CalAmp Corp.
Form SD
June 02, 2014

As filed with the Securities and Exchange Commission on June 2, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM SD

SPECIALIZED DISCLOSURE REPORT

CalAmp Corp.

(Exact name of registrant as specified in its charter)

Delaware	**0-12182**	**95-3647070**
(State or other jurisdiction of incorporation or organization)	(Commission File Number)	(I.R.S. Employer Identification No.)

1401 North Rice Avenue
Oxnard, California
(Address of Principal Executive Offices)

93030
(Zip Code)

Richard Vitelle
Executive Vice President and Chief Financial Officer

(805) 987-9000

(Name and telephone number, including area code, of the person to contact in connection with this report)

Check the appropriate box to indicate the rule pursuant to which this form is being filed, and provide the period to which the information in this form applies:

þ Rule 13p-1 under the Securities Exchange Act (17 CFR 240.13p-1) for the reporting period from January 1 to December 31, 2013.

Section 1 - Conflict Minerals Disclosure

Items 1.01 and 1.02 Conflict Minerals Disclosure and Report; Exhibit.

Conflict Minerals Disclosure

A copy of CalAmp s Conflict Minerals Report for the calendar year ended December 31, 2013 is filed as Exhibit 1.02 hereto and is publicly available at www.calamp.com/supply-chain.

Section 2 - Exhibits

Item 2.01. Exhibits.

Exhibit 1.02 - Conflict Minerals Report as required by Items 1.01 and 1.02 of this Form.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has caused this report to be signed on its behalf by the duly authorized undersigned.

CALAMP CORP.

By: /s/ Richard Vitelle
Richard Vitelle
Executive Vice President and Chief Financial Officer

Date: June 2, 2014

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ling interests from reconsolidation of previously deconsolidated entities 26(b) - - - - - - - (3,351) (3,351)Net income - - - - 63,739 - 617 64,356 Balance as of December 31, 2015 38,265,177 717 3,445,408 81,005 (3,388,447) 5,113 (973) 142,823

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

AMBOW EDUCATION HOLDING LTD.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (DEFICIT) (CONTINUED)

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

		Attributable to Ambow Education Holding Ltd.'s Equity							
		Ordinary shares (Note 16)		Additional paid-in	Statutory	Retained Earnings (Accumulated	Accumulated other comprehensive	Non-controlling	Total
		Shares	Amount	capital	reserves	deficit)	income(deficit)	Interest	Equity (deficit)
	Note		RMB	RMB	RMB	RMB	RMB	RMB	RMB
Balance as of January 1, 2016		38,265,177	717	3,445,408	81,005	(3,388,447)	5,113	(973)	142,823
Share-based compensation	17	-	-	7,828	-	-	-	-	7,828
Issuance of ordinary shares for restricted stock award	17	433,918	9	(9)	-	-	-	-	-
Foreign currency translation adjustment		-	-	-	-	-	(1,160)	-	(1,160)
Appropriation to statutory reserves	22	-	-	-	2	(2)	-	-	-
Unrealized gain on investment, net of income taxes	5	-	-	-	-	-	1,752	-	1,752
Capital injection from minority shareholders	27	-	-	-	-	-	-	796	796
Net loss		-	-	-	-	(35,700)	-	(1,318)	(37,018)
Balance as of December 31, 2016		38,699,095	726	3,453,227	81,007	(3,424,149)	5,705	(1,495)	115,021

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

AMBOW EDUCATION HOLDING LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	Years ended December 31,			
	2014	2015	2016	2016
	RMB	RMB	RMB	US$
				Note 3(a)
Cash flows from operating activities				
Net (loss) income	(1,082,555)	64,356	(37,018)	(5,331)
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:				
Depreciation and amortization	86,599	45,690	24,997	3,599
Share-based compensation expense	157,365	50,117	7,828	1,127
Bad debt provision	151,080	42,960	1,727	249
Foreign exchange loss (gain), net	580	183	(84)	(12)
Impairment loss	292,577	162,351	22,402	3,227
Deferred income tax	(28,132)	(128,818)	1,030	148
Disposal gain from subsidiaries	(7,403)	(343,912)	-	-
Disposal loss from property and equipment	1,347	536	534	77
Loss in extinguishment of debt	143,901	-	-	-
Interest expense	121,794	56,549	-	-
Loss from equity method investment	-	-	10	1
Income on reconsolidation of previously deconsolidated entities	-	(14,127)	-	-
Changes in operating assets and liabilities:				
Accounts receivable	25,326	(3,513)	(2,298)	(331)
Prepaid and other current assets	(64,976)	(18,203)	510	73
Amounts due from related parties	(2,780)	933	24	3
Other non-current assets	10,201	(625)	(189)	(27)
Accounts payable	393	(1,925)	(1,653)	(238)
Accrued and other liabilities	(18,472)	34,400	2,605	375
Income tax payable	11,159	6,902	3,512	506
Deferred revenue	39,799	8,800	(6,402)	(922)
Amounts due to related parties	1,830	(2,773)	-	-
Net cash (used in) provided by operating activities	(160,367)	(40,119)	17,535	2,524
Cash flows from investing activities				
Purchase of available-for-sale investments	-	(216,860)	(442,790)	(63,775)
Redemption from available-for-sale investments	-	114,570	373,917	53,855
Purchase of held-to-maturity investments	-	(527,870)	(651,470)	(93,831)
Maturity and redemption from held-to-maturity investments	-	376,080	738,560	106,375
Placement of term deposits	(10,223)	-	-	-
Maturity of term deposits	-	9,850	1,150	166
Prepayment for acquisition of property	-	-	(71,024)	(10,230)

Purchase of property and equipment	(6,453)	(7,612)	(7,442)	(1,072)
Prepayment for leasehold improvement	(8,127)	(4,265)	(3,854)	(555)
Proceeds from disposal of property and equipment	555	943	-	-
Purchase of intangible assets	-	-	(1,225)	(176)
Purchase of subsidiaries (including cash payment in relation to prior acquisitions), net of cash acquired	-	(14,000)	-	-
Payment for equity method investment	-	-	(1,040)	(150)
Cash balance of deconsolidated entities	(531)	-	-	-
Proceed from disposal of subsidiaries, net of cash balance at disposed entities	135,000	287,378	-	-
Proceed from transferring financial assets	-	40,000	-	-
Net cash provided by (used in) investing activities	110,221	58,214	(65,218)	(9,393)

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

AMBOW EDUCATION HOLDING LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

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

	Years ended December 31,			
	2014	2015	2016	2016
	RMB	RMB	RMB	US$
				Note 3(a)
Cash flows from financing activities				
Proceeds from minority shareholder capital injection	-	163	796	115
Proceeds from issuing convertible loan	109,330	50,000	-	-
Proceeds from short-term borrowings	54,403	2,300	-	-
Repayments of short-term borrowings	(77,000)	(39,633)	(2,300)	(331)
Proceeds from issuance of shares upon of exercise of share options	270	-	-	-
Net cash provided by (used in) financing activities	87,003	12,830	(1,504)	(216)
Changes in cash, cash equivalents and restricted cash included in assets held for sale	43,870	38,063	-	-
Effects of exchange rate changes on cash, cash equivalents and restricted cash	404	(2,968)	84	12
Net change in cash, cash equivalents and restricted cash	81,131	66,020	(49,103)	(7,073)
Cash, cash equivalents and restricted cash at beginning of year	101,202	182,333	248,353	35,770
Cash, cash equivalents and restricted cash at end of year	182,333	248,353	199,250	28,697
Supplemental disclosure of cash flow information				
Income tax paid	(2,379)	(1,659)	(1,369)	(197)
Interest paid	(11,864)	(14,316)	(115)	(17)
Supplemental disclosure of non-cash investing and financing activities:				
Conversion of convertible loan to ordinary shares and waiver of related accrued interest expenses	226,298	70,146	-	-
Shares surrendered by SummitView	67,309	-	-	-
Receipt of convertible loan by settlement of debt	80,000	-	-	-
Purchase of property and equipment financed by accounts payable and other payables	13,037	-	-	-
Waiver of payables in connection with disposal of subsidiaries	4,483	-	-	-
Waiver of receivables in connection with disposal of subsidiaries	-	18,195	-	-
Outstanding receivables in connection with disposal of subsidiaries	70,000	-	-	-

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

F-11

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.

On August 5, 2010, the Company and certain selling shareholders of the Company (the "Selling Shareholders") completed its initial public offering of 355,907 American Depositary Shares ("ADSs") at US$ 300.0 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 6,558 Series B warrants were exercised at US22.5 per share to purchase 19,673 ordinary shares on a 1 for 3 share exchange basis. The fair value of the exercised warrants was approximately US$ 362.

In 2008, 2009, 2011 and 2012, the Group acquired different entities, and by the end of 2013, 22 operational entities remained.

The Group conducted a restructuring that occurred in May 2014 by taking a loan facility from China Education Investment Holding Limited ("CEIHL") which converted principal outstanding into economic interest in the Company. Please refer to Note 15 Second Amendment for details.

The Group deconsolidated Jilin Clever Training School ("Jilin Tutoring") on September 2014. Please refer to Note 26 for details.

On September 5, 2014, US$ 31,692 of the convertible loan was converted into ordinary shares, and CEIHL became the registered holder of 16,716,954 Class A Ordinary Shares. And according to the Share Interest Assignment Agreement between CEIHL and New Flourish Holding Limited ("New Flourish"), New Flourish became the registered holder of 5,678,963 Class A Ordinary Shares. On that same date, SummitView Investment Limited and SummitView Investment Fund I, L.P. (collectively "SummitView") became the registered holder of 2,786,159 Class A Ordinary Shares by converting US$ 5,000 convertible loan. On March 5, 2015, CEIHL and Baring Private Equity Asia V Holding (4) limited ("Baring") converted US$ 6,308 and US$ 5,000 of the convertible loan and became the registered holder of 4,457,854 and 2,786,159 Class A Ordinary Shares, respectively. Please refer to Note 15 and Note 23 for details.

On April 8, 2015, the Group disposed all of the 100% interest in Beijing Jinghan Education and Technology Co., Ltd. ("Beijing JH Tutoring") and Beijing Jinghan Taihe Education Technology Co., Ltd. ("Beijing JT Tutoring"), and all of the 64% interest in Ambow Jingxue (Beijing) Technology Co., Ltd, which are hereinafter collectively referred to as the "Jinghan Group". Please refer to Note 24 for details.

On September 4, 2015, the Company effected a 1-for-30 reverse stock split (the "Reverse Spilt"). The principal effect of the Reverse Split was to decrease the number of outstanding shares of each of the Company's common shares. All per share amounts and shares outstanding for all the periods presented in notes of the consolidated financial statements have been retroactively restated to reflect the Reverse Split.

The Company established Ambow Rongye Education and Technology Co., Ltd. ("Ambow Rongye") and Ambow Zhixin Education and Technology Co., Ltd. ("Ambow Zhixin") on September 8, 2015 and October 14, 2015, respectively. Ambow Rongye and Ambow Zhixin were VIEs of Beijing Ambow Shengying Education and Technology Co., Ltd. ("Ambow Shengying"). On October 31, 2015, 100% equity interests of Beijing Intelligent Training School ("Beijing YZ Tutoring'), Beijing Huairou Xinganxian Training School and Beijing Century Passion Consulting Co., Ltd. ("Beijing Century Tutoring") were transferred from Ambow Sihua Education and Technology Co., Ltd. ("Ambow Sihua") to Ambow Rongye and Ambow Zhixin.

By December 31, 2015, the Company regained control over the previously deconsolidated subsidiaries, Tianjin Ambow Huaying Education Technology Co., Ltd., which owns the 100% equity interest in Tianjin Heping Huaying School and Tianjin Ambow Huaying School (collectively "Tianjin Tutoring"), Guangzhou Zhi Shan Education Technology Co., Ltd. ("Guangzhou ZS Career Enhancement"), Guangzhou Tianhe Depushi Education Training Center ("Guangzhou DP Tutoring") and Jilin Tutoring, and reconsolidated these entities in its 2015 consolidated financial statements. Please refer to Note 26 for details.

The Company established Suzhou Ambow Jiaxue Education and Investment Co., Ltd. (“Suzhou Jiaxue”) on January 21, 2016. Ambow Zhixin holds 60% equity interest of Suzhou Jiaxue. The Company established Shanghai Huanyu Liren Education Training Co., Ltd. (“Huanyu Liren”) on April 27, 2016. Kunshan Ambow Education Technology Co., Ltd. (“Kunshan Ambow”) holds 60% equity interest of Huanyu Liren. The Company established Ambow University Inc. on July 5, 2016. Ambow Education Management (Hong Kong) Ltd. holds 100% equity interest of Ambow University Inc.

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.

c.Major subsidiaries and VIEs

As of December 31, 2016, 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

Name	Date of incorporation or establishment	Place of Incorporation (or establishment) /operation	Principal activity
Ambow Education Management Ltd.	June 6, 2007	Cayman Islands	Investment holding
Ambow Shengying	October 13, 2008	PRC	Investment holding
Tianjin Ambow Yuhua Software Information Co., Ltd. ("Ambow Yuhua")	March 31, 2010	PRC	Software product and Investment holding
Ambow University Inc.	July 5, 2016	United States	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	April 17, 2007	PRC	Investment holding
Suzhou Wenjian Venture Investment Management Consulting Co., Ltd. ("Suzhou Wenjian")	February 25, 2009	PRC	Investment holding
Ambow Rongye	September 8, 2015	PRC	Investment holding
Ambow Zhixin	October 14, 2015	PRC	Investment holding

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

Jinan Wangrong Investment Consulting Co., Ltd.	May 21,2010	PRC	Career Enhancement
Hebei Yuanlong Corporate Management Co., Ltd. ("Hebei YL Career Enhancement")	January 13, 2011	PRC	Career Enhancement
Beijing Genesis Education Group ("Genesis Career Enhancement")	May 1, 2011	PRC	Career Enhancement
Changsha Newer Education Consulting Co., Ltd. ("Changsha Career Enhancement")	September 16, 2002	PRC	Career Enhancement
Kunshan Ambow	August 28, 2008	PRC	Career Enhancement
Shanghai Hero Further Education Institute	January 9, 2009	PRC	Career Enhancement
Beijing Century Tutoring	April 1, 2002	PRC	Tutoring
Beijing Ambow Dacheng Education and Technology Co., Ltd.	December 2, 2013	PRC	Career Enhancement
Shanghai Tongguo Education Technology Co., Ltd ("Shanghai Tongguo")	June 1, 2014	PRC	Career Enhancement
Suzhou Jiaxue	January 21, 2016	PRC	Career Enhancement
Huanyu Liren	April 27, 2016	PRC	Career Enhancement

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

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

d. VIE arrangements

VIEs of the Company

PRC regulations restrict foreign owned companies from directly investing in certain businesses providing educational services in PRC. In order to comply with these regulations 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, Suzhou Wenjian, Ambow Rongye and Ambow Zhixin 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, either directly or through its subsidiaries, is the primary beneficiary of the VIEs because it holds all the variable interests in the VIEs. As a result, the accounts and operations of the VIEs and their subsidiaries are included in the accompanying consolidated financial statements.

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

Subsidiaries of the VIEs

The Company conducts education 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 ("MOE"), or the MOE stipulations, where applicable;
- Hiring, training and terminating the employment of teachers and other support staff to run the schools and centers; and
- Selecting and recruiting students, in accordance with the Company's entry requirements and to maximize the usage of capacity.

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

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

According to the 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 six VIEs but these agreements are of similar format and structure. Therefore, the contract risk, if any, arising from the contractual relationship with the VIEs is also similar.

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

Risk in relation to the VIE structure

There are substantial uncertainties regarding the interpretation and application of PRC laws and regulations, including those that govern the Group’s VIE contractual arrangements. If the Group’s ownership structure and contractual arrangements are found to be in violation of any existing or future PRC laws or regulations, the relevant regulatory authorities would have broad discretion in dealing with such violation, including (i) revoking the business and operating licenses of the Company’s PRC subsidiaries and VIEs; (ii) discontinuing or restricting the operations of any

related-party transactions among the Company's PRC subsidiaries and VIEs; (iii) imposing fines or other requirements with which the Group or the Company's PRC subsidiaries and VIEs may not be able to comply; (iv) revoking the preferential tax treatment enjoyed by the Company's PRC subsidiaries and VIEs; (v) requiring the Group or the Company's PRC subsidiaries and VIEs to restructure the ownership structure or operations. If any of the above penalties is imposed on the Group, the Group's business operations and expansion, financial condition and results of operations will be materially and adversely affected. The new issued "The foreign investment law draft" as at January 19, 2015 will require the Group to apply access permit under the new foreign investment access system to ratify whether the Group's subsidiaries and operations are already out of the fields of prohibited and restricted foreign investments. However, if not, the above draft law did not give any definite solution and the risk in revoking the current business and operating licenses would be low. Furthermore, "The foreign investment law" is to set up a new law not to revise any of the other laws, so it would spend more time from its consultation to final, so at least during this period, the Group's VIE contractual arrangements will be legal.

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, Suzhou Wenjian, Ambow Rongye and Ambow Zhixin, 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.

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,	
	2015	2016
	RMB	RMB
Total assets	718,514	773,436
Total liabilities	565,818	544,547

	Years ended December 31,		
	2014	2015	2016
	RMB	RMB	RMB
Net revenue	403,643	385,819	409,391
Net income (loss)	(550,911)	370,818	(12,805)

The following table sets forth cash and cash equivalents held by the Group's VIEs and non-VIE in PRC by RMB currency as of December 31, 2015 and 2016:

	As of December 31,	
	2015	2016
	RMB	RMB
VIEs in PRC	125,850	173,772
Non-VIEs in PRC	109,820	19,425
Total RMB	235,670	193,197

2. GOING CONCERN

Liquidity and Capital Resources

The Group reported a net loss of RMB 276,442 and RMB 37,018 from continued operations for the years ended December 31, 2015 and 2016, which included a non-cash impairment charge of RMB 205,311 related to provision of receivables, impairment loss of fixed assets, intangible assets, long term investment, other non-current assets and other current assets, and a non-cash expense of RMB 56,549 related to the interest expense of convertible loan in 2015; and a non-cash impairment loss of intangible assets and goodwill of RMB 22,402, and RMB 1,727 provision of prepaid and other current assets in 2016. 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 provided by operating activities. As of December 31, 2016, the Group had RMB 196,900 in unrestricted cash and cash equivalents. The Group's cash and cash equivalents consist of cash on hand and liquid investments that are unrestricted as to withdrawal or use, have maturities of three months or less and are placed with banks and other financial institutions. As of December 31, 2016, the Group had RMB 173,772 in unrestricted cash and cash equivalents from VIEs. The Group's consolidated current liabilities exceeded its consolidated current assets by approximately RMB 221,475 as of December 31, 2016. The Group's consolidated net assets were amounting to RMB 115,021 as of December 31, 2016. In addition the Group has lease commitment of RMB 118,727 as of December 31, 2016, of which RMB 17,622 was within one year.

Management plan and actions

The Group had approximately RMB 174,811 and RMB 64,700 short term investments, available for sale and short term investments, held to maturity as of December 31, 2016, which was held as short-term investments to be liquid on the expiration date before the end of 2017.

Historically, the Group has addressed liquidity requirements through a series of cost reduction initiatives, debt borrowings and the sale of subsidiaries and other non-performing assets. From 2017 and onwards, the Group will focus on improving operation efficiency and cost reduction, developing core cash-generating business and enhancing marketing function. Actions include expanding Financial Share Service Centers across the Group wide and standardizing the Group's Finance and Operation Policies throughout the Group; as well as implementing ERP systems to standardize operations, enhance internal controls, and create synergy of the Group's resources.

Conclusion

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

3. SIGNIFICANT ACCOUNTING POLICIES

a. Basis of presentation

The consolidated financial statements of the Group have been prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP"). All amounts in the accompanying consolidated financial statements and notes are expressed in Renminbi ("RMB"). Amounts in United States dollars ("US$") are presented solely for the convenience of readers and use an exchange rate of RMB 6.9430, representing the middle rate

as set forth in the H.10 statistical release of the U.S. Federal Reserve Board as of December 31, 2016. 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, Jinghan Group have been disposed in 2015 and its operations have been classified as discontinued operations for the years ended December 31, 2014 and 2015. The disposal of Jinghan Group has been completed by April 8, 2015.

b. Comparability due to discontinued operations and reclassification adjustment

Certain accounts in the consolidated statements of operations and comprehensive income (loss) for the year ended December 31, 2014 and related notes have been retrospectively adjusted to reflect the effect of discontinued operations. See Note 24 for details of discontinued operations. The results of discontinued operations in 2014 and 2015 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, 2014 and 2015 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.

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.

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

In 2013, the Group deconsolidated 3 schools, including Tianjin Tutoring, Guangzhou ZS Career Enhancement and Guangzhou DP Tutoring. In 2014, the Group deconsolidated Jilin Tutoring. In 2015, the Group reconsolidated these deconsolidated entities in its 2015 consolidated financial statements. Details see Note 26.

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 special deposit accounts required by the Education Commission for the purpose of preventing abusive use of tuition and fees of educational and training institutions.

g. Term deposits

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

h. Short term investments

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

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

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

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

i. Accounts receivable

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

j. 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.

k. 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.

l. 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

m. Intangible assets

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 10):

Software	2 years to 10 years
Student populations	1.8 years to 15 years
Customer relationships	5.7 years
Cooperative agreements	1.3 years to 10 years
Favorable leases	0.8 years to 20 years
Non-compete agreements	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 ASC 350, which requires an entity to evaluate events and circumstances that may affect the significant inputs used to determine the fair value of the indefinite-lived intangible assets when performing qualitative assessment. When these events occur, the Group estimates the fair value of these trade names with the Relief from Royalty method (“RFR”), which is one of the income approaches. RFR method is generally applied for assets that frequently licensed in exchange for royalty payments. As the owner of the asset is relieved from paying such royalties to a third party for using the asset, economic benefit is reflected by notional royalty savings. An impairment loss is recognized for any excess in the

carrying value over the fair value of trade names.

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 three reportable segments in 2014, 2015 and 2016. For further details, see Note 21.

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. The Group performed impairment analysis on goodwill as of September 30 every year either beginning with a qualitative assessment, or starting with the quantitative two-step process instead. 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 flow is less than the carrying amount of the assets, the Group would recognize an impairment loss, which is the excess of carrying amount over the fair value of the assets, using the expected future discounted cash flows.

q. Revenue recognition

The Group's revenue is generated from delivering educational programs and services. 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 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. 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, 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. Revenue of this service offering is recognized when programs are delivered online, and collected within one to three months.

Following are the deferred revenue balances by segments as of December 31, 2015 and 2016.

	As of December 31,	
	2015	2016
	RMB	RMB
Career Enhancement	38,820	34,264
K-12	54,571	60,944
Tutoring	22,495	14,276
Total	115,886	109,484

r. Cost of revenues

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

s. Leases

Operating lease

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

Capital lease

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

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

t. Research and development

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

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

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

u. Penalty charge on borrowings

The Group recognizes penalty charges on outstanding borrowings according to individual loan contracts and agreements, which are reported as a component of interest expense in the consolidated financial statements.

v. Advertising costs

The Group expenses advertising costs as incurred. Total advertising expenses of continuing operations were RMB 4,435, RMB 1,858 and RMB 1,857 for the years ended December 31, 2014, 2015 and 2016, respectively, and have been included as part of selling and marketing expenses.

w. 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.

x. 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.

y. Fair value of financial instruments

Financial instruments include cash and cash equivalents, short term investments, available for sale and short term investments, held to maturity, accounts receivable, accounts payable, borrowings 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.

z. 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. 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 loans (using the if-converted method) and ordinary shares issuable upon the exercise of outstanding share options (using the treasury stock method). Ordinary equivalent shares are excluded from the computation of the diluted net income per share in years when their effect would be anti-dilutive. Ordinary equivalent shares are also excluded from the calculation in loss periods, as their effects would be anti-dilutive.

On September 4, 2015, the Company effected a one-for-thirty reverse stock split. The principal effect of the Reverse Split was to decrease the number of outstanding shares of each of the Company’s common shares. All per share amounts and shares outstanding for all the periods have been retroactively restated to reflect the Reverse Split.

aa. Income taxes

Income taxes are provided for in accordance with the laws of the relevant taxing authorities. Income tax expense has been allocated between continued and discontinued operations in all periods to reflect the respective net operating results. 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. All the deferred tax liabilities and assets have been classified as noncurrent in the consolidated balance sheets. The Group recognizes interest and penalties as income tax.

As of December 31, 2015, in order to simplify financial presentation, the Company adopted ASU 2015-17 Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes and applied this Update retrospectively. Deferred

tax liabilities and assets were classified as noncurrent in the consolidated balance sheets as of December 31, 2015 and 2016, respectively. This reclassification of deferred tax assets had no impact on the consolidated statements of operations and comprehensive income (loss), consolidated statements of changes in equity (deficit) and consolidated statements of cash flows for the year ended 2014.

bb. 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 18 (c) for additional information. In 2014, the Group received a document from the tax bureau cancelling Ambow Online’s preferential tax treatment. The Group had taken legal action to defend itself, also accrued the income tax and overdue fee for the year of 2014. In 2015, the Group lost the case and accrued the overdue fee by the end of 2015. In 2016, the Group accrued the overdue fee by the end of 2016. See Note 20 for detail. Also see Note 18 for details of the Group’s tax position as of December 31, 2016.

cc. Comprehensive income

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

dd. Share-based compensation

The Group grants share options/restricted stock 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.

F-24

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.

ee. Discontinued Operations

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

ff. Extinguishment of debt

An exchange of debt instruments with substantially different terms is accounted for as a debt extinguishment. A debtor could achieve the same economic effect as an exchange of a debt instrument by making a substantial modification of terms of an existing debt instrument. A difference between the reacquisition price and the net carrying amount of the extinguished debt is recognized currently in income of the period of extinguishment as losses or gains and identified as a separate item. Gains and losses are not be amortized to future periods.

gg. Loss contingencies

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

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

hh. Recently issued accounting pronouncements

In May 2014, the FASB issued Accounting Standards Update 2014-09, Revenue from Contracts with Customers, or ASU 2014-09. This new standard (Topic 606) will replace all current U.S. GAAP guidance on this topic and eliminate all industry-specific guidance. The new revenue recognition standard provides a unified model to determine when and how revenue is recognized. The core principle is that a company should recognize revenue to correlate with the transfer of promised goods or services to customers in an amount that reflects the consideration for which the entity expects to be entitled in exchange for those goods or services. In July 2015, the FASB voted to defer the effective date of ASU 2014-09 by one year, while allowing a company to adopt the new revenue standard early but not before the original effective date.

In March 2016, the FASB issued ASU 2016-08, which amends the principal-versus-agent implementation guidance and illustrations in the new revenue standard. ASU No. 2016-08 specifically provides clarification around performance obligations for goods or services provided by another entity, assisting in determining whether the entity is the provider of the goods or services, the principal, or whether the entity is providing for the arrangement of the goods or services, the agent.

In April 2016, the FASB issued ASU No. 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing. ASU No. 2016-10 provides guidance around identifying whether promised goods or services are distinct and separately identifiable, whether promised goods or services are material or immaterial to the contract, and whether shipping and handling is considered an activity to fulfill a promise or an additional promised service. ASU No. 2016-10 also provides guidance around an entity's promise to grant a license providing a customer with either a right to use or a right to access the license, which then determines whether the obligation is satisfied at a point in time or over time, respectively.

In May 2016, the FASB issued ASU No. 2016-11, Revenue Recognition (Topic 605) and Derivatives and Hedging (Topic 815): Rescission of SEC Guidance Because of Accounting Standards Updates 2014-09 and 2014-16 Pursuant to Staff Announcements at the March 3, 2016 EITF Meeting, which rescinds various standards codified as part of Topic 605, Revenue Recognition in relation to the future adoption of Topic 606. These rescissions include changes to topics pertaining to revenue and expense recognition including accounting for shipping and handling fees and costs and accounting for consideration given by a vendor to a customer.

The above standards will be effective for us on January 1, 2018 and can be applied either retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption.

The Company is currently assessing the impact that adopting this new accounting guidance will have on its consolidated financial statements and disclosures. Based on its preliminary evaluation of ASU No. 2014-09, the Company expects no material impact on its results of operations or cash flows in the periods after adoption. The Company expects to complete its assessment of the effect of adopting ASU No. 2014-09 by the end of 2017, as well as the selection of a transition approach.

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments - Recognition and Measurement of Financial Assets and Financial Liabilities. The amendments in this Update address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The amendments in this Update require public business entities that are required to disclose fair value of financial instruments measured at amortized cost on the balance sheet to measure that fair value using the exit price notion consistent with Topic 820, Fair Value Measurement. The amendments in this Update require an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option. The amendments in this Update require separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans and receivables) on the balance sheet or in the accompanying notes to the financial statements. For public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early application by public business entities to financial statements of fiscal years or interim periods that have not yet been issued or, by all other entities, that have not yet been made available for issuance of the following amendments in this Update are permitted as of the beginning of the fiscal year of adoption: an entity should present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk if the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. The Company does not expect the adoption of ASU No. 2016-01 will have a significant effect on its consolidated financial statements.

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

In March 2016, the FASB issued ASU No. 2016-09, Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The amendments require that all excess tax benefits and all tax deficiencies should be recognized as income tax expense or benefit in the income statement and that those benefits

and deficiencies are discrete items in the reporting period in which they occur. Because excess tax benefits are no longer recognized in additional paid in capital, the assumed proceeds from applying the treasury stock method when computing earnings per share is amended to exclude the amount of excess tax benefits that would be recognized in additional paid-in capital. The amendments also require to no longer delay recognition of a tax benefit until the tax benefit is realized through a reduction to taxes payable. For public business entities, the amendments in this update are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted for any entity in any interim or annual period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity that elects early adoption must adopt all of the amendments in the same period. The Company does not expect the adoption of ASU No. 2016-09 will have a significant effect on its consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows (230): Restricted Cash. The amendments in this Update require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. For public business entities, the amendments in this update are effective for fiscal years beginning after December 15, 2017, and interim periods within those annual periods. Earlier adoption is permitted. The amendments in this Update should be applied using a retrospective transition method to each period presented. The Company elected to early adopt this guidance on a retrospective basis and have applied the changes to the consolidated statements of cash flows as of December 31, 2014, December 31, 2015 and December 31, 2016.

In January 2017, the FASB issued ASU No. 2017-04, Simplifying the Test for Goodwill Impairment. ASU 2017-04 eliminates Step 2 from the goodwill impairment test. Under the amendments in this update, an entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. ASU 2017-04 also eliminates the requirement for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform Step 2 of the goodwill impairment test. ASU 2017-04 is effective for the Company beginning in the first quarter of fiscal 2021. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company will early adopt ASU 2017-04 in the third quarter of fiscal 2017 with the annual goodwill impairment tests. The Company does not expect the adoption of ASU No. 2017-04 will have a significant effect on its consolidated financial statements.

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

4. CASH, CASH EQUIVALENTS AND RESTRICTED CASH

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

	Years ended December 31,		
	2014	2015	2016
	RMB	**RMB**	**RMB**
Cash and cash equivalents	180,285	246,303	196,900
Restricted cash	2,048	2,050	2,350
Total cash, cash equivalents, and restricted cash shown in the consolidated statements of cash flows	182,333	248,353	199,250

The following table provides a reconciliation of changes in cash, cash equivalents, and restricted cash included in assets held for sale that sum to the total of the same such amounts shown in the consolidated statements of cash flows.

	Years ended December 31,		
	2014	2015	2016
	RMB	**RMB**	**RMB**
Changes in cash and cash equivalents included in assets held for sale	42,270	36,063	-
Changes in restricted cash included in assets held for sale	1,600	2,000	-
Total changes in cash, cash equivalents, and restricted cash included in assets held for sale shown in the consolidated statements of cash flows	43,870	38,063	-

5. SHORT TERM INVESTMENTS

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

<u>Held to maturity investments</u>

Held-to-maturity investments consist of various fixed-income financial products purchased from Chinese commercial banks, which are classified as held-to-maturity investments as the Group has the positive intent and ability to hold the

investments to maturity. The maturities of these financial products range from thirty to sixty-two days, with contractual maturity dates from January 5, 2017, to February 8, 2017 and annual interest rates ranging from 3.50% to 4.50%. They are classified as short term investments on the consolidated balance sheets as its contractual maturity dates are less than one year. The repayments of principal of the financial products are not guaranteed by the Chinese commercial banks from which the fixed income financial products were purchased. Historically, the Company has received the principal and the interest in full upon maturity of these investments.

While these fixed-income financial products are not publicly traded, the Company estimated that their fair value approximate their amortized costs considering their short term maturities and high credit quality. No OTTI loss was recognized for the year ended December 31 2016.

Available-for-sale investments

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

Available-for-sale securities are carried at their fair values and the unrealized gains or losses from the changes in fair values are included in accumulated other comprehensive income. The aging of all the available-for-sale investments were less than 12 months as of December 31, 2016. No OTTI loss was recognized for the year ended December 31 2016.

Short-term investments consisted of the following:

	As of December 31,	
	2015	2016
	RMB	RMB
Held-to-maturity investments	151,790	64,700
Available-for-sale investments	103,602	174,811
Total	255,392	239,511

The amortized cost, gross unrecognized holding gains and losses, gross unrealized gain in accumulated other comprehensive income, and estimated fair value of investments as of December 31, 2015 and 2016, are reflected in the tables below:

	As of December 31, 2015				
	Amortized Cost	Gross unrecognized holding gains	Gross unrecognized holding loss	Gross unrealized gain in accumulated other comprehensive income	Estimated Fair value
	RMB	RMB	RMB	RMB	RMB
Short-term investments:					
Held-to-maturity investments					
Fixed-rate financial products	151,790	-	-	-	151,790
Available-for-sale investments					
Adjustable-rate financial products	102,290	-	-	1,312	103,602

	As of December 31, 2016				
	Amortized Cost	Gross unrecognized holding gains	Gross unrecognized holding loss	Gross unrealized gain in accumulated other comprehensive income	Estimated Fair value
	RMB	RMB	RMB	RMB	RMB
Short-term investments:					
Held-to-maturity investments					
Fixed-rate financial products	64,700	-	-	-	64,700
Available-for-sale investments					
Adjustable-rate financial products	171,163	-	-	3,648	174,811

Gross realized gains and losses on available-for-sale investments for years ended December 31, 2014, 2015 and 2016 were as follows:

	Years ended December 31,			
	2014	2015	2016	2016
	RMB	RMB	RMB	US$
Gross realized gains on sales	-	1,971	4,329	624
Gross realized loss on sales	-	(4,757)	-	-
(Losses) gains on sale of available-for-sale investments	-	(2,786)	4,329	624

Interest income recognized on held-to-maturity investments for years ended December 31, 2014, 2015 and 2016 were as follows:

Year Ended December 31,			
2014	2015	2016	2016
RMB	RMB	RMB	USD

Interest income recognized on held-to-maturity investments	-	7,027	4,078	587

F-27

6. ACCOUNTS RECEIVABLE, NET

Accounts receivable consisted of the following:

	As of December 31,	
	2015	2016
	RMB	RMB
Accounts receivable	127,893	13,576
Less: Allowance for doubtful accounts	(116,615)	-
Accounts receivable, net	11,278	13,576

Allowance for doubtful accounts:

	As of December 31,	
	2015	2016
	RMB	RMB
Balance at beginning of year	(116,615)	(116,615)
Addition (Note i)	-	-
Written off (Note ii)	-	116,615
Balance at end of year	(116,615)	-

(Note i) No bad debt provision was provided for the years ended December 31, 2015 and 2016.

(Note ii) Bad debt provision of RMB 116,615 was written off in the year of 2016, after all collection efforts have been exhausted and the potential for recovery was remote.

7. PREPAID AND OTHER CURRENT ASSETS, NET

Prepaid and other current assets consisted of the following:

	As of December 31,	
	2015	2016
	RMB	RMB
Amount due from minority shareholder (Note i)	54,023	54,023
Amount due from Xihua Group (Note ii)	49,800	49,800
Value added tax refundable (Note iii)	24,811	24,811
Due from former owners (Note iv)	14,910	5,743
Staff advances	6,389	6,008
Rental deposits	8,331	7,835
Prepaid professional services fees	2,457	3,045
Prepaid rental fees (Note v)	3,067	3,533
Receivable from Zhenjiang operating rights (Note vi)	35,000	35,000
Receivable from Jinghan Group (Note vii)	122,822	122,822
Others (Note viii)	29,748	20,302
Total before allowance for doubtful accounts	351,358	332,922
Less: allowance for doubtful accounts (Note ix)	(195,254)	(179,055)
Total	156,104	153,867

Allowance for doubtful accounts:

	As of December 31,	
	2015	2016
	RMB	RMB
Balance at beginning of year	(90,731)	(195,254)
Addition (Note iv, vii and ix)	(122,718)	(1,727)
Written off (Note iv and vii)	18,195	17,926
Balance at end of year	(195,254)	(179,055)

(Note i) The balance represented Shenyang K-12's amount due from its minority shareholder amounting to RMB 54,023, which were tuition fees that have been collected from students but were misappropriated by its minority shareholder. As of December 31, 2015 and 2016, full provision was provided as the collectability was remote.

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

(Note iii) Management considered the collectability of VAT refund was remote as a result of tax dispute between Ambow Online, Yuhua and the tax authority, as disclosed in Note 18(c), the Group provided a provision amounting to RMB 24,811 as of December 31, 2015 and 2016.

F-28

(Note iv) Provisions of RMB 7,808, 1,360 and nil were made against the amounts due from the former shareholders due to remote recoverability during the years ended December 31, 2014, 2015 and 2016 respectively. As of December 31, 2016, the receivable of RMB 9,168 was written off, after all collection efforts have been exhausted and the potential for recovery was remote.

(Note v) In 2015 an impairment loss of RMB 3,995 was made against the current portion of the prepaid long-term lease regarding the Career Enhancement Education Facility in Beijing ("Ambow Beijing Campus"), as the capital lease and prepaid long-term lease regarding Ambow Beijing Campus were not available for use (Note 9).

(Note vi) The balance represented the prepaid operating rights to the Zhenjiang Foreign Language School and Zhenjiang International School. The Group started a negotiation of returning the operating right back to the original owner Zhenjiang Education Investment Center in the third quarter of 2011. As a result, the prepaid operating rights have been reclassified as receivable since then. As of December 31, 2015 and 2016, the payable balance to Zhenjiang Foreign Language School amounted to RMB 36,770 and RMB 36,770, respectively (Note 13); therefore, no provision was made. As of the date of issuance of the financial statements, the negotiation was still in progress.

(Note vii) As of December 31, 2015 and 2016, the original receivable due from Jinghan Group was RMB 141,017. Along with the disposal of Jinghan Group, RMB 18,195 of the receivable was written off according to the waiver agreement and an additional allowance of RMB 96,863 was provided in 2015 (see Note 24(a)).

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

(Note ix) Other addition of allowance during the year of 2016 and 2015 was mainly provided against third parties and former employees due to the remote recoverability.

8. CONSIDERATION RECEIVABLE, NET

Consideration receivables consisted of the following:

As of December 31,

	2015 RMB	2016 RMB
Receivables resulting from disposals (Note i)	14,000	14,000
Receivable resulting from disposal of Taishidian Holding (Note ii)	30,000	-
Sub-total	44,000	14,000
Less: allowance for doubtful accounts (Note i & ii)	(35,500)	(5,500)
Total	8,500	8,500

Allowance for doubtful accounts:

	As of December 31,	
	2015 RMB	2016 RMB
Balance at beginning of year	(164,700)	(35,500)
Addition (Note i & ii)	(35,300)	-
Written off (Note ii)	164,500	30,000
Balance at end of year	(35,500)	(5,500)

(Note i) 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 Dragon Continuation School, Shandong North Resource Information Technology Co., Ltd. and Jinan Prosperous Resource Technology Co., Ltd., Guangzhou Modern Olympic Training School, and Tianjin Yimatong Technology Development Co., Ltd. to Beijing Tongshengle Investment Co., Ltd., ("Tongshengle") for cash consideration of RMB 35,000, and RMB 21,000 of which has been received by December 31, 2012. A bad debt allowance of RMB 200 was provided in 2012. In 2015, the Group provided an additional allowance of RMB 5,300 by reducing the net receivables, after netting of payable balance, from Tongshengle to zero after assessing the collectability.

(Note ii) On July 25, 2013, the Group entered in a letter for intent with Kunshan Venture Investment Limited ("Kunshan Venture") to transfer the equity interest of Taishidian Holding, with consideration of RMB 234,500. The legal title of Taishidian Holding has been transferred to Kunshan Venture in July 2013, and the Group has no continuing involvement in Taishidian Holding since that. Management assessed the recoverable value with best estimation to be approximately RMB 110,000. Bad debt provision of RMB 124,500 was provided for the excessive portion and was included in the disposal loss in 2013. On February 6, 2015, the receivable balance of RMB 234,500 was transferred to Suzhou Hezhijia Investment Management Limited with a consideration of RMB 70,000. Therefore, the difference of RMB 40,000 between the carrying amount of RMB 110,000 and the consideration of RMB 70,000 was recognized as bad debt in 2014. Following the transfer, the gross balance of the receivable was reduced to RMB 70,000 from RMB 234,500. In February 2015, the Group received RMB 40,000 of the consideration. By the end of 2015, the Group had not collected the remaining balance. After assessing the collectability, management provided an allowance of RMB 30,000. As of December 31, 2016, the remaining balance of RMB 30,000 was written off, after all collection efforts have been exhausted and the potential for recovery was remote.

F-29

9. PROPERTY AND EQUIPMENT, NET

Property and equipment consisted of the following:

	As of December 31,	
	2015	2016
	RMB	RMB
Buildings	63,643	64,222
Capital lease of property	12,000	12,000
Motor vehicles	7,113	6,173
Office and computer equipment	87,067	87,121
Leasehold improvements	66,849	70,321
Sub-total	236,672	239,837
Less: accumulated depreciation	(141,690)	(151,830)
Total	94,982	88,007

For the years ended December 31, 2014, 2015 and 2016, depreciation expenses of continuing operations were RMB 35,461, RMB 25,048 and RMB 17,620, respectively, which were recorded in cost of revenues, selling and marketing expenses, general and administrative expenses and research and development expenses.

The capital leases of properties mainly represented prepaid long-term lease of Ambow Beijing campus and Shenyang K-12 School of which the original amounts were RMB 45,324 and RMB 12,000 respectively. The inception dates of the capital leases were March 1, 2012 and December 30, 2010 respectively. For the year ended December 31, 2015, the Group recorded an impairment loss of RMB 38,814 regarding the capital lease of properties of Ambow Beijing Campus as it was not available for use. The original cost with amounting to RMB 45,324 and the accumulated depreciation amounting to RMB 6,510 were fully written off as of December 31, 2015 and 2016. As at December 31, 2015 and 2016, the accumulated depreciation of Shenyang K-12 School's capital lease of properties were RMB 3,150 and RMB 3,750 respectively. For the years ended December 31, 2014, 2015 and 2016, depreciation expenses were RMB 2,419, RMB 2,419 and RMB 600 respectively and recorded in cost of revenues.

As of December 31, 2016, 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 34,870.

10. INTANGIBLE ASSETS, NET

Intangible assets consisted of the following:

	As of December 31,	
	2015	2016
	RMB	RMB
Gross carrying amount		
Trade names	51,563	48,908
Student populations	38,380	38,380
Software	88,670	91,254
Customer relationships	5,270	5,270
Cooperative agreements	5,230	5,230
Favorable leases	63,237	63,237
Non-compete agreements	833	833
	253,183	253,112
Less: Accumulated amortization		
Trade names	-	-
Student populations	(36,244)	(36,964)
Software	(87,145)	(89,138)
Customer relationships	(3,002)	(5,270)
Cooperative agreements	(2,537)	(3,046)
Favorable leases	(20,028)	(23,153)
Non-compete agreements	(833)	(833)
	(149,789)	(158,404)
Intangible assets, net		
Trade names	51,563	48,908
Student populations	2,136	1,416
Software	1,525	2,116
Customer relationships	2,268	-
Cooperative agreements	2,693	2,184
Favorable leases	43,209	40,084
Non-compete agreements	-	-
	103,394	94,708

For the year ended December 31, 2014, the Group recorded an impairment loss of RMB 30,167 including RMB 26,028 for trade names, and RMB 4,139 of software, which was related to Zhenjiang School due to the taken and using of intangible assets by a third party. For the year ended December 31, 2015, the Group recorded an impairment loss of RMB 9,639 for trade names of a few entities of Tutoring and Career Enhancement segments, which were not fully recovered from continued ramifications of negative events in the year of 2015.

In 2016, the Group performed impairment test on the trade name, and as a result, for the year ended December 31, 2016, the Group recorded an impairment loss of RMB 2,655 for trade names of a few entities of Tutoring and Career Enhancement segments, which were due to suspension of non-performing business units to solidify the operational base and enhance future growth prospects.

Amortization expenses for intangible assets of continuing operations amounted to RMB 16,818, RMB 10,707 and RMB 6,786 for the years ended December 31, 2014, 2015 and 2016, respectively, of which RMB 3,118, RMB 3,061 and RMB 2,466 are included in cost of sales and the remaining is included in general and administrative expenses. Based on the current amount of intangible assets subject to amortization, the estimated amortization expenses for each of the future annual periods is as follows:

	Amount RMB
2017	4,921
2018	4,438
2019	4,293
2020	4,132
2021	3,784
Thereafter	24,232
Total	45,800

11. GOODWILL

The changes in the carrying amount of goodwill by reporting unit for the years ended December 31, 2015 and 2016 were as follows:

	Better Schools			Better Jobs	
	K-12			**Career**	
	Tutoring	Schools	Subtotal	Enhancement	Consolidated
	RMB	RMB	RMB	RMB	RMB
Balance as of December 31, 2014	26,609	24,815	51,424	33,117	84,541
Foreign currency translation adjustments	417	410	827	620	1,447
Balance as of December 31, 2015	27,026	25,225	52,251	33,737	85,988
Foreign currency translation adjustments	493	485	978	735	1,713
Goodwill impairment	(19,747)	-	(19,747)	-	(19,747)
Balance as of December 31, 2016	7,772	25,710	33,482	34,472	67,954

In 2016, the Group elected to start with the quantitative two-step process in the impairment test for goodwill. The management determined that the Income Approach, specifically the Discounted Cash Flow ("DCF") method, is appropriate. Considering the fact that the Tutoring segment has kept downward trends in business performance and operating results, the management decided to suspend those non-performing business units in the year of 2016, in order to solidify the operational base and enhance future growth prospects. Hence, lower projection of cash flows was used for Tutoring segment. For Career Enhancement segment, the management expected the revenues to gradually pick up in the following years. The management would continue to maintain and develop its business in following years. For K-12 segment, the management decided to use a flat and conservative growth rate. Other key assumptions besides cash flow projections included discount rates in the range from 16% to 17% and terminal growth rate of 3%. As a result of the above tests, the Group recorded an impairment loss for goodwill of Tutoring at amount of RMB 19,747 for the year ended December 31, 2016. Goodwill impairment loss recognized in 2014 and 2015 was RMB 229,914 and RMB nil respectively.

12. PREPAYMENT FOR ACQUISITION OF PROPERTY

Prepayment for acquisition of property as of December 31, 2016 consisted of the following:

	As of December 31	
	2015	2016
	RMB	RMB

Prepayment for acquisition of property	-	71,024

On December 30, 2016, the Group prepaid RMB 71,024 to purchase a new office property in Beijing, China with gross floor area approximately 1,500 square meters. The ownership entitlement of the property was transferred to the Company on January 20, 2017.

13. ACCRUED AND OTHER LIABILITIES

Accrued and other liabilities consisted of the following:

	As of December 31,	
	2015	2016
	RMB	RMB
Business tax, VAT and others	75,354	75,444
Payable balance with indemnity by Xihua Group (Note 7(ii))	49,800	49,800
Accrual for rental	56,194	57,809
Payable to Zhenjiang Foreign Language School (Note 7(vi))	36,770	36,770
Accrued payroll and welfare	35,171	34,567
Payable to Jinghan Group (Note 24(a))	25,959	25,959
Professional service fees payable	30,022	28,368
Student tuition refund payable (i)	253	10,743
Receipt in advance	6,757	6,551
Amounts due to cooperating partners	5,491	4,215
Lawsuit penalty payable	-	2,176
Due to former owners	1,254	1,254
Accrued interest payable	349	209
Current portion of consideration payable for acquisitions	2,258	-
Collection in advance on behalf of students	5,589	8,413
Advance from others	11,931	4,656
Employee reimbursement payable	6,927	6,927
Others	17,278	18,960
Total	367,357	372,821

(Note i) The balance represented tuition collected from students in advance but respective services could not be provided anymore.

14. SHORT-TERM BORROWINGS

Short-term borrowings consisted of the following:

		As of December 31	
		2015	2016
	Maturities	RMB	RMB
Unsecured short-term borrowings from third party	September, 2015	2,300	-
Total Short-term borrowings		2,300	-

The weighted average interest rate of short-term loans outstanding was 10.0% and nil per annum as of December 31, 2015 and 2016. The fair values of the short-term loans approximate their carrying amounts. The weighted average short-term borrowings for the years ended December 31, 2015 and 2016 was RMB 11,031 and RMB 1,109, respectively.

The short-term borrowings incurred interest expenses for the years ended December 31, 2014, 2015 and 2016 amounting to RMB 25,057, RMB 4,292 and RMB 115, respectively. There was neither capitalization as additions to construction in progress nor guarantee fees for each of three years ended December 31, 2014, 2015 and 2016.

15. 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 C Loan"). IFC may at its option convert a minimum of $1,000 or its integral multiple of IFC C Loan in whole or in part, at any time prior to the fifth anniversary of the date of the first disbursement of the IFC C Loan, into Class A Ordinary Shares at the conversion price of $300 per ADS ($150 per ordinary share), subject to dilution protection adjustment and registration or an exemption from registration under the Securities Act.

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

(i) Within 12 months from the date of the Loan Agreement, 3.5% for future IFC C Loan interest payments if the Borrower's ADSs trade at an average trading price of US$ 210.0 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 C Loan, 3% for future IFC C Loan interest payments if the Borrower's ADSs trade at an average trading price of US$ 360.0 or above for any 4 consecutive months period.

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

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

Since the conversion price of the IFC C Loan exceeds the market price of the Company's ordinary shares on the date of issuance, no portion of the proceeds from the issuance was accounted for as the beneficial conversion feature, and was treated solely as a liability since the embedded conversion feature has no intrinsic value and accordingly does not meet the requirements of an equity component. Costs incurred by the Company that were directly attributable to the issuance of IFC C Loan amounting to approximately RMB 3,432(US$ 567), were deferred over loan period and being charged to the consolidated statements of operations and other comprehensive loss using the effective interest rate method. The issuance cost was fully charged as of December 31, 2014 as the IFC C loan was expired due to the Company triggering default event as mentioned below. The front fee paid to IFC amounting to RMB 4,924, were deferred over loan period and being treated as debt discount deducting the proceeds at inception and accretion during

the loan period with effective interest method. The amortization of front fee was RMB nil, nil and nil for the years ended December 31, 2 014, 2015 and 2016, respectively.

Management further determined that the interest rate change feature ("IRCF") embedded in the convertible loan is required to be bifurcated and accounted for as a derivative asset. The fair value of the IRCF as of issuance date was RMB 369 (US$ 61) and bifurcated from the Loan of RMB 121,074 (US$ 20,000) and included in debt discount, which is amortized over the loan period, using the effective interest rate method. The change in the fair value of the embedded derivative assets was recognized as interest expense from revaluation of embedded derivative in the consolidated statements of operations and comprehensive income (loss). By the end of December 31, 2013, the IRCF was cancelled due to the Company triggering default event as mentioned below.

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

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

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

As stated below, the Registration Rights Agreement was terminated and that no party to the Registration Rights Agreement would have any liability in respect of any breach of that agreement on or before the effective date.

First Amendment

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

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

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

The Company accrued a penalty interest on the amount of the payment due and unpaid with 2% per annum above the interest rate. As of December 31, 2013, the penalty interest was RMB 1,082.

Second Amendment

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 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 JPLs by the Grand Court of the Cayman Islands. A non-binding term sheet was subsequently executed by the JPLs with CEIHL on March 30, 2014.

On May 5, 2014, the Company entered into Restructuring Agreement with CEIHL, according to which, CEIHL, will provide for funding for the Company approximately RMB 290,600 (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 80,000; and the remaining as defined in USD Facility Agreement, which was agreed by both parties in Second Amendment and Restated Loan Agreement (the "Second Amendment"). 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.

In connection with the restructuring plan, on May 13, 2014, the Group signed Amendment and Restatement Agreement to the Loan Agreement with CEIHL. The parties have agreed to amend and restate the terms and conditions of the IFC C Loan as set out in this Agreement. Pursuant to it, 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 signed by the same parties on the same day with this agreement.

Subject to the Second Amendment, a convertible loan, was comprised of IFC C Loan consisting of a principal amount of RMB 104,023 (US$ 17,000); and IFC D Loan consisting of a principal amount of approximately RMB 85,550 (US$ 13,981); and the other loans consisting of a principal amount of approximately RMB 104,139 (US$ 17,019). The entire amount of the convertible loan consisting of an aggregate principal amount of US$ 48,000 is convertible into an aggregate of 32,426,090 Class A Ordinary Shares. Accordingly, the conversion rate is US$ 1.480 per share.

The Maturity Date of these loans is 3 years after the date of the Effective Date, which is defined as the date of the discharge of the JPLs in accordance with the Restructuring Agreement. The interest rate is 3% per annum for any interest period and applied to the both loans. Under the Second Amendment and related financing documents, and under the IFC D Loan Facility, CEIHL assigned approximately RMB 30,595 (US$ 5,000) each of its commitments to Baring Private Equity Asia V Holding (4) limited ("Baring") and SummitView.

According to the Second Amendment, the IFC C Loan was substantially amended by decreasing the conversion rate from US$ 150 per share to US$ 1.479 per share. As a result, the fair value of the embedded conversion option (calculated as the difference between the fair value of the embedded conversion option immediately before and after the modification or exchange) was substantially changed. According to ASC Topic 470, if it is determined that the original and new debt instruments are substantially different, and the new debt instrument shall be initially recorded at fair value, and that amount shall be used to determine the debt extinguishment gain or loss to be recognized and the effective rate of the new instrument. Therefore, the amended IFC C loan was initially recorded at fair value, amounting to RMB 254,169 (US$ 41,538) as of May 13, 2014. As comparing to the carrying value of original IFC C Loan consisting of a principal amount of RMB 104,023 (US$ 17,000) and accrued interest payable amounting to RMB 6,862 (US$ 1,121), a loss from extinguishment of debt with amounting to RMB 143,901 (US$ 23,417) was recognized in 2014.

Due to the fact that the Company was under provisional liquidation at the time of restructuring, favorable convertible loans, which were reflected in a lower conversion price as compared to the fair value of the Company's ordinary share at the commitment date, was granted to new investors for the purpose of obtaining necessary funding to solve the liquidity issues. As of the commitment date, the fair value of the Company's ordinary share in a fully diluted basis was US$ 3.465, while the conversion price was US$ 1.479. Accordingly, it had a beneficial conversion feature ("BCF") that is in the money at the commitment date. According to ASC Topic 470, the BCF was measured initially at its intrinsic value, which was calculated at the commitment date as the difference between the conversion price and the fair value of the common stock or other securities into which the security is convertible, multiplied by the number of shares into which the security is convertible. The intrinsic value of the BCF was recorded as loan discount and credited to additional paid-in capital at the initial recognition and amortized as interest expense from the date of issuance to the earliest conversion date.

In addition, if the intrinsic value of the BCF is greater than the proceeds allocated to the convertible instrument, the amount of the discount assigned to the BCF shall be limited to the amount of the proceeds allocated to the convertible instrument. As a result, the discount of the convertible loan was limited to the proceeds of RMB 300,574 (US$ 49,121).

On August 31, 2014, CEIHL entered a Share Interest Assignment Agreement ("Assignment Agreement") with New Flourish Holding Limited ("New Flourish"), an entity control by CEO of the Company. Pursuant to the Assignment Agreement, CEIHL agreed to sell 5,678,963 shares at a favorable consideration of US$ 5,779 with payment schedule of 3 equal annual installments starting on August 31, 2016. The Company recorded it as share-based compensation expenses in the year 2014 amounting to RMB 94,360 (see Note 23).

On September 5, 2014, RMB 224,517 (US$ 36,692) of the convertible loan was converted into ordinary shares by CEIHL and SummitView, and the total 25,182,076 converted shares were issued. At the same date, CEIHL transferred 5,678,963 shares to New Flourish according to the Assignment Agreement. After that, CEIHL became the registered holder of 16,716,954 Class A Ordinary Shares, and SummitView became the registered holder of 2,786,159 Class A Ordinary Shares, while New Flourish became the registered holder of 5,678,963 Class A Ordinary Shares. At the conversion date, the converted portion of the remaining unamortized loan discount (loan premium) was recognized as interest expense, and the loan discount (loan premium) of the unconverted portion will continue to be amortized after the conversion. Nominal interest accrued but not paid was credited to the Company's equity at the time of the conversion. The interest expenses from convertible loan, including the amortization of BCF, amounting to RMB 98,705 were recorded in the year ended December 31, 2014.

The principal of convertible loan before and after conversion as of September 5, 2014 are summarized in the following table:

	Before conversion US$	After conversion US$
CEIHL	38,000	6,308
SummitView	5,000	-
Baring	5,000	5,000
Total amount	48,000	11,308

On March 5, 2015, CEIHL and Baring converted US$ 6,308 and US$ 5,000 of the convertible loan and became the registered holder of 4,457,854 and 2,786,159 Class A Ordinary Shares, respectively. The interest expenses from convertible loan, including the amortization of BCF, amounting to RMB 56,549 were recorded in the year ended December 31, 2015.

The actual conversion rates of convertible loans from the lenders are summarized in the following table:

	Loan principal US$	Shares held through conversion	Actual conversion rate US$ per share
CEIHL	38,000	26,853,771	1.415
SummitView	5,000	2,786,159	1.795
Baring	5,000	2,786,159	1.795
Total convertible loan	48,000	32,426,089	1.480

There was no impact on the consolidated financial statements regarding the accounting of convertible loan per the above actual conversion rate changes among the lenders.

There were no convertible loans as of December 31, 2015 and 2016.

16. ORDINARY SHARES

Upon completion of the Company's initial public offering ("IPO") in August 2010, 250,000 American depositary shares ("ADSs") were issued through the IPO, and the selling shareholders offered an additional 105,907 ADSs. Each ADS represents two Class A Ordinary Shares, par value US$ 0.003 per share. 2,691,863 Class B Ordinary Shares were issued upon conversion of all convertible preferred shares at a par value of US$ 0.003 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.

On June 3, 2013, the Company consummated the transactions provided for in a share purchase agreement dated April 28, 2013, an amendment to share purchase agreement as of May 24, 2013 and a supplementary agreement dated May 31, 2013 (collectively "SummitView SPA"), between the Company and SummitView, regarding the issuance and sale of 1,026,705 Class A Ordinary Shares of the Company to SummitView for a total purchase consideration of approximately RMB 128,035 (US$ 21,000) and the Company has received approximately RMB 60,969 (US$ 10,000) with RMB 67,066 (US$ 11,000) outstanding by the end of 2013.

On May 5, 2014, 537,797 Class A Ordinary Shares was surrendered to the Company by SummitView and the related consideration receivable amounting to RMB 67,066 (US$ 11,000) was reversed accordingly.

On September 5, 2014, RMB 224,517 (US$ 36,692) of the convertible loan was converted into ordinary shares by CEIHL and SummitView, and the total 25,182,076 converted shares were issued. At the same date, CEIHL transferred 5,678,963 shares to New Flourish according to the Assignment Agreement. After that, CEIHL became the registered holder of 16,716,954 Class A Ordinary Shares, and SummitView became the registered holder of 2,786,159 Class A

Ordinary Shares, while New Flourish became the registered holder of 5,678,963 Class A Ordinary Shares.

As of December 31, 2014, there were 27,552,058 and 2,984,775 Class A and Class B Ordinary Shares issued and outstanding, respectively.

On October 14, 2014, the Board of Directors granted the restricted stock to each member of the Board who is not an employee of the Group. The number of shares of restricted stock subject to each award was 135,227, which was determined by dividing US$ 200 by the Cayman Court approved price US$ 1.480 per share of the Group's ordinary shares on May 14, 2014. Total numbers of shares of restricted stock were 811,359. The awards shall vest at a rate of 1/36 per month on the 14th day of each month during the first three anniversaries of May 14, 2014, subject to continued service on the Board. During 2015 and 2016, 270,453 and 225,377 shares of restricted stock were vested respectively, with 424,459 and 225,377 of the vested shares separately issued to the board members in 2015 and 2016.

On January 21, 2015, Spin-Rich Ltd., a British Virgin Islands company that is wholly owned by Dr. Jin Huang, converted all of its 420,000 Class B Ordinary Shares into Class A Ordinary Shares on a one for one basis. Prior to the conversion, the holders of Class A Ordinary Shares and Class B Ordinary Shares voted together on all matters submitted to a vote and each Class B Ordinary Share was entitled to ten (10) votes. As an affiliate of Spin-Rich, Ltd., upon the conversion of Spin-Rich, Ltd.'s Class B Ordinary Shares, Dr. Huang's ownership of Class B Ordinary Shares was reduced below 5%. As a result, in accordance with the Company's Memorandum & Articles of Association, all of the outstanding Class B Ordinary Shares held by shareholders other than Spin-Rich, Ltd., were automatically converted into Class A Ordinary shares on a one-for-one basis. As a result, the Company only has Class A Ordinary Shares issued and outstanding.

On March 5, 2015, CEIHL and Baring converted US$ 6,308 and US$ 5,000 of the convertible loan and became the registered holder of 4,457,854 and 2,786,159 Class A Ordinary Shares, respectively.

On May 18, 2015, the Board of Directors granted the restricted stock 86,473 shares to existing employees whose old options have expired by their terms. All restricted stock subject to this award shall fully vest as of May 18, 2015. During 2015 and 2016, 59,872 and 6,666 of the vested shares were issued respectively to existing employees whose old options have been expired.

On May 18, 2015, the Board of Directors granted the restricted stock 510,000 shares to employees and new hires. Twenty-five percent of the awards shall vest on the one year anniversary of the vesting commence date, and the remainder shall vest in equal and continuous monthly installments over the following thirty-six months thereafter, subject to participant's continuing service through each vesting date. During 2015 and 2016, nil and 201,875 shares of restricted stock were vested and issued respectively.

On September 4, 2015, the Company completed a 1-for-30 Reverse Stock Split of its issued and outstanding Class A Ordinary Shares and ADSs. The ratio of ADS to Class A Ordinary Shares remained the same: one to two.

On November 8, 2015, 4,708,415 of the Company's Class A Ordinary shares were converted to Class C Ordinary shares, which have super-majority voting rights. The Class C Shares are entitled to ten votes on all matters subject to vote at general meetings of the Company.

As of December 31, 2015, there were 33,556,762 and 4,708,415 Class A and Class C Ordinary Shares issued and outstanding, respectively.

All shares outstanding for all periods reflect the Company's 1-for-30 reverse stock split, which was effective on September 4, 2015.

As of December 31, 2016, there were 33,990,680 and 4,708,415 Class A and Class C Ordinary Shares issued and outstanding, respectively.

17. SHARE BASED COMPENSATION

2005 Share Incentive Plan

On February 4, 2005, the Group adopted the 2005 Share Incentive Plan, or the "2005 Plan", under which the Group may grant options to purchase up to 50,000 ordinary shares of the Company to its employees, outside directors and consultants. The Board of Directors subsequently raised the number of options to be granted to 676,078 shares on November 14, 2008. Following the Company's IPO, the Company no longer grants any awards under the 2005 plan. However, the 2005 plan will continue to govern the terms and conditions of any outstanding awards previously granted there under. In the event that any outstanding option or other right for any reason expires, is cancelled, or otherwise terminated, the shares allocable to the unexercised portion of the 2005 Plan or other right shall again be available for the purposes of the 2005 Plan.

An individual who owns more than 10% of the total combined voting power of all classes of outstanding stock of the Company or any parent or subsidiary of the Company shall not be eligible for designation as an optionee or purchaser unless:

(i) the per share exercise price shall be not less than 110% of the fair market value per share on the date of grant;

(ii) the purchase price shall be not less than 100% of the fair market value per share on the date of grant; and

(iii) in the case of an Incentive Shares Option ("ISO"), such ISO by its terms is not exercisable after the expiration of five years from the date of grant.

The 2005 Plan was approved and will terminate automatically 10 years after its adoption, unless terminated earlier at the Board of Directors' discretion. Option awards are granted with an exercise price determined by the Board of Directors; those option awards generally vest based on 4 years of continuous service and expire in 10 years. As of December 31, 2016, all option awards of the 2005 Plan were expired.

2010 Equity Incentive Plan

On June 1, 2010, the Group adopted the 2010 Equity Incentive Plan, or the "2010 Plan", which became effective upon the completion of the IPO on August 5, 2010. The 2010 Plan allows the Company to offer a variety of incentive awards to employees, outside directors and consultants. Under the plan, the Group may grant up to 633,333 Class A

Ordinary Shares of the Company to its employees, outside directors and consultants, plus (i) any shares that, as of the completion of the IPO, have been reserved but not issued pursuant to awards granted under the 2005 Plan and are not subject to any awards granted there under, and (ii) any shares subject to awards granted under the 2005 Plan that expire or otherwise terminate without having been exercised in full, and shares issued pursuant to awards granted under the 2005 Plan that are forfeited to or repurchased by the Company, with the maximum number of shares to be added to the 2010 Plan pursuant to clauses (i) and (ii) above equal to 333,333 Class A Ordinary Shares; provided, however, that there shall be an annual increase on the first day of each fiscal year beginning with the 2011 Fiscal Year, in an amount equal to the least of (i) 833,333 Class A Ordinary Shares, (ii) 5% of the outstanding Class A Ordinary Shares on the last day of the immediately preceding fiscal year or (iii) such number of Class A Ordinary Shares determined by the Board of Directors. In the event that any outstanding option or other right for any reason expires, is cancelled, or otherwise terminated, the shares allocable to the unexercised portion of the 2010 Plan or other right shall again be available for the purposes of the 2010 Plan.

The 2010 Plan was approved by the Board of Directors and shareholders, and will terminate automatically 10 years after its adoption, unless terminated earlier at the Board of Directors' discretion. The exercise price will not be less than the fair market value of the Company's ordinary shares on the date of grant and the term may not exceed 10 years. In the case of an ISO granted to an employee of the Company or any parent or subsidiary of the Company who, at the time the ISO is granted, owns stock representing more than 10% of the voting power of all classes of shares of the Company or any parent or subsidiary, the exercise price shall be no less than 110% of the fair market value on the date of grant, and the term of the ISO shall be no less than 5 years from the date of grant.

Share options

As of December 31, 2015 and 2016, options granted to employees to purchase 319,229 and 226,696 ordinary shares and to non-employees to purchase 68,121 and 29,921 ordinary shares were outstanding, and options to purchase 808,445 and 939,177 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, 2014, 2015 and 2016 is as follows:

	Year ended December 31, 2014				Year ended December 31, 2015				Year ended December 31, 2016			
	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
		RMB		RMB		RMB		RMB		RMB		RMB
Outstanding at beginning	450,670	506.70	4.54	10,940	427,273	503.40	3.49	175	387,350	3.08	2.59	3,836

of year												
Granted	-	-	-	-	-	-	-	-	-	-	-	-
Exercised	-	-	-	-	-	-	-	-	-	-	-	-
Forfeited or expired	(23,397)	688.50	-	-	(39,923)	3.08	-	-	(130,733)	3.30	-	-
Outstanding at end of year	427,273	503.40	3.49	175	387,350	3.08	2.59	3,836	256,617	3.30	2.84	4,499
Exercisable at end of year	422,641	501.60	3.45	64	387,350	3.08	2.63	1,435	256,617	3.30	2.84	4,499
Expected to be vested	4,032	609.30	6.69	-	-	-	-	-	-	-	-	-

On June 26, 2015, the Company offered its employees (including officers) the opportunity to exchange all outstanding options to purchase shares of the Company’s Class A ordinary shares granted under our 2005 Plan and granted on or prior to November 19, 2011 under our 2010 Plan, that have an exercise price per share greater than $0.4749 (equals to RMB 3.08, the “Eligible Options”), which price is based upon the 30 days’ average trading price of the Company’s Class A ordinary shares as of May 11, 2015, as approved by the company’s board members, for new options to be issued under our 2010 Plan. Each Eligible Option would be exchanged on a one-for-one basis, for the grant of a new option to purchase shares of the Company’s Class A ordinary shares under the 2010 Plan. By December 31, 2015, all options outstanding were granted under 2010 Plan. Incremental share-based compensation expenses regarding exchange of share options recognized in 2015 was amounting to RMB 5,238.

Management of the Group is responsible for determining the fair value of options granted and have considered a number of factors when making this determination, including valuations. The Group has not granted options during the year of 2015 and 2016.

The Company recorded share-based compensation expenses (reversals) of RMB 5,110, RMB (3,645) and nil during the years ended December 31, 2014, 2015 and 2016, respectively, attributed based on a straight-line basis over the requisite service period for the entire award, adjusted by forfeiture rate. The Company did not capitalize any of the share-based compensation expenses as part of the cost of any assets during the years ended December 31, 2014, 2015 and 2016. Total fair values of option vested were RMB 4,787, RMB 83 and nil for employees and RMB 94, RMB 4 and nil for non-employees during the years ended December 31, 2014, 2015 and 2016, respectively.

As of December 31, 2015 and December 31, 2016, all share options were vested.

Restricted stock awards

On October 14, 2014, the Board of Directors granted the restricted stock to each member of the Board who is not an employee of the Group. The number of shares of restricted stock subject to each award shall be determined by dividing US$ 200 by the Cayman Court approved price US$ 1.480 per share of the Group's ordinary shares on May 14, 2014. Total numbers of shares of restricted stock were 811,359. The awards shall vest at a rate of 1/36 per month on the 14th day of each month during the first three anniversaries of May 14, 2014, subject to continued service on the Board. As of December 31, 2015 and 2016, 270,453 and 225,377 shares were vested respectively. In 2015 and 2016, 424,459 and 225,377 shares were issued to the members of the Board respectively.

On May 18, 2015, the Board of Directors granted 86,473 shares of the restricted stock to existing employees whose old options have expired by their terms. All restricted stock subject to this award shall fully vest as of May 18, 2015. In 2015 and 2016, 59,872 and 6,666 of vested shares were issued respectively
to existing employees whose old options were expired.

On May 18, 2015, the Board of Directors granted 510,000 shares of the restricted stock to employees and new hires. Twenty-five percent of the awards shall vest on the one year anniversary of the grant date, and the remainder shall vest in equal and continuous monthly installments over the following thirty-six months thereafter, subject to participant's continuing service through each vesting date. In 2015 and 2016, nil and 201,875 shares of restricted stock were vested and issued respectively.

A summary of the restricted stock awards as of December 31, 2015 and 2016 is as follows:

	Year ended December 31, 2015		
	Shares	Grant-date fair value	Weighted Average Remaining Contractual Term
		RMB	
Outstanding at beginning of year	811,359	21.20	2.63
Granted	596,473	20.32	4.00
Issued	(484,331)	-	-
Forfeited or expired	(61,979)	20.32	1.38
Outstanding at end of year	861,522	21.94	2.59
Shares vested but not issued at end of year	41,628	20.64	-

	Year ended December 31, 2016		
	Shares	Grant-date fair value	Weighted Average Remaining Contractual Term
		RMB	
Outstanding at beginning of year	861,522	21.94	2.59
Granted	-	-	-
Issued	(433,918)	22.94	-
Forfeited or expired	(12,083)	21.72	2.39
Outstanding at end of year	415,521	22.28	1.89
Shares vested but not issued at end of year	34,962	22.73	-

The Company recorded share-based compensation expenses of RMB 3,584, RMB 9,076 and RMB 7,828 for the restricted stock awards for the years ended December 31, 2014, 2015 and 2016, respectively, and the unrecognized share-based compensation expenses was amounting to RMB 15,725 and RMB 8,616 as of December 31, 2015 and 2016, respectively.

18. TAXATION

a. **Value added tax ("VAT")**

The PRC government implemented a value-added tax reform pilot program, which replaced the business tax with VAT on selected sectors including but not limited to education in Shanghai effective January 1, 2012, in Beijing effective September 1, 2012, in Tianjin effective December 1, 2012. In August 2013, the pilot program was expanded nationwide in certain industries. Since May 2016, the change from business tax to VAT are expanded to all other service sectors which used to be subject to business tax. The VAT rates applicable to the subsidiaries and consolidated variable interest entities of the Group ranged from 3% to 6% as compared to the 3%~5% business tax rate which was applicable prior to the reform.

As of December 31, 2015 and 2016, the payable balances for VAT were RMB 30,590 and RMB 31,314, respectively.

b. **Business tax**

In PRC, business taxes are imposed by the government on the revenues arising from the provision of taxable services including but not limited to education, the transfer of intangible assets and the sale of immovable properties in PRC. The business tax rate varies depending on the nature of the revenues. Other than revenues generated from degree oriented educational activities provided by private schools that are accredited to issue diplomas or degree certificates recognized by the Ministry of Education of the PRC which are exempted from business tax, the applicable business tax rate for the Group's revenues generally ranges from 3% to 5%. Business tax and related surcharges are deducted from revenues before arriving at net revenues.

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

As of December 31, 2015 and 2016, the payable balances for business tax were RMB 27,168 and RMB 24,106, respectively.

c. **Income taxes**

Cayman Islands

Under the current laws of Cayman Islands, the Company and its subsidiaries incorporated in the Cayman Islands are not subject to tax on income or capital gains. In addition, upon payment of dividends by the Company to its shareholders, no Cayman Islands withholding tax will be imposed.

British Virgin Islands

The Company's subsidiaries incorporated in the BVI are not subject to taxation.

Hong Kong

Entities incorporated in Hong Kong are subject to Hong Kong profit tax at a rate of 16.5%.

PRC

Significant components of the provision for income taxes on earnings for the years ended December 31, 2014, 2015 and 2016 are as follows:

	Years ended December 31,		
	2014	2015	2016
	RMB	RMB	RMB
Current:			
PRC	13,537	8,562	4,881
Deferred:			
PRC	(12,402)	(127,525)	1,030
Provision for income tax expenses (benefits)	1,135	(118,963)	5,911

Corporate entities

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

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, 2014, 2015 and 2016.

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. The “High and New Technology Enterprises” certificate of Ambow Online has been expired in 2014, and the Company has no intention to renew the certificate, Ambow Online was subject to an income tax rate of 25% since 2014. In August 2014, the in charge tax bureau of Ambow Online issued Circular Haiguoshuibatong[2014]08004, canceling the preferential tax treatment of Ambow Online and wanted to claw back the income tax in 2011 in the amount of RMB 7,278 and the corresponding late payment interest in the amount of RMB 3,435 as of December 2014. In November 2014, Ambow Online filed an administrative lawsuit to Beijing Haidian District Court, with the Eighth Tax Office of National Tax Bureau in Beijing Haidian District as the defendant. The claim was to revoke the tax notice. On March 13, 2015, the court ruled that the lawsuit was rejected. If the plaintiff refuses to accept the ruling, appeal can be filed within 10 days of the receipt of the ruling. On March 20, 2015, the Company has filed an appeal on Beijing First Intermediate People's Court. In June 2015, the Court ruled that the lawsuit was rejected. Late payment interests of RMB 1,328 and RMB 1,332 has been recognized for the loss contingency as of December 31, 2015 and 2016 respectively.

Private schools and colleges

The Group's companies providing education services are taxed as corporate enterprises as referred to above. Private schools or colleges operated for reasonable returns are subject to income taxes at 25% after January 1, 2008 but are sometimes subject to deemed rates of income tax to be determined by the relevant tax authorities. In certain cities, schools that were registered as requiring reasonable returns were subject to income tax of 1.5% to 2.5% on gross revenue.

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 January 2014, the MOF and SAT jointly issued the "Circular on Management Issues Concerning Not-for-Profit Organizations' Eligibility for Tax Exemption" in Circular Caishui [2014] No. 13. 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, 2013. However, as of December 31, 2016, the detailed implementation guidance has not been provided to local tax authorities on how to apply these changes to schools and colleges. The Group has recognized income tax payable for the above unrecognized tax benefits because the obligation was considered probable. Please see Note 18(d) for the movement of uncertain tax position.

The principal components of the Group's deferred tax assets and liabilities were as follows:

	As of December 31	
	2015	2016
	RMB	RMB
Deferred tax asset		
Accrued expense	8,191	7,002
Allowance for doubtful accounts	73,475	73,907
Tax loss carried forward	436,586	445,263
Deferred advertising expense	13,579	11,519
Impairment of long-lived tangible assets	27,046	24,600
Others	5,384	4,273
	564,261	566,564
Valuation allowance	(530,358)	(536,838)
Deferred tax asset, net	33,903	29,726
Deferred tax liabilities		
- Unrecognized valuation surplus and deficit -acquisition	77,825	77,825
- Unrecognized valuation surplus and deficit — Decrease due to amortization and impairment	(53,644)	(55,605)
- Unrealized profit of short-term investments	521	952
- Unrealized profit of foreign exchange transaction	1,019	-

Total deferred tax liabilities	25,721	23,172

The following represents the amounts and expiration dates of operating loss carried forwards for tax purpose:

	Amount
	RMB
2017	560,016
2018	340,224
2019	120,788
2020	96,696
2021 and thereafter	663,329
Total	1,781,053

The following represents a roll-forward of the valuation allowance for each of the years:

	As of December 31,		
	2014	2015	2016
	RMB	RMB	RMB
Balance at beginning of the year	444,946	539,704	530,358
Allowance made during the year	128,002	30,873	6,480
Allowance resulting from the reconsolidation of previously deconsolidated entities	-	1,352	-
Reversals	(33,244)	(41,571)	-
Balance at end of the year	539,704	530,358	536,838

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,		
	2014	2015	2016
	%	%	%
Weighted average statuary tax rate	25 %	25 %	25 %
Tax effect of non-deductible expenses	(1)%	0 %	(1)%
Tax effect of non-taxable income	0 %	0 %	1 %
Tax effect of tax-exempt entities	(12)%	(9)%	(10)%
Tax effect of deemed profit	0 %	0 %	(1)%
Tax effect of disposed entity	0 %	13 %	0 %
Tax penalty	(1)%	0 %	(4)%
Changes in valuation allowance	(13)%	2 %	(29)%
Effective tax rate	(2)%	31 %	(19)%

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,		
	2014	2015	2016
	RMB	RMB	RMB
Unrecognized tax benefits, beginning of year	14,930	15,011	23,648
Increases related to current tax positions	565	4,948	1,675
Addition from the consolidation of previously deconsolidated subsidiaries	-	3,689	-
Decrease due to deconsolidation	(484)	-	-
Unrecognized tax benefits, end of year	15,011	23,648	25,323

The amounts of unrecognized tax benefits listed above are based on the recognition and measurement criteria of ASC Topic 740. However, due to the uncertain and complex application of tax regulations, it is possible that the ultimate resolution of uncertain tax positions may result in liabilities which could be materially different from these estimates. In such an event, the Group will record additional tax expense or tax benefit in the period in which such resolution occurs. For the years ended December 31, 2014, 2015 and 2016, there are RMB 565, RMB 4,948 and RMB 1,675 unrecognized tax benefits that if recognized would affect the annual effective tax rate. The Group does not expect that the position of unrecognized tax benefits will significantly increase or decrease within 12 months of December 31, 2016.

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 remain subject to examination by the tax authorities based on the above.

F-43

19. 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,		
	2014	2015	2016
	RMB	RMB	RMB
Numerator:			
Numerator for basic and diluted loss from continuing operations per share	(1,018,547)	(277,048)	(35,700)
Numerator for basic and diluted (loss) income from discontinued operations per share	(58,266)	340,787	-
Denominator:			
Denominator for basic and diluted (loss) income per share weighted average ordinary shares outstanding	13,928,048	36,848,816	38,469,234
Basic and diluted loss per share- continuing operations	(73.13)	(7.52)	(0.93)
Basic and diluted (loss) income per share- discontinued operations	(4.18)	9.25	-

Basic net income (loss) per share is computed using the weighted average number of the ordinary shares outstanding during the period. Diluted net income (loss) per share is computed using the weighted average number of ordinary shares and ordinary equivalent shares outstanding during the period. Due to the loss from continued operations for the periods, approximately 1,238,632, 1,248,873, and 672,138 share options and restricted shares were excluded from the calculation of diluted net income (loss) per share for the years ended December 31, 2014, 2015 and 2016, respectively, because the effect would be anti-dilutive.

F-44

20. 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, 2016 were as follows:

	Amount RMB
2017	17,622
2018	14,838
2019	12,888
2020	10,510
2021	8,628
Thereafter	54,241
Total	118,727

Rent expense for all cancelable and non-cancelable leases including continuing and discontinued operation were approximately RMB 143,499, RMB 54,939 and RMB 26,184 for years ended December 31, 2014, 2015 and 2016, respectively.

Contingencies

1) Skillsoft

In April 2012, Skillsoft Asia Pacific Pty Ltd. ("Skillsoft") filed a statement of claim (HCCL19/2013) against the Company in the High Court of the Hong Kong Special Administrative Region Court of First Instance alleging breach of contract. The complaint seeks a declaration that the contract between the Company and Skillsoft remains in full force and effect as well as monetary damages, interest and costs. On December 12, 2013, the Hong Kong court has ordered a summary judgment in favor of Skillsoft for US$ 0.6 million being the Quarterly Prepayment License Fee for the 4th quarter of 2011 with respect to HCCL 19/2013.In addition, Skillsoft filed two claims: a) HCCL20/2013 on June 6, 2013, seeking a payment of US$ 2.5 million for breach of the contract and US$ 2.0 million in respect of invoices for pre-paid licensing fees; b) HCCL31/2013 on October 21, 2013 seeking a payment of US$ 2.0 million for

breach of the contract. A without prejudice offer for settlement was made on June 18, 2014: the Company pays to Skillsoft the sum of US$ 0.6 million with interest (US$ 0.1 million as at June 12, 2014) and costs (estimated at HK$0.4 million). Subsequently the offer of settlement was not accepted by Skillsoft prior to expiry on July 3, 2014 and has accordingly lapsed. On March 20, 2015, the Honorable Mr. Justice Anthony Chan ordered that HCCL19, 20 and 31/2013 be consolidated and proceed as a single action. The claim then was made by Skillsoft for a consolidated sum of US$ 7.3 million. As of December 31, 2014, the Company has paid US$ 0.8 million to settle the judgment of HCCL19/2013 made on December 12, 2013. On April 17, 2015 a Re-Amended Statement of Claim was served by Skillsoft in the consolidated action. Additionally, Skillsoft now seeks indemnity for breaches (1) that Ambow failed to use reasonable commercial efforts to market, demonstrate and distribute Skillsoft's products (2)indemnity for the appointment, by Ambow of re-sellers, sub-distributors and agents without Skillsoft's express prior permission and (3) an order for specific performance for Ambow to provide Sales Reports for each month in 2012 and 2013 and make available for inspection and audit all accounting, sales, and customer service books and records of Ambow from April 30, 2008 to the date of application (the "Inspection Claims").

On January 12, 2016, the Company successfully resisted Skillsoft's application for summary judgment for the Inspection Claims.

On April 28, 2016, the Company went through mediation with Skillsoft. As the result of mediation, the Company agreed to pay Skillsoft no later than June 11, 2016 a sum of US$0.45 million as full and final settlement of Skillsoft's claims in the above consolidated action. Upon receipt of payment of the said sum of US$0.45 million by Skillsoft, Skillsoft's claims in the above consolidated action shall stand dismissed.

The Company accrued the said sum of US$0.45 million as of March 31, 2016 and made the full payment in May 2016.

2) 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 Changsha K-12 Experimental School, amounting to RMB 167,990 as the plaintiff's claim. On November 13, 2014, Hunan Province High Court made the decision that all the claims of the plaintiff were overruled. The case has been appealed to the Supreme Court of PRC in June 2015. On July 2, 2016, the Supreme Court of PRC gave final judgment to overrule all the claims of the plaintiff. Cost in respect of the lawsuit would be undertaken by the plaintiff.

3) Ambow Online Administrative Lawsuit

In November 2014, Beijing Ambow Online Software Company Ltd. filed an administrative lawsuit to Beijing Haidian District Court, with the Eighth Tax Office of National Tax Bureau in Beijing Haidian District as the defendant. The

Tax Bureau made a tax notice on August 18th, 2014 that the Company's preferential tax qualification for the year 2011 was cancelled because of tax evasion in 2011 and the Company needed to pay the enterprise income tax already exempted, which was RMB 7,278. Until December 31, 2014, the overdue fee has been accrued to RMB 3,435 and the total amount to be paid has been accrued to RMB 10,713, the claim is to revoke the tax notice. On March 13, 2015, the court ruled that the lawsuit was rejected. If the plaintiff refuses to accept the ruling, appeal can be filed within 10 days of the receipt of the ruling. On March 20, 2015, the Company has filed an appeal on Beijing First Intermediate People's Court. On June 19, 2015, the court rejected the appeal and maintained the first instance ruling. The overdue fee in the amount RMB 1,328 and RMB 1,332 were accrued for the years ended December 31, 2015 and December 31, 2016 respectively. Income tax payable of RMB 12,041 and RMB 13,373 have been recognized for the loss contingency as of December 31, 2015 and December 31, 2016.

4) Shenyang K-12

In March 2015, Shenyang K-12 filed a civil law suit to Shenyang First Intermediate People's Court of Liaoning Province, against its minority shareholders, as the co-defendants, to seek indemnification with interest and other related costs. The co-defendants have misappropriated of the tuition collected from students and the Company has provided bad debt allowance accordingly in 2014. On February 19, 2016, the trial was held on Shenyang First Intermediate People's Court of Liaoning Province. On March 29, 2016, Shenyang First Intermediate People's Court of Liaoning Province made a decision to support the claim of Shenyang K-12. On May 24, 2016, the minority shareholders of Shenyang K-12 appealed to Liaoning Provincial High Court. On November 8, 2016, the second trial was held on Liaoning Provincial High Court. On November 21, 2016, Liaoning Provincial High Court made a judgment to dismiss the appeal of the minority shareholders of Shenyang K-12 and ratify the original judgment. The Company did not accrue contingent income because the co-defendants showed no intent or ability to pay indemnification.

21. 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 three operating segments which are Tutoring, K-12 Schools and Career Enhancement. These three operating segments are also identified as reportable segments. The reportable segments of tutoring and K-12 schools are grouped under the "Better Schools" division because the segments offer programs and education services using a standards-based curriculum that enables students to improve their academic results and educational opportunities. The reportable segments of career enhancement was classified under the "Better Jobs" division because the segments offer services and programs that facilitate post-secondary students to obtain more attractive employment opportunities.

The 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, 2014

	Better School			Better Job	
	Tutoring	K-12	Subtotal	Career Enhancement	Consolidated
	RMB	RMB	RMB	RMB	RMB
Net Revenues	68,203	168,244	236,447	175,551	411,998
Cost of revenues	(52,728)	(115,416)	(168,144)	(105,892)	(274,036)
Gross profit	15,475	52,828	68,303	69,659	137,962

For the year ended December 31, 2015

	Better School			Better Job	
	Tutoring	K-12	Subtotal	Career Enhancement	Consolidated
	RMB	RMB	RMB	RMB	RMB
Net Revenues	54,888	186,747	241,635	154,080	395,715
Cost of revenues	(41,048)	(116,819)	(157,867)	(88,078)	(245,945)
Gross profit	13,840	69,928	83,768	66,002	149,770

For the year ended December 31, 2016

	Better School			Better Job	
	Tutoring	K-12	Subtotal	Career Enhancement	Consolidated
	RMB	RMB	RMB	RMB	RMB
Net Revenues	47,985	222,592	270,577	141,439	412,016
Cost of revenues	(33,465)	(137,833)	(171,298)	(67,444)	(238,742)
Gross profit	14,520	84,759	99,279	73,995	173,274

The Group primarily operates in the PRC. Substantially all the Group’s long-lived assets are located in the PRC.

22. 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 31,896, RMB 28,085 and RMB 29,029 for the years ended December 31, 2014, 2015 and 2016, respectively.

In accordance with the Regulations on Enterprises with Foreign Investment of PRC and their articles of association, the Company's subsidiaries in the PRC, being foreign invested enterprises established in PRC, are required to provide for certain statutory reserves, namely general reserve, enterprise expansion reserve and staff welfare and bonus reserve, all of which are appropriated from net profit as reported in the Group's PRC statutory accounts. The Company's subsidiaries in the PRC are required to allocate at least 10% of their after-tax profits to the general reserve fund until such fund has reached 50% of their respective registered capital. Appropriations to the enterprise expansion fund and staff welfare and bonus fund are at the discretion of the board of directors of the Company's subsidiaries.

In accordance with the PRC Company Laws, the Group's VIEs established in PRC make appropriations from their after-tax profits as reported in their PRC statutory accounts to non-distributable reserves, namely statutory surplus reserve, statutory public welfare reserve and discretionary surplus reserve. The Company's or its non-school subsidiaries' VIEs are required to allocate at least 10% of their after-tax profits to the statutory surplus reserve until the reserve reaches 50% of each entity's registered capital. Appropriation to the statutory public welfare fund is 5% to 10% of their after-tax profits as reported in the PRC statutory accounts. Effective from January 1, 2006, under the revised PRC Company Laws, an appropriation to the statutory public welfare reserve is no longer mandatory. Appropriation to the discretionary surplus reserve is made at the discretion of the board of directors of the VIEs.

In accordance with the Law of Promoting Private Education (2003), the Group's school subsidiaries in PRC must make appropriations from their after-tax profits as reported in their PRC statutory accounts to non-distributable reserves, namely the education development reserve, which requires annual appropriations of at least 25% of after-tax profits or the increase in net assets of private education schools (as determined under accounting principles generally accepted in the PRC at each year-end) to the statutory reserve.

The following table presents the Group's appropriations to the general reserve fund, statutory surplus reserve and education development reserve as of December 31, 2015 and 2016:

	As of December 31,	
	2015	2016
	RMB	RMB
General and statutory surplus reserve	59,307	59,309
Education development reserve	21,698	21,698
Total	81,005	81,007

23. RELATED PARTY TRANSACTIONS

a. Transactions

The Group entered into the following transactions with related parties:

Transactions	Years ended December 31,		
	2014	2015	2016
	RMB	RMB	RMB
Repayments to Executive Principal of Ambow Research Center (Note i)	-	(3,960)	-
Loan to/(collection from) A, a member of management team of the Company (Note ii)	2,770	(1,670)	-
Borrowing from/(repaid to) A, a member of management team of the Company (Note iii)	500	(1,350)	-
Loan to/(collection from) a member of management team of Beijing SIWA Century Zhisheng Education Technology Co., Ltd. ("Century Zhisheng") (Note ii)	10	199	(24)
Loan to Suzhou Chengpingheng Software Engineering Co., Ltd , an entity controlled by a member of management team of Century Zhisheng (Note iv)	-	138	-
Borrowing from a member of management team of Century Zhisheng (iii)	3,143	1,089	-
Borrowing from Shandong Shichuang Software Engineering Co., Ltd., an entity controlled by Executive Principal of Ambow Research Center (Note iv)	3,430	-	-
Loan to B, a member of management team of the Company (Note ii)	-	400	-

Note (i) Due to the shortage of working capital, the Company borrowed funds from one management personnel. The borrowing of RMB 2,000 from the management personnel was with a maturity date on February 7, 2014 and noninterest bearing; RMB 1,960 was with a maturity date on December 8, 2013 and bearing interest at 24% per annum. The borrowings of RMB 3,960 were repaid to the management personnel in the year ended December 31, 2015.

Note (ii) The loans were to management for operation purpose.

Note (iii) The borrowings were made from management for operation purpose. The borrowings of RMB 3,143 and 1,089 from a member of management team of Century Zhisheng in 2014 and 2015 were noninterest bearing. The borrowings of RMB 500 from A, a member of management team of the Company in year 2014 were bearing interest at 10% per annum, and fully repaid in 2015.

Note (iv) The loans to and/or borrowings from entities controlled by of management were made for operation purpose without interest bearing and maturity date.

b. The Group had the following balances with related parties:

Relationship	Amounts due from related parties		Amounts due to related parties	
	As of December 31,		As of December 31,	
	2015	2016	2015	2016
	RMB	RMB	RMB	RMB
A, a member of management team of the Company (Note 23 a (ii) & (iii))	1,100	1,100	-	-
A member of management team of Century Zhisheng (Note 23 a (ii))	209	185	4,232	4,232
Entity controlled by a member of management team of Century Zhisheng - Suzhou Chengpingheng Software Engineering Co., Ltd (Note 23a (iv))	138	138	-	-
Entity controlled by Executive Principal of Ambow Research Center - Shandong Shichuang Software Engineering Co., Ltd. (Note 23 a (iv))	-	-	3,430	3,430
B, a member of management team of the Company (Note 23 a (ii))	400	400	-	-
	1,847	1,823	7,662	7,662

F-48

c. 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 Ordinary 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 Ordinary 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 Ordinary Shares acquired by Campus plus the value of all other property delivered as a dividend or other distribution on such Class A Ordinary 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 Ordinary Shares or a combination of cash and Class A Ordinary 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 60,606 Class A Ordinary 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 Ordinary Shares in accordance with the terms of the Participation Agreement. Spin-Rich in turn entered into a charge over 202,592 Class B Ordinary 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 Ordinary 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 398,153 Class A Ordinary 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 base 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 would 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 54,311 (US$ 8,876), RMB 44,686 (US$ 7,222) and RMB nil (US$ nil) expenses were

recognized for the years ended December 31, 2014, 2015 and 2016, respectively.

d. Share Interest Assignment between CEIHL and New Flourish

On August 31, 2014, CEIHL entered a Share Interest Assignment Agreement with New Flourish, an entity control by CEO of the Company. Pursuant to the Assignment Agreement, CEIHL agreed to sell 5,678,963 shares at a favorable consideration of US$ 5,779 with payment schedule of 3 equal annual installments starting on August 31, 2016. If the Company fails to file the annual report of Form 20-F for the year 2014 on or before the date in compliance with the Security Act, CEIHL has a right to repurchase 433,333 shares at the same price from New Flourish.

On September 5, 2014, CEIHL converted US$ 31,692 of the convertible loan and transferred 5,678,963 Class A Ordinary Shares to New Flourish.

Management has assessed the accounting treatment for this transaction which was regarded as one time settlement awards to Company's senior management for past contribution to the Group and management believes that it should be accounted for as a one off share-based compensation pursuant to FASB ASC Topic 718. The discounted total consideration is US$ 4,257. The fair value of the Company's ordinary shares was US$ 19,678 based on equity value US$ 3.465 per share, and the difference between the fair value of the consideration and Company's ordinary shares was RMB 94,360 (US$ 15,421). The amount was recognized in full as one-off share-based compensation expense in 2014, since the Form 20-F for the year ended December 31, 2014 was timely filed in compliance with the Security Act.

F-49

24. DISCONTINUED OPERATIONS

a. Disposal of Jinghan Group

On November 10, 2014, the Company entered into a sale and purchase agreement to dispose of all its interest in Jinghan Group to a third party, with net consideration of RMB 500,000 in cash, and with a waiver of RMB 18,195 receivables due from Jinghan group by the Company. Besides the receivables being waived, the Company had RMB 122,822 receivables due from and RMB 25,959 due to Jinghan Group by different subsidiaries. After assessing the collectability, the Company provided an additional bad debt allowance of RMB 96,863 by reducing the net receivable balances, after netting of payable balances, due from Jinghan Group to zero. The disposal of Jinghan Group resulted in an income of RMB 343,912 for the year ended December 31, 2015. The disposal of Jinghan Group was completed by April 8, 2015. Consideration of RMB 500,000 was received fully by the end of year ended December 31, 2015.

b. Discontinued operations

Following are revenue and income (loss) from discontinued operation:

Jinghan Group

	Years ended December, 31		
	2014	2015	2016
	RMB	RMB	RMB
Revenues	679,295	171,938	-
Impairment loss	-	-	-
Loss from discontinued operation	(73,499)	(4,499)	-
Income tax benefit	15,735	1,385	-
Loss from discontinued operation, net of income tax	(57,764)	(3,114)	-
Income on sale of discontinued operation, net of income tax	-	343,912	-

(note(i)) Income (loss) from and on sale of discontinued operation, net of income tax	(57,764)	340,798	-

Note (i) Foreign currency translation adjustment included in the loss on sale of discontinued operation is RMB 9,084 for the year ended December 31, 2015.

25. GAIN ON DISPOSAL OF SUBSIDIARY

Medium Range Online (Beijing) Technology Co., Ltd ("Zhongcheng") is a company focusing on careen enhancement, acquired on September 2, 2009 and 100% owned by Ambow Shanghai. In 2014, due to the shortage of working capital, the Company disposed 70% interest of Zhongcheng to a third party. In exchange for the 70% interest in Zhongcheng, the third party assumed certain liabilities of Zhongcheng amounting of RMB 9,090. In connection with the disposal, the Company also waived the intercompany receivables and payables with Zhongcheng. The Group did not receive any consideration in the transaction. The deal was not a strategic shift of the business and this transaction would not have major impact on Ambow's business, therefore this transaction was not qualified as discontinued operation. The fair value of 30% interest in Zhongcheng was RMB 693 as of disposal date on September 30, 2014, while the carrying amount of its net liabilities was RMB 6,710 after the waiver of the net intercompany balances. In 2014, the Company recognized a gain of RMB 7,403 on the disposal accordingly.

As of December 31, 2015, the Company could not exercise its significant influence over the operating and financial policies of Zhongcheng, and did not expect to receive any economic benefit from the investment, thus recorded full impairment loss upon its 30% interest in Zhongcheng with an amount of RMB 693.

26. DECONSOLIDATION AND RECONSOLIDATION

a. Deconsolidation in 2014:

In 2014, the principal of Jilin Tutoring lost confidence in the Group and stopped providing financial statements and reporting operation results to the Group after September 30, 2014, which was determined as the date that the Group ceased to have substantial control on Jilin Tutoring. Afterwards, the Group did not have any continuing involvement with Jilin Tutoring.

During the year ended December 31, 2014, the Group recognized a total impairment loss amounting to RMB 29,462 arising from deconsolidation of Jilin Tutoring. The deconsolidation loss was equivalent to the subsidiary's carrying amounts of net assets and the amount of accumulated other comprehensive income attributable to Jilin Tutoring as of the deconsolidation date because the Group assessed the investment were not recoverable.

Because of the deconsolidation, the amount due from the deconsolidated subsidiaries of RMB 4,750 was fully written off as of December 31, 2014.

The Company has regained control over Jilin Tutoring in the second half of 2015. However, all the operations of this deconsolidated entity has ceased. In the year of 2016, the Management took measures to gradually restore operation of these entities.

b. Reconsolidation in 2015:

In the second half of 2015, a legal team has been sent to resolve these issues with the ex-owners. The Company has regained control of the deconsolidated entities. As a result, the financials of these entities have been consolidated in its 2015 consolidated financial statements. Income resulting from reconsolidation of previously de-consolidated entities was RMB 14,127 for the year ended December 31, 2015, which was comprised of a reverse of bad debt allowance of deconsolidated entities in prior years of RMB 49,472, offsetting by the net liabilities of RMB 38,696 on these entities, and the recognition of the deficit of non-controlling interest of RMB 3,351. All the operations of these deconsolidated entities have ceased by December 31, 2015. In the year of 2016, the Management took measures to gradually restore operation of these entities, which include reinstating their business licenses. The Management estimate one year or more would be needed due to procedural requirements.

F-51

27. NON-CONTROLLING INTERESTS

As of January 1, 2013, 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.

In 2013, the 5% economic interest in Guangzhou ZS Career Enhancement was derecognized as a result of deconsolidation of subsidiary, while the 30% economic interest in Taishidian Holding was derecognized with the disposal of Taishidian Holding.

In 2014, the Group established Shanghai Tongguo under Ambow Shanghai, with a non-controlling interest of 31% economic interest amounting to RMB 270 from three individual shareholders.

In 2015, the 36% economic interest in Ambow Jingxue was derecognized as a result of disposal of subsidiary, while the 5% economic interest in Guangzhou ZS Career Enhancement was recognized as a result of reconsolidation of subsidiary. In addition, three individual shareholders of Shanghai Tongguo increased their paid in capital on the subsidiary with a total amount of RMB 163.

In 2016, the Group established Suzhou Jiaxue under Ambow Zhixin, with a non-controlling interest of 40% economic interest amounting to RMB 400 from one individual shareholder and one corporate shareholder. Also the Group established Huanyu Liren under Kunshan Ambow, with a non-controlling interest of 40% economic interest amounting to RMB 396 from one individual shareholder.

28. FAIR VALUE MEASUREMENTS

The Group adopted ASC Topic 820, "Fair Value Measurements and Disclosures", which defines fair value, establishes a framework for measuring fair value and expands financial statement disclosure requirements for fair value measurements.

ASC Topic 820 defines fair value as the price that would be received from the sale of an asset or paid to transfer a liability (an exit price) on the measurement date in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability. ASC Topic 820 specifies a hierarchy of valuation techniques, which is based on whether the inputs into the valuation technique are observable or unobservable. The hierarchy is as follows:

Level 1-Valuation techniques in which all significant inputs are unadjusted quoted prices from active markets for assets or liabilities that are identical to the assets or liabilities being measured.

Level 2-Valuation techniques in which significant inputs include quoted prices from active markets for assets or liabilities that are similar to the assets or liabilities being measured and/or quoted prices for assets or liabilities that are identical or similar to the assets or liabilities being measured from markets that are not active. Also, model-derived valuations in which all significant inputs and significant value drivers are observable in active markets are Level 2 valuation techniques.

Level 3-Valuation techniques in which one or more significant inputs or significant value drivers are unobservable. Unobservable inputs are valuation technique inputs that reflect the Group's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Management of the Group is responsible for determining the fair value of equity issued, assets acquired, liabilities assumed and intangibles identified as of the acquisition date and considered a number of factors including valuations from independent appraiser.

When available, the Group uses quoted market prices to determine the fair value of an asset or liability. If quoted market prices are not available, the Group measures fair value using valuation techniques that use, when possible, current market-based or independently-sourced market parameters, such as interest rates and currency rates. The following is a description of the valuation techniques that the Group uses to measure the fair value of assets and

liabilities that are measured and reported at fair value on a recurring basis:

At December 31, 2016 and 2015 information about inputs into the fair value measurements of the assets and liabilities that the Group makes on a recurring basis were as follows:

		Fair Value Measurements at Reporting Date Using		
	Total Fair Value and Carrying Value on Balance Sheet	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
As of December 31, 2016				
Assets:				
Short term investments, available for sale	174,811	174,811	-	-

		Fair Value Measurements at Reporting Date Using		
	Total Fair Value and Carrying Value on Balance Sheet	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
As of December 31, 2015				
Assets:				
Short term investments, available for sale	103,602	103,602	-	-

The following table presents the quantitative information about the Group's Level 3 fair value measurements of intangible assets in 2015 and 2016, which utilize significant unobservable internally-developed inputs:

	Fair value	**Valuation techniques**	**Unobservable inputs**	**Range**
Intangible assets as of September 30, 2015	61,354	Relief-from-royalty method	Royalty rate Discount rate Terminal growth rate	1%-7% 16%-22% 3%
Intangible assets as of September 30, 2016	115,941	Relief-from-royalty method	Royalty rate Discount rate Terminal growth rate	0%-9% 16%-22% 3%

29. CONCENTRATIONS

Financial instruments that potentially expose the Group to concentrations of credit risk consist primarily of cash and cash equivalents, term deposits, accounts receivable, 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, 2014, 2015 and 2016.

No single supplier represented 10% or more of the Group's total costs of sales for the years ended December 31, 2014, 2015 and 2016.

A summary of the debtors who accounted for 10% or more of the Group's consolidated accounts receivable, prepaid and other current assets, other non-current assets and consideration receivable was as follows:

	As of December 31,			
	2015		2016	
Debtors	RMB	%	RMB	%
Accounts receivable				
Company A	1,483	13 %	1,313	10 %
Prepaid and other current assets				
Company B	49,800	32 %	49,800	32 %
Company C	35,000	22 %	35,000	23 %
Company D	25,959	17 %	25,959	17 %
Other non-current assets				
Company E	1,858	36 %	1,570	25 %
Consideration receivable				
Company F	8,500	100%	8,500	100%

The Chinese market in which the Group operates exposes the Group to certain macroeconomic and regulatory risks and uncertainties. These uncertainties extend to the ability of the Group to provide educational and career enhancement services through contractual arrangements in the PRC since this industry remains highly regulated. The Chinese government may issue from time to time new laws or new interpretations on existing laws to regulate the

education industry. Regulatory risk also encompasses the interpretation by the tax authorities of current tax laws, the status of properties leased for the Group's operations and the Group's legal structure and scope of operations in the PRC, which could be subject to further restrictions resulting in limitations on the Group's ability to conduct business in the PRC.

30. SUBSEQUENT EVENTS

The Company has evaluated subsequent events through the date of issuance of this consolidated financial statements, except the purchase of an office property as stated in Note 12, and the Company does not identified events with material financial impact on the Group's consolidated financial statements.

31. ADDITIONAL INFORMATION - CONDENSED FINANCIAL STATEMENTS

Relevant PRC statutory laws and regulations permit the payment of dividends by the Group's PRC VIEs and subsidiaries only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. In addition, PRC laws and regulations require that annual appropriations of certain percentages of the after-tax income or the increase in net assets for the year (as determined under accounting principles generally accepted in the PRC) should be set aside at each year end as a reserve prior to the payment of dividends. As a result of these PRC laws and regulations, the Group's PRC VIEs and subsidiaries are restricted in their ability to transfer a portion of their net assets to the Group either in the form of dividends, loans or advances. The Group's restricted net assets, comprising of the registered paid in capital and statutory reserve of Company's PRC subsidiaries and VIEs, were RMB 1,340,756 and RMB 1,351,757 as of December 31, 2015 and 2016, 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, 2015 and 2016, there were no material contingencies, significant provisions for long-term obligations, or guarantees of the Company, except for those which have been separately disclosed in the consolidated financial statements, if any.

AMBOW EDUCATION HOLDING LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Financial information of Parent Company

Balance Sheets

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

	As of December 31,		
	2015	2016	2016
	RMB	RMB	US$
			Note 3(a)
ASSETS			
Current assets:			
Cash and cash equivalents	8,658	1,467	211
Amounts due from related parties	201,341	183,676	26,456
Prepaid expenses and other current assets	160	341	49
Total current assets	210,159	185,484	26,716
Non-current assets:			
Intangible assets, net	16	8	1
Investment in subsidiaries	-	-	-
Total non-current assets	16	8	1
Total assets	210,175	185,492	26,717
LIABILITIES			
Current liabilities:			
Amounts due to related parties	14,839	19,605	2,824
Accrued and other liabilities	51,540	49,371	7,111
Total current liabilities	66,379	68,976	9,935
Total non-current liabilities	-	-	-
Total liabilities	66,379	68,976	9,935

SHAREHOLDERS' EQUITY			
Ordinary shares			
(US$ 0.003 par value; 40,000,000 and 40,000,000 shares authorized, 38,265,177 and 38,699,095 shares issued and outstanding as of December 31, 2015 and 2016, respectively)	717	726	105
Additional paid-in capital	3,445,408	3,453,227	497,368
Accumulated deficit	(3,307,442)	(3,343,142)	(481,513)
Accumulated other comprehensive income	5,113	5,705	822
Total shareholders' equity	143,796	116,516	16,782
Total liabilities and shareholders' equity	210,175	185,492	26,717

F-56

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,			
	2014	2015	2016	2016
	RMB	RMB	RMB	US$
				Note 3(a)
NET REVENUES				
- Educational program and services	-	-	-	-
Cost of revenues				
- Educational program and services	-	-	-	-
GROSS LOSS	-	-	-	-
Operating expenses:				
Selling and marketing	(348)	(410)	-	-
General and administrative	(229,814)	(79,562)	(18,854)	(2,716)
Research and development	(144)	(660)	-	-
Total operating expenses	(230,306)	(80,632)	(18,854)	(2,716)
OPERATING LOSS	(230,306)	(80,632)	(18,854)	(2,716)
Share of income (loss) from subsidiaries	(609,711)	201,051	(23,274)	(3,352)
OTHER EXPENSE				
Interest income (expense) net	(91,064)	(56,549)	1	-
Loss from extinguishment of debt	(143,901)	-	-	-
Foreign exchange losses, net	(459)	(131)	-	-
Other income (expense), net	(1,372)		6,427	927
Income tax	-	-	-	-
NET (LOSS) INCOME	(1,076,813)	63,739	(35,700)	(5,141)

AMBOW EDUCATION HOLDING LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Financial Information of Parent Company

Statements of Cash Flows

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

	Years ended December 31,			
	2014	2015	2016	2016
	RMB	RMB	RMB	US$
				Note 3(a)
Cash flows from operating activities	(109,368)	(40,384)	(6,348)	(914)
Cash flows from investing activities	-	-	-	-
Cash flows from financing activities	109,330	48,876	(843)	(121)
Effects of exchange rate changes on cash and cash equivalents	2	-	-	-
Net change in cash and cash equivalents	(36)	8,492	(7,191)	(1,035)
Cash and cash equivalents at beginning of year	202	166	8,658	1,246
Cash and cash equivalents at end of year	166	8,658	1,467	211
Supplemental disclosure of cash flow information				
Supplemental disclosure of non-cash investing and financing activities				
Shares surrender by SummitView	67,309	-	-	-
Conversion of convertible loan to ordinary shares and waiver of related accrued interest expenses	226,298	70,146	-	-
Receipt of convertible loan by settlement of debt	80,000	-	-	-