

Jones Trevor M
Form 4
January 05, 2011

FORM 4

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

Check this box
if no longer
subject to
Section 16.
Form 4 or
Form 5
obligations
may continue.
See Instruction
1(b).

**STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF
SECURITIES**

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934,
Section 17(a) of the Public Utility Holding Company Act of 1935 or Section
30(h) of the Investment Company Act of 1940

OMB APPROVAL

OMB
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(Print or Type Responses)

1. Name and Address of Reporting Person *
Jones Trevor M

2. Issuer Name **and** Ticker or Trading
Symbol
ALLERGAN INC [AGN]

5. Relationship of Reporting Person(s) to
Issuer

(Check all applicable)

(Last) (First) (Middle)
2525 DUPONT DRIVE
(Street)

3. Date of Earliest Transaction
(Month/Day/Year)
01/03/2011

☒ Director ☐ 10% Owner
☐ Officer (give title below) ☐ Other (specify below)

IRVINE, CA 92612

4. If Amendment, Date Original
Filed(Month/Day/Year)

6. Individual or Joint/Group Filing(Check
Applicable Line)
☒ Form filed by One Reporting Person
☐ Form filed by More than One Reporting
Person

(City) (State) (Zip)

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)	4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)	5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(D)	Price

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474
(9-02)

**Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(e.g., puts, calls, warrants, options, convertible securities)**

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)	5. Number of Derivative Securities Acquired	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)	8. Price of Deriva Securi (Instr.
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Derivative Security			Code	V	(A) or Disposed of (D) (Instr. 3, 4, and 5)		Date Exercisable	Expiration Date	Title	Amount or Number of Shares	
					(A)	(D)					
Phantom Stock Units	(1)	12/01/2010	A	V	3.24 (2)		(3)	(3)	Common Stock	3.24	\$ 66
Phantom Stock Units	(1)	01/03/2011	A		170.6 (4)		(3)	(3)	Common Stock	170.6	\$ 70

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Jones Trevor M 2525 DUPONT DRIVE IRVINE, CA 92612			X	

Signatures

/s/ Matthew J. Maletta, Attorney-in-Fact for Trevor M. Jones 01/05/2011

__Signature of Reporting Person

Date

Explanation of Responses:

* If the form is filed by more than one reporting person, see Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. See 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Converts to common stock on a 1-for-1 basis.

(2) Phantom stock units acquired under the Allergan, Inc. Deferred Directors' Fee Program in lieu of cash for quarterly dividend, exempt transaction under Rule 16a-11.

(3) Phantom stock units are to be settled 100% in stock upon the reporting person's retirement as an Allergan, Inc. director.

(4) Phantom stock units acquired under the Allergan, Inc. Deferred Directors' Fee Program in lieu of cash for quarterly portion of annual retainer.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, see Instruction 6 for procedure.

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Other non-current liabilities (including consolidated VIE amount without recourse to the Company of RMB nil and RMB nil as of December 31, 2016 and 2017, respectively)

— 2,938 452

Total non-current liabilities

— 48,909 7,518

Total liabilities

838,002 811,461 124,719

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

F-4

TABLE OF CONTENTS

AMBOW EDUCATION HOLDING LTD.

CONSOLIDATED BALANCE SHEETS (CONTINUED)

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

	Note	As of December 31,		
		2016	2017	2017
		RMB	RMB	US\$
				Note 3(a)
Commitments and contingencies	21			
EQUITY				
Preferred shares				
(US\$0.003 par value; 1,666,667 shares authorized, nil issued and outstanding as of December 31, 2016 and 2017)		—	—	—
Class A Ordinary shares				
(US\$0.003 par value; 66,666,667 and 66,666,667 shares authorized; 33,990,680 and 34,206,939 shares issued and outstanding as of December 31, 2016 and 2017, respectively)	17	636	640	98
Class C Ordinary shares				
(US\$0.003 par value; 8,333,333 and 8,333,333 shares authorized; 4,708,415 and 4,708,415 shares issued and outstanding as of December 31, 2016 and 2017, respectively)	17	90	90	14
Additional paid-in capital		3,453,227	3,456,307	531,225
Statutory reserve	23	81,007	20,036	3,079
Accumulated deficit		(3,424,149)	(3,316,715)	(509,770)
Accumulated other comprehensive income		5,705	6,876	1,056
Total Ambow Education Holding Ltd.'s equity		116,516	167,234	25,702
Non-controlling interests	29	(1,495)	(1,275)	(195)
Total equity		115,021	165,959	25,507
Total liabilities and equity		953,023	977,420	150,226

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

F-5

TABLE OF CONTENTS**AMBOW EDUCATION HOLDING LTD.****CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)**

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

		Years ended December 31,			
	Note	2015	2016	2017	2017
		RMB	RMB	RMB	US\$
NET REVENUES					
– Educational program and services	22	395,715	412,016	432,754	66,513
– Intellectualized operational services	22	—	—	11,170	1,717
Total net revenues		395,715	412,016	443,924	68,230
COST OF REVENUES					
– Educational program and services	22	(245,945)	(238,742)	(249,400)	(38,332)
– Intellectualized operational services	22	—	—	(6,995)	(1,075)
Total cost of revenues		(245,945)	(238,742)	(256,395)	(39,407)
GROSS PROFIT		149,770	173,274	187,529	28,823
OPERATING EXPENSES					
Selling and marketing		(55,511)	(41,818)	(36,710)	(5,642)
General and administrative		(280,634)	(145,513)	(142,252)	(21,864)
Research and development		(7,308)	(7,572)	(6,262)	(962)
Impairment loss	7,10,11,12	(162,351)	(22,402)	—	—
Total operating expenses		(505,804)	(217,305)	(185,224)	(28,468)
OPERATING (LOSS) INCOME		(356,034)	(44,031)	2,305	355
OTHER INCOME (EXPENSE)					
Interest (expense) income, net	5,16	(51,015)	5,941	5,191	798
Foreign exchange (loss) gain, net		(183)	84	(522)	(80)
Other income, net		486	2,570	1,652	254
Income on reconsolidation of previously deconsolidated entities	28	14,127	—	—	—
Gain on disposal of subsidiaries	27	—	—	38,145	5,863
(Loss) Gain on sale of investment available for sale	5	(2,786)	4,329	8,768	1,348
Total other (expenses) income		(39,371)	12,924	53,234	8,183
(LOSS) INCOME BEFORE INCOME TAX, NON-CONTROLLING INTERESTS, AND DISCONTINUED OPERATIONS		(395,405)	(31,107)	55,539	8,538
Income tax benefit (expense)	19	118,963	(5,911)	(9,614)	(1,478)
(LOSS) INCOME FROM CONTINUING OPERATIONS		(276,442)	(37,018)	45,925	7,060
Income on and from sale of discontinued operations, net of income	26	340,798	—	—	—

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NET INCOME (LOSS)	64,356	(37,018)	45,925	7,060
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The accompanying notes are an integral part of these consolidated financial statements.

F-6

TABLE OF CONTENTS

AMBOW EDUCATION HOLDING LTD.

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

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

		Years ended December 31,			
	Note	2015	2016	2017	2017
		RMB	RMB	RMB	US\$
Less: Net income (loss) attributable to non-controlling interests from continuing operations		606	(1,318)	(538)	(83)
Less: Net income attributable to non-controlling interests from discontinued operations		11	—	—	—
NET INCOME (LOSS) ATTRIBUTABLE TO AMBOW EDUCATION HOLDING LTD.		63,739	(35,700)	46,463	7,143
NET INCOME (LOSS)		64,356	(37,018)	45,925	7,060
OTHER COMPREHENSIVE INCOME, NET OF TAX					
Foreign translation adjustments		7,869	(1,160)	3,876	596
Unrealized gains on short term investments					
Unrealized holding (loss)/gains arising during period		(1,105)	5,622	2,901	446
Less: reclassification adjustment for (loss)/gains included in net income		(2,089)	3,870	5,606	862
Other comprehensive income		8,853	592	1,171	180
TOTAL COMPREHENSIVE INCOME (LOSS)		73,209	(36,426)	47,096	7,240
Net (loss) income from continuing operations per share-basic		(7.52)	(0.93)	1.20	0.18
Net (loss) income from continuing operations per share-diluted	20	(7.52)	(0.93)	1.18	0.18
Net income from discontinued operations per share - basic and diluted(1)	20	9.25	—	—	—
Weighted average shares used in calculating basic net income (loss) per share	20	36,848,816	38,469,234	38,826,800	38,826,800
Weighted average shares used in calculating diluted net income (loss) per share	20	36,848,816	38,469,234	39,303,760	39,303,760
Share-based compensation expense included in:					

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– Selling and marketing	457	—	—	—
– General and administrative	49,371	7,828	4,640	713
– Research and development	289	—	—	—

(1)
All per share amounts and shares outstanding for all periods have been retroactively restated to reflect Ambow Education Holding Ltd.'s 1 for 30 reverse stock split, which was effective on September 4, 2015.

The accompanying notes are an integral part of these consolidated financial statements.
F-7

TABLE OF CONTENTS**AMBOW EDUCATION HOLDING LTD.****CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (DEFICIT)**

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

	Note	Attributable to Ambow Education Holding Ltd.'s Equity							Sta res
		Class A Ordinary shares (Note 17)		Class B Ordinary shares (Note 17)		Class C Ordinary shares (Note 17)		Additional paid-in capital	
		Shares	Amount RMB	Shares	Amount RMB	Shares	Amount RMB	RMB	
Balance as of January 1, 2015		27,552,058	487	2,984,775	87	—	—	3,325,288	8
Conversion of Class B ordinary shares to Class A ordinary shares		2,984,775	87	(2,984,775)	(87)	—	—	—	—
Exchange of Class A ordinary shares for Class C ordinary shares		(4,708,415)	(90)	—	—	4,708,415	90	—	—
Conversion of convertible loans to ordinary shares	16	7,244,013	134	—	—	—	—	70,012	—
Share-based compensation	18, 25(c)	—	—	—	—	—	—	50,117	—
Issuance of ordinary shares for restricted stock award	18	484,331	9	—	—	—	—	(9)	—
Appropriation to statutory reserves	23	—	—	—	—	—	—	—	2
Foreign currency translation adjustment		—	—	—	—	—	—	—	—
Disposal of subsidiaries	26	—	—	—	—	—	—	—	—
Capital injection from minority shareholders	29	—	—	—	—	—	—	—	—

Explanation of Responses:

Unrealized gain on investment, net of income taxes	5	—	—	—	—	—	—	—	—
Non-controlling interests from reconsolidation of previously deconsolidated entities	28	—	—	—	—	—	—	—	—
Net income		—	—	—	—	—	—	—	—
Balance as of December 31, 2015		33,556,762	627	—	—	4,708,415	90	3,445,408	8

(1)
All per share amounts and shares outstanding for all periods have been retroactively restated to reflect Ambow Education Holding Ltd.'s 1 for 30 reverse stock split, which was effective on September 4, 2015.

The accompanying notes are an integral part of these consolidated financial statements.
F-8

TABLE OF CONTENTS**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

		Class A Ordinary shares (Note 17)		Class B Ordinary shares (Note 17)	Class C Ordinary shares (Note 17)		Additional paid-in capital	Statutory reserves	Retained Earnings (Accumulated deficit)	
	Note	Shares	Amount RMB	Shares	Amount RMB	Shares	Amount RMB	RMB	RMB	
Balance as of January 1, 2016		33,556,762	627	—	—	4,708,415	90	3,445,408	81,005	(3,388,447)
Share-based compensation	18	—	—	—	—	—	—	7,828	—	—
Issuance of ordinary shares for restricted stock award	18	433,918	9	—	—	—	—	(9)	—	—
Foreign currency translation adjustment		—	—	—	—	—	—	—	—	—
Appropriation to statutory reserves	23	—	—	—	—	—	—	—	2	(2)
Unrealized gain on investment, net of income taxes	5	—	—	—	—	—	—	—	—	—
Capital injection from minority shareholders	29	—	—	—	—	—	—	—	—	—
Net loss		—	—	—	—	—	—	—	—	(35,700)
Balance as of December 31, 2016		33,990,680	636	—	—	4,708,415	90	3,453,227	81,007	(3,424,149)

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

F-9

TABLE OF CONTENTS

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

		Class A Ordinary shares (Note 17)		Class B Ordinary shares (Note 17)		Class C Ordinary shares (Note 17)		Additional paid-in capital	Statutory reserves	Retained Earnings (Accumulated deficit)
	Note	Shares	Amount RMB	Shares	Amount RMB	Shares	Amount RMB	RMB	RMB	RMB
Balance as of January 1, 2017		33,990,680	636	—	—	4,708,415	90	3,453,227	81,007	(3,424,000)
Share-based compensation	18	—	—	—	—	—	—	4,640	—	—
Issuance of ordinary shares for restricted stock award	18	216,259	4	—	—	—	—	(4)	—	—
Foreign currency translation adjustment		—	—	—	—	—	—	—	—	—
Appropriation to statutory reserves	23	—	—	—	—	—	—	—	202	(202)
Unrealized gain on investment, net of income taxes	5	—	—	—	—	—	—	—	—	—
Buy-outs of non-controlling interests	29	—	—	—	—	—	—	(1,556)	—	—
Disposal of subsidiaries	27	—	—	—	—	—	—	—	(61,173)	61,173
Net income (loss)		—	—	—	—	—	—	—	—	46,463
Balance as of December 31, 2017		34,206,939	640	—	—	4,708,415	90	3,456,307	20,036	(3,316,000)

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

F-10

TABLE OF CONTENTS

AMBOW EDUCATION HOLDING LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	Years ended December 31,			
	2015	2016	2017	2017
	RMB	RMB	RMB	US\$ Note 3(a)
Cash flows from operating activities				
Net income (loss)	64,356	(37,018)	45,925	7,060
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:				
Depreciation and amortization	45,690	24,997	22,673	3,485
Share-based compensation expense	50,117	7,828	4,640	713
Bad debt provision	42,960	1,727	5,090	782
Foreign exchange loss (gain), net	183	(84)	522	80
Impairment loss	162,351	22,402	—	—
Deferred income tax	(128,818)	1,030	(2,127)	(327)
Disposal (gain) from subsidiaries	(343,912)	—	(38,145)	(5,863)
Disposal loss from property and equipment	536	534	90	14
Interest expense	56,549	—	—	—
Loss from equity method investment	—	10	16	2
Income on reconsolidation of previously deconsolidated entities	(14,127)	—	—	—
Changes in operating assets and liabilities:				
Accounts receivable	(3,513)	(2,298)	(10,272)	(1,579)
Prepaid and other current assets	(18,203)	510	20,090	3,088
Amounts due from related parties	933	24	1,523	234
Other non-current assets	(625)	(189)	(5,754)	(884)
Accounts payable	(1,925)	(1,653)	4,297	660
Accrued and other liabilities	34,400	2,605	(38,071)	(5,851)
Income tax payable	6,902	3,512	10,764	1,654
Deferred revenue	8,800	(6,402)	3,386	520
Amounts due to related parties	(2,773)	—	(4,232)	(650)
Other non-current liabilities	—	—	(205)	(32)
Net cash (used in) provided by operating activities	(40,119)	17,535	20,210	3,106
Cash flows from investing activities				
Purchase of available-for-sale investments	(216,860)	(442,790)	(241,200)	(37,072)
Proceeds from available-for-sale investments	114,570	373,917	284,363	43,706
Purchase of held-to-maturity investments	(527,870)	(651,470)	(558,730)	(85,875)
Maturity and proceeds from held-to-maturity investments	376,080	738,560	530,430	81,526

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Maturity of term deposits	9,850	1,150	—	—
Prepayment for acquisition of property	—	(71,024)	—	—
Purchase of property and equipment	(7,612)	(7,442)	(7,745)	(1,190)
Prepayment for leasehold improvement	(4,265)	(3,854)	(13,325)	(2,048)
Proceeds from disposal of property and equipment	943	—	—	—
Purchase of intangible assets	—	(1,225)	(1,110)	(171)
Purchase of subsidiaries (including cash payment in relation to prior acquisitions), net of cash acquired	(14,000)	—	(833)	(128)
Prepayment for purchase of minority interest	—	—	(4,504)	(692)
Purchase of other non-current assets	—	(1,040)	(640)	(98)
Proceed from disposal of subsidiaries, net of cash balance at disposed entities	287,378	—	(4,309)	(662)
Proceed from transferring financial assets	40,000	—	—	—
Purchase of minority interest	—	—	(798)	(123)
Long-term loan receivables	—	—	(42,677)	(6,559)
Net cash provided by (used in) investing activities	58,214	(65,218)	(61,078)	(9,386)

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

F-11

TABLE OF CONTENTS

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,			
	2015	2016	2017	2017
	RMB	RMB	RMB	US\$ Note 3(a)
Cash flows from financing activities				
Proceeds from minority shareholder capital injection	163	796	—	—
Proceeds from issuing convertible loan	50,000	—	—	—
Proceeds from short-term borrowings	2,300	—	—	—
Proceeds from long-term borrowings	—	—	39,205	6,026
Repayments of short-term borrowings	(39,633)	(2,300)	—	—
Net cash provided by (used in) financing activities	12,830	(1,504)	39,205	6,026
Changes in cash, cash equivalents and restricted cash included in assets held for sale	38,063	—	—	—
Effects of exchange rate changes on cash, cash equivalents and restricted cash	(2,968)	84	66	10
Net change in cash, cash equivalents and restricted cash	66,020	(49,103)	(1,597)	(244)
Cash, cash equivalents and restricted cash at beginning of year	182,333	248,353	199,250	30,624
Cash, cash equivalents and restricted cash at end of year	248,353	199,250	197,653	30,380
Supplemental disclosure of cash flow information				
Income tax paid	(1,659)	(1,639)	(932)	(143)
Interest paid	(14,316)	(115)	—	—
Supplemental disclosure of non-cash investing and financing activities:				
Conversion of convertible loan to ordinary shares and waiver of related accrued interest expenses	70,146	—	—	—
Waiver of receivables in connection with disposal of subsidiaries	18,195	—	—	—
Derecognition of assets other than cash of disposed subsidiary	—	—	25,152	3,866
Derecognition of liabilities of disposed subsidiary, net of recognized amount due to the disposed subsidiary	—	—	67,606	10,391
Contingent consideration of purchase of subsidiary	—	—	6,766	1,040

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

F-12

TABLE OF CONTENTS

AMBOW EDUCATION HOLDING LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

1. ORGANIZATION AND PRINCIPAL ACTIVITIES

a. Background

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

The Company was incorporated in the Cayman Islands on June 26, 2007. On August 5, 2010, the Company and certain selling shareholders of the Company (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.

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 16 for details.

By the end of 2014, the Company conducted a series of acquisition and disposal of entities. As of December 31, 2014, 23 operational entities remained.

On April 8, 2015, the Group disposed all of the 100% equity 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% equity interest in Ambow Jingxue (Beijing) Technology Co., Ltd, which are hereinafter collectively referred to as the “Jinghan Group”. Please refer to Note 26 for details.

On September 4, 2015, the Company effected a 1-for-30 reverse stock split (the “Reverse 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 presented in notes of the consolidated financial statements have been retroactively restated to reflect the Reverse Split.

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

On August 31, 2017, the Company sold the 100% equity interest in Ambow Online to a third party for nil consideration. After the disposal, Ambow Online and its remaining VIE Suzhou Wenjian Venture Investment Management Consulting Co., Ltd. (“Suzhou Wenjian”) were not consolidated by the Company. On September 30, 2017, the Company sold the 100% equity interest in 21st Century Training Center to a third party, with a consideration of RMB 1 yuan. After the disposal, 21st Century Training Center was not consolidated by the Company. Please refer to Note 27 for details.

The Company established IValley Co., Ltd. (“IValley”) on March 13, 2017. IValley is a VIE of Ambow Education Management (Hong Kong) Limited. The Company established IValley Beijing Technology Co. Ltd. (“IValley Beijing”) on September 15, 2017. IValley Beijing is a wholly owned subsidiary of IValley.

F-13

TABLE OF CONTENTS

AMBOW EDUCATION HOLDING LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

IValley Beijing's business is to design, purchase, modify and integrate electronic equipment and devices, and develop mobile APP, performed by engineers and IT development and operational personnel, for end users to utilize office facilities, manage resources and administrative matters.

The Company established Ambow BSC Inc. on February 14, 2017. Ambow BSC Inc. is a 100% subsidiary of the Company. On November 20, 2017, Ambow BSC Inc. acquired 100% of the outstanding shares of common stock of Bay State College Inc. Bay State College Inc. is a Massachusetts corporation that owns and operates Bay State College, a higher education institution offering career-focused post-secondary educational services. Please refer to Note 24 for details.

b. Nature of operations

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

c. Major subsidiaries and VIEs

As of December 31, 2017, the Company's major subsidiaries and VIEs include the following entities:

Name	Date of incorporation or establishment	Place of Incorporation (or establishment)/ operation	Principal activity
Subsidiaries			
Ambow Education 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 or acquisition	Place of Incorporation (or establishment)/ operation	Principal activity
Ambow Education Management Ltd.	June 6, 2007	Cayman Islands	Investment Holding

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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
Ambow BSC Inc.	February 14, 2017	United States	Investment Holding
Bay State College Inc.	November 20, 2017	United States	Career Enhancement

F-14

TABLE OF CONTENTS

AMBOW EDUCATION HOLDING LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

Name	Date of incorporation or establishment or acquisition	Place of Incorporation (or establishment)/ operation	Principal activity
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
Ambow Rongye	September 8, 2015	PRC	Investment Holding
Ambow Zhixin	October 14, 2015	PRC	Investment Holding
IValley	March 13, 2017	Taiwan	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
	June 1, 2014	PRC	

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Shanghai Tongguo Education Technology Co., Ltd
 (“Shanghai Tongguo”)

Suzhou Jiaxue

January 21, 2016 PRC

Career
 Enhancement

Huanyu Liren

April 27, 2016 PRC

Career
 Enhancement

IValley Beijing

September 15,
 2017 PRC

Career
 Enhancement

Others

F-15

TABLE OF CONTENTS

AMBOW EDUCATION HOLDING LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

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

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

d. VIE arrangements

VIEs of the Company

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

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

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

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

•

Shareholders of the VIEs lack the right to receive any expected residual returns from the VIEs;

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

F-16

TABLE OF CONTENTS

AMBOW EDUCATION HOLDING LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

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

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

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

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

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

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

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

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

Subsidiaries of the VIEs

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

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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;

F-17

TABLE OF CONTENTS

AMBOW EDUCATION HOLDING LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

- Hiring, training and terminating the employment of teachers and other support staff to run the schools and centers; and
- Selecting and recruiting students, in accordance with the Company's entry requirements and to maximize the usage of capacity.

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

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

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

Aggregation of VIEs

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

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

Explanation of Responses:

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.

F-18

TABLE OF CONTENTS

AMBOW EDUCATION HOLDING LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

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.

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

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

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

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

F-19

TABLE OF CONTENTS

AMBOW EDUCATION HOLDING LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

it may lose the ability to receive economic benefits from these respective entities, schools and subsidiaries. The Company, however, does not believe such actions would result in the liquidation or dissolution of the Company, the subsidiaries or the VIEs, and believes that the risk of losing the ability to maintain effective control over its VIEs is remote.

Currently there are no contractual arrangements that could require the Company to provide additional financial support to the VIEs. As the Company is conducting its PRC educational and career enhancement services through the VIEs and their subsidiaries, and PRC intellectualized operational services through IValley and its subsidiaries, the Company may provide such support on a discretionary 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,		
	2016	2017	
	RMB	RMB	
Total assets	750,264	706,096	
Total liabilities	521,375	553,936	

	Years ended December 31,		
	2015	2016	2017
	RMB	RMB	RMB
Net revenue	385,819	409,391	426,118
Net income (loss)	370,818	(12,805)	41,636

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, 2016 and 2017:

	As of December 31,	
	2016	2017
	RMB	RMB
VIEs in PRC	173,772	169,178
Non-VIEs in PRC	19,425	4,178
Total RMB	193,197	173,356

2. GOING CONCERN

Liquidity and Capital Resources

The Group reported a net loss of RMB 37,018 and a net income of RMB 45,925 from continued operations for the years ended December 31, 2016 and 2017, which included 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; and a non-cash impairment charge of RMB 5,090 related to provision of accounts receivable, prepaid and other current assets, and other non-current assets; and a non-cash disposal gain of subsidiaries of RMB 38,145 in 2017. 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.

F-20

TABLE OF CONTENTS

AMBOW EDUCATION HOLDING LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

The Group's principal sources of liquidity have been cash provided by operating activities. As of December 31, 2017, the Group had RMB 195,303 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, 2017, the Group had RMB 181,181 in unrestricted cash and cash equivalents from VIEs. The Group's consolidated current liabilities exceeded its consolidated current assets by approximately RMB 189,829 as of December 31, 2017. The Group's consolidated net assets were amounting to RMB 165,959 as of December 31, 2017. In addition the Group has lease commitment of RMB 161,349 as of December 31, 2017, of which RMB 33,774 was within one year.

Management plan and actions

The Group had approximately RMB 128,042 and RMB 93,000 short term investments, available for sale and short term investments, held to maturity as of December 31, 2017, which was held as short-term investments to be liquid on the expiration date before the end of 2018.

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 has established intellectualized operational services as a new revenue driving business which would also bring in operating funds, and will continue to focus on developing core cash-generating business and products, improving operation efficiency and cost reduction, 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; implementing enhanced vendor review and selection processes 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 6.5063, representing the middle rate as set forth in the H.10 statistical release of the U.S. Federal Reserve Board as of December 31, 2017. 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 26, Jinghan Group have been disposed in 2015 and its operations have been classified as discontinued operations for the year ended December 31, 2015. The disposal of Jinghan Group has been completed by April 8, 2015.

F-21

TABLE OF CONTENTS

AMBOW EDUCATION HOLDING LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

b. Use of estimates

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

c. Basis of consolidation

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

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

d. Cash and cash equivalents

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

e. Restricted cash

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

f. Short term investments

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

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

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

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

g. Accounts receivable

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

F-22

TABLE OF CONTENTS

AMBOW EDUCATION HOLDING LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

h. Allowance for doubtful accounts

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

i. Land use rights

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

j. Property and equipment

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

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

k. Business combinations

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

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

Business combinations occurred during the year ended December 31, 2017 are disclosed in Note 24.

l. Intangible assets

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

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

F-23

TABLE OF CONTENTS

AMBOW EDUCATION HOLDING LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

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 11):

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

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

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

m. Segments

The Group evaluates a reporting unit by first identifying its operating segments, and then evaluates each operating segment to determine if it includes one or more components that constitute a business. If there are components within an operating segment that meets the definition of a business, the Group evaluates those components to determine if they must be aggregated into one or more reporting units. If applicable, when determining if it is appropriate to aggregate different operating segments, the Group determines if the segments are economically similar and, if so, the operating segments are aggregated. The Group has three reportable segments in 2015 and 2016, and four reportable segments in 2017. For further details, see Note 22.

n. Goodwill

Goodwill represents the future economic benefits arising from other assets acquired in a business combination or an acquisition by an entity that are not individually identified and separately recognized. Goodwill acquired in a business combination is tested for impairment at least annually or more frequently when events and circumstances occur indicating that the recorded goodwill may be impaired. The Group performed impairment analysis on goodwill as of September 30 every year either beginning with a qualitative assessment, or starting with the quantitative assessment instead. The quantitative goodwill impairment test compares the fair values of each reporting unit to its carrying amount, including goodwill.

F-24

TABLE OF CONTENTS

AMBOW EDUCATION HOLDING LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

A reporting unit constitutes a business for which discrete profit and loss financial information is available. The fair value of each reporting unit is established using a combination of expected present value of future cash flows. If the fair value of each reporting unit exceeds its carrying amount, goodwill is not considered to be impaired. If the carrying amount of a reporting unit exceeds its fair value, an impairment loss shall be recognized in an amount equal to that excess, limited to the total amount of goodwill allocated to that reporting unit.

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

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

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

o. Impairment of long-lived assets

The Group reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may no longer be recoverable. When these events occur, the Group measures impairment by comparing the carrying value of the long-lived assets to the estimated undiscounted future cash flows expected to result from the use of the assets and their eventual disposition. If the sum of the expected undiscounted cash flow is less than the carrying amount of the assets, the Group would recognize an impairment loss, which is the excess of carrying amount over the fair value of the assets, using the expected future discounted cash flows.

p. Revenue recognition

The Group's revenue is generated from delivering educational programs and services and intellectualized operational 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; distributors whom the Group sells its services to; and corporate clients, colleges and universities who procure intellectualized operational services.

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

F-25

TABLE OF CONTENTS

AMBOW EDUCATION HOLDING LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

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, 2016 and 2017.

	As of December 31,	
	2016	2017
	RMB	RMB
Career Enhancement	34,264	21,496
K-12	60,944	77,394
Tutoring	14,276	15,506
Total	109,484	114,396

Intellectualized operational services

The Group enters into sales contractual arrangements related to its intellectualized operational services. The business is to design, purchase, modify and integrate electronic equipment and devices, and develop mobile APP, performed by engineers and IT development and operational personnel, for end users to utilize office facilities, manage resources and administrative matters. For each contract, 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. If any of the aforementioned criteria are not met, the Group defers the recognition of revenue until all criteria are met. Arrangements for intellectualized operational services are on a fixed-price basis. Revenues from fixed-price contracts are recognized using the percentage-of-completion method as determined by the proportional relation of the contract costs incurred to date relative to the estimated total contract costs at completion. Estimated contract costs are reviewed monthly and revised as necessary. The Group reviews the estimated revenues and estimated costs on each project at the end of each reporting period. Any revisions to existing estimates are made when required by members of management having the relevant authority. As part of the review process, management regularly compares and analyzes the actual costs incurred and the estimate of costs to complete the projects to the total estimated costs and the total contract price. Management make revisions to existing estimates as needed based on the analysis performed and with proper level of approval in the period in which changes become known. As a policy, provisions for estimated losses on such engagements will be made during the period in which a loss becomes probable and can be reasonably estimated.

q. 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.

F-26

TABLE OF CONTENTS

AMBOW EDUCATION HOLDING LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

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

r. 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.

s. 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.

t. Advertising costs

The Group expenses advertising costs as incurred. Total advertising expenses of continuing operations were RMB 1,858, RMB 1,857 and RMB 2,701 for the years ended December 31, 2015, 2016 and 2017, respectively, and have been included as part of selling and marketing expenses.

u. Foreign currency translation and transactions

The Group uses RMB as its reporting currency. The functional currency of the Company and its subsidiaries incorporated in the Cayman Islands, Hong Kong, the British Virgin Islands and United States is the US\$; the functional currency of the Company's subsidiary in Taiwan is the TWD; while the functional currency of the other entities in the Group is the RMB. In the consolidated financial statements, the financial information of the Company and its subsidiaries, which use US\$ and TWD as their functional

F-27

TABLE OF CONTENTS

AMBOW EDUCATION HOLDING LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

currency, has been translated into RMB. Assets and liabilities are translated from each subsidiary's functional currency at the exchange rates on the balance sheet date, equity amounts are translated at historical exchange rates, and revenues, expenses, gains, and losses are translated using the average rate for each quarter. Translation adjustments are reported as cumulative translation adjustments and are shown as a separate component of other comprehensive income or loss in the statement of shareholders' equity and comprehensive income.

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

v. 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.

w. 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.

x. 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.

y. 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 that some portion or all of the deferred tax assets will not be realized. All the deferred tax liabilities and assets have been classified as noncurrent in the consolidated balance sheets. The Group recognizes interest and penalties as income tax.

F-28

TABLE OF CONTENTS

AMBOW EDUCATION HOLDING LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

Deferred tax liabilities and assets are classified as noncurrent and presented with a netted off amount in the consolidated balance sheets as of December 31, 2016 and 2017, respectively.

z. 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 19 (c) for additional information. In 2014, the Group received a document from the tax bureau cancelling Ambow Online's preferential tax treatment. The Group took legal action to defend itself, and 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 and eight months ended August 31, 2017, the Company accrued the overdue fee respectively. On August 31, 2017, the Company sold 100% of its equity interest in Ambow Online to a third party. As such, the accrued income tax payable and overdue fees have been deconsolidated from the Company's financial reporting as of December 31, 2017. See Note 19 and 27 for details.

aa. 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.

bb. 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.

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.

F-29

TABLE OF CONTENTS

AMBOW EDUCATION HOLDING LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

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

cc. 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).

The results of discontinued operations in 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 2015 were combined with the cash flows from continuing operations within each of the three categories.

dd. Loss contingencies

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

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

ee. Recently issued accounting standards

In 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.

F-30

TABLE OF CONTENTS

AMBOW EDUCATION HOLDING LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

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.

In September 2017, the FASB issued ASU No. 2017-13, Revenue Recognition (Topic 605), Revenue from Contracts with Customers (Topic 606), Leases (Topic 840), and Leases (Topic 842) adds SEC paragraphs pursuant to an SEC Staff Announcement made at the July 20, 2017 EITF Meeting, which addresses Transition Related to Accounting Standards Updates No. 2014-09, Revenue from Contracts with Customers (Topic 606), and No. 2016-02, Leases (Topic 842).

The Company will adopt ASU No. 2014-09 using the modified retrospective transition method to contracts that are not completed contracts as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 will be presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting under Topic 605. Under ASC 606 revenues is recognized when control of the promised goods or services is transferred to our customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services. Under ASC 605 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. The Company has assessed the impact that adopting this new accounting guidance will have on its consolidated financial statements and disclosures. Based on its 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.

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

F-31

TABLE OF CONTENTS

AMBOW EDUCATION HOLDING LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

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 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 for the years ended December 31, 2015, 2016 and 2017.

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 has early adopted ASU 2017-04 in the third quarter of 2017 with the annual goodwill impairment tests. The adoption of ASU No. 2017-04 does not have a significant effect on its consolidated financial statements.

In February 2018, the FASB issued guidance to address the income tax accounting treatment of the tax effects within other comprehensive income due to the enactment of the Tax Cuts and Jobs Act (the "Tax Act"). This guidance allows entities to elect to reclassify the tax effects of the change in the income tax rates from other comprehensive income to retained earnings. The guidance is effective for periods beginning after December 15, 2018 although early adoption is permitted. In March 2018, the FASB issued ASU No. 2018-05, Income Tax (Topic 740) — Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118. This update adds SEC paragraphs pursuant to the SEC Staff Accounting Bulletin No. 118, which expresses the view of the staff regarding application of Topic 740, Income Taxes, in the reporting period that includes December 22, 2017 — the date on which the Tax Act was signed into law. The Company has completed the assessment of the adoption of this guidance on its consolidated financial statements, and will monitor future guidance with respect to the Transition Tax Provisions under the Tax Act, and true up the estimate as appropriate within one year measurement period.

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.

F-32

TABLE OF CONTENTS

AMBOW EDUCATION HOLDING LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

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,		
	2015	2016	2017
	RMB	RMB	RMB
Cash and cash equivalents	246,303	196,900	195,303
Restricted cash	2,050	2,350	2,350
Total cash, cash equivalents, and restricted cash shown in the consolidated statements of cash flows	248,353	199,250	197,653

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,		
	2015	2016	2017
	RMB	RMB	RMB
Changes in cash and cash equivalents included in assets held for sale	36,063	—	—
Changes in restricted cash included in assets held for sale	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	38,063	—	—

5. SHORT TERM INVESTMENTS

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

Held to maturity investments

Held-to-maturity investments consist of various fixed-income financial products purchased from Chinese commercial banks, which are classified as held-to-maturity investments as the Group has the positive intent and ability to hold the investments to maturity. The maturities of these financial products range from thirty to thirty-five days, with annual interest rates ranging from 4.89% to 6.00% and matured and fully collected with principal and interest as of the date of this report. They are classified as short term investments on the consolidated balance sheets as its contractual maturity dates are less than one year. The repayments of principal of the financial products are not guaranteed by the Chinese commercial banks from which the fixed income financial products were purchased. Historically, the Company has received the principal and the interest in full upon maturity of these investments.

While these fixed-income financial products are not publicly traded, the Company estimated that their fair value approximate their amortized costs considering their short term maturities and high credit quality. No OTTI loss was recognized for the year ended December 31 2017.

Available-for-sale investments

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

F-33

TABLE OF CONTENTS

AMBOW EDUCATION HOLDING LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

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, 2017. No OTTI loss was recognized for the year ended December 31 2017.

The amortized cost, gross unrealized gain in accumulated other comprehensive income, and estimated fair value of investments as of December 31, 2016 and 2017, are reflected in the tables below:

As of December 31, 2016

	Amortized Cost	Gross unrealized gain in accumulated other comprehensive income	Estimated Fair value
	RMB	RMB	RMB
Short-term investments:			
Held-to-maturity investments			
Fixed-rate financial products	64,700	—	64,700
Available-for-sale investments			
Adjustable-rate financial products	171,163	3,648	174,811

As of December 31, 2017

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

Interest income recognized on held-to-maturity investments for years ended December 31, 2015, 2016 and 2017 were as follows:

	Year Ended December 31,			
	2015	2016	2017	2017
	RMB	RMB	RMB	USD
Interest income recognized on held-to-maturity investments	7,027	4,078	3,799	584

Explanation of Responses:

6. ACCOUNTS RECEIVABLE, NET

Accounts receivable consisted of the following:

	As of December 31,	
	2016	2017
	RMB	RMB
Accounts receivable	13,576	25,257
Less: Allowance for doubtful accounts	—	(746)
Accounts receivable, net	13,576	24,511

F-34

TABLE OF CONTENTS

AMBOW EDUCATION HOLDING LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

Allowance for doubtful accounts:

	As of December 31,	
	2016	2017
	RMB	RMB
Balance at beginning of year	(116,615)	—
Addition (Note i)	—	(746)
Written off	116,615	—
Balance at end of year	—	(746)

(Note i) Full provision was provided to receivables due from different customers due to the remote collectability as of December 31, 2017. No bad debt provision was provided for the years ended December 31, 2015 and 2016.

7. PREPAID AND OTHER CURRENT ASSETS, NET

Prepaid and other current assets consisted of the following:

	As of December 31,	
	2016	2017
	RMB	RMB
Amount due from minority shareholder (Note i)	54,023	—
Amount due from Xihua Group (Note ii)	49,800	49,800
Value added tax refundable (Note iii)	24,811	5,165
Due from former owners	5,743	5,743
Staff advances	6,008	5,857
Rental deposits	7,835	3,804
Prepaid professional services fees	3,045	6,513
Prepaid rental fees	3,533	5,520
Receivable from Zhenjiang operating rights (Note iv)	35,000	35,000
Receivable from Jinghan Group (Note v)	122,822	—
Others (Note vi)	20,302	23,327
Total before allowance for doubtful accounts	332,922	140,729
Less: allowance for doubtful accounts (Note vii)	(179,055)	(11,212)
Total	153,867	129,517

Allowance for doubtful accounts:

	As of December 31,	
	2016	2017
	RMB	RMB
Balance at beginning of year	(195,254)	(179,055)
Addition (Note vii)	(1,727)	(2,690)

Explanation of Responses:

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Decrease due to disposal of subsidiary (Note iii)	—	19,647
Written off (Note i and v)	17,926	150,886
Balance at end of year	(179,055)	(11,212)

(Note i) The balance represented Shenyang K-12's amount due from its minority shareholder amounting to RMB 54,023, which was tuition fees that have been collected from students but were

F-35

TABLE OF CONTENTS

AMBOW EDUCATION HOLDING LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

misappropriated by its minority shareholder. As of December 31, 2016, full provision was provided as the collectability was remote. As of December 31, 2017, such provision was written off after all collection efforts have been exhausted and the potential for recovery 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 statements.

(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 19(c), the Group provided a provision amounting to RMB 24,811 as of December 31, 2016. The Group disposed Ambow Online to a third party as at August 31, 2017, please see Note 27 for detail. VAT refundable of Ambow Online and the relative bad debt amount of RMB 19,647 were derecognized accordingly.

(Note iv) 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, 2016 and 2017, the payable balance to Zhenjiang Foreign Language School amounted to RMB 36,770 and RMB 36,770, respectively (Note 14); therefore, no provision was made. As of the date of issuance of the financial statements, the negotiation was still in progress.

(Note v) In the year ended December 31, 2017, bad debt provision of RMB 96,863 was written off after all collection efforts have been exhausted and the potential for recovery was remote; and the rest receivable of RMB 25,959 was net off with the payable after assessing the remote possibility to collect from and pay to Jinghan Group.

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

(Note vii) Other addition of allowance during the years of 2017 and 2016 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,	
	2016	2017
	RMB	RMB
Receivables resulting from disposals (Note i)	14,000	—
Less: allowance for doubtful accounts (Note i)	(5,500)	—
Total	8,500	—

(Note i) The cost of consideration receivable came from the disposal of subsidiaries in 2011. Bad debt of RMB 5,500 has been provided in past few years. In the year ended December 31, 2017, the Company reached an agreement with the third party to offset the receivable due from and payable due to it at amount of RMB 8,500, and bad debt provision of RMB 5,500 was written off after all collection efforts have been exhausted and the potential for recovery was remote.

F-36

TABLE OF CONTENTS

AMBOW EDUCATION HOLDING LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

9. LONG-TERM LOAN RECEIVABLE

The following table sets forth the loan agreement in long-term loan receivable balance:

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

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

As of December 31, 2016 and 2017, the Company has RMB nil and RMB 42,677 of loan receivable from Suzhou Zhixinliren.

In order to meet the Company's acquisition fund and working capital needs in US Dollars, on April 5, 2017, the Company entered into an agreement to receive an interest-free loan from Sino Accord Investments Limited ("Sino Accord") in the amount of US\$6,000 (equivalent to RMB 39,205). The due date of the loan is April 4, 2018. On March 7, 2018, the Company entered into a supplementary agreement with Sino Accord to extend the term of loan for additional one year. The extended maturity date of the loan is April 4, 2019. Sino Accord is a non-affiliated party to the Company. Through an understanding among the Company, Ambow Shengying, Suzhou Zhixinliren and Sino Accord, the long-term borrowing due to Sino Accord at amount of US\$6,000 is correlated to the loan receivable at amount of RMB 42,677. It is the understanding among the parties that when the long-term borrowing is repaid, the long-term loan receivable will similarly be collected.

10. PROPERTY AND EQUIPMENT, NET

Property and equipment consisted of the following:

	As of December 31,	
	2016	2017
	RMB	RMB
Buildings	64,222	127,914
Capital lease of property	12,000	12,000
Motor vehicles	6,173	4,054
Office and computer equipment	87,121	69,804
Leasehold improvements	70,321	72,542
Sub-total	239,837	286,314
Less: accumulated depreciation	(151,830)	(117,891)
Total	88,007	168,423

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 of the property was transferred to the Company on January 20, 2017. Therefore the prepayment for acquisition of property was recognized as property as of December 31, 2017.

For the years ended December 31, 2015, 2016 and 2017, depreciation expenses of continuing operations were RMB 25,048, RMB 17,620 and RMB 17,103, respectively, which were recorded in cost of revenues, selling and marketing expenses, general and administrative expenses and research and development expenses.

F-37

TABLE OF CONTENTS

AMBOW EDUCATION HOLDING LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

The prepaid long-term lease of Ambow Beijing campus was RMB 45,324, which commenced from March 1, 2012. In 2015 the Group recorded an impairment loss of RMB 38,814 of the capital lease of properties of Ambow Beijing Campus as it was not available for use. The original cost amounting to RMB 45,324 and the accumulated depreciation amounting to RMB 6,510 were fully written off in 2015.

The capital leases of properties of Shenyang K-12 School was RMB 12,000, which commenced from December 30, 2010. As at December 31, 2016 and 2017, the accumulated depreciation of Shenyang K-12 School's capital lease of properties were RMB 3,750 and RMB 4,350 respectively. For the years ended December 31, 2015, 2016 and 2017, depreciation expenses were RMB 2,419, RMB 600 and RMB 600 respectively and recorded in cost of revenues.

As of December 31, 2017, 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 33,913.

11. INTANGIBLE ASSETS, NET

Intangible assets consisted of the following:

	As of December 31,	
	2016	2017
	RMB	RMB
Gross carrying amount		
Trade names	48,908	48,908
Brand	—	5,920
Student populations	38,380	39,818
Software	91,254	33,770
Customer relationships	5,270	5,270
Cooperative agreements	5,230	5,230
Favorable leases	63,237	63,237
Non-compete agreements	833	833
	253,112	202,986
Less: Accumulated amortization		
Trade names	—	—
Brand	—	—
Student populations	(36,964)	(37,580)
Software	(89,138)	(32,712)
Customer relationships	(5,270)	(5,270)
Cooperative agreements	(3,046)	(3,554)
Favorable leases	(23,153)	(26,268)
Non-compete agreements	(833)	(833)
	(158,404)	(106,217)

F-38

TABLE OF CONTENTS

AMBOW EDUCATION HOLDING LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

	As of December 31,	
	2016	2017
	RMB	RMB
Intangible assets, net		
Trade names	48,908	48,908
Brand	—	5,920
Student populations	1,416	2,238
Software	2,116	1,058
Customer relationships	—	—
Cooperative agreements	2,184	1,676
Favorable leases	40,084	36,969
Non-compete agreements	—	—
	94,708	96,769

The Group recorded impairment loss of trade names in RMB 9,639 and RMB 2,655 in the year of 2015 and 2016 respectively. For the year ended December 31, 2017, the Group performed impairment test on the trade name and other finite lived intangible assets. No impairment loss incurred thereof.

Amortization expenses for intangible assets of continuing operations amounted to RMB 10,707, RMB 6,786 and RMB 4,782 for the years ended December 31, 2015, 2016 and 2017, respectively, of which RMB 3,061, RMB 2,466 and RMB 1,393 are included in cost of sales and the remaining is included in general and administrative expenses. Based on the current amount of intangible assets subject to amortization, the estimated amortization expenses for each of the future annual periods is as follows:

	Amount
	RMB
2018	4,606
2019	4,520
2020	4,436
2021	3,491
2022	3,292
Thereafter	21,596
Total	41,941

F-39

TABLE OF CONTENTS

AMBOW EDUCATION HOLDING LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

12. GOODWILL

The changes in the carrying amount of goodwill by reporting unit for the years ended December 31, 2016 and 2017 were as follows:

	Better Schools			Better Jobs	
	Tutoring	K-12 Schools	Subtotal	Career Enhancement	Consolidated
	RMB	RMB	RMB	RMB	RMB
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
Goodwill acquired during the year (Note 24)	—	—	—	5,212	5,212
Balance as of December 31, 2017	7,772	25,710	33,482	39,684	73,166

In 2017, the Group elected to start with the quantitative impairment test for goodwill. The management determined that the Income Approach, specifically the Discounted Cash Flow (“DCF”) method, is appropriate. 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 factors, fair value of each reporting unit was greater than its carrying amount, therefore no impairment loss was recognized for the year ended December 31, 2017. Goodwill impairment loss recognized in 2015 and 2016 was RMB nil and RMB 19,747 respectively.

13. OTHER NON-CURRENT ASSETS, NET

Other non-current assets consisted of the following:

	As of December 31,	
	2016	2017
	RMB	RMB
Prepayment for purchase of minority interest (Note i)	—	4,504
Equity method investments	1,140	1,764
Prepayment for development of internal use software	1,779	1,211
Others	3,438	6,113
Total	6,357	13,592

(Note i) In 2017, the Group prepaid RMB 4,504 to purchase 10% economic interest of Shenyang K-12. The transfer of ownership of such economic interest is currently in process and expected to be completed in 2018.

F-40

TABLE OF CONTENTS**AMBOW EDUCATION HOLDING LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

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

14. ACCRUED AND OTHER LIABILITIES

Accrued and other liabilities consisted of the following:

	As of December 31,	
	2016	2017
	RMB	RMB
Payable to Ambow Online (Note 27)	—	137,532
Business tax, VAT and others	75,444	41,437
Payable balance with indemnity by Xihua Group (Note 7(ii))	49,800	49,800
Accrual for rental	57,809	42,612
Payable to Zhenjiang Foreign Language School (Note 7(vi))	36,770	36,770
Accrued payroll and welfare	34,567	27,383
Payable to Jinghan Group (Note 7(vii))	25,959	—
Professional service fees payable	28,368	20,850
Receipt in advance	11,207	18,578
Amounts due to students	19,156	11,423
Lawsuit penalty payable	2,176	2,315
Employee reimbursement payable	6,927	—
Others	24,638	30,298
Total	372,821	418,998

15. LONG-TERM BORROWING FROM THIRD PARTY

The following table sets forth the loan agreement of long-term borrowing from third party balance:

Date	Borrower	Lender	Amount (RMB)	Original Amount (US\$)	Annual Interest Rate	Repayment Due Date
4/5/2017	Ambow Education Holding Ltd.	Sino Accord	39,205	6,000	0%	4/4/2019

On April 5, 2017, the Company entered into an agreement to receive an interest-free loan from Sino Accord in the amount of US\$6,000 (equivalent to RMB 39,205 as of December 31, 2017). The due date of the loan was April 4, 2018. Sino Accord is a non-affiliated party to the Company. The loan is to provide the Company with sufficient US dollar-denominated currency to meet its acquisition fund and working capital requirements. On March 7, 2018, the Company entered into a supplementary agreement with Sino Accord to extend the term of loan for additional one year. The extended maturity date of the loan is April 4, 2019.

As of December 31, 2016 and 2017, the Company has RMB nil and RMB 39,205 of long-term borrowings from Sino Accord, respectively.

Through an understanding among the Company, Ambow Shengying, Suzhou Zhixinliren and Sino Accord, the long-term borrowing due to Sino Accord at amount of US\$6,000 is correlated to the loan receivable at amount of RMB 42,677, please refer to Note 9. It is the understanding among the parties that when the long-term borrowing is repaid, the long-term loan receivable will similarly be collected.

F-41

TABLE OF CONTENTS

AMBOW EDUCATION HOLDING LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

16. CONVERTIBLE LOAN

In 2012 and 2013, the Group entered into loan agreement and amendment with International Finance Corporation (“IFC”), in which IFC granted the Group a convertible loan. IFC may at its option convert the loan in whole or in part into Class A Ordinary Shares with certain conditions satisfied. Subsequently, IFC transferred its participation in the loans to Sir Leslie Porter & Son Limited in August 2013 and Sir Leslie Porter & Son Limited transferred its participation in the loans to the CEIHL in September 2013. In May 2014, the Company entered into Restructuring Agreement, Second Amendment and Restated Loan Agreement with CEIHL. CEIHL shall lend a corresponding additional amount of funds to the Group, in exchange for a right to convert the principal outstanding under the loan agreement into economic interest in the Company. Under the Second Amendment and related financing documents, CEIHL assigned part of its commitments to Baring Private Equity Asia V Holding (4) limited (“Baring”) and SummitView Investment Limited (“SummitView”). In August 2014, CEIHL entered a Share Interest Assignment Agreement with New Flourish Holding Limited (“New Flourish”), an entity control by CEO of the Company. CEIHL agreed to sell part of the shares under the loan agreement to New Flourish. In 2014 and 2015, the convertible loan was converted into ordinary shares by CEIHL, SummitView and Baring respectively. The interest expenses from convertible loan amounting to RMB 56,549 were recorded in 2015. There were no convertible loans as of December 31, 2016 and 2017.

17. ORDINARY SHARES

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 2016 and 2017, 225,377 and 93,906 shares of restricted stock were vested respectively, with 225,377 and 93,906 of the vested shares separately issued to the board members in 2016 and 2017. As of December 31, 2017, these awards of restricted stock were fully vested.

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 2016 and 2017, 6,666 and nil 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 2016 and 2017, 201,875 and 127,500 shares of restricted stock were vested respectively, within which 201,875 and 122,353 were issued separately.

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 exchanged for Class C Ordinary shares, which have super-majority voting rights. The Class A Ordinary Shares are entitled to one vote per share, the Class C Ordinary Shares are entitled to ten votes per share 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.

F-42

TABLE OF CONTENTS

AMBOW EDUCATION HOLDING LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

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.

As of December 31, 2017, there were 34,206,939 and 4,708,415 Class A and Class C Ordinary Shares issued and outstanding, respectively.

18. 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

F-43

TABLE OF CONTENTS

AMBOW EDUCATION HOLDING LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

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, 2016 and 2017, options granted to employees to purchase 226,696 and 223,895 ordinary shares and to non-employees to purchase 29,921 and 29,921 ordinary shares were outstanding, and options to purchase 939,177 and 941,978 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, 2015, 2016 and 2017 is as follows:

	Year ended December 31, 2015				Year ended December 31, 2016				Year ended December 31, 2017	
	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
		RMB		RMB		RMB		RMB		RMB
Outstanding at beginning of year	427,273	503.40	3.49	175	387,350	3.08	2.59	3,836	256,617	3.08
Granted	—	—	—	—	—	—	—	—	—	—
Exercised	—	—	—	—	—	—	—	—	—	—
Forfeited or expired	(39,923)	3.08	—	—	(130,733)	3.30	—	—	(2,801)	3.08
Outstanding at end of year	387,350	3.08	2.59	3,836	256,617	3.30	2.84	4,499	253,816	3.08
Exercisable at end of year	387,350	3.08	2.63	1,435	256,617	3.30	2.84	4,499	253,816	3.08
Expected to be vested	—	—	—	—	—	—	—	—	—	—

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 2016 and 2017.

F-44

TABLE OF CONTENTS

AMBOW EDUCATION HOLDING LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

The Company recorded share-based compensation expenses (reversals) of RMB (3,645), RMB nil and nil for the share options during the years ended December 31, 2015, 2016 and 2017, 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, 2015, 2016 and 2017. Total fair values of option vested were RMB 83, RMB nil and nil for employees and RMB 4, RMB nil and nil for non-employees during the years ended December 31, 2015, 2016 and 2017, respectively.

As of December 31, 2016 and 2017, 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, 2016 and 2017, 225,377 and 93,906 shares were vested respectively. In 2016 and 2017, 225,377 and 93,906 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 2016 and 2017, 6,666 and nil 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 2016 and 2017, 201,875 and 127,500 shares of restricted stock were vested respectively, with 201,875 and 122,353 of the vested shares separately issued to the board members in 2016 and 2017.

A summary of the restricted stock awards as of December 31, 2016 and 2017 is as follows:

	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	—

F-45

TABLE OF CONTENTS

AMBOW EDUCATION HOLDING LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

	Year ended December 31, 2017		
	Shares	Grant-date fair value	Weighted Average Remaining Contractual Term
		RMB	
Outstanding at beginning of year	415,521	22.28	1.89
Granted	—	—	—
Issued	(216,259)	21.25	—
Forfeited or expired	(2,625)	20.36	1.47
Outstanding at end of year	196,637	20.50	1.29
Shares vested but not issued at end of year	49,500	21.44	—

The Company recorded share-based compensation expenses of RMB 9,076, RMB 7,828 and RMB 4,640 in general and administrative expense for the restricted stock awards for the years ended December 31, 2015, 2016 and 2017, respectively, and the unrecognized share-based compensation expenses was amounting to RMB 8,616 and RMB 3,575 as of December 31, 2016 and 2017, respectively.

19. 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, 2016 and 2017, the payable balances for VAT were RMB 31,314 and RMB 8,965 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, 2016 and 2017, the payable balances for business tax were RMB 24,106 and RMB 18,423, respectively.

F-46

TABLE OF CONTENTS

AMBOW EDUCATION HOLDING LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

c. Income taxes

Cayman Islands

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

British Virgin Islands

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

Hong Kong

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

Taiwan

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

PRC and US

Significant components of the provision for income taxes on earnings for the years ended December 31, 2015, 2016 and 2017 are as follows:

	Years ended December 31,		
	2015	2016	2017
	RMB	RMB	RMB
Current:			
PRC	8,562	4,881	11,648
U.S.	—	—	93
Deferred:			
PRC	(127,525)	1,030	(2,161)
U.S.	—	—	34
Provision for income tax expenses (benefits)	(118,963)	5,911	9,614

Corporate entities

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

EIT Law also imposes a withholding income tax of 10% on dividends distributed by a foreign invested enterprise, or FIE, to its immediate holding company outside of PRC. A lower withholding income tax rate of 5% is applied if the FIE's immediate holding company is registered in Hong Kong or other jurisdiction that have a tax treaty or arrangement with PRC and the FIE's immediate holding company satisfies the criteria of beneficial owner as set out in Circular Guoshuihan [2009] No. 601. Such withholding income tax was exempted under the previous income tax laws and rules. On February 22, 2008, the Ministry of Finance ("MOF") and the State Administration of Taxation ("SAT") jointly issued a circular which stated that FIEs that generate earnings in or after 2008 and distribute those earnings to foreign investors should pay the withholding tax. As stipulated in the EIT Law, if the earnings of a tax resident enterprise are distributed

F-47

TABLE OF CONTENTS

AMBOW EDUCATION HOLDING LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

to another tax resident enterprise, the withholding tax can be exempted. According to EIT Law and EIT Implementing Regulations, a tax resident enterprise is an entity incorporated in the PRC, or incorporated outside the PRC but its “place of effective management” is in the PRC. The Company assessed and concluded that it does not satisfy the definition of a tax resident enterprise. The Company has further determined that its FIEs in PRC will not declare any dividend should the withholding tax on dividends be applied. Accordingly, the Company did not record any withholding tax on the retained earnings of its FIEs in PRC for the years ended December 31, 2015, 2016 and 2017. 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. The 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 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 assessing 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, an appeal can be filed within 10 days of the receipt of the ruling. On March 20, 2015, the Company has filed an appeal with the Beijing First Intermediate People’s Court. In June 2015, the Court rejected the Company’s appeal. Late payment interest of RMB 1,328, RMB 1,332 and RMB 884 have been recognized for the loss contingency as of December 31, 2015 and 2016 and August 31, 2017 respectively. On August 31, 2017, the Company sold 100% of its equity interest in Ambow Online to a third party. Therefore the accrued income tax payable and overdue fee would not be consolidated with the Company as of December 31, 2017. See Note 27 for details.

Private schools and colleges

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

The principal regulations governing private education in China are The Law for Promoting Private Education and The Implementing Rules for the Law for Promoting Private Education, or 2004 Implementing Rules. The Standing Committee of the National People’s Congress promulgated an amendment to The Law for Promoting Private Education on November 7, 2016, which went into effect on September 1, 2017. Pursuant to this amendment, private schools not requiring reasonable returns were treated in a similar manner to public schools and were generally not subject to income tax. To date, no separate regulations or guidelines have been released on how to define reasonable return for the purposes of assessing a school’s tax status. We currently do not believe it is likely that our schools and college would qualify as not-for-profit organizations and therefore be exempt from corporate income tax under the EIT Law. The Group has recognized income tax payable for the above unrecognized tax benefits because the obligation was considered probable. Please see Note 19(d) for the movement of uncertain tax position.

F-48

TABLE OF CONTENTS

AMBOW EDUCATION HOLDING LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

U.S. Tax Cuts and Jobs Act

The U.S. Tax Cuts and Jobs Act (the “Tax Act”) was enacted on December 22, 2017. The Tax Act makes significant changes to U.S. income tax law, including, but not limited to, reducing the U.S. federal corporate income tax rate from 35 percent to 21 percent, and imposing a mandatory one-time tax on accumulated earnings of foreign subsidiaries. On December 22, 2017, the SEC staff issued Staff Accounting Bulletin No. 118 (“SAB 118”) to address the application of U.S. GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Tax Act. As of December 31, 2017, the Company has completed its accounting for the effects of the Tax Act based on currently available information, and no material impact have been identified. The Company will monitor future guidance set forth by the Department of Treasury with regard to the Transition Tax provisions under the Act, and true up this estimate as appropriate within the one year measurement period. If revisions are needed as new information becomes available, the final determination of the deemed incremental income tax expense, deemed re-measurement of the deferred assets and liabilities or other applicable provisions of the Tax Act will be completed as additional information becomes available within the 12 month re-measurement period.

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

	As of December 31	
	2016	2017
	RMB	RMB
Deferred tax asset:		
Accrued expense	7,002	7,028
Allowance for doubtful accounts	73,907	47,593
Tax loss carried forward	445,263	359,908
Deferred advertising expense	11,519	670
Impairment of long-lived tangible assets	24,600	19,691
Others	4,273	—
Total deferred tax assets	566,564	434,890
Valuation allowance	(536,838)	(403,485)
Deferred tax assets, net of valuation allowance	29,726	31,405
Deferred tax liabilities:		
– Unrecognized valuation surplus and deficit – acquisition	77,825	79,834
– Unrecognized valuation surplus and deficit – decrease due to amortization and impairment	(55,605)	(56,677)
– Unrealized profit of short-term investments	952	26
Total deferred tax liabilities	23,172	23,183
Deferred tax assets, net of valuation allowance and deferred tax liabilities	6,554	8,222

For entities incorporated in Hong Kong, net loss can be carried forward indefinitely; for entity incorporated in Taiwan, net loss can be carried forward for ten years; for entity incorporated in U.S., net loss can be carried forward for 20 years; for entity incorporated in P.R.C. mainland, net loss can be carried forward for five years.

F-49

TABLE OF CONTENTS

AMBOW EDUCATION HOLDING LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

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

	Amount
	RMB
2018	374,479
2019	210,296
2020	85,336
2021	62,867
2022 and thereafter	707,550
Total	1,440,528

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

	As of December 31,		
	2015	2016	2017
	RMB	RMB	RMB
Balance at beginning of the year	539,704	530,358	536,838
Allowance made during the year	30,873	6,480	10,764
Allowance resulting from the reconsolidation of previously deconsolidated entities	1,352	—	—
Decrease due to disposal of subsidiaries	—	—	(120,069)
Reversals	(41,571)	—	(24,048)
Balance at end of the year	530,358	536,838	403,485

Reconciliation between total income tax expense and the amount computed by applying the PRC statutory income tax rate to income before income taxes is as follows:

	Years ended December 31,		
	2015	2016	2017
	%	%	%
PRC statutory income tax rate	25%	25%	25%
Impact of different tax rates in other jurisdictions	—	—	(6)%
Tax effect of non-deductible expenses	0%	(1)%	15%
Tax effect of non-taxable income	0%	1%	(13)%
Tax effect of tax-exempt entities	(9)%	(10)%	7%
Tax effect of deemed profit	0%	(1)%	0%
Tax effect of disposed entity	13%	0%	0%
Tax penalty	0%	(4)%	2%
Changes in valuation allowance	2%	(29)%	(12)%
Effective tax rate	31%	(19)%	18%

Explanation of Responses:

F-50

TABLE OF CONTENTS

AMBOW EDUCATION HOLDING LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

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,		
	2015	2016	2017
	RMB	RMB	RMB
Unrecognized tax benefits, beginning of year	15,011	23,648	25,323
Increases related to current tax positions	4,948	1,675	5,941
Addition from the consolidation of previously deconsolidated subsidiaries	3,689	—	—
Decrease due to disposal of subsidiaries (Note 27)	—	—	(6,645)
Unrecognized tax benefits, end of year	23,648	25,323	24,619

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, 2015, 2016 and 2017, there are RMB 4,948, RMB 1,675 and RMB 5,941 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, 2017.

In accordance with PRC Tax Administration Law on the Levying and Collection of Taxes, the PRC tax authorities generally have up to five years to assess underpaid tax plus penalties and interest for PRC entities' tax filings. In the case of tax evasion, which is not clearly defined in the law, there is no limitation on the tax years open for investigation. Accordingly, the PRC entities remain subject to examination by the tax authorities based on the above.

20. 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,		
	2015	2016	2017
	RMB	RMB	RMB
Numerator:			
Numerator for basic and diluted (loss) income from continuing operations per share	(277,048)	(35,700)	46,463
Numerator for basic and diluted income from discontinued operations per share	340,787	—	—
Denominator:			
Denominator for basic (loss) income per share weighted average ordinary shares outstanding	36,848,816	38,469,234	38,826,800
Denominator for diluted (loss) income per share weighted average ordinary shares outstanding	36,848,816	38,469,234	39,303,760
Basic (loss) income per share – continuing operations	(7.52)	(0.93)	1.20

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Diluted (loss) income per share – continuing operations	(7.52)	(0.93)	1.18
Basic and diluted income per share – discontinued operations	9.25	—	—

F-51

TABLE OF CONTENTS

AMBOW EDUCATION HOLDING LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

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 1,248,873, 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, 2015 and 2016, respectively, because the effect would be anti-dilutive. And 476,960 share options and restricted shares were included in the calculation of diluted income per share for year of 2017.

21. 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, 2017 were as follows:

	Amount RMB
2018	33,774
2019	23,797
2020	14,311
2021	12,115
2022	13,104
Thereafter	64,248
Total	161,349

Rent expense for all cancelable and non-cancelable leases including continuing and discontinued operation were approximately RMB 54,939, RMB 26,184 and RMB 22,617 for years ended December 31, 2015, 2016 and 2017, respectively.

Contingencies

As of December 31, 2017, the Company did not have any significant indemnification claims that were probable or reasonably possible.

22. SEGMENT INFORMATION

The Group offers a wide range of educational and career enhancement services and products focusing on improving educational opportunities for primary and advanced degree school students and employment opportunities for university graduates.

The Group's chief operating decision maker ("CODM") has been identified as the CEO who reviews the financial information of separate operating segments when making decisions about allocating resources and assessing performance of the Group. Based on management's assessment, the Group has determined that it has four operating segments which are Tutoring, K-12 Schools, Career Enhancement and Others. These four operating segments are also identified as reportable segments. The reportable segments of tutoring and K-12 schools are grouped under the "Better Schools" division because the segments offer programs and education services using a standards-based curriculum that enables students to improve their academic results and educational opportunities. The reportable segments of career enhancement was classified under the "Better Jobs" division because the segments offer services and programs that facilitate post-secondary students to obtain more attractive employment opportunities. The reportable segment of

TABLE OF CONTENTS

AMBOW EDUCATION HOLDING LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

Others represents the intellectualized operational services provided, and was classified under the “Others” division. This segment provide intellectualized operational services to corporate clients, colleges and universities, which is to design, purchase, modify and integrate electronic equipment and devices, and develop mobile APP for end users to utilize office facilities, manage resources and administrative matters according to our clients’ office or teaching space, human resource deployments and office/classroom administration requirements.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The CODM evaluates performance based on each reporting segment’s revenues, cost of revenues, gross profit, operating expenses, other income (expense), (loss) income before income tax and non-controlling interests and total assets as follows. Discontinued operations have been excluded from the segment information for periods presented.

For the year ended December 31, 2015

(RMB in thousands)

	Better School			Better Job	Consolidated
	Tutoring	K-12	Subtotal	Career Enhancement	
	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
OPERATING EXPENSES					
Selling and marketing	(7,690)	(964)	(8,654)	(38,976)	(47,630)
General and administrative	(18,601)	(37,787)	(56,388)	(48,337)	(104,725)
Research and development	(1,773)	—	(1,773)	(321)	(2,094)
Impairment loss	(2,702)	—	(2,702)	(7,630)	(10,332)
Unallocated corporate expenses	—	—	—	—	(341,023)
Total operating expenses	(30,766)	(38,751)	(69,517)	(95,264)	(505,804)
OPERATING (LOSS) INCOME	(16,926)	31,177	14,251	(29,262)	(356,034)
OTHER INCOME (EXPENSE)					
Interest (expenses) income, net	(307)	22	(285)	(2,100)	(2,385)
Foreign exchange gain, net	10	—	10	24	34
Other (loss) income, net	(7,966)	(237)	(8,203)	665	(7,538)
Loss (income) on reconsolidation of previously deconsolidated entities	(23,908)	—	(23,908)	6,439	(17,469)
Gain on sale of investment available for sale	—	1,971	1,971	—	1,971
Unallocated corporate other expenses	—	—	—	—	(13,984)
Total other (expenses) income	(32,171)	1,756	(30,415)	5,028	(39,371)
	(49,097)	32,933	(16,164)	(24,234)	(395,405)

Explanation of Responses:

(LOSS) INCOME BEFORE
INCOME TAX,
NON-CONTROLLING
INTERESTS AND
DISCONTINUED OPERATIONS

F-53

TABLE OF CONTENTS

AMBOW EDUCATION HOLDING LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

For the year ended December 31, 2016

(RMB in thousands)

	Better School			Better Job	Consolidated
	Tutoring	K-12	Subtotal	Career Enhancement	
	RMB	RMB	RMB	RMB	RMB
Net Revenues	47,985	222,592	270,577	141,439	412,016
Cost of revenues	(33,465)	(137,833)	(171,298)	(67,444)	(238,742)
GROSS PROFIT	14,520	84,759	99,279	73,995	173,274
OPERATING EXPENSES					
Selling and marketing	(5,516)	(1,065)	(6,581)	(30,810)	(37,391)
General and administrative	(21,929)	(42,205)	(64,134)	(34,023)	(98,157)
Research and development	(1,445)	—	(1,445)	(924)	(2,369)
Impairment loss	(21,779)	—	(21,779)	(623)	(22,402)
Unallocated corporate expenses	—	—	—	—	(56,986)
Total operating expenses	(50,669)	(43,270)	(93,939)	(66,380)	(217,305)
OPERATING (LOSS) INCOME	(36,149)	41,489	5,340	7,615	(44,031)
OTHER INCOME (EXPENSE)					
Interest income	106	106	212	186	398
Foreign exchange gain, net	—	—	—	12	12
Other (loss) income, net	(2,514)	195	(2,319)	(1,714)	(4,033)
Gain on sale of investment available for sale	—	2,464	2,464	138	2,602
Unallocated corporate other income	—	—	—	—	13,945
Total other (expenses) income	(2,408)	2,765	357	(1,378)	12,924
(LOSS) INCOME BEFORE INCOME TAX AND NON-CONTROLLING INTERESTS	(38,557)	44,254	5,697	6,237	(31,107)
Segment assets	118,083	363,317	481,400	187,362	668,762
Unallocated corporate assets	—	—	—	—	284,261
TOTAL ASSETS	118,083	363,317	481,400	187,362	953,023

F-54

TABLE OF CONTENTS

AMBOW EDUCATION HOLDING LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

For the year ended December 31, 2017

(RMB in thousands)

	Better School			Better Job	Others	Consolidated
	Tutoring	K-12	Subtotal	Career Enhancement		
	RMB	RMB	RMB	RMB	RMB	
Net Revenues	55,371	232,433	287,804	144,950	11,170	443,924
Cost of revenues	(26,426)	(152,509)	(178,935)	(70,465)	(6,995)	(256,395)
GROSS PROFIT	28,945	79,924	108,869	74,485	4,175	187,529
OPERATING EXPENSES						
Selling and marketing	(4,220)	(1,356)	(5,576)	(26,656)	—	(32,232)
General and administrative	(16,411)	(40,681)	(57,092)	(34,466)	(12)	(91,570)
Research and development	(241)	—	(241)	(407)	—	(648)
Unallocated corporate expenses	—	—	—	—	—	(60,774)
Total operating expenses	(20,872)	(42,037)	(62,909)	(61,529)	(12)	(185,224)
OPERATING INCOME	8,073	37,887	45,960	12,956	4,163	2,305
OTHER INCOME (EXPENSE)						
Interest income	252	804	1,056	171	—	1,227
Foreign exchange gain, net	—	—	—	47	—	47
Gain on disposal of subsidiaries	4,540	—	4,540	—	—	4,540
Other income (loss), net	10,402	1,025	11,427	(4,348)	—	7,079
Gain on sale of investment available for sale	—	5,594	5,594	1,958	—	7,552
Unallocated corporate other income	—	—	—	—	—	32,789
Total other income (loss)	15,194	7,423	22,617	(2,172)	—	53,234
INCOME BEFORE INCOME TAX AND NON-CONTROLLING INTERESTS	23,267	45,310	68,577	10,784	4,163	55,539
Segment assets	118,403	370,251	488,654	172,690	8,085	669,429

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Unallocated corporate assets	—	—	—	—	—	307,991
TOTAL ASSETS	118,403	370,251	488,654	172,690	8,085	977,420

The Group primarily operates in the PRC and US. Substantially most of the Group's long-lived assets are located in the PRC and US.

F-55

TABLE OF CONTENTS

AMBOW EDUCATION HOLDING LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

23. 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 28,085, RMB 29,029 and RMB 35,241 for the years ended December 31, 2015, 2016 and 2017, 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, 2016 and 2017:

	As of December 31,	
	2016	2017
	RMB	RMB
General and statutory surplus reserve	59,309	17,348
Education development reserve	21,698	2,688
Total	81,007	20,036

24. ACQUISITION

In 2017, the Group entered into one acquisition agreement. The details are as follow:

Date of acquisition	Purchase price	Goodwill	Intangibles with indefinite life	Amortizable intangibles
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Entity acquired during the year ended December 31, 2017		RMB	RMB	RMB	RMB
(1) Bay State College Inc.	November 20, 2017	22,830	5,212	5,920	1,438

F-56

TABLE OF CONTENTS

AMBOW EDUCATION HOLDING LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

On November 20, 2017, Ambow BSC Inc. acquired 100% of the outstanding shares of common stock of Bay State College, Inc., which owns and operates Bay State College (the “BSC”), a higher education institution offering career-focused post-secondary education with Associates and Bachelor’s programs in Business, Information Technology, Healthcare, Criminal Justice and Fashion. The acquisition date is determined based on the date at which the Group obtained control of the acquiree.

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

The total purchase price of RMB 22,830 (US\$3,494) consisted of cash consideration of RMB 16,064 (US\$2,459) and contingent consideration of RMB 6,766 (US\$1,036). The contingent consideration payable was subject to the performance of the acquiree in the future years. The fair value of the contingent consideration was estimated by using income approach, which was the discounted future payment determined by the projected EBITDA of BSC during the assessing period.

The purchase price exceeded the fair value of the net tangible assets acquired from Bay State College Inc. and as a result, the Group recorded goodwill in connection with this transaction. The goodwill acquired resulted primarily from the Group’s expected synergies from the integration of businesses acquired into the Group’s service and product offerings.

The Group used the following valuation methodologies to value assets acquired, liabilities assumed and intangible assets identified:

-
- Property and equipment was valued using the cost approach;
-
- Brand were valued using the relief from royalty method, which represents the benefits of owning the intangible asset rather than paying royalties for its use;
-
- Student populations was valued using the multi-period excess earning method approach;
-
- All other current assets and current liabilities carrying value approximated fair value at the time of acquisition.

Acquisition-related costs incurred for the acquisitions have been expensed as incurred in general and administrative expense.

F-57

TABLE OF CONTENTS

AMBOW EDUCATION HOLDING LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

The purchase price was allocated based on the fair values of the acquired assets and liabilities as of the acquisition date as follows:

	RMB	Amortization Period (in years)
Cash and cash equivalents	15,231	
Prepaid and other current assets	3,921	
Property and equipment	9,096	
Intangible assets:		
Brand	5,920	Indefinite
Students population	1,438	3.3
Goodwill	5,212	
Other non-current assets	745	
Total assets	41,563	
Deferred revenue	(3,685)	
Accounts payable	(1,555)	
Accrued and other liabilities	(9,004)	
Income tax payable	20	
Other non-current liabilities	(3,143)	
Deferred tax assets, net of deferred tax liabilities	(1,366)	
Total	22,830	

Of the RMB 7,358 of acquired intangible assets, RMB 5,920 was assigned to brand that are not subject to amortization. The remaining amortizable intangible assets of RMB 1,438 have a useful life of 3.3 years. Goodwill is not deductible for tax purposes. For the purposes of presenting operating segments, Bay State College Inc. and the goodwill arising on its acquisition are classified within the Career Enhancement segment.

The net revenue and net income arising from acquisition of Bay State College Inc. made in period from acquisition date to December 31, 2017 that are included in the Group's consolidated income statement for the year ended December 31, 2017 are RMB 6,430 and RMB 295, respectively. The RMB 16,064 (US\$2,459) of cash consideration less cash acquired of RMB 15,231 (US\$2,331) resulted in a net cash outlay of RMB 833 (US\$128).

F-58

TABLE OF CONTENTS

AMBOW EDUCATION HOLDING LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

25. RELATED PARTY TRANSACTIONS

a. Transactions

The Group entered into the following transactions with related parties:

Transactions	Years ended December 31,		
	2015	2016	2017
	RMB	RMB	RMB
Repayments to Executive Principal of Ambow Research Center (Note i)	(3,960)	—	—
Collection from A, a member of management team of the Company	(1,670)	—	—
Repaid to A, a member of management team of the Company (Note ii)	(1,350)	—	—
Loan to/(collection from) a member of management team of Beijing SIWA Century Zhisheng Education Technology Co., Ltd. (“Century Zhisheng”) (Note iii)	199	(24)	—
Loan to Suzhou Chengpingheng Software Engineering Co., Ltd, an entity controlled by a member of management team of Century Zhisheng (Note iii)	138	—	—
Borrowing from a member of management team of Century Zhisheng (iii)	1,089	—	—
Loan to (Settlement of loan with) B, a member of management team of the Company	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 borrowings from A, a member of management team of the Company, were fully repaid in 2015.

Note (iii) The loans to a member of management team of Century Zhisheng and borrowings from entities controlled by a member of management team of Century Zhisheng were made for operation purpose without interest bearing and maturity date. In 2017, the member of management team of Century Zhisheng was resigned, led to the reclassification of respective amounts due from and due to such member from related party to a third party.

F-59

TABLE OF CONTENTS

AMBOW EDUCATION HOLDING LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

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

Relationship	Amounts due from related parties As of December 31,		Amounts due to related parties As of December 31,	
	2016	2017	2016	2017
	RMB	RMB	RMB	RMB
A, a member of management team of the Company	1,100	—	—	—
A member of management team of Century Zhisheng (Note 25 a (iii))	185	—	4,232	—
Entity controlled by a member of management team of Century Zhisheng – Suzhou Chengpingheng Software Engineering Co., Ltd (Note 25a (iii))	138	—	—	—
Entity controlled by Executive Principal of Ambow Research Center – Shandong Shichuang Software Engineering Co., Ltd. (Note 25 a (iii))	—	—	3,430	3,430
B, a member of management team of the Company	400	—	—	—
	1,823	—	7,662	3,430

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
F-60

TABLE OF CONTENTS

AMBOW EDUCATION HOLDING LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

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 44,686 (US\$7,222), RMB nil (US\$ nil) and RMB nil (US\$ nil) expenses were recognized for the years ended December 31, 2015, 2016 and 2017, respectively.

26. 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		
	2015	2016	2017
	RMB	RMB	RMB
Revenues	171,938	—	—
Impairment loss	—	—	—
Loss from discontinued operation	(4,499)	—	—
Income tax benefit	1,385	—	—
Loss from discontinued operation, net of income tax	(3,114)	—	—
Income on sale of discontinued operation, net of income tax (note(i))	343,912	—	—
Income (loss) from and on sale of discontinued operation, net of income tax	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.

F-61

TABLE OF CONTENTS

AMBOW EDUCATION HOLDING LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

27. DISPOSAL OF SUBSIDIARY

On August 31, 2017, the Company sold the 100% equity interest in Ambow Online to a third party, with nil consideration, and the third party assumed all assets and liabilities of Ambow Online as of August 31, 2017. In connection with the disposal, the Company offset the payables to Ambow Online with Ambow Online's net assets attributable to the Company as of August 31, 2017. After offsetting, the payable balance due to Ambow Online by the Company was RMB 171,137. Through further negotiation with the buyer, the payable balance due to Ambow Online by the Company was reduced to RMB 137,532. The difference of RMB 33,605 was recognized as disposal gain. Obligation in aggregate amount of RMB 137,532 would be paid by December 31, 2018. The deal was not a strategic shift of the business and this transaction would not have major impact on Ambow's business, therefore this transaction was not qualified as discontinued operation.

On September 30, 2017, the Company sold the 100% equity interest in 21st Training Center to a third party, with consideration of RMB 1 yuan, and the third party assumed all assets and liabilities of 21st Training Center as of September 30, 2017. In connection with the disposal, 21st Training Center also waived the net payables with the Company. The Company received RMB 1 yuan as consideration in the transaction. The disposal was not a strategic shift of the business and this transaction would not have major impact on Ambow's business, therefore this transaction did not qualify as discontinued operation. As of disposal date on September 30, 2017, the net liabilities of 21st Training Center was RMB 4,540. In September 2017, the Company recognized a gain of RMB 4,540 on the disposal accordingly.

28. DECONSOLIDATION AND RECONSOLIDATION

In 2013 and 2014, the Group deconsolidated a few entities since the Group ceased to have substantial control over those entities. 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 years of 2016 and 2017, 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.

29. NON-CONTROLLING INTERESTS

As of January 1, 2015, the Group recognized a non-controlling interest in the consolidated statements of operations and other comprehensive income (loss) to reflect the 31%, 10%, 36% and 23% economic interest in Shanghai Tongguo, Shenyang K-12, Ambow Jingxue and Genesis Career Enhancement, respectively, that is attributable to the shareholders other than the Group.

In 2015, the 36% economic interest in Ambow Jingxue amount of RMB 5,845 was derecognized as a result of disposal of subsidiary, while the 5% economic interest in Guangzhou ZS Career Enhancement amount of RMB 3,351 was recognized as a result of reconsolidation of subsidiary. In addition, three individual shareholders increased their economic interests in Shanghai Tongguo to 40% with a total amount of RMB 163.

F-62

TABLE OF CONTENTS

AMBOW EDUCATION HOLDING LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

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

In 2017, the 40% economic interests of Huanyu Liren and Suzhou Jiaxue, which was deficit of RMB 758 in total, were derecognized because respective minority shareholders sold their non-controlling interests to the Group. The total consideration for buy-out such non-controlling interests was RMB 798 and the difference between the consideration and the carrying amount of non-controlling interest derecognized was recorded as an adjustment to additional paid-in capital. The Group held 100% economic interests in Huanyu Liren and Suzhou Jiaxue thereafter.

30. 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.

F-63

TABLE OF CONTENTS

AMBOW EDUCATION HOLDING LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

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, 2017 and 2016 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, 2017

Assets:

Short term investments, available for sale	128,042	128,042	—	—
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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	—	—
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The following table presents the quantitative information about the Group's Level 3 fair value measurements of intangible assets on a nonrecurring basis in 2016 and 2017, which utilize significant unobservable internally-developed inputs:

	Fair value	Valuation techniques	Unobservable inputs	Range
Intangible assets in 2016	115,941	Relief-from-royalty method	Royalty rate Discount rate Terminal growth rate	0% – 9% 16% – 22% 3%
Intangible assets in 2017	91,249	Relief-from-royalty method	Royalty rate Discount rate Terminal growth rate	1% – 6% 16% – 17% 3%

Explanation of Responses:

31. 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.

F-64

TABLE OF CONTENTS

AMBOW EDUCATION HOLDING LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

No single customer represented 10% or more of the Group's total revenues for the years ended December 31, 2015, 2016 and 2017.

No single supplier represented 10% or more of the Group's total costs of sales for the years ended December 2015, 2016 and 2017.

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:

Debtors	As of December 31,			
	2016		2017	
	RMB	%	RMB	%
Accounts receivable				
Company A	1,313	10%	1	—
Company B	—	—	5,656	23%
Prepaid and other current assets				
Company C	49,800	32%	49,800	38%
Company D	35,000	23%	35,000	27%
Company E	25,959	17%	—	—
Other non-current assets				
Company F	1,570	25%	1,281	9%
Company G	—	—	4,504	33%
Consideration receivable				
Company H	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.

32. SUBSEQUENT EVENTS**1) Extension of loan receivable and short-term borrowing**

On March 7, 2018, we mutually agreed with Sino Accord and Suzhou Zhixinliren to extend the maturity date for repayment of the loans for an additional year. Accordingly, both loans are now due in April 2019 and still interest-free. See Note 9 and 15 for further details.

The Company does not identify any other events with material financial impact on the Group's consolidated financial statements.

F-65

TABLE OF CONTENTS

AMBOW EDUCATION HOLDING LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

33. 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 1,540,405 and RMB 1,255,894 as of December 31, 2016 and 2017, 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, 2016 and 2017, 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.

F-66

TABLE OF CONTENTS**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,		
	2016	2017	2017
	RMB	RMB	US\$
			Note 3(a)
ASSETS			
Current assets:			
Cash and cash equivalents	1,467	323	50
Amounts due from related parties	183,676	261,867	40,249
Prepaid expenses and other current assets	341	2,770	426
Total current assets	185,484	264,960	40,725
Non-current assets:			
Property and equipment, net	—	—	—
Intangible assets, net	8	—	—
Investment in subsidiaries	—	—	—
Total non-current assets	8	—	—
Total assets	185,492	264,960	40,725
LIABILITIES			
Current liabilities:			
Amounts due to related parties	19,605	17,325	2,663
Accrued and other liabilities	49,371	41,196	6,334
Total current liabilities	68,976	58,521	8,997
Non-current liabilities:			
Long-term borrowing from third party	—	39,205	6,026
Total non-current liabilities	—	39,205	6,026
Total liabilities	68,976	97,726	15,023
SHAREHOLDERS' EQUITY			
Preferred shares			
(US\$0.003 par value; 1,666,667 shares authorized, nil issued and outstanding as of December 31, 2016 and 2017)	—	—	—
Class A Ordinary shares			
(US\$0.003 par value; 66,666,667 and 66,666,667 shares authorized; 33,990,680 and 34,206,939 shares issued and outstanding as of December 31, 2016 and 2017, respectively)	636	640	98
Class C Ordinary shares			
(US\$0.003 par value; 8,333,333 and 8,333,333 shares authorized; 4,708,415 and 4,708,415 shares issued and outstanding as of	90	90	14

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December 31, 2016 and 2017, respectively)

Additional paid-in capital	3,453,227	3,456,307	531,225
Accumulated deficit	(3,343,142)	(3,296,679)	(506,691)
Accumulated other comprehensive income	5,705	6,876	1,056
Total shareholders' equity	116,516	167,234	25,702
Total liabilities and shareholders' equity	185,492	264,960	40,725

F-67

TABLE OF CONTENTS

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,			
	2015	2016	2017	2017
	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	(410)	—	—	—
General and administrative	(79,562)	(18,854)	(13,457)	(2,068)
Research and development	(660)	—	—	—
Total operating expenses	(80,632)	(18,854)	(13,457)	(2,068)
OPERATING LOSS	(80,632)	(18,854)	(13,457)	(2,068)
Share of (loss) income from subsidiaries	201,051	(23,274)	59,933	9,212
OTHER EXPENSE				
Interest (expense) income, net	(56,549)	1	2	—
Foreign exchange losses, net	(131)	—	—	—
Other income (expense), net	—	6,427	(15)	(2)
Income tax	—	—	—	—
NET INCOME (LOSS)	63,739	(35,700)	46,463	7,142

F-68

TABLE OF CONTENTS

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,			
	2015	2016	2017	2017
	RMB	RMB	RMB	US\$
				Note 3(a)
Cash flows from operating activities	(40,384)	(6,348)	(18,255)	(2,806)
Cash flows from investing activities	—	—	(1,556)	(239)
Cash flows from financing activities	48,876	(843)	18,667	2,869
Effects of exchange rate changes on cash and cash equivalents	—	—	—	—
Net change in cash and cash equivalents	8,492	(7,191)	(1,144)	(176)
Cash and cash equivalents at beginning of year	166	8,658	1,467	225
Cash and cash equivalents at end of year	8,658	1,467	323	50
Supplemental disclosure of cash flow information				
Supplemental disclosure of non-cash investing and financing activities				
Conversion of convertible loan to ordinary shares and waiver of related accrued interest expenses	70,146	—	—	—

F-69

TABLE OF CONTENTS

1,800,000 American Depositary Shares

Representing 3,600,000 Class A Ordinary Shares

PROSPECTUS

BENCHMARK
