financial reporting process, therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

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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.net.

Item 16C Principal Accountant Fees and Services

The following table sets forth the aggregate fees by categories specified below in connection with certain professional services rendered by PwC our independent registered public accounting firm for 2011 and 2012 (resigned in 2012, see Item 16F) and by MarcumBP our independent registered public accounting firm for 2012. 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,	
	2011	2012
	(U.S. dollars in millions)	
Audit fees (1)	2.4	2.4
Tax fees (2)	0.1	0.1
Other (3)	0.2	0.6
Total fees	2.7	3.1

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(1) Audit fees means the aggregated fees billed for professional services rendered by our independent registered public accounting firms (PwC and MarcumBP) for the audit of our annual financial statements and the review of our comparative interim financial statements. Total fee billed for 2012 for the audit work rendered by MarcumBP was around US$1.3 million.

(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 MarcumBP for permissible services to review and comment on internal control design over financial reporting of US$0.4 million and investigation work by PwC of US$0.2 million.

At the beginning of 2013, we have assigned MarcumBP as our new independent accountant for the year of 2012 following the resignation of PwC. We did not pay any other fees to our current registered public accounting firm for the year of 2012.

The policy of our audit committee is to pre-approve all audit services provided by PwC and MarcumBP, 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

On May 15, 2014, the audit committee engaged Shandong Haoxin solely to re-audit the company s financial statements as of and for the fiscal years ended December 31, 2011 and December 31, 2010 (the 2011 and 2010 Financials). The decision to engage Shandong Haoxin to audit the 2011 and 2010 Financials was to allow the company to move quickly to complete and file their 2013 and 2012 Reports. Upon completion of the audit of the 2011 and 2010 Reports Shandong Haoxin s engagement will terminate.

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 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.

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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 are included at the end of this annual report.

Item 19. Exhibits

Exhibit No.	Description
1.1	Amended and Restated Memorandum and Articles of Association (incorporated by reference to Exhibit 3.2 of our F-1 registration statement (File No. 333- 168096), as amended, initially filed with the Commission on July 14, 2010 (the **F-1 Registration Statement**)
2.1	Specimen American Depositary Receipt (incorporated by reference to Exhibit (a) of our F-6 registration statement (File No. 333-168238), initially filed with the Commission on July 21, 2010 (the **F-6 Registration Statement**)
2.2	Specimen Certificate for Class A Ordinary Shares (incorporated by reference to Exhibit 4.2 of the F-1 Registration Statement)
2.3	Form of Deposit Agreement among the company, the depositary and holders of the American Depositary Receipts (incorporated by reference to Exhibit (a) of the F-6 Registration Statement)
2.4	Third Amended and Restated Investor Rights Agreement, among the company and the other parties therein (incorporated by reference to Exhibit 4.4 of the F-1 Registration Statement)
2.5	Registration Rights Agreement, dated as of October 26, 2011, by and among Campus Holdings Limited, Spin-Rich Ltd., Dr. Jin Huang and Ambow Education Holding Ltd. (incorporated by reference to Exhibit 2.5 of the 20F filing of the year of 2011)
4.1	2005 Stock Plan (incorporated by reference to Exhibit 10.1 of the F-1 Registration Statement)
4.2	2010 Equity Incentive Plan (incorporated by reference to Exhibit 10.2 of the F-1 Registration Statement)
4.3	Form of Indemnification Agreement with the company s directors and executive officers (incorporated by reference to Exhibit 10.3 of the F-1 Registration Statement)
4.4	English Translation of Exclusive Cooperation Agreement between Beijing Ambow Online Software Co., Ltd. and Beijing Ambow Shida Education Technology Co., Ltd., dated January 31, 2005, amended May 13, 2010 (incorporated by reference to Exhibit 10.5 of the F-1 Registration Statement)
4.5	English Translation of Share Pledge Agreement by and among Ambow Education Co., Ltd., Beijing Ambow Online Software Co., Ltd., Xuejun Xie and Jianguo Xue, dated January 31, 2005, amended on January 4, 2009 (incorporated by reference to Exhibit 10.6 of the F-1 Registration Statement)
4.6	English Translation of Call Option Agreement by and among Ambow Education Co., Ltd., Beijing Ambow Online Software Co., Ltd., Xuejun Xie and Jianguo Xue, dated January 31, 2005, amended on April 26, 2007 and further amended on

	January 4, 2009 (incorporated by reference to Exhibit 10.7 of the F-1 Registration Statement)
4.7	English Translation of Powers of Attorney, each dated April 26, 2007 (incorporated by reference to Exhibit 10.8 of the F-1 Registration Statement)
4.8	English Translation of Loan Agreement by and among Ambow Education Co., Ltd., Beijing Ambow Online Software Co., Ltd., and Xuejun Xie, dated January 31, 2005, amended on April 26, 2007 and further amended on January 4, 2009 (incorporated by reference to Exhibit 10.9 of the F-1 Registration Statement)

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4.9	English Translation of Loan Agreement by and between Beijing Ambow Online Software Co., Ltd. and Jianguo Xue, dated February 1, 2008 (incorporated by reference to Exhibit 10.10 of the F-1 Registration Statement)
4.10	English Translation of Technology Service Agreement by and between Beijing Ambow Online Software Co., Ltd. and Beijing Sihua Education and Technology Co., Ltd., dated October 31, 2009 (incorporated by reference to Exhibit 10.11 of the F-1 Registration Statement)
4.11	English Translation of Share Pledge Agreement by and between Beijing Ambow Online Software Co., Ltd. and Xuejun Xie, dated October 31, 2009, amended on March 4, 2010 (incorporated by reference to Exhibit 10.12 of the F-1 Registration Statement)
4.12	English Translation of Share Pledge Agreement by and between Ambow Online Software Co., Ltd. and Xuejun Xie, dated October 31, 2009, amended on March 4, 2010 (incorporated by reference to Exhibit 10.13 of the F-1 Registration Statement)
4.13	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)
4.14	English Translation of Call Option Agreement by and between Beijing Ambow Online Software Co., Ltd. and Xiaogang Feng, dated March 4, 2010 (incorporated by reference to Exhibit 10.15 of the F-1 Registration Statement)
4.15	English Translation of Powers of Attorney, dated October 31, 2009 and March 4, 2010, respectively (incorporated by reference to Exhibit 10.16 of the F-1 Registration Statement)
4.16	English Translation of Loan Agreement with Xiaogang Feng, dated March 4, 2010 (incorporated by reference to Exhibit 10.17 of the F-1 Registration Statement)
4.17	English Translation of Technology Service Agreement by and among Beijing Ambow Online Software Co., Ltd. and Shanghai Ambow Education Information Consulting Co., Ltd., dated October 31, 2009 (incorporated by reference to Exhibit 10.18 of the F-1 Registration Statement)
4.18	English Translation of Share Pledge Agreement by and among Beijing Ambow Online Software Co., Ltd., Xiaogang Feng and Xuejun Xie, dated October 31, 2009 (incorporated by reference to Exhibit 10.19 of the F-1 Registration Statement)
4.19	English Translation of Call Option Agreement by and among Beijing Ambow Online Software Co., Ltd., Xiaogang Feng and Xuejun Xie, dated October 31, 2009 (incorporated by reference to Exhibit 10.20 of the F-1 Registration Statement)
4.20	English Translation of Powers of Attorney, each dated October 31, 2009 (incorporated by reference to Exhibit 10.21 of the F-1 Registration Statement)
4.21	English Translation of Loan Agreement by and among Beijing Ambow Online Software Co., Ltd., Xiaogang Feng and Xuejun Xie, dated October 31, 2009 (incorporated by reference to Exhibit 10.22 of the F-1 Registration Statement)
4.22	English Translation of Technology Service Agreement between Beijing Ambow Online Software Co., Ltd. and Suzhou Wenjian Venture Investment Management Consulting Co., Ltd., dated February 25, 2009 (incorporated by reference to Exhibit 10.23 of the F-1 Registration Statement)
4.23	English Translation of Share Pledge Agreement by and among Beijing Ambow Online Software Co., Ltd., Xiaogang Feng, Xuejun Xie and Yisi Gu, dated February 25, 2009 (incorporated by reference to Exhibit 10.24 of the F-1 Registration Statement)
4.24	English Translation of Call Option Agreement by and among Beijing Ambow Online Software Co, Ltd., Xiaogang Feng, Xuejun Xie and Yisi Gu, dated February 25, 2009 (incorporated by reference to Exhibit 10.25 of the F-1 Registration Statement)
4.25	English Translation of Powers of Attorney, each dated February 25, 2009 (incorporated by reference to Exhibit 10.26 of the F-1 Registration Statement)
4.26	English Translation of Loan Agreement by and among Beijing Ambow Online Software Co., Ltd., Xiaogang Feng, Xuejun Xie and Yisi Gu, dated February 25, 2009 (incorporated by reference to Exhibit 10.27 of the F-1 Registration Statement)
4.27	English Translation of amendment dated May 13, 2010 to certain Exclusive Cooperation Agreement between Beijing Ambow Online Software Co., Ltd. and Beijing Ambow Shida Education Technology Co., Ltd., dated January 31, 2005 (incorporated by reference to Exhibit 10.28 of the F-1 Registration Statement)
4.28	Loan Agreement among the company as Borrower and subsidiaries as Co-Borrowers, and International Finance Corporation as Lender dated June 12, 2012 (IFC Loan Agreement) *

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4.29	Amendment and Restatement Agreement to the IFC Loan Agreement among the company as Borrower and subsidiaries as Co-Borrowers, and International Finance Corporation as Lender dated October 24, 2012*
4.30	Amendment Agreement to the IFC Loan Agreement (as amended and restated on October 24, 2012) among the company as Borrower and subsidiaries as Co-Borrowers, and International Finance Corporation as Lender dated April 29, 2013*
4.31	Restructuring Agreement dated May 4, 2014*
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 Shandong Haoxin Certified Public Accountants Co., Ltd*
**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
By:	/s/ Kia Jing Tan
	Kia Jing Tan Acting Chief Financial Officer

Date: July 8, 2014

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AMBOW EDUCATION HOLDING LTD.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Audit Committee of the

Board of Directors and Shareholders of

Ambow Education Holding Ltd.

We have audited the accompanying consolidated balance sheet of Ambow Education Holding Ltd. (the Company) as of December 31, 2012, and the related consolidated statements of operations and comprehensive loss, equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit 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 consolidated financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2012, and the consolidated results of its operations and its cash flows for the year ended December 31, 2012 in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company s internal control over financial reporting as of December 31, 2012, based on the criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 1992 and our report dated July 8, 2014 expressed an adverse opinion on the effectiveness of the Company s internal control over financial reporting because of the existence of material weaknesses.

/s/ Marcum Bernstein & Pinchuk LLP

Marcum Bernstein & Pinchuk LLP

New York, New York

July 8, 2014

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Ambow Education Holding Ltd.

We have audited the accompanying consolidated balance sheets of Ambow Education Holding Ltd. and its subsidiaries (the Company) as of December 31, 2011 and 2010, and the related consolidated statements of comprehensive income, shareholders equity and cash flows for the years ended December 31, 2011 and December 31, 2010. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Ambow Education Holding Ltd. and its subsidiaries at December 31, 2011 and December 31, 2010, and the consolidated results of its operations and its cash flows for the years ended December 31, 2011 and December 31, 2010, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the internal control of Ambow Education Holding Ltd. and its subsidiaries 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). The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our integrated audits.

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.

In our opinion, the Company did not maintain, in all material respects, effective internal control over financial reporting as of December 31, 2011because 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. We considered these material weaknesses in determining the nature, timing, and extent of audit tests applied in our audit of the 2011 and 2010 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.

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.

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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.

Shandong Haoxin Certified Public Accountants Co., Ltd

Weifang, the People s Republic of China

July 8, 2014

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AMBOW EDUCATION HOLDING LTD.

CONSOLIDATED BALANCE SHEETS

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

	Note	As of December 31, 2011 RMB	2012 RMB	2012 US$ Note 3(a)
ASSETS				
Current assets:				
Cash and cash equivalents		402,502	188,216	30,211
Restricted cash		2,200	7,190	1,154
Term deposits		1,000	2,200	353
Accounts receivable, net	4	106,825	67,906	10,900
Amounts due from related parties	23	56,365	500	80
Deferred tax assets, net	17	16,950	16,541	2,655
Prepaid and other current assets, net	5	557,451	331,591	53,224
Assets classified as held for sale	24	1,045,520	649,787	104,298
Total current assets		2,188,813	1,263,931	202,875
Non-current assets:				
Property and equipment, net	6	492,393	527,457	84,663
Land use rights, net	7	132,144	128,766	20,668
Intangible assets, net	8	498,715	292,758	46,991
Goodwill	9	1,084,151	674,676	108,293
Deferred tax assets, net	17	4,800	54,063	8,678
Other non-current assets, net	10	319,611	238,707	38,315
Total non-current assets		2,531,814	1,916,427	307,608
Total assets		4,720,627	3,180,358	510,483

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AMBOW EDUCATION HOLDING LTD.

CONSOLIDATED BALANCE SHEETS (CONTINUED)

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

	Note	As of December 31, 2011 RMB	2012 RMB	2012 US$ Note 3(a)
LIABILITIES				
Current liabilities:				
Short-term borrowings (including consolidated VIE amount without recourse to the Company of RMB nil and RMB nil as of December 31, 2011 and 2012, respectively)	12	60,000	60,000	9,631
Convertible loan (including consolidated VIE amount without recourse to the Company of RMB nil and RMB nil as of December 31, 2011 and 2012, respectively)	13		121,156	19,447
Deferred revenue (including consolidated VIE amount without recourse to the Company of RMB 377,442and RMB 488,160 as of December 31, 2011 and 2012, respectively)		395,778	502,207	80,610
Accounts payable (including consolidated VIE amount without recourse to the Company of RMB 13,801 and RMB 38,444 as of December 31, 2011 and 2012, respectively)		23,356	52,487	8,425
Accrued and other liabilities (including consolidated VIE amount without recourse to the Company of RMB 367,022 and RMB 298,361 as of December 31, 2011 and 2012, respectively)	11	449,273	427,635	68,640
Income taxes payable (including consolidated VIE amount without recourse to the Company of RMB50,076 and RMB 94,146 as of December 31, 2011 and 2012, respectively)		116,901	203,968	32,739
Amounts due to related parties (including consolidated VIE amount without recourse to the Company of RMB 25,331 and RMB 4,211 as of December 31, 2011 and 2012, respectively)	23	25,331	4,211	676
Liabilities classified as held for sale (including consolidated VIE amount without recourse to the Company of RMB 465,855 and RMB 292,895 as of December 31, 2011 and 2012, respectively)	24	465,855	292,895	47,013
Total current liabilities		1,536,494	1,664,559	267,181
Non-current liabilities:				
Deferred tax liabilities (including consolidated VIE amount without recourse to the Company of RMB 145,227 and RMB 108,740 as of December 31, 2011 and 2012, respectively)	17	145,227	131,844	21,162

Non-current portion of consideration payable for acquisitions and other liabilities (including consolidated VIE amount without recourse to the Company of RMB 42,503 and RMB nil as of December 31, 2011 and 2012, respectively)	272,443		
Total non-current liabilities	417,670	131,844	21,162
Total liabilities	1,954,164	1,796,403	288,343

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	2011 RMB	As of December 31, 2012 RMB	2012 US$ Note 3(a)
Commitments and contingencies	19			
EQUITY				
Preferred shares (US$ 0.0001 par value; 50,000,000 shares authorized, nil issued and outstanding as of December 31, 2011 and 2012)				
Ordinary shares				
(US$ 0.0001 par value; 1,200,000,000 and 1,200,000,000 shares authorized, 144,481,064 and 145,975,484 shares issued and outstanding as of December 31, 2011 and 2012, respectively)	14	102	103	17
Additional paid-in capital		2,498,162	2,500,273	401,321
Statutory reserve	21	122,199	116,406	18,684
Warrants	15	1,219		
Retained earnings (deficit)		111,417	(1,503,956)	(241,402)
Accumulated other comprehensive deficit		(21,517)	(17,116)	(2,747)
Total Ambow Education Holding Ltd. s equity		2,711,582	1,095,710	175,873
Non-controlling interest	26	54,881	288,245	46,267
Total equity		2,766,463	1,383,955	222,140
Total liabilities and equity		4,720,627	3,180,358	510,483

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

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AMBOW EDUCATION HOLDING LTD.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

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

	Note	Years ended December 31, 2010 RMB	2011 RMB	2012 RMB	2012 US$ Note 3(a)
NET REVENUES					
- Educational program and services		899,992	1,205,771	1,276,877	204,953
- Software products		214,663	366,600	66,886	10,736
Total net revenues		1,114,655	1,572,371	1,343,763	215,689
COST OF REVENUES					
- Educational program and services		(466,064)	(633,421)	(845,738)	(135,750)
- Software products		(13,721)	(49,223)	(12,176)	(1,954)
Total cost of revenues		(479,785)	(682,644)	(857,914)	(137,704)
GROSS PROFIT		634,870	889,727	485,849	77,985
Operating expenses:					
Selling and marketing		(235,683)	(353,425)	(596,324)	(95,717)
General and administrative		(162,850)	(273,698)	(715,977)	(114,922)
Research and development		(27,553)	(39,541)	(31,842)	(5,111)
Impairment loss	6,8,9,10		(25,336)	(856,696)	(137,509)
Total operating expenses		(426,086)	(692,000)	(2,200,839)	(353,259)
OPERATING INCOME (LOSS)		208,784	197,727	(1,714,990)	(275,274)
OTHER INCOME (EXPENSE)					
Interest expenses, net		(2,281)	(15,656)	(9,708)	(1,558)
Foreign exchange losses, net		(3,711)	(5,343)	(1,229)	(197)
Other income, net		2,339	(124)	826	133
INCOME (LOSS) BEFORE INCOME TAX, NON-CONTROLLING INTEREST, AND DISCONTINUED OPERATIONS		205,131	176,604	(1,725,101)	(276,896)
Income tax benefit (expense)	17	(37,850)	(38,841)	58,768	9,433
INCOME (LOSS) FROM CONTINUING OPERATIONS		167,281	137,763	(1,666,333)	(267,463)
Income (loss) from and on sale of discontinued operations, net of income tax	24	44,418	(121,544)	(7,182)	(1,153)
NET INCOME (LOSS)		211,699	16,219	(1,673,515)	(268,616)
Add: Net loss attributable to non-controlling interest from continuing operations		1,160	4,377	49,731	7,982
Add: Net loss attributable to non-controlling interest from discontinued operations		3,173	589	2,618	420
NET INCOME (LOSS) ATTRIBUTABLE TO AMBOW EDUCATION HOLDING LTD.		216,032	21,185	(1,621,166)	(260,214)
Preferred shares redemption value accretion		(94,209)			

Allocation of net income to participating preferred shareholders		(55,534)			
NET INCOME (LOSS) ATTRIBUTABLE TO ORDINARY SHAREHOLDERS		66,289	21,185	(1,621,166)	(260,214)
Net income (loss) from continuing operations per share-basic	18	0.22	0.99	(11.10)	(1.78)
Net income (loss) from continuing operations per share-diluted	18	0.17	0.94	(11.10)	(1.78)
Net income (loss) from discontinued operations per share-basic	18	0.56	(0.85)	(0.03)	(0.01)
Net income (loss) from discontinued operations per share-diluted	18	0.42	(0.85)	(0.03)	(0.01)
Weighted average shares used in calculating basic net income (loss) per share	18	85,551,412	142,939,038	145,659,940	145,659,940
Weighted average shares used in calculating diluted net income (loss) per share	18	112,122,045	150,432,812	145,659,940	145,659,940
Share-based compensation expense included in:					
- Selling and marketing		7,204	7,286	6,286	1,009
- General and administrative		26,029	25,220	88,019	14,128
- Research and development		981	842	872	140

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

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AMBOW EDUCATION HOLDING LTD.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS) (CONTINUED)

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

	Note	Years ended December 31, 2010 RMB	2011 RMB	2012 RMB	2012 US$ Note 3(a)
NET INCOME (LOSS)		211,699	16,219	(1,673,515)	(268,616)
Foreign Translation Adjustments		(19,612)	(25,698)	4,401	706
TOTAL COMPREHENSIVE INCOME (LOSS)		192,087	(9,479)	(1,669,114)	(267,910)

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 EQUITY

(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 deficit)	Accumulated other comprehensive Income (deficit)	Non-controlli
	Note	Shares	Amount RMB	Shares	Amount RMB	Shares	Amount RMB	RMB	RMB	RMB	RMB	RMB	Interes RMB
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**	**56,4**
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	14	(12,900,000)	(14,283)			12,900,000	9	14,274					
Conversion of series B preferred shares	14			(17,745,522)	(96,667)	17,745,522	12	96,655					
Conversion of series C preferred shares	14					23,387,381	16	579,474					
Conversion of series D preferred shares	14					26,722,649	18	792,484					
Expenses related to IPO	14							3,474					
Appropriation to statutory reserves	21								37,604		(37,604)		
Preferred shares redemption value accretion	14							(99,449)			5,240		
Capital injection to Taishidian Holding from minority shareholders													9
Foreign currency translation adjustment												(19,612)	
Net income											216,032		(4,3
						142,566,976	**101**	**2,463,238**	**71,759**		**140,672**	**4,181**	**53,0**

Balance as of December 31, 2010

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 EQUITY (CONTINUED)

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

[redacted]										
Balance as of January 1, 2011		**142,566,976**	**101**	**2,463,238**	**71,759**		**140,672**	**4,181**	**53,042**	**2,732**
[redacted]										
Non-controlling interests from acquisitions of subsidiaries									6,805	6
[redacted]										
Appropriation to statutory reserves	21				50,440		(50,440)			
[redacted]										
Cumulative foreign currency translation adjustment realized upon the disposal of 4 Disposed Businesses								6,026		6
[redacted]										
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**

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 EQUITY (CONTINUED)

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

[redacted]										
Balance as of January 1, 2012		**144,481,064**	**102**	**2,498,162**	**122, 199**	**1,219**	**111,417**	**(21,517)**	**54,881**	**2,76**
[redacted]										
Disposal of equity interest in 21st school	26(a)			(102,036)					285,713	18
[redacted]										
Share-based compensation to Huang for Baring transactions	23			60,206						6
[redacted]										
Appropriation to statutory reserves	21				2,147		(2,147)			
[redacted]										
Disposal of subsidiaries					(7,940)		7,940	7,758		
[redacted]										
Balance as of December 31, 2012		**145,975,484**	**103**	**2,500,273**	**116,406**		**(1,503,956)**	**(17,116)**	**288,245**	**1,38**

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,			
	2010 RMB	**2011 RMB**	**2012 RMB**	**2012 US$ Note 3(a)**
Cash flows from operating activities				
Net Income (Loss)	211,699	16,219	(1,673,515)	(268,616)
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	117,388	138,393	138,577	22,243
Accretion of long-term payable balances	10,958	17,150	4,709	756
Share-based compensation expense	34,214	33,348	95,177	15,277
Bad debt provision	458	14,181	306,401	49,181
Foreign exchange losses, net	3,711	5,343	1,229	197
Impairment losses		152,580	856,696	137,509
Deferred income tax	(18,619)	(19,855)	(117,517)	(18,863)
Disposal Loss			15,908	2,553
Others	630	1,571		
Changes in operating assets and liabilities:				
Accounts receivable	(26,759)	(67,441)	17,495	2,808
Prepaid and other current assets	9,321	(335,883)	64,354	10,329
Amounts due from related parties	32,144	(8,084)	9,119	1,464
Other non-current assets	(11,942)	(48,387)	50,217	8,060
Accounts payable	(51,207)	8,561	10,097	1,621
Accrued and other liabilities	75,873	263,222	9,697	1,556
Income tax payable	41,954	43,343	51,906	8,332
Deferred revenue	25,880	62,754	122,145	19,605
Amounts due to related parties	1,211	19,690	5,301	851
Net cash provided (used in) operating activities	456,914	296,705	(32,004)	(5,137)
Cash flows from investing activities				
Proceeds from deposits of restricted cash	10,000			
Deposit for restricted cash		(2,150)	(4,990)	(801)
Placement of term deposits	(67,700)	(58,205)	(42,672)	(6,849)
Maturity of term deposits	128,123	71,200	1,000	161
Purchase of property and equipment	(119,457)	(284,813)	(204,885)	(32,886)
Proceeds from disposal of property and equipment		6,001	10,126	1,625
Purchase of intangible assets	(20,368)	(25,932)	(13,411)	(2,153)
Purchase of subsidiaries (including cash payment in relation to prior acquisitions), net of cash acquired	(91,164)	(90,917)	(152,235)	(24,435)
Prepayments for acquisitions	(283,198)			
Return of prepayments from cancellation of acquisition agreements	54,000	10,000	4,000	642
Purchase of operating rights	(2,500)			
Cash balance at disposed entities		(4,481)		
Proceed from disposal of subsidiaries, net off cash balance at disposed entities			(94,109)	(15,105)

Deposit for leasehold improvements		(65,001)	(30,366)	(4,874)
Deposit for a long-term lease		(53,000)		
Proceeds from disposal of 21st School			67,885	10,896
Others	(100)	2,740	1,802	289
Net cash used in investing activities	(392,364)	(494,558)	(457,855)	(73,490)

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,			
	2010 RMB	**2011 RMB**	**2012 RMB**	**2012 US$ Note 3(a)**
Cash flows from financing activities				
Proceeds from issuance of ordinary shares, net of expenses	447,628			
Proceeds from issuing convertible loan			121,156	19,447
Proceeds from short-term borrowings	224,070	168,070	62,000	9,952
Proceeds from long-term borrowings	15,500	18,500		
Repayments of short-term borrowings	(219,000)	(168,070)	(114,070)	(18,309)
Repayments of long-term borrowings	(62,500)	(71,000)		
Proceeds from issuance of shares upon of exercise of share options		2,684	7,752	1,244
Capital injection from minority shareholders	900	3,600		
Net cash provided by/(used in) financing activities	406,598	(46,216)	76,838	12,334
Cash and cash equivalents included in assets held for sale	(160,517)	(207,279)	(985)	(158)
Effects of exchange rate changes on cash and cash equivalents	(11,774)	(15,450)	(7,559)	(1,213)
Net change in cash and cash equivalents	347,092	(306,281)	(214,286)	(34,395)
Cash and cash equivalents at beginning of year	361,691	708,783	402,502	64,606
Cash and cash equivalents at end of year	708,783	402,502	188,216	30,211
Supplemental disclosure of cash flow information				
Income tax paid	(18,460)	(10,320)	(10,514)	(1,688)
Interest paid	(10,537)	(15,179)	(12,477)	(2,003)
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				
Issuance of ordinary shares upon exercise of warrants	2,737			

Issuance of share options upon exercise of warrants (Note 16)		1,219		
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		
Long-term prepayment offset by outstanding prepaid and other current assets		66,000		
Purchase of property, plant and equipment financed by accounts payable and other payables		21,405	15,251	2,448
Purchase of subsidiaries net-off against prepaid amount		194,698		
Purchase of subsidiaries through financing of payables		109,961		
Waiver of payables in connection with disposal of subsidiaries			241,802	38,812
Outstanding receivables in connection with disposal of subsidiaries			133,100	31,264

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 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 acquisition method (previously referred to as 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.

In December 2011, the Company disposed of 5 legal entities, being Xi an Dragon Continuation School (Xi an Tutoring), 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 2011 and 2012, the Group completed 7 and 1 acquisitions, all of which are accounted for as business combinations using the acquisition method (previously referred to as purchase method) of accounting respectively. The 8 acquisitions involved the Group obtaining control of one or more existing businesses in exchange for cash.

On December 30, 2011, the Group signed an agreement to sell 2 legal entities, being Beijing Century College and its 100% owned Beijing Siwa Century Facility Management Co. (together Beijing Century College Group), and part of the interest of Beijing 21st Century International School (21st School) to Xihua Investment Group (Xihua Group). The aforementioned two transactions have been completed in January and March 2012 respectively; by then the Company maintains the control and legal title on 21st School for an additional fifteen years. Please refer to Note 24 (b), (c) and Note 25 for details.

In the board meeting at December 19, 2012, management proposed and was authorized by the board to explore possible sale of Kunshan Zhouzhuang Taishidian Tourism Scenic Area Development Co., Ltd (Taishidian Holding), which holds 70% equity interest of Applied Technology College of Soochow University (Soochow University). Taishidian Holding was disposed in July 2013 to Kunshan Venture Investment Limited (Kunshan Venture).

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.

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c. Major subsidiaries and VIEs

As of December 31, 2012, 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			
Beijing Ambow Online Software Co., Ltd. (Ambow Online)	August 24, 2000	PRC	Software product and Investment holding
Ambow Education Co., Ltd.	January 25, 2005	Cayman Islands	Investment holding
Ambow Education Ltd.	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
Ambow (Dalian) Education and Technology Co., Ltd	March 10, 2009	PRC	Career enhancement and Investment holding
Ambow Education Management (Hong Kong) Ltd	November 9, 2009	Hong Kong	Investment holding
Ambow Education Management Ltd	June 6, 2007	Cayman Islands	Investment holding
Beijing Ambow Shengying Education and Technology Co., Ltd.	October 13, 2008	PRC	Investment holding
Tianjin Ambow Yuhua Software Information Co., Ltd (Ambow Yuhua)	March 31, 2010	PRC	Software product and 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			
Beijing Jinghan Education and Technology Co., Ltd. (Beijing JH Tutoring)	January 21, 2009	PRC	Tutoring

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Name	Date of incorporation or establishment	Place of Incorporation (or establishment) /operation	Principal activity
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
Beijing Genesis Education Group (Genesis Career Enhancement)	May 1, 2011	PRC	Career Enhancement
Beijing Jinghan Taihe Education Technology Co., Ltd. (Beijing JT Tutoring)	July 14, 2010	PRC	Tutoring
Ambow Jingxue (Beijing) Technology Co., Ltd.	April 15,2011	PRC	Tutoring
Changsha Newer Education Consulting Co., Ltd (Changsha Career Enhancement)	September 16, 2002	PRC	Career Enhancement
Kunshan Ambow Education Technology Co., Ltd	August 28, 2008	PRC	Career Enhancement
Shanghai Hero Further Education Institute	January 9, 2009	PRC	Career Enhancement
Beijing Century Passion Consulting Co., Ltd (Beijing Century Tutoring)	April 1, 2002	PRC	Tutoring
Schools of VIEs			
Changsha Study School (Changsha Tutoring)	June 1, 1984	PRC	Tutoring
Tianjin Huaying 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
Shuyang Galaxy School (Shuyang K-12)	November 1, 2008	PRC	K-12 School
Beijing Haidian Ambow Xinganxian Training School	March 28, 2005	PRC	Tutoring
Beijing Huairou Xinganxian Training School	March 10, 2011	PRC	Tutoring

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

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d. VIE arrangements

VIEs of the Company

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

The 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.

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

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

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

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

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

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

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

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

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

• The Company sells software products to many of the VIEs subsidiaries which also enable the Company to extract profits from the schools / centers.

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

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

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Subsidiaries of the VIEs

The Company conducts education business in PRC primarily through contractual arrangements among the Group s subsidiaries in PRC and VIEs.

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

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

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

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

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

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

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

Aggregation of VIEs

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

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

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

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

Risk in relation to the VIE structure

There are substantial uncertainties regarding the interpretation and application of PRC laws and regulations, including those that govern the Group s VIE contractual arrangements. If the Group s ownership structure and contractual arrangements are found to be in violation of any existing or future PRC laws or regulations, the relevant regulatory authorities would have broad discretion in dealing with such violation, including (i) revoking the business and operating licenses of the Company s PRC subsidiaries and VIEs; (ii) discontinuing or restricting the operations of any related-party transactions among the Company s PRC subsidiaries and VIEs; (iii) imposing fines or other requirements with which the Group or the Company s PRC subsidiaries and VIEs may not be able to comply; (iv) revoking the preferential tax treatment enjoyed by the Company s PRC subsidiaries and VIEs; (v) requiring the Group or the Company s PRC subsidiaries and VIEs to restructure the ownership structure or operations. If any of the above penalties is imposed on the Group, the Group s business operations and expansion, financial condition and results of operations will be materially and adversely affected.

The 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.

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

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

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Financial information of the VIEs and their subsidiaries/schools:

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

	As of December 31,	
	2011	2012
	RMB	RMB
Total assets	4,389,589	2,822,537
Total liabilities	1,487,257	1,324,957

	Years ended December 31,		
	2010	2011	2012
	RMB	RMB	RMB
Net revenue	854,488	1,077,263	1,290,290
Net income (loss)	(14,311)	(102,892)	(852,927)

The following table sets forth a breakdown of the Group s cash and cash equivalents by currency denomination and jurisdiction as of December 31, 2012:

	US$
Cayman Islands	2,511
Hong Kong	37
Non-VIEs in PRC	470
Total US$	3,018

The following table sets forth cash and cash equivalents held by the Group s VIEs and non-VIE in PRC as of December 31, 2012

	RMB
VIEs in PRC	151,434
Non-VIEs in PRC	17,812
Total RMB	169,246

2. GOING CONCERN

Liquidity and capital resources

The Group incurred a net loss of RMB 1,673,515 for the year ended December 31, 2012, which included a non-cash impairment charge of RMB 1,136,936 related to provision of receivables, and the write-down of receivables, fixed assets, goodwill and intangible assets in 2012. The Group s operating results for future periods are subject to numerous uncertainties and it is uncertain if the Group will be able to reduce or eliminate its net losses for the foreseeable future. If management is not able to increase revenue and/or manage operating expenses in line with revenue forecasts, the company may not be able to achieve profitability.

The Group s principal sources of liquidity have been cash generated from operating activities and financing activities. As of December 31, 2012, the Group had RMB188,216 in unrestricted cash and cash equivalents. The Group s cash and cash equivalents consist of cash on hand and liquid investments that are unrestricted as to withdrawal or use, have maturities of three months or less and are placed with banks and other financial institutions. The Group s consolidated current liabilities exceeded its consolidated current assets by approximately RMB400,628 as of December 31, 2012. In addition the Group has lease commitment and capital commitment within one year totaling RMB 176,420 as of December 31, 2012.

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

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Management plan and actions

Over the past several years, the Group has completed several acquisitions to expand its business and school operations. These exposed the Group to significant risks and uncertainties during the time period of each entity was trying to adapt to the Group s culture. In the year of 2012, two former employees of the company made allegations of financial impropriety and wrongful conduct in connection with the Group s prior year acquisitions of training schools. The Audit Committee of the Board of Directors of the Group conducted an internal investigation with the assistance of independent outside counsel to thoroughly review these allegations. Though the result proved that the allegations were not supported by sufficient evidence, the adverse impact on the Group s business was unavoidable. Impacted by the negative news in media since the start of internal investigation, the Company s share price has dropped and the market halt existed in the first quarter of 2013 with price below US$1. Subsequently, there was an increasing request for fee refund from customers and with a shortage of debt and equity capital, the Group s revenue and cash flow has been significantly lowered. As a result, management has reassessed the alternative ways to achieve goals of business growth and has instituted a series of initiatives aimed at conserving and generating cash over the next twelve months.

(i) On May 1, 2014, the Company signed the restructuring agreement with China Education International Holdings Limited (CEIHL), which includes a combination of loans and funding by CEIHL and associated entities for approximately RMB 299,045 (US$ 48,000). This amount is intended to return the Company to solvency and provide the onshore business with funding to meet its repayment obligations with respect to the onshore loans falling due, enabling it to continue as a going concern. For more details, refer to Note 29 (5), (7) and (8).

(ii) Management is seeking potential buyer for the 23 years lease of the Career Enhancement education facility in Beijing (Ambow Beijing Campus), with the carrying amount of RMB 151,567 as of December 31, 2012.

(iii) Management has obtained financial support commitment from Summit View, which will retain in force for a period of at least twelve months after the date of issuance of the financial statements.

(iv) Management has been seeking potential opportunities for disposal of certain entities to achieve positive cash flow.

(v) Management would continue on the cost cutting plan, seeking more effectiveness of the business management.

During 2013, management implemented a series of measures and continues to evaluate opportunities intended to maintain and develop its business. Such measures included obtaining financing from financial institution other than bank, disposal of non-performing assets, the elimination of executive and employee merit increases, R&D department reductions, and enhancing expense control. The Group has also significantly lowered its spending on capital expenditures and focused on improving the management of its working capital.

With the opportunity provided by the Restructuring Agreement, the Group will continue to remain focused on cash flow while accessing a range of strategic options for the purpose of maximizing shareholder value, including the potential sale of certain entities, keep reducing the R&D

team size and improving our relationship with our creditors and third parties.

Conclusion

As of the day of issuance of the financial statement, it has been 18 months since December 31, 2012. The Group believes that available cash and cash equivalents and cash provided by operating activities, together with cash available from borrowings and the activities mentioned above, should enable the Group to meet presently anticipated cash needs for at least the next 12 months and the Group has prepared the consolidated financial statements on a going concern basis. However, the Group continues to have ongoing obligations and it expects that it will require additional capital in order to execute its longer-term business plan. If the Group is unable to raise additional capital or encounters unforeseen circumstances that place constraints on its capital resources, management will be required to take various measures to conserve liquidity, which could include, but not necessarily be limited to, curtailing the Group s business development activities, suspending the pursuit of its business plan, controlling overhead expenses and seeking to further dispose of non-core assets. Management cannot provide any assurance that the Group will raise additional capital if needed. Other than aforementioned, the Group has not received any commitments for new financing and cannot provide any assurance a new financing will be available to the Group on acceptable terms, if at all.

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3. 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 (U.S. GAAP). All amounts in the accompanying consolidated financial statements and notes are expressed in Renminbi (RMB). Amounts in United States dollars (US$) are presented solely for the convenience of readers and use an exchange rate of RMB 6.2301, representing the middle rate as set forth in the H.10 statistical release of the U.S. Federal Reserve Board as of December 31, 2012. No representation is made that the RMB amounts could have been, or could be, converted into US$ at such rate.

As mentioned in Note 1 (a) and Note 24, the 4 Disposed Businesses have been disposed of in 2011, Beijing Century College Group has been disposed in 2012, the aforementioned entities have been classified as discontinued operations for the years ended December 31, 2011 and 2012 respectively.

Taishidian Holding has been classified as asset and liabilities held for sale as of December 31, 2012 and its operations have been classified as discontinued operations for the year ended December 31, 2012. Taishidian Holding has been disposed subsequently in July 2013, see Note 24.

b. Comparability due to discontinued operations and reclassification adjustment

Certain accounts in the consolidated statements of operations and other comprehensive income (loss) for the years ended December 31, 2010 and 2011, and balances in the consolidated balance sheet as of December 31, 2011 and related notes have been retrospectively adjusted to reflect the effect of assets groups held for sale and discontinued operations. See Note 24 for details of discontinued operations. The results of discontinued operations have been reflected separately in the consolidated statement of operations as a single line item for all periods presented in accordance with U.S. GAAP.

Cash flows from discontinued operations for the years ended December 31, 2010, 2011 and 2012 were combined with the cash flows from continuing operations within each of the three categories.

c. Use of estimates

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

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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.

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

e. 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.

f. Restricted cash

Restricted cash relates to cash deposited into banking institutions as a security deposit to enable further borrowings from the bank.

g. Term deposits

Term deposits consist of bank deposits with an original maturity of between three to twelve months.

h. *Accounts receivables*

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

i. Allowance for doubtful accounts

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

j. Land use rights

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

k. Property and equipment

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

Buildings	20 40 years
Motor vehicles	5 years
Office and computer equipment	3 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.

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m. Intangible assets, net

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

Other finite lived intangible assets are initially recorded at fair value when acquired in a business combination, in which the finite intangible assets are amortized on a straight-line basis except student populations and customer relationships, which are amortized using an accelerated method to reflect the expected departure rate over the remaining useful life of the asset. The 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 8- 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.

The Group performed impairment testing of indefinite-lived intangible assets in accordance with ASU 2012-02, which requires an entity to evaluate events and circumstances that may affect the significant inputs used to determine the fair value of the indefinite-lived intangible assets when performing qualitative assessment.

n. Segments

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

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o. Goodwill

Goodwill represents the future economic benefits arising from other assets acquired in a business combination or an acquisition by an entity that are not individually identified and separately recognized. Goodwill acquired in a business combination is tested for impairment at least annually or more frequently when events and circumstances occur indicating that the recorded goodwill may be impaired with the following two-step process. The first step compares the fair values of each reporting unit to its carrying amount, including goodwill. A reporting unit constitutes a business for which discrete profit and loss financial information is available. The fair value of each reporting unit is established using a combination of expected present value of future cash flows. If the fair value of each reporting unit exceeds its carrying amount, goodwill is not considered to be impaired and the second step will not be required. 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 judgment and involves the use of significant estimates and assumptions. These estimates and assumptions include revenue growth rates and operating margins used to calculate projected future cash flows, risk-adjusted discount rates, future economic and market conditions and determination of appropriate market comparable. The Group bases fair value estimates on assumptions it believes to be reasonable but that are unpredictable and inherently uncertain.

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

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

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

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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 the Group s cooperative partners; corporate clients attending the Group s 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 programs and services, and sales of software products. If any of the aforementioned criteria are not met, the Group defers the recognition of revenue until all criteria are met.

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. The Group normally collects tuition fee up front and the students consume the learning hours they bought along with a set courses schedule or upon their own decision. Tuition fees is generally paid in advance and is initially recorded as deferred revenue and is amortized and recognized as revenue along with the students consuming pace. 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 are offered to students and other customers either directly or through sales to distributors. Collection of these service offerings is also initially recorded as deferred revenue and is amortized and recognized as revenue on the percentage the required services delivered or on a straight-line basis over the length of the course, which are typically one to three months.

Following are the deferred revenue balances by segments as of December 31, 2011 and 2012.

	As of December 31,	
	2011	**2012**
	RMB	**RMB**
Career Enhancement	39,014	49,376
K-12	69,888	48,220

Tutoring	286,876	404,611
Total	395,778	502,207

The Group 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 Group 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 following selling price hierarchy. The Group 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 Group uses (c) management s best estimate of the selling price for that deliverable.

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Sales of software products

Software product revenues relate to revenues from the sale of educational compact disks (CDs) either directly to students or through distributors and sales of 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 sold to students when delivery has occurred based on purchase orders, contracts or other documentary evidence, provided that collection of the resulting receivable is reasonably assured.)

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.

Ambow Online, Ambow Yuhua, and Shandong Software Companies, Suzhou Yisi Chuangyi Technology Co., Ltd. (Suzhou Career Enhancement), 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 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.

The Group has adopted gross presentation for VAT, by which VAT is included in revenues and cost of revenues, because the Group considers its VAT obligation and its entitlement to VAT refund as one integrated preferential VAT policy.

In 2012, management gradually suspended the sales of software products.

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, and costs of educational materials.

Cost of revenues for software products primarily consists of raw material costs of compact disks and packaging and license fees. The Group recorded costs incurred duplicating the computer software, documentation, and training materials from the product masters and for physically packaging the product for distribution, and these relative costs incurred were charged to cost of sales when revenue from the sale of those units was recognized. The license fee was charged to cost of revenues over the license period on a straight-line basis.

s. Leases

Operating lease

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

Capital lease

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

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

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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

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.

ii) Internal use software

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

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

u. Advertising costs

The Group expenses advertising costs as incurred. Total advertising expenses of continuing operations were RMB 70,521, RMB 138,825 and RMB 284,483 for the years ended December 31, 2010, 2011 and 2012, respectively, and have been included as part of selling and marketing expenses.

v. Foreign currency translation and transactions

The Group uses RMB as its reporting currency. The functional currency of the Company and its subsidiaries incorporated in the Cayman Islands, Hong Kong 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 PRC, controls the conversion of RMB into foreign currencies. Limitations on foreign exchange transactions imposed by the PRC government could cause future exchange rates to vary significantly from current or historical exchange rates. Further, the value of RMB is subject to changes in central government policies and to international economic and political developments affecting supply and demand in the PRC Foreign Exchange Trading System market.

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x. Fair value of financial instruments

Financial instruments include cash and cash equivalents, accounts receivable, accounts payable, borrowings and amounts due from and due to related parties. The carrying values of the financial instruments approximate their fair values due to their short-term maturities. In addition, accounts payable arising from school acquisitions are determined based on the incremental borrowing rate discounted using the effective interest method.

y. Net income (loss) per share

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. 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 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. Ordinary shares equivalent are also excluded from the calculation in loss periods, as their effects 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, which prescribes a more likely than not threshold for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Guidance was also provided on the de-recognition of income tax assets and liabilities, classification of current and deferred income tax assets and liabilities, accounting for interest and penalties associated with tax positions, accounting for income taxes in interim periods, and income tax disclosures. Significant judgment is required in evaluating the Group s uncertain tax positions and determining its provision for income taxes. The Group establishes reserves for tax-related uncertainties based on estimates of whether, and the extent to which, additional taxes will be due. These reserves are established when the Group believes that certain positions might be challenged despite its belief that its tax return positions are in accordance with applicable tax laws. The Group adjusts these reserves in light of changing facts and circumstances, such as the closing of a tax audit, new tax legislation, or the change of an estimate. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will affect the provision for income taxes in the period in which such determination is made. The provision for income taxes includes the effect of reserve provisions and changes to reserves that are considered appropriate, as well as the related net interest and penalties where applicable. See Note 17 (c)- Income Taxes for additional information. For the years ended December 31, 2010, 2011 and 2012, 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, 2012.

bb. Comprehensive income

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

cc. 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.

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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 Group recognizes any cost of service prior to the time the non-employees complete their performance, any interim measurements that the Group 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.

dd. Business combinations

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

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

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

ee. Long-lived assets to be disposed of

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

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

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 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.

ff. Loss contingencies

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

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

gg. Recently issued accounting pronouncements

In April 2014, the FASB issued ASU No.2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity, which amends the definition of a discontinued operation in ASC 205-20 and requires entities to disclose additional information about disposal transactions that do not meet the discontinued-operations criteria. ASU 2014-08 provides more decision-useful information to users and to elevate the threshold for a disposal transaction to qualify as a discontinued operation. This Update is effective when all disposals (or classifications as held for sale) of components of an entity and all businesses or nonprofit activities that, on acquisition, are classified as held for sale that occur within annual period beginning on or after December 15, 2014, and interim periods within those years. The Group is currently assessing the impact on its consolidated results of operations or financial position.

Recently issued ASUs by the FASB, except for the ones mentioned above, do not have significant impact on the company s consolidated results of operations or financial position.

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4. ACCOUNTS RECEIVABLE, NET

Accounts receivable, net consisted of the following:

	As of December 31,	
	2011	**2012**
	RMB	**RMB**
Accounts receivable	121,464	102,490
Less: Allowance for doubtful accounts	(14,639)	(34,584)
Accounts receivable, net	106,825	67,906

Allowance for doubtful accounts:

	As of December 31,	
	2011	**2012**
	RMB	**RMB**
Balance at beginning of year	(458)	(14,639)
Addition	(14,181)	(24,796)
Written off		4,851
Balance at end of year	(14,639)	(34,584)

5. PREPAID AND OTHER CURRENT ASSETS, NET

Prepaid and other current assets consisted of the following:

	As of December 31,	
	2011	**2012**
	RMB	**RMB**
Deposits for acquisition (Note i)	76,707	21,998
Current portion of prepaid advertising expense	72,080	12,755
Prepayment for new training center project (Note iii)	65,609	
Receivables arising from the termination of arrangements	54,000	12,037
Amount due from Xihua Group (Note i & ii)	44,061	75,100
Value added tax refundable	45,800	34,879
Rental deposits	24,265	28,456
Receivables resulting from disposals (Note 24 (a))	35,000	14,000
Receivable from Zhenjiang operating rights (Note iv)	35,000	35,000
Prepaid rental fees	28,433	30,566
Prepayment for cooperative rights to cooperating universities	2,596	177
Staff advances	8,891	8,940

Prepaid professional services fees	8,475	1,902
Due from owners		4,299
Others	56,534	59,182
Total before allowance for doubtful accounts	557,451	339,291
Less: allowance for doubtful accounts (Note v)		(7,700)
Total	557,451	331,591

Allowance for doubtful accounts:

	As of December 31,	
	2011	**2012**
	RMB	**RMB**
Balance at beginning of year		
Addition		(255,643)
Written off		247,943
Balance at end of year		(7,700)

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Written off for the year ended December 31, 2012

	As of December 31,	
	2011 RMB	2012 RMB
Arising from Subsequent Receivable Transfer Agreements (Note i)		
Deposits for acquisition		33,800
Receivables arising from the termination of arrangements		16,000
Amount due from Xihua Group		76,880
Other deemed not recoverable		
Deposits for acquisition		23,701
Amount due from Xihua Group (Note ii)		46,829
Due from former owners		27,056
Others		23,677
Total		247,943

(Note i) Due to uncollectable deposits for terminated contracts and worse financial position of debtors, in March 2013, the Group entered into a Receivable Transfer Agreement to Suzhou Qingrun Guarantee Company Ltd (Suzhou Qingrun) to transfer certain receivable amounting to RMB 164,680, in which RMB 161,180 and RMB 3,500 are related to Prepaid and other current assets and Other non-current assets; respectively. The total consideration was RMB 35,000. Table below summarizes the amount of receivable transferred and consideration allocated based on management s estimation on the recoverabilityAs a result, the excess portion of consideration amounting of RMB 126,680 and RMB 3,000 was written off for prepaid and other current assets and other non-current assets, respectively.

	As of December 31, 2012	
	Amount transferred RMB	Consideration allocated RMB
Prepaid and other current assets		
Deposits for acquisition	40,000	6,200
Receivables arising from the termination of arrangements	19,000	3,000
Amount due from Xihua Group	102,180	25,300
Other non-current assets	3,500	500
Total	164,680	35,000

(Note ii) As of December 31, 2012, the original amounts due from Xihua Group was RMB 198,809, among which RMB 102,180 has been subsequently transferred (see Note (i)) with consideration allocated of RMB 25,300. As of December 31, 2012, the payable balance recorded by a subsidiary prior to its acquisition by the Group with indemnity by Xihua Group amounted to RMB 49,800, therefore, no provision was made for the indemnity. As a result, the total recoverable receivable is RMB 75,100, and the remaining balance was deemed not recoverable and was fully written off as of December 31, 2012.

(Note iii) The balance includes prepayment for the training center project in Tianjin of RMB 65,609, which was fully reclassified to other non-current assets (See Note 10 iii) based on management s evaluation of the collectability for an extended period of time.

(Note iv) The balance represented the prepaid operating rights mostly to the Zhenjiang Foreign Language School. The Group started a negotiation of returning the operating right back to the original owner, Zhenjiang Education Investment Center in the third quarter of 2011. As result, the prepaid operating right has been reclassified as receivable since then. As of December 31, 2011 and 2012, the payable balance to Zhenjiang Foreign Language School amounted to RMB 34,603 and RMB 36,770, respectively; therefore, no provision was made.

(Note v) Allowance for doubtful accounts as of December 31, 2012 was mostly related to deposit for establishing schools of Guangzhou ZS Career Enhancement due to broken relationship with former owner.

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6. PROPERTY AND EQUIPMENT, NET

Property and equipment consisted of the following:

	As of December 31,	
	2011	2012
	RMB	RMB
Buildings	220,767	303,804
Capital lease of property	12,000	52,133
Motor vehicles	15,370	10,527
Office and computer equipment	141,126	149,064
Leasehold improvements	229,333	198,656
	618,596	714,184
Less: accumulated depreciation	(131,102)	(187,513)
Add: construction in progress	4,899	786
Total	492,393	527,457

For the year ended December 31, 2012, the Group recorded an impairment loss of RMB 130,545 on its property and equipment due to the decline of business. The impairment was mostly related to Dalian Career Enhancement (Dalian Xiwang) and Guangzhou ZS Career Enhancement of the Career Enhancement segment based on the impairment test by the management assisted with an independent valuation specialist adopting income approach. There was no impairment loss for the year ended December 31, 2010 and 2011, respectively.

For the years ended December 31, 2010, 2011 and 2012, depreciation expenses of continuing operations were RMB 29,313, RMB 43,763 and RMB 76,811, respectively, which were recorded in cost of revenues, selling and marketing expenses and general and administrative expenses.

The capital leases of property included in Buildings were related to Ambow Beijing campus and Shenyang K-12 School of which the original amounts were RMB 40,133 and RMB 12,000 respectively. The inception date of the capital leases was March 1, 2012 and December 30, 2010 respectively. As at December 31, 2011 and 2012, the accumulated depreciations were RMB 750 and RMB 2,554 respectively. For the years ended December 31, 2010, 2011 and 2012, depreciation expenses were nil, RMB 600 and RMB 1,804 respectively and recorded in cost of revenues. There is no future lease payment as of December 31, 2012.

As of December 31, 2012, 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 56,890.

7. LAND USE RIGHTS, NET

Land use rights consisted of the following:

	As of December 31,	
	2011	2012
	RMB	RMB
Land use rights	141,418	141,418
Less: accumulated amortization	(9,274)	(12,652)
Land use rights, net	132,144	128,766

Amortization expenses for land use rights of continuing operations amounted to RMB 4,010, RMB 3,278 and RMB 3,378 for the years ended December 31, 2010, 2011 and 2012, 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 3,378 per year for each of the next five years through December 31, 2017.

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8. INTANGIBLE ASSETS, NET

Intangible assets consisted of the following:

	As of December 31,	
	2011 **RMB**	**2012** **RMB**
Gross carrying amount		
Trade name	363,559	174,944
Student populations	74,740	82,440
Software	87,304	93,203
Customer relationship	7,390	7,390
Cooperative agreement*	5,263	5,263
Favorable lease	63,237	63,237
Non-compete agreement	3,188	3,188
	604,681	429,665
Less: Accumulated amortization		
Trade name		
Student populations	(47,933)	(62,295)
Software	(49,043)	(60,181)
Customer relationship	(1,090)	(2,235)
Cooperative agreement	(670)	(1,346)
Favorable lease	(7,135)	(10,652)
Non-compete agreement	(95)	(198)
	(105,966)	(136,907)
Intangible assets, net		
Trade name	363,559	174,944
Student populations	26,807	20,145
Software	38,261	33,022
Customer relationship	6,300	5,155
Cooperative agreement*	4,593	3,917
Favorable lease	56,102	52,585
Non-compete agreement	3,093	2,990
	498,715	292,758

*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 PRC.

For the year ended December 31, 2012, the Group recorded an impairment loss related to trade name of RMB 188,835 and related to software of RMB 2,781 on its intangible assets due to the negative publicity in media. The impairment was mostly related to Tutoring and Career Enhancement segments based on the impairment test adopting income approach. There was no impairment loss for the year ended December 31, 2010 and 2011, respectively.

Amortization expenses for intangible assets of continuing operations amounted to RMB 34,654, RMB 49,043 and RMB 34,274 for the years ended December 31, 2010, 2011 and 2012, respectively, of which RMB 16,900, RMB 16,560, and RMB 14,265 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: 2013: RMB 28,537, 2014: RMB 20,115, 2015: RMB 11,757, 2016: RMB 9,276, 2017: RMB 4,916 and cumulatively thereafter: RMB 43,213.

For the years ended December 31, 2010, 2011 and 2012, the Group capitalized certain internal use software development costs of continuing operations totaling approximately RMB 25,536, RMB 9,973, and RMB 13,369, respectively. The estimated useful life of costs capitalized is evaluated for each specific project as four- five years. For the years ended December 31, 2010, 2011 and 2012, the amortization of capitalized costs amounted to approximately RMB 4,409, RMB 10,007, and RMB 12,645, respectively, and have been included as part of general and administrative expenses and research and development expenses.

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9. GOODWILL

The changes in the carrying amount of goodwill by segment for the years ended December 31, 2011 and 2012 were as follows:

	Tutoring RMB	Better Schools K-12 Schools RMB	Subtotal RMB	Better Jobs Career Enhancement RMB	Consolidated RMB
Balance as of January 1, 2011	370,489	250,542	621,031	148,831	769,862
Goodwill acquired during the year	100,266		100,266	266,963	367,229
Goodwill impairment on assets held for use (Note (i))		(25,336)	(25,336)		(25,336)
Foreign currency translation adjustments	(15,855)	(5,030)	(20,885)	(6,719)	(27,604)
Balance as of December 31, 2011	454,900	220,176	675,076	409,075	1,084,151
Goodwill acquired during the year (Note 22 (8))	70,580		70,580		70,580
Goodwill impairment (Note (ii))	(99,343)	(34,123)	(133,466)	(345,244)	(478,710)
Foreign currency translation adjustments	(754)	(239)	(993)	(352)	(1,345)
Balance as of December 31, 2012	425,383	185,814	611,197	63,479	674,676

Note (i) As set out in Note 25,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, resulted in an impairment loss of RMB 25,336 on 21st school which should be 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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Note (ii) In light of the following changed fact and circumstances, which indicated a potential impairment loss on the goodwill of reporting units, the internal investigation (see Note 29(8)) influenced the Group s financing activity, whereas the operating activities were affected by the decline of software sales business. Due to lack of financing, the Group suspended its investment plan which was not anticipated in the 2011 impairment assessments. The Group therefore performed an impairment analysis for the reporting units as of September 30, 2012. The Group performed the first step of its goodwill impairment test and determined that the carrying value of the reporting units exceeded their fair value. The fair value of the reporting units was estimated using a discounted cash flow method. The valuation technique is based on a number of estimates and assumptions, including the projected future cash inflow from the reporting units, appropriate discount rates in the range from 16% to 17%, terminal growth rate of 3% and etc. Having determined that the goodwill was potentially impaired, the Group began performing the second step of the goodwill impairment analysis which involved calculating the implied fair value of the goodwill by allocating the fair value of the reporting units to all of their assets and liabilities other than goodwill and comparing the residual amount to the carrying value of goodwill. Accordingly, the Group recorded impairment losses of RMB 478,710 against the goodwill allocated to the reporting units for the year ended December 31, 2012.

10. OTHER NON-CURRENT ASSETS, NET

Other non-current assets consisted of the following:

	As of December 31	
	2011 **RMB**	**2012** **RMB**
Prepaid long-term lease (Note (i))	191,600	111,087
Deposit for training centers under construction (Note (ii))	65,001	30,366
Prepaid leasehold improvement maintenance fee (Note (ii))		23,376
Non-current portion of prepaid advertising fees	46,446	
Non-current portion of receivables arising from the cancellation of an agreement	7,500	500
Prepayment for new training center project (Note (iii))		65,609
Others	9,064	7,769
Other non-current assets, net	319,611	238,707

Note (i) As of December 31, 2011, the balance represented a deposit for a 25-year lease of land and building of Ambow Beijing Campus and a deposit for a 15-year lease of a new Career Enhancement education facility in Guangzhou (Ambow Guangzhou Campus). As of December 31, 2012, the balance included prepaid long-term lease of land portion of Ambow Beijing Campus with original amount of RMB 113,519 and prepaid long-term lease of Ambow Guangzhou Campus with original amount of RMB 59,059, respectively. The lease of building portion of Ambow Beijing Campus was classified as property as result of meeting criteria of capital lease. The lease of Ambow Beijing Campus and Ambow Guangzhou Campus start in 2012. During the year of 2012, the Group recognized impairment of RMB 55,825 adopting income approach, due to the decline of business. For the years ended December 31, 2010, 2011 and 2012, amortization expenses of continuing operations was nil, nil and RMB 5,666 respectively.

Note (ii) During the year ended December 31, 2011, the Group entered into an agreement with a third-party contractor to build new training centers 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 92,834 had been paid pursuant to this agreement, of which RMB 27,833 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 approximately RMB 139,400 (inclusive of the cumulative deposits already paid) to take over all the 18 training centers which the third party contractor has built for the Group, to acquire 16 training centers which the same third party contractor had operated independently, and to acquire 8 years maintenance service provided the third party contractor for the 34 training centers. The cost of the 8-year s maintenance service was 26,267 and accumulated amortization was 2,891 as of December 31, 2012. Pursuant to the agreement, the Group paid additional approximately RMB 46,566 to the third party contractor in 2012. The acquisition of the 16 training centers was recognized as business combination as described in Note 22. The transactions were completed as of December 31, 2012.

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At the same time, the Group entered into other agreements with this third party contractor to build another 39 new training centers. Pursuant to these agreements, the Group paid to the third party contractor a deposit of approximately RMB 54,870 and 12 training centers with cost of approximately RMB 24,504 were delivered to the Group as of December 31, 2012.

Note (iii) The balance includes prepayment for the Tianjin Campus of RMB 65,609 which was reclassified from prepaid and other current assets (See Note 5 (iii)).

11. ACCRUED AND OTHER LIABILITIES

Accrued and other liabilities consisted of the following:

	As of December 31,	
	2011	**2012**
	RMB	**RMB**
Business tax, VAT and others	105,216	90,944
Accrued payroll and welfare	71,665	84,547
Current portion of consideration payable for acquisitions	54,762	15,270
Payable balance with indemnity by Xihua Group (Note 5(ii))	49,800	49,800
Accrual for rental	35,128	38,688
Professional service fees payable	21,815	21,824
Amounts due to cooperating partners	9,982	16,908
Payable to Zhenjiang Foreign Language School (Note 5(iv))	34,603	36,770
Receipt in advance (Note i)	14,468	32,601
Payable arising from the cancellation of an agreement (Note ii)	14,440	
Due to former owners (Note iii)		2,856
Others	37,394	37,427
Total	449,273	427,635

(Note i) As of December 31, 2012, the deposits from 21st School amounting to RMB 6,911 was included in payments in advance.

(Note ii) In relation to cancellation of an agreement with Guangzhou Modern Olympic Training School, which was settled during the year ended December 31, 2012.

(Note iii) The balance included the amounts due to former owners of subsidiaries who were no longer classified as the Group s related parties (See Note 23).

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12. SHORT-TERM BORROWINGS

Short-term borrowings consisted of the following:

	As of December 31	
	2011 RMB	2012 RMB
Unsecured short-term bank loans	60,000	60,000

As of December 31, 2012, the Group has the following unsecured short-term bank loans:

- RMB 20,000 with a maturity date of April 13, 2013 and bearing interest at 7.22% per annum.
- RMB 20,000 with a maturity date of May 14, 2013 and bearing interest at 7.22% per annum.
- RMB 20,000 with a maturity date of July 16, 2013 and bearing interest at 6.60% per annum.

The above short-term borrowings incurred interest expenses for the years ended December 31, 2010, 2011 and 2012 amounting to RMB 3,914, RMB 4,685 and RMB 4,365, respectively. There were neither capitalization as additions to construction in-progress nor guarantee fees for each of three years ended December 31, 2012. The weighted average interest rate of bank loans outstanding was 5.63% per annum and 6.87% per annum as of December 31, 2011 and 2012, respectively. The fair values of the short-term bank loans approximate their carrying amounts.

The above unsecured short-term bank loans have been repaid on their maturity dates.

13. CONVERTIBLE LOAN

On June 12, 2012 and October 24, 2012, the Group finalized a loan agreement amounting to RMB 125,710 (US$ 20,000) (Loan Agreement) with International Finance Corporation (IFC), in which IFC granted the Group a convertible loan (IFC Loan). IFC may at its option convert a minimum of $1,000 or its integral multiple of IFC Loan in whole or in part, at any time prior to the fifth anniversary of the date of the first disbursement of the IFC Loan, into Class A Ordinary Shares at the conversion price of $10, subject to dilution protection adjustment and registration or an exemption from registration under the Securities Act.

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

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

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

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

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

Since the conversion price of the IFC Loan exceeds the market price of the Company s ordinary shares on the date of issuance, no portion of the proceeds from the issuance was accounted for as the beneficial conversion feature, and was treated solely as a liability since the embedded conversion feature has no intrinsic value and accordingly does not meet the requirements of an equity component. Costs incurred by the Company that were directly attributable to the issuance of IFC Loan amounting to approximately RMB 3,563 (US$567), were deferred and being charged to the consolidated statements of operations and other comprehensive income (loss) using the effective interest rate method. The front fee paid to IFC amounting to RMB 4,881 (US$774) is treated as debt discount deducting the proceeds at inception and accretion during the loan period with effective interest method.

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Management further determined that the interest rate change feature (IRCF) embedded in the convertible loan is required to be bifurcated and accounted for as a derivative asset. The fair value of the IRCF as of issuance date was RMB 384 (US$ 61) and bifurcated from the Loan of RMB 125,710 (US$ 20,000) and included in debt discount, which is amortized over the approximately six-year period the IFC Loan are expected to be outstanding using the effective interest rate method. The fair value of the IRCF decreased to RMB 181 (US$ 28) as of December 31, 2012. The change of RMB 202 (US$ 32) in the fair value of the embedded derivative assets was recognized as interest expense from revaluation of embedded derivative in the consolidated statements of operations and other comprehensive income (loss).

The Convertible loan as of December 31, 2011 and 2012 are summarized in the following table:

	As of December 31	
	2011	2012
	RMB	RMB
Principal IFC loan		125,710
Unamortized discount		(4,554)
Net carrying amount		121,156

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

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

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

As of December 31, 2012, Management estimated the impact of the liquidated damage is immaterial and no such liability was accrued.

The Loan Agreement requires certain financial covenants, and the Group is not in compliance with loan covenants as of December 31, 2012. IFC may require the Group to immediately repay the IFC Loan. The IFC Loan was callable as of December 31, 2012 and was classified as current liabilities accordingly.

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 shareholders 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:

(i) 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

(ii) Class A ordinary shares are not convertible into Class B ordinary shares under any circumstances.

Upon any sale, pledge, transfer, assignment or disposition of Class B Ordinary Shares by a holder thereof to any person or entity which is not an affiliate of such holder or an affiliate of the Company, such Class B Ordinary Shares shall be automatically and immediately converted into an equal number of Class A Ordinary Shares without payment of additional consideration.

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.

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In 2012, there were 1,494,420 Class A ordinary shares issued and 4,786,125 Class B ordinary shares converted to Class A ordinary shares. As of December 31, 2012, there were 55,368,641 and 90,606,843 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. Since July 20, 2007, the Series B convertible preferred shares were no longer redeemable and the warrants were reclassified from a liability to equity, with re-measured fair value amounting to RMB 2,737 (US$ 393) on July 20, 2007. In August 2010, all the 196,731 warrant were exercised at US$ 0.75 to purchase 590,193 ordinary shares on the 1 for 3 share exchange basis.

In July 2011, the Company granted 500,000 warrants to one of the consultants 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. See Note 16 for additional information. In 2012 the consultant joined in the company as senior management, therefore this amount was combined in share-based compensation.

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.

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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 of warrants outstanding and exercisable was RMB 1,679 and nil as at December 31 2011 and 2012 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, 2011 and 2012, options granted to employees to purchase 14,987,302 and 14,109,687 shares of ordinary shares and to non-employees to purchase 1,775,000 and 2,043,625 shares of ordinary shares were outstanding, and options to purchase 20,605,963 and 19,693,783 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, 2010, 2011 and 2012 is as follows:

	Year ended December 31, 2010				Year ended December 31, 2011				Year ended December 31, 2012			
	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	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
Granted	6,701,100	31.61		(5,341)	992,700	32.91		(12,449)	2,205,250	20.76		
Exercised					(1,914,088)	1.47		36,433	(1,494,420)	5.12		5,856
Forfeited or expired	(301,000)	21.43			(637,895)	27.73			(1,319,820)	24.75		
Outstanding at end of year	18,321,585	15.90	7.1	553,155	16,762,302	17.25	6.5	85,750	16,153,312	18.30	5.9	29,114
Exercisable at end of year	9,521,087	4.97	5.5	391,562	11,733,255	12.66	5.8	113,896	12,963,768	16.25	5.4	29,112
Expected to vested at end of year									2,291,313	28.37	7.5	

A summary of unvested options under the employee share option plan as of December 31, 2012, and changes during the year then ended is presented as follows:

	Year ended December 31, 2012	
	Shares	Weighted Average Grant-date fair value
Unvested at January 1, 2012	5,801,488	11.30
Granted	2,205,250	12.42
Vested	(3,632,765)	11.32
Forfeited	(889,054)	10.65
Unvested at December 31, 2012	3,484,919	11.91

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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 May 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. Starting from May 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 PRC 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	**Year ended December 31, 2012**
Risk-free rate of return	1.20%~4.40%	3.2%~3.26%
Exercise multiple (applicable to awards granted to employees only)	2~3	2~3
Post-vesting forfeiture rate (applicable to awards granted to employees only)	3%	0%~1%
Expected term	1.5~10	1.5~10
Volatility rate	41.00%~50.00%	47%
Weighted average volatility rate	46.54%	47%
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 PRC 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, 2010
Risk-free rate of return	2.04%~4.24%
Expected term	4.2~10.0
Volatility rate	45.80%~52.10%
Weighted average volatility rate	47.42%
Dividend yield	

The Company estimates the forfeiture rate to be 14% for the share options granted as of December 31, 2010, 2011 and 2012.

The Company recorded share-based compensation expenses of RMB 34,214, RMB 33,348 and RMB 34,971 during the years ended December 31, 2010, 2011 and 2012, 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 were RMB 14,535, RMB 48,414 and RMB 40,075 for employees and RMB 3,778, RMB 2,015 and RMB 1,059 for non-employees during the years ended December 31, 2010, 2011 and 2012, respectively. Weighted average grant date fair values per share are RMB 15.07, RMB 7.13 and RMB 12.42 during the years ended December 31, 2010, 2011 and 2012. 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, 2010, 2011 and 2012.

As of December 31, 2012, there was RMB 43,389 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 1.84 years. During 2012, the Company has received RMB 7,751 as the proceeds of option exercise from employee and non-employee.

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17. TAXATION

a. VAT

Ambow Online, Ambow Yuhua, Shandong Software Companies, Suzhou Yisichuangyi Technology Co., Ltd. (Suzhou Career Enhancement) are each subject to 17% VAT for the revenues from software products sold in the PRC. Companies that fulfill certain criteria set by the relevant authorities including developing their own software products and registering the software product with the relevant authorities in the PRC are entitled to a refund of VAT equivalent to the excess of VAT paid over 3% of net revenues.

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, 2010, 2011 and 2012, the VAT payable amounted to approximately RMB 10,198, RMB 10,161and RMB 1,153, respectively.

The PRC government implemented a value-added tax reform pilot program, which replaced the business tax with value-added tax on selected sectors in Shanghai effective January 1, 2012, in Beijing effective September 1, 2012, in Tianjin effective December 1, 2012. The value-added tax rate applicable to the subsidiaries and consolidated variable interest entities of the Group in Shanghai, Beijing and Shenzhen is 6% as compared to the 5% business tax rate, which was applicable prior to the reform.

b. Business tax

In PRC, 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 PRC. The business tax rate varies depending on the nature of the revenues. Other than revenues generated from degree oriented educational activities provided by private schools that are accredited to issue diplomas or degree certificates recognized by the Ministry of Education of the PRC which are exempted from business tax, the applicable business tax rate for the Group s revenues generally ranges from 3% to 5%. Business tax and related surcharges are deducted from revenues before arriving at net revenues.

c. Income taxes

Cayman Islands

Under the current laws of Cayman Islands, the Company and its subsidiaries incorporated in the Cayman Islands are not subject to tax on income or capital gains. In addition, upon payment of dividends by the Company to its shareholders, no Cayman Islands withholding tax will be imposed.

British Virgin Islands

The Company s subsidiaries incorporated in the BVI are not subject to taxation.

Hong Kong

Entities incorporated in Hong Kong are subject to Hong Kong profit tax at a rate of 16.5%.

PRC

Significant components of the provision for income taxes on earnings for the years ended December 31, 2010, 2011 and 2012 are as follows:

	Years ended December 31,		
	2010 **RMB**	**2011** **RMB**	**2012** **RMB**
Current:			
PRC	51,812	55,249	58,218
Deferred:			
PRC	(13,962)	(16,408)	(116,986)
Provision for income tax expenses (benefits)	37,850	38,841	(58,768)

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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 PRC. A lower withholding income tax rate of 5% is applied if the FIE s immediate holding company is registered in Hong Kong or other jurisdiction that have a tax treaty or arrangement with PRC and the FIE s immediate holding company satisfies the criteria of beneficial owner as set out in Circular Guoshuihan [2009] No. 601. Such withholding income tax was exempted under the previous income tax laws and rules. On February 22, 2008, the Ministry of Finance (MOF) and the State Administration of Taxation (SAT) jointly issued a circular, which stated that FIEs that generate earnings in or after 2008 and distribute those earnings to foreign investors should pay the withholding tax. As stipulated in the 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 PRC will not declare any dividend should the withholding tax on dividends be applied. Accordingly, the Company did not record any withholding tax on the retained earnings of its FIEs in PRC for the years ended December 31, 2010, 2011 and 2012.

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. Applicable tax rate for Ambow Online is 12.5% from 2010 to 2012. As a High and New Technology Enterprise, Ambow Online is eligible to enjoy a preferential tax rate of 15% since 2013, but such preferential tax treatment is subject to the tax authority s annual inspection. If Ambow Online fails to pass the annual inspection, it will be subject to an income tax rate of 25% since that year.

During the years ended December 31, 2010, 2011 and 2012, the aggregate amount and per share effect of the tax holidays are as follows:

	Years ended December 31, 2010 RMB	2011 RMB	2012 RMB
The aggregate amount of tax holidays	(28,285)	(59,580)	
The aggregate effect on basic and diluted net income per share:			
- Basic	(0.33)	(0.42)	

- Diluted	(0.25)	(0.40)

Private schools and colleges

The Group s companies providing education services are taxed as corporate enterprises as referred to above. Private schools or colleges operated for reasonable returns are subject to income taxes at 25% after January 1, 2008 but are sometimes subject to deemed 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 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, 2012 the detailed implementation guidance has not been provided to local tax authorities on how to apply these changes to schools and colleges.

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The principal components of the Group s deferred tax assets and liabilities were as follows:

	As of December 31,	
	2011	2012
	RMB	RMB
Current deferred tax assets:		
Accrued expense	18,159	25,883
Allowance for doubtful accounts	3,500	50,228
Others	425	
	22,084	76,111
Less: valuation allowance on current deferred tax assets	(5,134)	(59,570)
Total current deferred tax assets, net	16,950	16,541
Non-current deferred tax assets:		
Tax loss carried forward	27,372	272,779
Impairment of long-lived tangible assets		33,485
Deferred advertising expense	12,186	25,234
Others	3,084	4,065
	42,642	335,563
Less: valuation allowance on non-current deferred tax assets	(37,842)	(281,500)
Total non-current deferred taxes assets, net	4,800	54,063
Non-current deferred tax liabilities:		
- Unrecognized valuation surplus and deficit - Acquisition	156,021	164,140
- Unrecognized valuation surplus and deficit - Decrease due to amortization and impairment	(10,794)	(67,063)
- Tax nondeductible long-lived assets		46,629
- Tax nondeductible long-lived assets Decrease due to amortization and impairment		(11,862)
Total deferred tax liabilities	145,227	131,844

The following represents a roll-forward of the valuation allowance for each of the years:

	As of December 31,		
	2010	2011	2012
	RMB	RMB	RMB
Balance at beginning of the year	16,271	13,313	42,976
Allowance made during the year	7,099	32,668	298,094
Reversals	(10,057)	(3,005)	
Balance at end of the year	13,313	42,976	341,070

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,		
	2010	2011	2012
	%	%	%
Weighted average statutory tax rate	25%	25%	25%

Tax effect of preferential tax treatments	(14)%	(33)%	
Tax effect of non-deductible expenses	3%	5%	(2)%
Tax effect of non-taxable income	(1)%	(1)%	
Tax effect of tax-exempt entities	7%	9%	(2)%
Previous years unrecognized tax effect			(2)%
Changes in valuation allowance	(2)%	17%	(16)%
Effective tax rates	18%	22%	3%

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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,		
	2010 RMB	2011 RMB	2012 RMB
Unrecognized tax benefits, beginning of year	11,913	16,690	20,675
Increases related to current tax positions	4,777	3,985	3,271
Unrecognized tax benefits, end of year	16,690	20,675	23,946

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 that the position of unrecognized tax benefits will significantly increase or decrease within 12 months of December 31, 2012.

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 2007 to 2011 remain subject to examination by the tax authorities.

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,		
	2010 RMB	2011 RMB	2012 RMB
Numerator:			
Net income (loss) from continuing operations attributable to Ambow Education Holding Ltd.	168,441	142,140	(1,616,602)
Preferred shares redemption value accretion	(94,209)		
Allocation of net income to participating preferred shareholders*	(55,534)		
Numerator for basic income (loss) from continuing operations per share	18,698	142,140	(1,616,602)
Numerator for basic income (loss) from discontinued operations per share	47,591	(120,955)	(4,564)
Numerator for diluted income (loss) from continuing operations per share	18,698	142,140	(1,616,602)
	47,591	(120,955)	(4,564)

Numerator for diluted income (loss) from discontinued operations per share			
Denominator:			
Denominator for basic income (loss) per share weighted average ordinary shares outstanding	85,551,412	142,939,038	145,659,940
Denominator for diluted income (loss) per share weighted average ordinary shares outstanding	112,122,045	150,432,812	145,659,940
Basic income (loss) per share- continuing operations	0.22	0.99	(11.10)
Basic income (loss) per share- discontinued operations	0.56	(0.85)	(0.03)
Diluted income (loss) per share- continuing operations	0.17	0.94	(11.10)
Diluted income (loss) per share- discontinued operations	0.42	(0.85)	(0.03)

* 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, 2010, 2011 and 2012 no warrants or preferred shares that were anti-dilutive and excluded from the calculation of diluted net income per share. Options that were approximately 7.2 million shares, 9.3 million shares and 11.9 million options which were out-of-money, were anti-dilutive and excluded from the calculation of diluted net income (loss) per share for 2010, 2011 and 2012 respectively. Approximately 4.2 million of options, which were in-the-money were also excluded from the calculation of diluted net loss per share for the year ended December 31, 2012, which was loss period, and their effects would be anti-dilutive.

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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, 2012 were as follows:

	Amount RMB
2013	127,029
2014	116,185
2015	78,052
2016	51,817
2017	29,781
Thereafter	116,276
Total	519,140

Rent expenses for all cancelable and non-cancelable leases were approximately RMB 98,913, RMB 131,595 and RMB 192,315 for years ended December 31, 2010, 2011 and 2012, respectively.

Capital commitment

	Amount RMB
Capital commitment for construction of Tianjin Campus	49,391

On March 9, 2011, the Group entered into an agreement with two third parties to build Tianjin Campus and prepaid RMB 65,609 accordingly. According to the agreement, the total investment on this project was RMB 115,000 and the remaining portion would be payable upon the completion of the Campus. However, the construction of the Campus has postponed due to the lack of confidence from the two third parties impacted by the negative publicity of the Company since 2012. Till May of 2014, the management is in the process of negotiating with the two third parties seeking of a solution.

Contingencies

1) Kaidi

In August 2010, Beijing Kaidi Chenguang Education Science Technology Development Co., Ltd. (Kaidi) initiated an action against Ambow Shida, and Ambow Online in the Haidian District Court in Beijing, PRC, alleging copyright infringement related to the Group s 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 11.0 million. 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 court, 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. On June 18, 2013, the court rejected Kaidi s appeal. Kaidi re-filed again, on August 28, 2013, the court rejected Kaidi s appeal and affirmed the original verdict, which is the final verdict. The Group believes it has no further obligation.

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2) Mintel

In March 2011, Mintel Learning Technology, Inc. (Mintel) filed a complaint against the Company and the Company 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 May 31, 2012, Mintel filed for bankruptcy relief under for Chapter 7 of the Bankruptcy Code in the U.S. Bankruptcy Court for the Central District of California, Heide Kurtz was appointed the Chapter 7 trustee (Mintel Trustee). On or about January 21, 2014, the Company and Mintel Trustee reached a tentative settlement, which was formalized on or about February 17, 2014. The key terms of the settlement includes: a) a payment of RMB 817 (US$ 130) to be paid to the Mintel Trustee in two installments (which was fully paid on March 10, 2014); b) the Mintel Trustee agreed to dismiss the Action, with prejudice, no later than June 10, 2014. The Group has recognized the liability of US$100 as of December 31, 2012. And the lawsuit was subsequently dismissed with prejudice on June 10, 2014.

3) Skillsoft

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. On 12 December 2013, the Hong Kong court has ordered a summary judgment in favor of Skillsoft for US$ 0.6 million with interest from October 2011, which has been accrued as of December 31, 2012. In addition, Skillsoft filed two claims: a) on June 7, 2013, seeking a payment of approximately RMB 15,575 (US$ 2,500) for breach of the contract and approximately RMB 12,460 (US$ 2,000) in respect of invoices for pre-paid licensing fees; b) on October 21, 2013 seeking a payment of approximately RMB 12,460 (US$ 2,000) for breach of the contract. A without prejudice offer for settlement was made on 18 June 2014: the Company pays to Skillsoft the sum of US$0.6 million with interest (US$107 as at 12 June 2014) and costs (estimated at HK$ 388 and yet to be agreed). Subsequently the offer of settlement was not accepted by Skillsoft prior to expiry on 3 July 2014 and has accordingly lapsed. The Company believes that it is still too early to assess the potential outcome of Skillsoft s claim but intends to defend itself vigorously.

4) California allegations

On June 11, 2012, the Company was named as a defendant in a putative securities class action filed in the U.S. District Court for the Central District of California. The complaint also named as defendants current officer of Ambow, Jin Huang, and former officer Paul Chow. On June 22, 2012, a second putative securities class action complaint was filed in the Central District of California against Ambow, Chow and Huang. On November 19, 2012, the Judge issued an order consolidating the two cases and appointing Tianqing Zhang as lead plaintiff. On February 18, 2013, plaintiffs filed a consolidated amended complaint against Ambow and eight individual defendants, sought recovery on behalf of all persons and entities that purchased or otherwise acquired Ambow s American Depositary Shares on the New York Exchange from the date of its initial public offering on August 5, 2010 through July 5, 2012 for allegedly false and misleading statements concerning Ambow s operations and financial results in the Company s public filings with the U.S. Securities and Exchange Commission. On May 3, 2013, plaintiffs filed a second consolidated amended Complaint. On March 17, 2014, plaintiffs filed a third amended complaint asserting the same claims against the same defendants. On March 24, 2014, Judge entered a scheduling order pursuant to which defendants motions to dismiss the third amended complaint are due by May 19, 2014. On or around May 12, 2014, counsel for the parties agreed upon the principal terms of a settlement. The settlement provides for a total payment of US$ 1,500 by the Company s insurer to the plaintiff class, in exchange for complete dismissal and release of all claims that were or could have been asserted in the action against the Company and named defendants.

20. SEGMENT INFORMATION

The Group offers a wide range of educational and career enhancement services and products focusing on improving educational opportunities for primary and advanced degree school students and employment opportunities for university graduates.

The Group s chief operating decision maker (CODM) has been identified as the CEO who reviews the financial information of separate operating segments when making decisions about allocating resources and assessing performance of the Group. Based on management s assessment, the Group has determined that it has four operating segments which are Tutoring, K-12 Schools, Career Enhancement, and 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.

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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. Discontinued operations have been excluded from the segment information for periods presented.

For the year ended December 31, 2010

				Better Job			
	Tutoring RMB	Better School K-12 RMB	Subtotal RMB	Career Enhancement RMB	College* RMB	Subtotal RMB	Consolidated RMB
Net Revenues	588,098	251,635	839,733	271,350	3,572	274,922	1,114,655
Cost of revenue	(256,212)	(141,942)	(398,154)	(77,238)	(4,393)	(81,631)	(479,785)
Gross profit	331,886	109,693	441,579	194,112	(821)	193,291	634,870

For the year ended December 31, 2011

				Better Job			
	Tutoring RMB	Better School 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	19,141	524,343	1,572,371
Cost of revenue	(341,942)	(168,964)	(510,906)	(168,546)	(3,192)	(171,738)	(682,644)
Gross profit	436,027	101,095	537,122	336,656	15,949	352,605	889,727

For the year ended December 31, 2012

				Better Job			
	Tutoring RMB	Better School K-12 RMB	Subtotal RMB	Career Enhancement RMB	College* RMB	Subtotal RMB	Consolidated RMB
Net Revenues	773,611	257,441	1,031,052	310,016	2,695	312,711	1,343,763
Cost of revenue	(492,087)	(176,951)	(669,038)	(185,697)	(3,179)	(188,876)	(857,914)
Gross profit	281,524	80,490	362,014	124,319	(484)	123,835	485,849

*Software product sales through Taishidian Holding.

The Group primarily operates in the PRC. Substantially all the Group s long-lived assets are located in the PRC.

21. PRC CONTRIBUTION AND PROFIT APPROPRIATION

Full time employees of the Group in the PRC participate in a government-mandated multiemployer defined contribution plan pursuant to which certain pension benefits, medical care, unemployment insurance, employee housing fund and other welfare benefits are provided to qualified employees. PRC labor regulations require the Group to accrue for these benefits based on certain percentages of the employees salaries. The relevant local labor bureau is responsible for meeting all retirement benefit obligations; hence, the Group has no further commitments beyond its monthly contributions. The total contributions for such employee benefits were RMB 40,216, RMB 57,700 and RMB 88,655 for the years ended December 31, 2010, 2011 and 2012, respectively.

In accordance with the Regulations on Enterprises with Foreign Investment of PRC and their articles of association, the Company s subsidiaries in the PRC, being foreign invested enterprises established in PRC, are required to provide for certain statutory reserves, namely general reserve, enterprise expansion reserve and staff welfare and bonus reserve, all of which are appropriated from net profit as reported in the Group s PRC statutory accounts. The Company s subsidiaries in the PRC are required to allocate at least 10% of their after-tax profits to the general reserve fund until such fund has reached 50% of their respective registered capital. Appropriations to the enterprise expansion fund and staff welfare and bonus fund are at the discretion of the board of directors of the Company s subsidiaries.

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In accordance with the PRC Company Laws, the Group s VIEs established in PRC make appropriations from their after-tax profits as reported in their PRC statutory accounts to non-distributable reserves, namely statutory surplus reserve, statutory public welfare reserve and discretionary surplus reserve. The Company s or its non-school subsidiaries VIEs are required to allocate at least 10% of their after-tax profits to the statutory surplus reserve until the reserve reaches 50% of each entity s registered capital. Appropriation to the statutory public welfare fund is 5% to 10% of their after-tax profits as reported in the PRC statutory accounts. Effective from January 1, 2006, under the revised PRC Company Laws, an appropriation to the statutory public welfare reserve is no longer mandatory. Appropriation to the discretionary surplus reserve is made at the discretion of the board of directors of the VIEs.

In accordance with the Law of Promoting Private Education (2003), the Group s school subsidiaries in PRC must make appropriations from their after-tax profits as reported in their PRC statutory accounts to non-distributable reserves, namely the education development reserve, which requires annual appropriations of at least 25% of after-tax profits or the increase in net assets of private education schools (as determined under accounting principles generally accepted in the PRC at each year-end) to the statutory reserve.

The following table presents the balance of Group s appropriations to the general reserve fund, statutory surplus reserve and education development reserve as of December 31, 2011 and 2012:

	As of December 31,	
	2011 RMB	2012 RMB
General and statutory surplus reserve	99,000	95,436
Education development reserve	23,199	20,970
Total	122,199	116,406

22. ACQUISITIONS

In 2011 and 2012, the Group entered into 7 and 1 acquisitions, respectively. The following table summarizes the business combinations completed during the years ended December 31, 2011 and 2012. 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, 2011						
(1)	Guangzhou ZS Career Enhancement	Jan 1, 2011	96,644	87,147	19,800	5,233
(2)	Jinan Wangrong Investment Consulting Co., Ltd (Jinan WR Career Enhancement)	Jan 5, 2011	50,278	38,363	13,800	920
(3)	Hebei YL Career Enhancement	Jan 13, 2011	89,796	74,929	14,276	4,660

(4)	Chongqing Xiate Technology and Development Co., Ltd (Chongqing XT Career Enhancement)	Jan 21, 2011	34,739	26,743	9,227	310
(5)	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
(6)	Genesis Career Enhancement	May 1, 2011	53,185	39,781	19,300	5,270
(7)	Beijing JT Tutoring	Jul 12, 2011	80,000	72,495		10,295
		Sub-total	**439,173**	**367,229**	**82,803**	**28,611**
Entities acquired during the year ended December 31, 2012						
(8)	Sixteen tutoring centers	Jan 1, 2012	94,938	70,580		7,700

For the acquisitions completed in 2011 and 2012, 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 assets acquired, liabilities assumed and intangible assets identified as of the acquisition date and considered a number of factors including valuations from independent appraisers.

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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 Group 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 2011:

(1) Guangzhou ZS Career Enhancement

On January 1, 2011, Ambow Shanghai acquired a 95% 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 PRC. 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 recorded goodwill in connection with this transaction. The total purchase price of RMB 96,644 was 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.

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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 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.

(2) 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 PRC. 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 was 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 an average useful life of 9.9 years. Goodwill is not 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.

(3) 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 PRC. 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 was 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 an average useful life of 9.9 years. Goodwill is not 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.

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(4) 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 PRC. 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 was 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:

	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 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.

(5) 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 PRC. 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 was 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.

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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	

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 an average useful life of 1.8 years. Goodwill is not 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.

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(6) 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 PRC. 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 was 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*	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*	(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 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.

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* The Prepaid and other current assets primarily relate to the shareholder transactions with the ex-owner. The Other liabilities assumed primarily relate to the payments made by the ex-owner on behalf of the acquiree.

(7) 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 PRC. 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 was 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.

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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	9,519	
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 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.

Acquisitions completed in 2012:

(8) Sixteen Training Centers

During the year ended December 31, 2012, the Group acquired 16 training centers from a third party contractor (See Note 10 (ii)). The acquisition of the 16 training centers was recognized as business combination. The transactions were completed as of March 31, 2012. The Group believes the acquisition of the sixteen training centers is an integral piece of the Group s strategy to increase its market share in providing tutoring services in PRC. The purchase price exceeded the fair value of the net tangible and intangible assets acquired from the sixteen training centers and as a result, the Group recorded goodwill in connection with this transaction. The total purchase price of RMB 94,938 was in cash consideration.

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	12,000	
Prepaid and other current assets	8,942	
Property and equipment	24,777	
Intangible assets:		
Student population	7,700	5.0
Goodwill	70,580	
Total assets acquired	123,999	
Deferred revenue	(20,942)	
Deferred tax liabilities	(8,119)	
Total	94,938	

The RMB 7,700 was assigned to amortizable intangible assets that have a useful life of 5 years. Goodwill is not deductible for tax purposes. For the purposes of presenting operating segments, the sixteen tutoring centers and the goodwill arising on its acquisition are classified within the Tutoring segment.

Training centers were set up in 2011. The unaudited pro forma information of the acquisition as if the acquisition had occurred on January 1st, 2011 is not presented because it is impracticable to do so.

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23. RELATED PARTY TRANSACTIONS

a. Transactions

The Group entered into the following transactions with related parties:

Transactions	Years ended December 31, 2010 RMB	2011 RMB	2012 RMB
Receipt of consulting services from a company owned by the family member of the principal of Tianjin Tutoring	320		
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	3,787	7,470	
Receipt of rental services from subsidiary of former shareholder of Shenyang Universe High School	1,100	1,100	1,100
Sales of software and providing services to former shareholder of Jinan WR Career Enhancement		6,800	
Others	596	1,627	514

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b. The Group had the following balances with related parties:

Relationship	Amounts due from related parties As of December 31, 2011 RMB	2012 RMB	Amounts due to related parties As of December 31, 2011 RMB	2012 RMB
Principal of Jilin Tutoring*	681		603	
Principal of Beijing YZ Tutoring*	4,940			
Former owner of Beijing Away United Technology Co., Ltd.*	2,677		1,081	
Former principal of Dalian Hope School (Dalian Career Enhancement) and a senior manager of the Group*	464		2	
Former owner of Changsha Tutoring Principal*	171			
Subsidiary of the minority shareholder of Taishidian Holding	600	500		
Former shareholder of Changsha K-12 (Current minority shareholder of Changsha K-12)*	10		9,767	
Subsidiary of former shareholder of Shenyang K-12 (Current minority shareholder of Shenyang K-12)	44		2,475	3,575
Principal of Shanghai Career Enhancement*	3,178			
Principal of Changsha Career Enhancement*	1,702			
Principal of Tianjin Tutoring*	5,783			
Former Owner of Beijing IT Career Enhancement*	833		670	
CEO of Beijing Century Tutoring*	2,318			
Former owner and currently general manager of Beijing JY Tutoring*	800			
Former owner of Guangzhou DP Tutoring*	8,590		125	
CEO of Suzhou Career Enhancement*	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 (Current minority shareholder of Shandong Genesis Career Enhancement)	11,324		9,074	636
Former shareholder of Hebei YL Career Enhancement*	1,000		700	
Former owner of Jinan WR Career Enhancement*	3,900			
Others	749		426	
	56,365	**500**	**25,331**	**4,211**

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* As of December 31, 2012, Management determines that these companies or persons are no longer related parties due to these former owners do not serve as any position in the Group and do not have any significant influence on the Group s management or operating policies. Therefore, the balances with aforementioned former owners are reclassified to due from/to third parties as of December 31, 2012, see Note 5 and Note 11.

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 US$ 50.0 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 Ltd (Spin-Rich), a British Virgin Islands company that is wholly owned by Dr. Jin Huang, the president and chief executive officer of the Company, 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 RMB 311,505 (US$ 50,000). 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 believes that it should be accounted for as a share-based compensation pursuant to FASB ASC Topic 718. The fair value of the combined terms of the Participation Agreement was approximately RMB 215,274 (US$ 34,554), which will be recognized as compensation expense on a straight-line basis over a period from January 2012 to October 2015, which is the expected expiration date. RMB 60,206 (US$ 9,539) expense was recognized for the year ended December 31, 2012 accordingly.

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24. DISCONTINUED OPERATIONS

a. Disposal of 4 Disposed Businesses

In the fourth quarter of 2011, the Group decided to concentrate its resources and focus on the Group s core businesses. On December 2, 2011, the Company sold Xi an Tutoring, Shandong Software Companies, Guangzhou HP Tutoring, Tianjin Holding to Beijing Tongshengle Investment Co., Ltd., (Tongshengle) for cash consideration of RMB 35,000, which was due to be received by December 31, 2012. By December 31, 2012, the Company received cash payment of RMB 21,000. The total impairment loss recognized prior to the disposal of the above 4 Disposed Businesses was RMB 118,318 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 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.

b. Disposal of Beijing Century College Group

On December 30, 2011, the Company entered into a sale and purchase agreement to dispose of Beijing Century College and its 100% owned subsidiary Beijing Siwa Century Facility Management Co. (together Beijing Century College Group) to Xihua Investment Group (Xihua Group), with consideration of RMB 309,049 including a) receivables in cash and shares; b) a waiver of liabilities to Xihua Group; c) a transfer of amounts due to Beijing Century College Group to Xihua Group; and d) partially offset by a waiver of amounts due from Beijing Century College Group.

As of December 31, 2011, the transaction had not been completed and the parties were still in the process 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.

By December 31, 2012, the transaction to sell Beijing Century College Group had been completed with the outstanding consideration receivable from Xihua Group of RMB 133,100 as of December 31, 2012.. Subsequently, the Group has transferred the receivable from Xihua Group to Suzhou Qingrun, with allocated consideration of RMB 25,300, and the excessive portion fully written off as of December 31, 2012(See Note 5(i)).

The Company will not generate any further cash flows and have no significant continuing involvement in the operations of the Beijing Century College Group after December 31, 2012. The revenues and expenses related to the operations of the Beijing Century College Group have been segregated from continuing operations and reported as discontinued operations for all periods.

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c. Assets and liabilities classified as held for sale

The Group has recognized total assets of RMB 1,045,520 and RMB 649,787 as of December 31, 2011 and 2012, respectively, to be assets classified as held for sale, and total liabilities of RMB 465,855 and RMB 292,895 as of December 31, 2011 and 2012, respectively, to be liabilities classified as held for sale.

Beijing Century College Group

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:

	As of December 31, 2011 RMB
Assets classified as 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 classified as 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)

By December 31, 2012, the transaction to sell Beijing Century College Group as mentioned in Note 24 (b) had been completed. A disposal loss of RMB 8,185 was recognized for the year ended December 31, 2012.

Taishidian Holding

On the board meeting at December 19, 2012, management proposed and was authorized by the board to explore possible sale of Soochow University to Kunshan government, subject to the parameters of 1) the consideration should be at least equal to the book value for Soochow University and 2) the consideration should be payable at closing in cash (and not as an account receivable over time). As of December 31, 2012, management had the intention to dispose the Soochow University and the transaction of the disposal was completed in July 2013 (see Note 29 (3)). Financial statements for fiscal years of 2010 and 2011 have been adjusted to present the operations of Taishidian Holding as a discontinued operation.

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In conjunction with the discontinued operations of Soochow University, the Group did not record any impairment loss in fiscal year 2012 as the management estimated the consideration to be at least equal to the book value of Soochow University. The assets and liabilities of Soochow University are included in the captions Assets classified as held for sale and Liabilities classified as held for sale , in the accompanying consolidated balance sheets at December 31, 2011 and 2012, respectively and consist of the following:

	As of December 31,	
	2011	2012
	RMB	RMB
Assets classified as held for sale		
Cash and cash equivalents	68,180	985
Term deposits	45,205	85,677
Accounts receivable, net of allowance	1,422	567
Deferred tax assets	176	
Amounts due from related parties	10,156	4,550
Inventory, net	201	
Prepaid expenses and other current assets	16,470	41,380
Deferred tax assets, non-current		
Amounts due from related parties, non-current	22,463	22,284
Property and equipment, net	296,623	298,858
Intangible assets, net	13,332	11,569
Land Use Right	111,593	108,838
Long-term prepayment and receivable	63	
Goodwill	75,235	75,079
Total assets	661,119	649,787
Liabilities classified as held for sale		
Short-term borrowings	(58,070)	(2,000)
Accounts payable-trade	(28,540)	(27,613)
Accrued expenses and other current liabilities	(33,203)	(33,782)
Deferred revenue	(60,411)	(79,833)
Income tax payable	(15,505)	(19,706)
Amount due to related parties	(22,200)	(47,620)
Current portion of Long-term borrowings	(16,000)	(28,500)
Long-term borrowings	(46,500)	(18,000)
Deferred tax liabilities, non-current	(9,141)	(8,432)
Non-current portion of consideration payable for acquisitions and others	(31,116)	(27,409)
Total liabilities	(320,686)	(292,895)

Amount due to the Group s continuing operation recorded by Taishidian Holdling approximates RMB 125,059 and RMB 142,186 as of December 31, 2011 and 2012, respectively, which were excluded from the liabilities classified as held, because they are eliminated in the consolidated financial statements.

d. Discontinued operations

Following are revenues, income/loss from discontinued operation and gain/loss on sale of discontinued operations:

(1) Xi an Tutoring

	Years ended December 31		
	2010	**2011**	**2012**
	RMB	**RMB**	**RMB**
Revenues	25,800	26,756	
Impairment loss (note (i))		(36,303)	
Income/(loss) from discontinued operation	8,113	(36,876)	
Income tax expense			
Income/(loss) from discontinued operation, net of income tax	8,113	(36,876)	
Loss on sale of discontinued operation, net of income tax			
Income/(loss) from and on sale of discontinued operation, net of income tax	8,113	(36,876)	

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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

	Years ended December 31		
	2010 RMB	2011 RMB	2012 RMB
Revenues	15,020		
Impairment loss (note (i))		(39,758)	
Income/(loss) from discontinued operation	6,304	(43,315)	
Income tax benefit/ (expense)	(259)	533	
Income/(loss) from discontinued operation, net of income tax	6,045	(42,782)	
Loss on sale of discontinued operation, net of income tax			
Income/(loss) from and on sale of discontinued operation, net of income tax	6,045	(42,782)	

Note (i) Foreign currency translation adjustment included in the impairment loss is RMB 2,688 for the year ended December 31, 2011.

(3) Guangzhou HP Tutoring

	Years ended December 31		
	2010 RMB	2011 RMB	2012 RMB
Revenues	8,620		
Impairment loss (note (i))		(29,073)	
Income/(loss) from discontinued operation	3,383	(30,074)	
Income tax benefit	360	316	
Income/(loss) from discontinued operation, net of income tax	3,743	(29,758)	
Loss on sale of discontinued operation, net of income tax			
Income/(loss) from and on sale of discontinued operation, net of income tax	3,743	(29,758)	

Note (i) Foreign currency translation adjustment included in the impairment loss is RMB 1,285 for the year ended December 31, 2011.

(4) Tianjin Holding

	Years ended December 31		
	2010	2011	2012

	RMB	RMB	RMB
Revenues	13,146	5,161	
Impairment loss (note (i))		(13,183)	
Income/(loss) from discontinued operation	1,693	(16,518)	
Income tax benefit/ (expense)	(378)	6	
Income/(loss) from discontinued operation, net of income tax	1,315	(16,512)	
Loss on sale of discontinued operation, net of income tax			
Income/(loss) from and on sale of discontinued operation, net of income tax	1,315	(16,512)	

Note (i) Foreign currency translation adjustment included in the impairment loss is RMB 585 for the year ended December 31, 2011.

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(5) Beijing Century College Group

	Years ended December 31		
	2010 RMB	2011 RMB	2012 RMB
Revenues	126,330	128,870	
Impairment loss		(8,928)	
Income from discontinued operation	36,310	5,439	
Income tax benefit/ (expense)	(532)	908	
Income from discontinued operation, net of income tax	35,778	6,347	
Loss on sale of discontinued operation, net of income tax (i)			(15,908)
Income/(loss) from and on sale of discontinued operation, net of income tax	35,778	6,347	(15,908)

Note (i) Foreign currency translation adjustment included in the disposal loss is RMB 7,758 for the year ended December 31, 2012.

(6) Taishidian Holding

The revenues and income of Taishidian Holding as reflected in income from discontinued operations are as follows:

	Years ended December 31		
	2010 RMB	2011 RMB	2012 RMB
Revenues	102,466	115,370	103,382
Impairment loss			
Income/(loss) from discontinued operation	(10,792)	1,427	12,395
Income tax benefit/ (expense)	216	(3,390)	(3,669)
Income/(loss) from discontinued operation, net of income tax	(10,576)	(1,963)	8,726

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25. ASSETS HELD AND USED

In first quarter of 2013, management plans to seek for potential buyer to dispose 21st schools to improve the cash flows positions. In April 2013, the Group returned the remaining operating rights back to Xihua Group with consideration of RMB 60,000. An impairment loss of RMB 15,928 in intangible assets and an impairment loss of RMB 34,122 in goodwill were recognized for 21st school for the year ended December 31, 2012.

As of December 31, 2011 and 2012, the assets and liabilities held by 21st school are as follows:

	2011 RMB	2012 RMB
Cash and cash equivalents	81,607	10,095
Prepaid expenses and other current assets	5,757	56
Deferred tax assets		2,086
Other non-current assets	627	
Property and equipment, net	123,500	214,436
Intangible assets, net	40,580	24,652
Land Use Right	130,031	126,697
Goodwill	84,406	50,284
Total assets	466,508	428,306
Accounts payable-trade		6,473
Accrued expenses and other current liabilities	86,966	27,274
Deferred revenue	19,020	12,104
Income tax payable	2,377	6,965
Deferred tax liabilities, non-current	41,141	35,341
Total liabilities	149,504	88,157

Following are revenues, income from 21st School:

	Years ended December 31		
	2010 RMB	2011 RMB	2012 RMB
Revenues	65,096	75,502	82,283
Impairment loss		(25,336)	(50,050)
Income/(loss) before income taxes	5,146	(21,735)	(55,846)
Income tax benefit/ (expense)	645	(1,602)	6,140
Net income/(loss)	5,791	(23,337)	(49,706)

26. NONCONTROLLING INTERESTS

a. 21st School

On December 30, 2011, the Group entered into a sale and purchase agreement to dispose of the equity interests of 21st School to Xihua Group, retaining the right to operate the 21st School on behalf of Xihua Group for an additional 15 years, after which 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. The total consideration for the disposal of 21st School was RMB 183,677, which included a) a waiver of liabilities to Xihua Group; b) a transfer of amounts due to 21st School to Xihua Group.

The Group determined that 21st School was the Group s VIE because the equity holder, Xihua Group, lack the characteristics of a controlling financial interest and that Xihua Group, represented a noncontrolling interest in the entity during the 15 years operating period.

Noncontrolling interest of RMB 285,713 represented the estimated carrying value of goodwill, intangible asset and long-lived assets at the end of 15-year operating right period, which was adjusted to reflect the change in its ownership interest in the subsidiary. The difference between the consideration and the carrying amount of the noncontrolling interest was recognized in additional paid in capital, amounting to RMB 102,036.

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b. Others

As of December 31, 2011 and 2012, the Group recognized a non-controlling interest in the consolidated statements of operations and other comprehensive income (loss) 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.

27. FAIR VALUE MEASUREMENTS

The Group adopted ASC Topic 820, Fair Value Measurements and Disclosures , which defines fair value, establishes a framework for measuring fair value and expands financial statement disclosure requirements for fair value measurements.

ASC Topic 820 defines fair value as the price that would be received from the sale of an asset or paid to transfer a liability (an exit price) on the measurement date in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability. ASC Topic 820 specifies a hierarchy of valuation techniques, which is based on whether the inputs into the valuation technique are observable or unobservable. The hierarchy is as follows:

Level 1-Valuation techniques in which all significant inputs are unadjusted quoted prices from active markets for assets or liabilities that are identical to the assets or liabilities being measured.

Level 2-Valuation techniques in which significant inputs include quoted prices from active markets for assets or liabilities that are similar to the assets or liabilities being measured and/or quoted prices for assets or liabilities that are identical or similar to the assets or liabilities being measured from markets that are not active. Also, model-derived valuations in which all significant inputs and significant value drivers are observable in active markets are Level 2 valuation techniques.

Level 3-Valuation techniques in which one or more significant inputs or significant value drivers are unobservable. Unobservable inputs are valuation technique inputs that reflect the Group s own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Management of the Group is responsible for determining the fair value of equity issued, assets acquired, liabilities assumed and intangibles identified as of the acquisition date and considered a number of factors including valuations from independent appraiser.

When available, the Group uses quoted market prices to determine the fair value of an asset or liability. If quoted market prices are not available, the Group measures fair value using valuation techniques that use, when possible, current market-based or independently-sourced market parameters, such as interest rates and currency rates. The following is a description of the valuation techniques that the Group uses to measure the fair value of assets and liabilities that are measured and reported at fair value on a recurring basis:

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As of December 31, 2011 and 2012 information about inputs into the fair value measurements of the assets and liabilities that the Group makes on a recurring basis was as follows:

		Fair Value Measurements at Reporting Date Using		
	Carrying Value	**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, 2011				
Assets:				
IRCF				
As of December 31, 2012				
Assets:				
IRCF	181			181

The Group s property and equipment, other non-current assets, goodwill and intangible assets are measured at fair value on a nonrecurring basis and they are recorded at fair value using income approach only when impairment is recognized. Such assets are listed below at their carrying values as of December 31, 2011 and 2012:

		Fair Value Measurements at Reporting Date Using		
	Carrying Value	**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, 2011				
Property and equipment				
Other non-current assets				
Intangible assets				
Goodwill				
As of December 31, 2012				
Property and equipment & Other non-current assets	1,672			1,672
Intangible assets	174,944			174,944
Goodwill	749,755			749,755

The following table presents the quantitative information about our Level 3 fair value measurements, which utilize significant unobservable internally-developed inputs:

RMB 000	**FV as at 2012/09/30**	**Valuation technique(s)**	**Unobservable inputs**	**Range**
Property and equipment & Other non-current assets	1,672	Discounted cash flow	Projection years	16~24
			Discount rate	17%
			Terminal growth rate	3%
Intangible assets			Royalty rate	1%~8%

	174,944	Relief-from-royalty method	Discount rate	17%~22%
			Terminal growth rate	3%

During the year ended December 31, 2011, the Company recognized a goodwill impairment of 25,336. Please see Note 9.

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In September 2012, in connection of the business combinations and the declined operation performance, the Group performed an assessment of property and equipment, other non-current assets, goodwill and intangible assets, with the assistance of an independent valuation firm and recognized impairment charges of RMB 130,545, RMB 55,825, RMB 478,710, and RMB 191,616 respectively.

28. 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. The Group evaluates its collection experience and long outstanding balances to determine the need for an allowance for doubtful accounts.

No single customer represented 10% or more of the Group s total revenues for the years ended December 31, 2010, 2011 and 2012.

No single supplier represented 10% or more of the Group s total costs of sales for the years ended December 31, 2010, 2011 and 2012.

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A summary of the debtors who accounted for 10% or more of the Group s consolidated accounts receivable, other receivables, and other non-current assets was as follows:

Debtors	As of December 31, 2011 RMB	2011 %	2012 RMB	2012 %
Other receivables				
Company A	44,061	8%	75,100	23%
Company B	65,609	12%		
Other non-current assets				
Company C	134,000	42%	109,993	46%
Company D	55,936	17%	30,900	13%
Company E	57,600	18%		
Company F			65,609	27%
Company G			22,842	10%

The Chinese market in which the Group operates exposes the Group to certain macroeconomic and regulatory risks and uncertainties. These uncertainties extend to the ability of the Group to provide educational and career enhancement services through contractual arrangements in the PRC since this industry remains highly regulated. The Chinese government may issue from time to time new laws or new interpretations on existing laws to regulate the education industry. Regulatory risk also encompasses the interpretation by the tax authorities of current tax laws, the status of properties leased for the Group s operations and the Group s legal structure and scope of operations in the PRC, which could be subject to further restrictions resulting in limitations on the Group s ability to conduct business in the PRC.

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29. SUBSEQUENT EVENTS

1) Equity Investment

On June 3, 2013, the Company consummated the transactions provided for in a share purchase agreement dated as of April 28, 2013, an amendment to share purchase agreement as of May 24, 2013 and a supplementary agreement dated as of May 31, 2013 (collectively SummitView SPA), between the Company and SummitView, regarding the issuance and sale of 30,801,128 Class A Ordinary Shares of the Company to SummitView for a total purchase consideration of approximately RMB 130,823 (US$ 21,000) and the Company has received approximately RMB 62,301(US$ 10,000) with RMB 68,622 (US$ 11,000) outstanding by end of 2013.

On May 5 2014, both parties agreed that SummitView retains 14,667,203 Class A Ordinary Shares issued to them, based on the receipt of RMB 62,301(US$ 10,000), and that the remaining Class A Ordinary Shares were surrendered and cancelled.

2) Disposal of 21st Century School

In April 2013, the Company entered into a disposal agreement with Xihua Group, pursuant to which, Ambow disposed the remaining fourteen-year operating rights to Xihua Group at a consideration of RMB 60,000. The disposal has completed and the Company has received the consideration in full by the date of issuance of financial statements.

3) Disposal of Taishidian Holding

The legal title of Taishidian Holding has been transferred to Kunshan Venture in July 2013. As of disposal date, the net assets of Taishidian Holding attributable to Ambow amounted to RMB 148,868, and the amount due from Taishidian Holding approximates RMB 143,233. Management is in the process negotiating with Kunshan Venture to finalize the consideration, estimating the recoverable value to be approximately RMB 110,000, The disposal loss was recognized in the consolidated statement of operations and other comprehensive income (loss) for the year ended December 31, 2013. .

4) Lost control over certain schools

The Group ceased to having financial controlling interest over certain schools in 2013, including Tianjin Huaying, Guangzhou ZS Career Enhancement, Guangzhou DP Tutoring, with total net revenue from these schools of RMB 60,535 for the year ended December 31, 2012, and net asset of RMB 110,297 as of December 31, 2012.

5) IFC Loan

In April 2013, the Group signed an amendment agreement with International Finance Corporation (IFC). Pursuant to the amendment agreement, the disbursed IFC loan of US$ 20,000 will be repaid based on an agreed schedule before September 30, 2013. The Group has subsequently repaid approximately RMB 18,690 (US$ 3,000), with approximately RMB 105,912 (US$ 17,000) outstanding.

On March 9, 2014, the Group executed an exclusivity agreement with CEIHL, the secured creditor of the Company. In return for continued forbearance under the loan facility between the Company and IFC, which was transferred ultimately to the benefit of CEIHL (the IFC Loan Facility), the Company granted CEIHL a period of exclusivity to negotiate and implement a restructuring plan designed to, inter alia, return the Group to solvency and to allow for the discharge of the Joint Provisional Liquidators (JPLs) by the Grand Court of the Cayman Islands (See Note 29(8)). A non-binding term sheet was subsequently executed by the JPLs with CEIHL on March 30, 2014.

On May 13, 2014, the Group signed Amendment and Restatement Agreement to the Loan Agreement (the Loan Agreement) with CEIHL. The parties to the Loan Agreement have agreed to amend and restate the terms and conditions of the IFC C Loan as set out in this Agreement. Pursuant to the Loan Agreement, 1) the Registration Rights Agreement under IFC C Loan was terminated; 2) CEIHL agrees that it shall advance by way of an IFC D Loan to the Group, which was defined in the Second Amendment and Restated Loan Agreement signed by the same parties on the same day with the Loan Agreement. Subject to the Second Amendment and Restated Loan Agreement, the IFC C Loan consisting of a principal amount of US$ 17,000; and the IFC D Loan consisting of a principal amount of RMB 87,103(US$13,981). Both of the loans are convertible into Class A Ordinary Shares at the Conversion Rate defined in the agreement. Both of the loans shall be repaid on the Maturity Date, 3 years after the date of the Effective Date, which is defined as the date of the discharge of the JPLs in accordance with the Restructuring Agreement. The interest rate is 3% per annum for any interest period and applied to the both loans.

6) Accounts Receivable Transfer

In March 2013, the Group entered into an Accounts Receivable Transfer Agreement (the Agreement) with Suzhou Qingrun. Pursuant to the Agreement, in which the Group disposed its interest associated with some of its prepaid and other current assets and other noncurrent assets amounting to RMB 164,680 in total to Suzhou Qingrun at a consideration of RMB 35,000. The difference RMB 129,680 was written off as of Dec 31, 2012.

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7) Default short-term borrowings

Loans obtained in year 2013 amounting to RMB 78,630 have been subsequently overdue for repayment, which was still outstanding by the date of issuance of the financial statements.

Loans obtained in fist half year of 2014 amounting to RMB 25,000 has fell due for repayment, which is still outstanding by the date of issuance of financial statements.

Management expects to obtain financing of RMB 83,000 from Restructuring Plan (See Note 29(8)) to repay certain of the default short-term borrowings above.

8) Appointment and dismissal of JPLs and the Company s Restructuring Plan

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

On June 10, 2013, Edward Middleton, Wing Sze Tiffany Wong and Kris Beighton of KPMG were appointed as JPLs pursuant to an order (the Order) by the Grand Court of the Cayman Islands (the Cayman Court) to, among other things, take all necessary actions to protect the Group s assets, including taking any necessary steps to ensure the good management and security of the assets and undertakings of the Company s operating subsidiaries and consolidated affiliates.

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

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

Upon the satisfaction of conditions and deliverables under the restructuring agreement (the Restructuring Agreement) and associated agreements to implement the core parts of the restructuring plan sanctioned by the Cayman Court pursuant to its order dated May 7, 2014 (the Restructuring Plan), the Court approved the return of management to the Company s Board of Directors (as reconstituted pursuant to the Restructuring Plan).

On May 1, 2014, the Company entered into Restructuring Agreement with CEIHL, according to which, CEIHL, will provide for funding for the Company approximately RMB 299,044 (US$48,000) in total, comprising the amounts paid, or procured to be paid, by CEIHL or its nominee in satisfaction of and/or discharge of and/or to purchase certain onshore debt with estimated pay off value of approximately RMB 83,000; and the remaining as defined in USD Facility Loan Agreement, which was agreed by both parties in Second Amendment and Restated Loan Agreement (See Note 29(5)). To the extent that the onshore debt is less than the expected pay off value, CEIHL shall lend a corresponding additional amount of funds to the Group offshore and the total amount paid under this Restructuring Agreements thus equals US$48,000 (and no less), in exchange for a right to convert the principal outstanding under the USD Facility Agreement (as may be increased in accordance with this clause, but not taking into account any principal that relates to capitalized interest) into an aggregate of not more than an 85% economic interest in the Company, with 50.1 % of the voting rights in the Company.

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Under the Second Amended and Restated Loan Agreement and related financing documents, under the IFC D Loan Facility, CEIHL assigned approximately RMB 31,150 (US$ 5,000) each of its commitments to Baring and SummitView. Baring and SummitView each funded a loan of US$ 5,000 to the Company by the date of issuance of financial statements.

9) Lawsuit against Changsha K-12

In February 2013, Changsha K-12 Experimental School was involved in a civil lawsuit in Hunan Province High Court, a cooperation dispute on host right of Tongshenghu, amounting to RMB 168,000 as the plaintiff s claim. However, since the case was not yet entered into hearing, it was too early to make an estimate of result.

10) Updated progress of law suite

For details, see Note 19 - Contingencies.

30. ADDITIONAL INFORMATION CONDENSED FINANCIAL STATEMENTS

Relevant PRC statutory laws and regulations permit the payment of dividends by the Group s PRC VIEs and subsidiaries only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. In addition, PRC laws and regulations require that annual appropriations of certain percentages of the after-tax income or the increase in net assets for the year (as determined under accounting principles generally accepted in the PRC) should be set aside at each year end as a reserve prior to the payment of dividends. As a result of these PRC laws and regulations, the Group s PRC VIEs and subsidiaries are restricted in their ability to transfer a portion of their net assets to the Group either in the form of dividends, loans or advances. The Group s restricted net assets, comprising of the registered paid in capital and statutory reserve of Company s PRC subsidiaries and VIEs, were RMB 1,054,129 and RMB 1,363,618 as of December 31, 2011 and 2012, respectively.

The condensed financial statements of the Company have been prepared using the same accounting policies as set out in the Group s consolidated financial statements except that the Company used the equity method to account for investments in its subsidiaries and VIEs.

The Company, its subsidiaries and VIEs were included in the consolidated financial statements whereby the inter-company balances and transactions were eliminated upon consolidation. For the purpose of the Company s condensed financial statements, its investments in subsidiaries are reported using the equity method of accounting.

The Company is a Cayman Islands company, therefore, is not subjected to income taxes for all years presented.

The footnote disclosures contain supplemental information relating to the operations of the Company and, as such, these statements should be read in conjunction with the notes to the consolidated financial statements of the Company. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S GAAP have been condensed or omitted.

As of December 31, 2011 and 2012, 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,		
	2011 RMB	**2012 RMB**	**2012 US$ Note 3(a)**
ASSETS			
Current assets:			
Cash and cash equivalents	6,641	15,644	2,511
Amounts due from related parties	638,333	708,113	113,660
Prepaid expenses and other current assets	3,790	3,148	505
Total current assets	648,764	726,905	116,676
Non-current assets:			
Intangible assets, net	547	443	71
Investment in subsidiaries	2,151,159	556,707	89,358
Total non-current assets	2,151,706	557,150	89,429
Total assets	**2,800,470**	**1,284,055**	**206,105**
LIABILITIES			
Current liabilities:			
Convertible loan		121,156	19,447
Deferred revenue	5,417	3,896	625
Accounts payable	557		
Amounts due from related parties	7,532	6,439	1,034
Accrued and other liabilities	58,444	56,854	9,125
Total current liabilities	71,950	188,345	30,231
Total non-current liabilities	16,938		
Total liabilities	**88,888**	**188,345**	**30,231**
SHAREHOLDERS EQUITY			
Ordinary shares			
(US$ 0.0001 par value; 1,200,000,000 and 1,200,000,000 shares authorized, 144,481,064 and 145,975,484 shares issued and outstanding as of December 31, 2011 and 2012, respectively)	102	103	17
Additional paid-in capital	2,498,162	2,500,273	401,321
Warrants	1,219		
Retained earnings	233,616	(1,387,550)	(222,717)
Accumulated other comprehensive income	(21,517)	(17,116)	(2,747)
Total shareholders equity	**2,711,582**	**1,095,710**	**175,874**

Total liabilities and shareholders equity	**2,800,470**	**1,284,055**	**206,105**

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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,			
	2010 RMB	2011 RMB	2012 RMB	2012 US$ Note 3(a)
NET REVENUES				
- Educational program and services	2,001	1,008		
- Software products		192	190	30
Total net revenues	2,001	1,200	190	30
Cost of revenues				
- Educational program and services	(11,878)	(16,822)		
- Software products			(951)	(153)
Total cost of revenues	(11,878)	(16,822)	(951)	(153)
GROSS PROFIT:	**(9,877)**	**(15,622)**	**(761)**	**(123)**
Operating expenses:				
Selling and marketing	(6,832)	(7,286)	(6,941)	(1,114)
General and administrative	(35,752)	(38,335)	(110,893)	(17,800)
Research and development	(981)	(842)	(872)	(140)
Total operating expenses	(43,565)	(46,463)	(118,706)	(19,054)
OPERATING LOSS	**(53,442)**	**(62,085)**	**(119,467)**	**(19,177)**
Share of income from subsidiaries	268,960	83,356	(1,498,091)	(240,460)
OTHER INCOME (EXPENSE)				
Interest expenses, net	514	(976)	(2,496)	(401)
Foreign exchange losses, net			(136)	(22)
Other income/(expenses)		896	(976)	(156)
Income tax		(6)		
NET INCOME	**216,032**	**21,185**	**(1,621,166)**	**(260,216)**

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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, 2010 RMB	2011 RMB	2012 RMB	2012 US$ Note 3(a)
Cash flows from operating activities	(257,026)	(180,407)	(112,041)	(17,984)
Cash flows from investing activities				
Cash flows from financing activities			121,157	19,447
Proceeds from issuance of ordinary shares, net of expenses	447,628			
Proceeds from issuance of exercise of options		2,684	1	
Effects of exchange rate changes on cash and cash equivalents	(105)	(10,012)	(114)	(18)
Net change in cash and cash equivalents	190,497	(187,735)	9,003	1,445
Cash and cash equivalents at beginning of year	3,879	194,376	6,641	1,066
Cash and cash equivalents at end of year	194,376	6,641	15,644	2,511
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 share options upon exercise of warrants (Note 15)	2,737			
Issuance of share options upon warrants		1,219		