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

FORM 20-F

(Mark One)

☐ Registration statement pursuant to Section 12(b) or 12(g) of the Securities Exchange Act of 1934

or

☒ Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2014

or

☐ Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from to

or

☐ Shell company report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of event requiring this shell company report

Commission file number 001-34563

Concord Medical Services Holdings Limited

(Exact Name of Registrant as Specified in Its Charter)

Cayman Islands

(Jurisdiction of Incorporation or Organization)

18/F, Tower A, Global Trade Center
36 North Third Ring Road, Dongcheng District
Beijing 100013

People's Republic of China
(Address of Principal Executive Offices)

Mr. Adam Jigang Sun
Telephone: (86 10) 5957-5266
Facsimile: (86 10) 5957-5252
18/F, Tower A, Global Trade Center
36 North Third Ring Road, Dongcheng District
Beijing 100013

People's Republic of China

(Name, Telephone, E-mail and/or Facsimile Number and Address of Company Contact Person)

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

<u>Title of Each Class</u>	<u>Name of Each Exchange on Which Registered</u>
Ordinary shares, par value US\$0.0001 per share*	New York Stock Exchange*

* Not for trading, but only in connection with the listing of the American depositary shares, or ADSs, on the New York Stock Exchange. Each ADS represents the right to receive three ordinary shares. The ADSs are registered under the Securities Act of 1933, as amended, pursuant to a registration statement on Form F-6. Accordingly, the ADSs are exempt from registration under Section 12(b) of the Securities Exchange Act of 1934, as amended, pursuant to Rule 12a-8 thereunder.

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

None

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

None

Indicate the number of outstanding shares of each of the Issuer’s classes of capital or common stock as of the close of the period covered by the annual report.

134,836,300 Class A Ordinary Shares Issued and Outstanding

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes ☐ No ☒

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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

Large accelerated filer ☐

Accelerated filer ☒

Non-accelerated filer ☐

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

U.S. GAAP ☒

International Financial Reporting Standards as issued
by the International Accounting Standards Board ☐

Other ☐

If “Other” has been checked in response to the previous question, indicate by check mark which consolidated financial statement item the registrant has elected to follow.

Item 17 ☐ Item 18 ☐

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes ☐ No ☒

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes ☐ No ☐

TABLE OF CONTENTS

	Page
PART I	2
ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS	2
ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE	2
ITEM 3. KEY INFORMATION	2
ITEM 4. INFORMATION ON THE COMPANY	32
ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS	56
ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES	79
ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS	88
ITEM 8. FINANCIAL INFORMATION	88
ITEM 9. THE OFFER AND LISTING	89
ITEM 10. ADDITIONAL INFORMATION	90
ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	98
ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES	99
PART II	100
ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES	100
ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS	100
ITEM 15. CONTROLS AND PROCEDURES	101
ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT	101
ITEM 16B. CODE OF ETHICS	101
ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES	102
ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES	102
ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS	102
ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT	102
ITEM 16G. CORPORATE GOVERNANCE	102
ITEM 16H. MINE SAFETY DISCLOSURE	103
PART III	103
ITEM 17. FINANCIAL STATEMENTS	103
ITEM 18. FINANCIAL STATEMENTS	103
ITEM 19. EXHIBITS	103

CONVENTIONS THAT APPLY TO THIS ANNUAL REPORT ON FORM 20-F

Unless otherwise indicated, references in this annual report on Form 20-F to:

- “ADRs” are to the American depositary receipts, which, if issued, evidence our ADSs;
- “ADSs” are to our American depositary shares, each of which represents three ordinary shares;
- “China” and the “PRC” are to the People’s Republic of China, excluding, for the purposes of this annual report only, Taiwan and the special administrative regions of Hong Kong and Macau;
- “Concord Medical,” “we,” “us,” “our company” and “our” are to Concord Medical Services Holdings Limited, its predecessor entities and its consolidated subsidiaries;
- “ordinary shares” are to our ordinary shares, par value US\$0.0001 per share;
- “PRC subsidiaries” are to our subsidiaries incorporated in the People’s Republic of China, including CMS Hospital Management Co., Ltd., Beijing Yundu Internet Technology Co., Ltd., Shenzhen Aohua Medical Technology & Services Ltd., Tianjin Kangmeng Radiology Equipment Management Co., Ltd., Medstar (Shanghai) Leasing Co., Ltd., Guangzhou Concord Medical Cancer Hospital Co., Ltd., Beijing Jinweiyikang Technology Co., Ltd., Guangzhou Jinkangshenyou Investment Co., Ltd. Shanghai Concord Oncology Hospital Limited, Shenzhen Concord Medical Investment Ltd., Beijing Allcure Medical Technology Ltd., and Datong Meizhong Jiahe Cancer Center.
- “RMB” and “Renminbi” are to the legal currency of China;
- “US\$” and “U.S. dollars” are to the legal currency of the United States; and
- “£” is to the legal currency of the United Kingdom of Great Britain and Northern Ireland.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not Applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not Applicable.

ITEM 3. KEY INFORMATION

A. Selected Financial Data

The following selected consolidated statements of comprehensive income and other consolidated financial data for the years ended December 31, 2012, December 31, 2013 and December 31, 2014 (other than the income (loss) per ADS data) and the selected consolidated balance sheets data as of December 31, 2013 and 2014 have been derived from our audited consolidated financial statements, which is included elsewhere in this annual report on Form 20-F. The selected consolidated statements of comprehensive income data for the years ended December 31, 2010 and 2011 and the selected consolidated balance sheets data as of December 31, 2010, 2011 and 2012 have been derived from our audited consolidated financial statements, which are not included in this annual report on Form 20-F. You should read the selected consolidated financial data in conjunction with those financial statements and the related notes and “Item 5. Operating and Financial Review and Prospects” included elsewhere in this annual report on Form 20-F. Our consolidated financial statements are prepared and presented in accordance with generally accepted accounting principles in the United States, or U.S. GAAP. Our historical results are not necessarily indicative of our results expected for any future periods.

	Concord Medical					
	Year Ended December, 31					
	2010	2011	2012	2013	2014	US\$
	RMB	RMB	RMB	RMB	RMB	
	(in thousands, except share, per share and per ADS data)					
Selected Consolidated Statements of Comprehensive Income Data						
Revenues, net of business tax, value-added tax and related surcharges	389,524	450,125	455,651	563,124	606,883	97,813
Cost of revenues	(122,700)	(159,416)	(164,523)	(217,655)	(274,562)	(44,251)
Gross profit	266,824	290,709	291,128	345,469	332,321	53,562
Operating expenses:						
Selling expenses ⁽¹⁾	(17,150)	(37,453)	(53,911)	(104,667)	(95,096)	(15,327)
General and administrative expenses ⁽²⁾	(66,789)	(80,628)	(61,106)	(84,506)	(53,576)	(8,635)
Asset impairment	(3,219)	(333,934)	(3,360)	—	—	—
Other operating income	—	—	9,185	—	—	—
Operating income	179,666	161,306	181,936	156,296	183,649	29,600
Interest expense	(7,448)	(6,454)	(12,452)	(36,884)	(53,470)	(8,618)
Foreign exchange (losses) gains, net	(5,436)	(10,975)	(117)	784	9,585	1,545
Gain (loss) from disposal of property, plant and equipment	543	—	4,432	(1,235)	(3,955)	(637)
Interest income	7,865	13,357	5,853	9,828	21,208	3,418
Changes in fair value of derivatives	—	—	—	—	2,605	420
Equity pick up of equity investee	—	—	1,790	13,470	13,911	2,242
Other (expense) income, net	(399)	346	(307)	2,010	2,113	341
Income from continuing operations before income taxes	174,791	(165,032)	181,135	144,269	175,646	28,311
Income tax expenses	(43,873)	(46,320)	(54,249)	(63,838)	(80,850)	(13,032)
Net income (loss) from continuing operations	130,918	(211,352)	126,886	80,431	94,796	15,279
Net income from discontinued operations	—	—	7,594	10,765	25,476	4,106
Net income	—	—	134,480	91,196	120,272	19,385
Net income (loss) attributable to non-controlling interests	1,518	3,651	3,649	5,303	(4,437)	(715)
Net income (loss) attributable to ordinary shareholders	129,400	(215,003)	130,831	85,893	124,709	20,100
Earning (loss) per share – basic / diluted	0.89	(1.51)	0.95	0.64	0.92	0.15
Earning (loss) per ADS – basic / diluted	2.66	(4.53)	2.84	1.92	2.76	0.45

(1) Our selling expenses included share-based compensation of RMB2.5 million in 2010, RMB2.4 million in 2011, RMB2.3 million in 2012, RMB2.3 million in 2013 and RMB0.7 million (US\$0.1 million) in 2014.

(2) Our general and administrative expenses included share-based compensation expenses related to certain share options granted in 2010, 2011, 2012, 2013 and 2014 of RMB7.0 million, RMB6.9 million, RMB6.8 million, RMB6.5 million and RMB6.6 million (US\$1.1 million), respectively.

	Concord Medical					
	As of December 31,					
	2010	2011	2012	2013	2014	
	RMB	RMB	RMB	RMB	RMB	US\$
(in thousands)						
Selected Consolidated Balance Sheets Data						
Cash	535,783	219,078	75,382	283,033	478,682	77,150
Total current assets	904,416	733,657	853,133	1,300,010	1,463,682	235,903
Property, plant and equipment, net	907,336	1,068,703	1,522,920	1,492,573	749,683	120,827
Goodwill	300,163	—	292,885	292,885	—	—
Intangible assets, net	146,113	129,018	146,512	116,843	61,243	9,871
Total assets	2,663,044	2,393,446	3,665,220	4,093,557	2,959,332	476,959
Long-term bank borrowings, current portion	60,906	77,479	191,473	273,310	246,233	39,686
Total equity	2,301,835	2,038,096	2,339,910	2,433,717	1,800,058	290,119
Total liabilities and equity	2,663,044	2,393,446	3,665,220	4,093,557	2,959,332	476,959

	Concord Medical					
	Year Ended December 31,					
	2010	2011	2012	2013	2014	
	RMB	RMB	RMB	RMB	RMB	US\$
(in thousands)						
Selected Consolidated Statements of Cash Flow Data						
Net cash generated from operating activities	190,972	137,102	259,515	259,033	490,381	79,036
Net cash (used in) generated from investing activities (1)	(529,468)	(494,867)	(659,290)	(133,540)	287,055	46,265
Net cash (used in) generated from financing activities	(154,933)	41,785	255,932	77,722	(579,144)	(93,341)
Exchange rate effect on cash	(8,027)	(725)	147	4,436	(2,643)	(427)
Net (decrease) increase in cash	(501,456)	(316,705)	(143,696)	207,651	195,649	31,533

- (1) Net cash used in investing activities in 2010, 2011, 2012 and 2013 includes acquisitions, net of cash acquired, of RMB45.0 million, RMB20.3 million, RMB223.4 million, and nil respectively. Net cash generated from investing activities in 2014 includes disposal, net of cash disposal, of RMB280.1 million.

	Concord Medical					
	Year Ended December 31,					
	2010	2011	2012	2013	2014	
	RMB	RMB	RMB	RMB	RMB	US\$
(in thousands)						
Total net revenues generated by our primary medical equipment under lease and management services arrangements:						
Linear accelerators	108,974	114,250	115,009	135,268	144,694	23,320
Head gamma knife systems	80,909	77,035	76,239	68,553	58,509	9,430
Body gamma knife systems	38,599	42,512	31,365	42,016	31,478	5,073
PET-CT scanners	41,036	59,054	71,895	107,536	116,078	18,708
MRI scanners	51,738	65,031	79,220	83,619	103,197	16,632
Others (1)	27,992	22,576	38,602	61,564	57,635	9,290
Total net revenues — lease and management services	349,248	380,457	412,330	498,556	511,591	82,453

- (1) Other primary medical equipment used includes CT scanners and ECT scanners for diagnostic imaging, electroencephalography for the diagnosis of epilepsy, thermotherapy to increase the efficacy of and for pain relief after radiotherapy and chemotherapy, high intensity focused ultrasound therapy for the treatment of cancer, stereotactic radiofrequency ablation for the treatment of Parkinson's Disease and refraction and tonometry for the diagnosis of ophthalmic conditions.

[Table of Contents](#)

Exchange Rate Information

Our business is primarily conducted in China and all of our revenues are denominated in Renminbi. Periodic reports made to shareholders will be expressed in Renminbi with translations of Renminbi amounts into U.S. dollars at the then current exchange rate solely for the convenience of the reader. Conversions of Renminbi into U.S. dollars in this annual report are based on the noon buying rate as set forth in the H.10 statistical release of the Federal Reserve Board. Unless otherwise noted, all translations from Renminbi to U.S. dollars and from U.S. dollars to Renminbi in this annual report were made at a rate of RMB6.2046 to US\$1.00, the noon buying rate in effect as of December 31, 2014. We make no representation that any Renminbi or U.S. dollar amounts could have been, or could be, converted into U.S. dollars or Renminbi, as the case may be, at any particular rate, the rates stated below, or at all. The PRC government imposes control over its foreign currency reserves in part through direct regulation of the conversion of Renminbi into foreign exchange and through restrictions on foreign trade. On April 17, 2015, the noon buying rate was RMB6.1976 to US\$1.00.

The following table sets forth information concerning exchange rates between the Renminbi and the U.S. dollar for the periods indicated.

Period	Exchange Rate (Renminbi per US Dollar)(1)			
	Period End	Average(2)	High	Low
		(RMB per US\$1.00)		
2010	6.6000	6.7603	6.8330	6.6000
2011	6.2939	6.4475	6.6364	6.2939
2012	6.2301	6.2990	6.3879	6.2221
2013	6.0537	6.1412	6.2438	6.0537
2014	6.2046	6.1620	6.2591	6.0402
November	6.1429	6.1249	6.1429	6.1117
December	6.2046	6.1886	6.2256	6.1490
2015				
January	6.2495	6.2181	6.2535	6.1870
February	6.2695	6.2518	6.2695	6.2399
March	6.1990	6.2386	6.2741	6.1955
April (through April 17)	6.1976	6.2010	6.2152	6.1930

(1) The source of the exchange rate is the H.10 statistical release of the Federal Reserve Board.

(2) Annual averages are calculated from month-end rates. Monthly averages are calculated using the average of the daily rates during the relevant period.

B. Capitalization and Indebtedness

Not Applicable.

C. Reasons for the Offer and Use of Proceeds

Not Applicable.

D. Risk Factors

Risks Related to Our Company

We plan to establish and operate additional specialty cancer hospitals that will be majority owned by us and are subject to significant risks.

As part of our growth strategy we plan to establish specialty cancer hospitals that will focus on providing radiotherapy services as well as diagnostic imaging services, chemotherapy and surgery. For example, at the Beijing Proton Medical Center, one of our planned specialty cancer hospitals, we plan to offer proton beam therapy treatment services with which we have had no prior experience. Since we have limited experience in operating our own specialty cancer hospital, or in providing many of the services that we plan to offer in our specialty cancer hospitals, such as chemotherapy treatments, surgical procedures or proton beam therapy, we may not be able to provide as high a level of service quality for those treatment options as compared to the other treatments that are currently offered at our network of centers, which may result in damage to our reputation and our future growth prospects. In addition, we may not be successful in recruiting qualified medical professionals to effectively provide the services that we intend to offer in our specialty cancer hospitals. Furthermore, although our brand name is well known among referring doctors, patients are not currently familiar with our brand as we do not carry our own brand name in our network of centers under our existing agreements with our hospital partners. Therefore, when we establish our own specialty cancer hospitals under our brand name, we may not be able to immediately gain wide acceptance among patients and, thus, may be unable to attract a sufficient number of patients to our new hospitals.

We plan to carry out a number of large-scale hospital construction projects in the near future, which requires substantial increase in capital expenditures. Our operation and financial conditions and results will be adversely affected if we could not effectively manage capital expenditures.

We plan to build three premium cancer hospitals in major cities in China, namely Beijing, Shanghai and Guangzhou. All these cities are considered top-tier cities in China, with large and nationally-renowned government hospitals. To attract patients, our planned premium hospitals need to train our staff members properly, provide services and treatment environment superior to local hospitals as well as install high-end equipment, including CyberKnife, IMRT (Intensity-Modulated Radiation Therapy) and proton beam therapy. The required capital expenditure will be substantial. The process of capital expenditure planning, designing and construction of the premium hospitals will be time consuming and complex which requires a dedicated team in our company. We do not have prior experience and existing team in managing projects of the planned size. If we cannot manage the process properly, our operating and financial results will be affected adversely.

Our growth plan includes the construction of premium cancer hospitals, free-standing radiotherapy and diagnostic centers. If we cannot identify and seize the growth opportunities in the fast-changing market, our future growth will face uncertainties.

We plan to apply for approvals to build free-standing radiotherapy and diagnostic centers in multiple regions in China. These free-standing centers will not be affiliated with local government hospitals like our current centers. While the current healthcare reform policies encourage the establishment of private medical institutions, the implementation process will be complex and time-consuming and subject to uncertainty. We are in the process of identifying suitable regions for such free-standing centers by taking into consideration a number of factors including the regional market size, existing competition and potential strategic partners. There are uncertainties about how successful we can identify the suitable market, acquire the required government approvals timely and control the planned investments. In addition, we may face competition from the existing centers.

We may encounter difficulties in successfully opening new centers or renewing agreements for existing centers due to the limited number of suitable hospital partners and their potential ability to finance the purchase of medical equipment directly.

Our growth was driven by our ability to expand our network of radiotherapy and diagnostic imaging centers by primarily entering into new agreements with top-tier hospitals in China, which are 3A hospitals, the highest ranked hospitals by quality and size in China as determined in accordance with the standards of the Ministry of Health. The agreements that hospitals enter into with us and our competitors are typically long-term in nature with terms of up to 20 years. As a result, in any locality or at any given time, there may only be a limited number of top-tier hospitals that have not yet entered into long-term agreements with us or our competitors and with which we are able to enter into new agreements. In addition, quotas imposed by government authorities as to the number and type of certain medical equipment that can be purchased, such as head gamma knife systems or PET-CT scanners, will further limit the number of top-tier hospitals that we or our competitors can enter into agreements within a given period. See “—Risks Related to Our Industry—Healthcare administrative authorities in China currently set procurement quotas for certain types of medical equipment.” Due to the limited supply of suitable top-tier hospitals and increasing competition, we may not be able to enter into agreements with new hospital partners or renew agreements with existing hospital partners on terms as favorable as those that we have been able to obtain in the past, or at all. Some of our competitors may have greater financial resources than us, which may provide them with an advantage in negotiating new agreements with hospitals, including our existing hospital partners. In addition, if

[Table of Contents](#)

adequate funding becomes available for hospitals to purchase medical equipment directly, hospitals may choose to purchase and manage radiotherapy and diagnostic imaging equipment on their own instead of entering into or renewing agreements with us or our competitors. If we are unable to compete effectively in entering into agreements with new hospital partners or to renew existing agreements on favorable terms, or at all, or if hospitals choose to purchase and manage their own medical equipment, our growth prospects could be materially and adversely affected. Finally, the development of new centers generally involves a ramp-up period during which time the operating efficiency of such centers may be lower than our established centers, which may negatively affect our profitability.

We have historically derived a significant portion of our revenues from centers located at a limited number of our hospital partners and regions in which we operate and our accounts receivable are also concentrated with a few hospital partners.

We have historically derived a large portion of our total net revenues from a limited number of our partner hospitals. In 2012, 2013 and 2014, net revenues derived from our top five hospital partners amounted to approximately 22.9%, 24.2% and 22.5% of our total net revenues, respectively. Our largest hospital partner accounted for 6.9%, 5.6% and 6.4% of our total net revenues during those periods, respectively. In addition, centers located in Beijing, Henan province and Shandong province accounted for 18.3%, 10.0% and 8.1% of our total net revenues in 2012, respectively, centers located in Beijing, Henan province and Sichuan Province accounted for 17.1%, 9.4% and 8.5% of our total net revenues in 2013, respectively, and centers located in Beijing, Shandong and Jiangsu accounted for 15.0%, 8.9% and 7.7% of our total net revenue in 2014, respectively. We may continue to experience such revenue concentration in the future. Due to the concentration of our revenues and dependence on a limited number of hospital partners, any one or more of the following events, among others, may cause material fluctuations or declines in our revenues and could have a material adverse effect on our financial condition, results of operations and prospects:

- reduction in the number of patient cases at the centers located at these partner hospitals;
- loss of key experienced medical professionals;
- decrease in the profitability of such centers;
- failure to maintain or renew our agreements with these hospital partners;
- any failure of these hospital partners to pay us our contracted percentage of any such center's revenue net of specified operating expenses;
- any regulatory changes in the geographic areas where our hospital partners are located; or
- any other disputes with these hospital partners.

In addition, the top ten of our hospital partners in terms of revenue contribution, accounted for 38.7% of our total network accounts receivable as of December 31, 2014. Any significant delay in the payment of such accounts receivable could have a material impact on our financial condition and results of operations.

We conduct our business in a heavily regulated industry.

The operation of our network of centers is subject to various laws and regulations issued by a number of government agencies at the national and local levels. Such rules and regulations relate mainly to the procurement of large medical equipment, the pricing of medical services, the operation of radiotherapy and diagnostic imaging equipment, the licensing and operation of medical institutions, the licensing of medical staff and the prohibition on non-profit civilian medical institutions from entering into cooperation agreements with third parties to set up for-profit centers that are not independent legal entities. Our growth prospects may be constrained by such rules and regulations, particularly those relating to the procurement of large medical equipment. If we or our hospital partners fail to comply with such applicable laws and regulations, we could be required to make significant changes to our business and operations or suffer fines or penalties, including the potential loss of our business licenses, the suspension from use of our medical equipment, and the suspension or cessation of operations at centers in our network. In addition, many of the agreements we have entered into with our hospital partners provide for termination in the event of major government policy changes that cause the agreements to become inexecutable. Our hospital partners may invoke such termination right to our disadvantage.

We depend on our hospital partners to recruit and retain qualified doctors and other medical professionals to ensure the high quality of treatment services provided in our network of centers.

Our success is dependent in part upon our hospital partners' ability to recruit and retain doctors and other medical professionals and on our and our hospital partners' ability to train and manage these medical professionals. Although we may help our hospital partners to identify and recruit suitable, qualified doctors and other medical professionals, almost all of these medical professionals

[Table of Contents](#)

are employed by our partner hospitals rather than by us. As a result, we may have little control over whether such medical professionals will continue to work in the centers in our network. In addition, there is a limited pool of qualified medical professionals with expertise and experience in radiotherapy and diagnostic imaging in China, and our hospital partners face competition for such qualified medical professionals from other public hospitals, private healthcare providers, research and academic institutions and other organizations. In the event that our hospital partners fail to recruit and retain a sufficient number of these medical professionals, the resulting shortage could adversely affect the operation of centers in our network and our growth prospects.

Any failure by our hospital partners to make contracted payments to us or any disputes over, or significant delays in receiving, such payments could have a material adverse effect on our business and financial condition.

Most of the centers in our network are established through long-term lease and management services arrangements entered into with our hospital partners. We also provide management services to certain radiotherapy and diagnostic imaging centers through service-only agreements. Payments for treatment and diagnostic imaging services provided in the centers in our network are typically collected by our hospital partners who then pass on to us our contracted percentage of such revenue net of specific operating expenses on a periodic basis. Our total outstanding accounts receivable from our hospital partners were RMB210.3 million, RMB272.3 million and RMB265.0 million (US\$42.7 million) as of December 31, 2012, 2013 and 2014, respectively. As of December 31, 2014, approximately 9.7% of our network accounts receivable reported on our consolidated balance sheets as of December 31, 2013 were still outstanding. The average turnover days of our network accounts receivable in 2014 were 159 days. Any failure by our hospital partners to pay us our contracted percentage, or any disputes over or significant delays in receiving such payments from our hospital partners, for any reason, could negatively impact our financial condition. Accordingly, any failure by us to maintain good working relationships with our hospital partners, or any dissatisfaction on the part of our hospital partners with our services, could negatively affect the operation of the centers and our ability to collect revenue, reduce the likelihood that our agreements with hospital partners will be renewed, damage our reputation and otherwise have a material adverse effect on our business, financial condition and results of operation.

We may not be able to effectively manage the expansion of our operations through new acquisitions or joint ventures or to successfully realize the anticipated benefits of any such acquisition or joint venture.

We have historically complemented our organic development of new centers through the selective acquisition of complementary businesses or assets or the formation of joint ventures, and we may continue to do so in the future. For example, in June 2012, we acquired 52% of the equity interest in Chang'an Hospital, a licensed full-service private hospital. In December 2012, we acquired 19.98% of equity interest in The University of Texas MD Anderson Cancer Center Proton Therapy Center, a leading proton treatment center in the world. In April 2015, we acquired 100% of the equity interest in Fortis Surgical Hospital. The identification of suitable acquisition targets or joint venture candidates can be difficult, time consuming and costly, and we may not be able to successfully capitalize on identified opportunities. We may not be able to continue to grow our business as anticipated if we are unable to successfully identify and complete potential acquisitions in the future. Even if we successfully complete an acquisition or establish a joint venture, we may not be able to successfully integrate the acquired businesses or assets or cooperate successfully with the joint venture partner. For example, in December 2014 we disposed equity interest in Chang'an Hospital which we acquired in 2012, in order to fully concentrate on building a nationwide network of diagnosis and treatment centers and specialized cancer hospitals. Integration of the acquired business or assets or cooperation with the joint venture partners can be expensive, time consuming and may strain our resources. Such integration or cooperation could also require significant attention from our management team, which may prevent key members of our management from focusing on other important aspects of our business.

In addition, we may be unable to successfully integrate or retain employees or management of the acquired businesses or assets or retain the acquired entity's patients, suppliers or other partners. Consequently, we may not achieve the anticipated benefits of any acquisitions or joint ventures. We cannot assure any transformation and integration would be implemented successfully, or without incurring significant cost. Furthermore, future acquisitions or joint ventures could result in potentially dilutive issuances of equity or equity-linked securities or the incurrence of debt, contingent liabilities or expenses, or other charges, any of which could have a material adverse effect on our business, financial condition and results of operations.

We had net current liabilities as of December 31, 2012 and we cannot assure you that we will not experience net current liabilities in the future.

We had net current liabilities of RMB6.4 million as of December 31, 2012 primarily due to cost incurred in connection with the acquisition of equity interests in Chang'an Hospital and Texas MD Anderson Cancer Center Proton Therapy Center in 2012. The total consideration we paid for the acquisition was RMB248.8 million for Chang'an Hospital and US\$32.3 million for Texas MD Anderson Cancer Center Proton Therapy Center, respectively. We had net current assets of RMB693.9 million (US\$111.8 million) as of December 31, 2014. We believe that our current cash and anticipated cash flow from operations will be sufficient to meet our anticipated cash needs, including our cash needs for working capital and capital expenditures, for at least the next 12 months.

However, we cannot assure you that we will not have net current liabilities in the future. If we fail to generate current assets to the extent that the aggregate amount of our current assets on any given day exceeds the aggregate current liabilities on the same day, we will continue to record net current liabilities. If we have significant net current liabilities for an extended period of time, our working capital for purposes of our operations may be subject to constraints, which may have a material adverse effect on our business, financial condition and results of operations.

We may not be successful in negotiating the conversion of a few of our cooperation agreements with our partner hospitals into lease and management agreements due to regulatory changes.

Since the effectiveness in September 2000 of the Implementation Opinions on the Classified Management of Urban Medical Institutions, which was promulgated by the Ministry of Health, the State Administration of Traditional Chinese Medicine, the Ministry of Finance and the National Development Reform Committee, or NDRC, non-profit civilian medical institutions are no longer permitted to enter into cooperation agreements or to continue to operate under existing cooperation agreements with third parties pursuant to which the parties jointly invest in or cooperate to set up for-profit centers or units that are not independent legal entities. However, according to the Opinions on Certain Issues Regarding Classified Management of Urban Medical Institutions issued in July 2001 by the same authorities, a non-profit civilian medical institution may, if lacking sufficient funds to purchase medical equipment outright, enter into a leasing agreement pursuant to which the medical institution leases medical equipment from its partner at market rates. To comply with these regulatory changes, we have transitioned most of our cooperation agreements with non-profit civilian hospitals to lease and management agreements. Although neither we nor any of our hospital partners have incurred any penalties to date for continuing to operate under cooperation agreements at these centers, there can be no assurance that we will not incur penalties in the future or that we will be able to successfully negotiate the conversion of these agreements. If we are unable to successfully negotiate the conversion of our cooperation agreements with these hospitals or if government authorities decide to assess penalties against either us or our hospital partners or to suspend the operation of these centers before we are able to complete the transition, our business, financial condition and results of operation could be materially and adversely affected.

We are not aware of any similar restriction imposed by military healthcare administrative authorities on the cooperation agreements that we have entered into with military hospitals, which are hospitals regulated by the military but most of which are otherwise the same as other government-owned civilian hospitals open to the public. Accordingly, we have maintained our cooperation agreements with 34 military hospitals as of December 31, 2014. However, as military hospitals are also government-owned, if military hospitals are required by military healthcare administrative authorities to transition away from cooperation agreements in the future, we will have to negotiate a similar conversion of the agreements with our military hospital partners. If we are unable to successfully negotiate lease and management or other alternative agreements with our existing military hospital partners on terms not less favorable than those under our cooperation agreements, our business, financial condition and results of operation may be adversely affected.

We cannot assure you that government authorities will not interpret regulations differently from us to find that our lease and management agreements are still not in compliance with relevant regulations.

We believe that our lease and management agreements with civilian public hospital partners, which terms continue to provide that our revenues from hospital-based centers are to be calculated based on contracted percentages of each center's revenue net of specified operating expenses, are in compliance with the Implementation Opinions on the Classified Management of Urban Medical Institutions and the Opinions on Certain Issues Regarding Classified Management of Urban Medical Institutions. However, we cannot assure you that the Ministry of Health or other competent authorities will not interpret these regulations differently to find that our lease and management agreements are still not in compliance with such regulations, in which instance, such authorities could, among other things, declare our lease and management agreements to be void, order our civilian hospital partners to terminate such agreements with us, order our civilian hospitals partners to suspend or cease operation of the centers governed by such agreements, suspend the use of our medical equipment, or confiscate revenues generated under the noncompliant agreements. Furthermore, we may have to change our business model which may not be successful. If any of the above were to occur, our business, financial condition and results of operation could be materially and adversely affected.

There may be corrupt practices in the healthcare industry in China, which may place us at a competitive disadvantage if our competitors engage in such practices and may harm our reputation if our hospital partners and the medical personnel who work in our centers, over whom we have limited control, engage in such practices.

There may be corrupt practices in the healthcare industry in China. For example, in order to secure agreements with hospital partners or to increase direct sales of medical equipment or patient referrals, our competitors, other service providers or their personnel or equipment manufacturers may engage in corrupt practices in order to influence hospital personnel or other decision-makers in violation of the anti-corruption laws of China and the U.S. Foreign Corrupt Practices Act, or the FCPA. We have adopted a policy regarding compliance with the anti-corruption laws of China and the FCPA to prevent, detect and correct such corrupt practice.

However, as competition persists and intensifies in our industry, we may lose potential hospital partners, patient referrals and other opportunities to the extent that our competitors engage in such practices or other illegal activities. In addition, our partner hospitals or the doctors or other medical personnel who work in our network of centers may engage in corrupt practices without our knowledge to procure the referral of patients to centers in our network. Although our policies prohibit such practices, we have limited control over the actions of our hospital partners or over the actions of the doctors and other medical personnel who work in our network of centers since they are not employed by us. If any of them were to engage in such illegal practices with respect to patient referrals or other matters, we or the centers in our network may be subject to sanctions or fines and our reputation could be adversely affected by any negative publicity stemming from such incidents.

We could also face increased exposure to liability claims at our specialty cancer hospitals, including claims for medical malpractice. We may need to obtain medical malpractice insurance and other types of insurance that we do not currently carry, each of which could increase our expenses and decrease our profitability. In addition, there can be no assurance that such insurance will be available at a reasonable price or that we will be able to maintain adequate levels of liability insurance coverage, if at all. In addition, our specialty cancer hospitals will also be required to obtain various quotas, permits and authorizations, which are currently the responsibility of our hospital partners under our existing agreements. See “—Risks Related to Our Industry—Healthcare administrative authorities in China currently set procurement quotas for certain types of medical equipment” and “—Risks Related to Our Industry—We or our hospital partners may be unable to obtain various permits and authorizations from regulatory authorities in China relating to our medical equipment, which could delay the installation or interrupt the operation of our equipment.”

Finally, if our plans change for any reason or the anticipated timetable or costs of development change for our specialty cancer hospitals, our business and future prospects may be negatively impacted. There can be no assurance that the planned specialty cancer hospitals will be completed or that, if completed, they will achieve sufficient patient cases to generate positive operating margins. In addition, as our currently planned specialty cancer hospitals are to be established through joint ventures with other parties, we also may not be successful in cooperating with such joint venture partners in operating our specialty cancer hospitals. See “—Risk Factors Related to Our Business —We may not be able to effectively manage the expansion of our operations through any new acquisitions or joint ventures, which we may not be able to successfully execute.”

We rely on the doctors and other medical professionals providing services in our network of centers to make proper clinical decisions and we rely on our hospital partners to maintain proper control over the clinical aspects of the operation of our network of centers.

We rely on the doctors and other medical professionals who work in our network to make proper clinical decisions regarding the diagnosis and treatment of their patients. Although we develop treatment protocols for doctors, provide periodic training for medical professionals in our network of centers on proper treatment procedures and techniques and host seminars and conferences to facilitate consultation among doctors providing services in our network of centers, we ultimately rely on our hospital partners to maintain proper control over the clinical activities of each center and over the doctors and other medical professionals who work in such centers. Any incorrect clinical decisions on the part of doctors and other medical professionals or any failure by our hospital partners to properly manage the clinical activities of each center may result in unsatisfactory treatment outcomes, patient injury or possibly death. Although part of the liability for any such incidents may rest with our partner hospitals and the doctors and other medical professionals they employ, we may be made a party to any such liability claim which, regardless of its merit or eventual outcome, could result in significant legal defense costs for us, harm our reputation, and otherwise have a material adverse effect on our business, financial condition and results of operations. The centers in our network have experienced claims as to a limited number of medical disputes since they commenced operations. Any expenses resulting from such liability claims are generally required to be accounted for as expenses of the relevant center, which could reduce our revenue derived from such center. We do not carry malpractice or other liability insurance at many of the centers in our network, and at those centers that do carry such insurance, it may not be sufficient to cover any potential liability that may result from such claims. For our specialty cancer hospitals that are currently under development, we will likely face direct liability claims for any such incidents.

Any failures or defects of the medical equipment in our network of centers or any failure of the medical personnel who work at the centers in our network to properly operate our medical equipment could subject us to liability claims and we may not have sufficient insurance to cover any potential liability.

Our business exposes us to liability risks that are inherent in the operation of complex medical equipment, which may contain defects or experience failures. We rely to a large degree on equipment manufacturers to provide technical training to the medical technicians who work in our network of centers on the proper operation of our complex medical systems. If such medical technicians are not properly and adequately trained by the equipment manufacturers or by us, they may misuse or ineffectively use the complex medical equipment in our network of centers. These medical technicians may also make errors in the operation of the complex medical equipment even if they are properly trained. Any medical equipment defects or failures or any failure of the medical personnel who work in the centers to properly operate the medical equipment could result in unsatisfactory treatment outcomes,

patient injury or possibly death. Although the liability for any such incidents rests with the equipment manufacturers or the medical technicians, we may be made a party to any such liability claim which, regardless of its merit or eventual outcome, could result in significant legal defense costs for us, harm our reputation, and otherwise have a material adverse effect on our business, financial condition and results of operations. In addition, any expenses resulting from such liability claims may be accounted for as expenses of the center, which could reduce our revenue derived from such center. We do not carry product liability insurance at any of the centers in our network.

Any downtime for maintenance and repair of our medical equipment could lead to business interruptions that could be expensive and harmful to our reputation and to our business.

Significant downtime associated with the maintenance and repair of medical equipment used in our network of centers would result in the inability of the centers to provide radiotherapy treatment or diagnostic imaging services to patients in a timely manner. We primarily rely on equipment manufacturers or third party service companies for maintenance and repair services. The failure of manufacturers or third party service companies to provide timely repairs on our equipment could interrupt the operation of centers in our network for extended periods of time. Such extended downtime could result in lost revenues for us and our partner hospitals, dissatisfaction on the part of patients and our partner hospitals and damage to the reputation of the centers in our network, our partner hospitals and our company.

We rely on a limited number of equipment manufacturers.

Much of the medical equipment used in our network of centers is highly complex and is produced by a limited number of equipment manufacturers. These equipment manufacturers provide training on the proper operation of our medical equipment to the medical personnel who work in the centers in our network as well as maintenance and repair services for such equipment. Any disruption in the supply of the medical equipment or services from these manufacturers, including as a result of failure by any such manufacturers to obtain the requisite third-party consents and licenses for the intellectual property used in the equipment they manufacture, may delay the development of new centers or negatively affect the operation of existing centers and could have a material adverse effect on our business, financial condition and results of operations.

We may fail to protect our intellectual property rights or we may be exposed to misappropriation and infringement claims by third parties, either of which may have a material adverse effect as to our business.

We have applied for and obtained the registration of our trademark “Medstar” and nine other trademarks including “Concord Medical” in China to protect our corporate name. As of December 31, 2014, we also owned the rights to 178 domain names that we use in connection with the operation of our business. We believe that such domain names provide us with the opportunity to enhance our marketing efforts for the treatments and services provided in our network and enhance patients’ knowledge as to cancers, the benefits of radiotherapy and the various treatment options that are available. Our failure to protect our trademark or such domain names may undermine our marketing efforts and result in harm to our reputation and the growth of our business.

Furthermore, we cannot be certain that the equipment manufacturers from whom we purchase equipment have all requisite third-party consents and licenses for the intellectual property used in the equipment they manufacture. As a result, those equipment manufacturers may be exposed to risks associated with intellectual property infringement and misappropriation claims by third parties which, in turn, may subject us to claims that the equipment we have purchased infringes the intellectual property rights of third parties. We have in the past been subject to, and may in the future continue to be subject to, such claims by third parties. As a result, we may be named as a defendant in, or joined as a party to, any intellectual property infringement proceedings against equipment manufacturers relating to any equipment we have purchased. If a court determines that any equipment we have purchased from our equipment manufacturers infringes the intellectual property rights of any third party, we may be required to pay damages to such third party and the centers in our network may be prohibited from using such equipment, either of which could damage our reputation and have a material adverse effect on our business prospects, financial condition and results of operations. In addition, any such proceeding may also be costly to defend and may divert our management’s attention and other resources away from our business. Furthermore, the standard equipment purchase agreements that we enter into with our equipment manufacturers typically do not contain indemnification provisions for intellectual property claims. Although we have obtained specific indemnity from one equipment manufacturer for a patent infringement claim, there can be no assurance that we would be able to recover any damages, lost profits or litigation costs resulting from any intellectual property infringement claims or proceedings in which we are named as a party.

We do not have insurance coverage for some of our medical equipment and do not carry any business interruption insurance.

Damage to, or the loss of, such uninsured equipment due to natural disasters, such as fires, floods or earthquakes, could have an adverse effect on our financial condition and results of operation. In addition, the operations in our network of centers may be particularly vulnerable to natural disasters that disrupt transportation since many patients travel long distances to reach such centers. Also, we do not have any business interruption insurance. Any business disruption could result in substantial expenses and diversion of resources and could have a material adverse effect on our business, financial condition and results of operations. For example, the strong earthquake that struck Sichuan Province in May 2008 resulted in the suspension of operations at three of our centers in Chengdu, the provincial capital of Sichuan Province, for approximately one month due to the diversion of hospital resources toward the treatment of earthquake victims.

Most of our radiotherapy and diagnostic imaging equipment contains radioactive materials or emits radiation during operation.

Most of the radiotherapy and diagnostic imaging equipment in our network of centers, including gamma knife systems, proton beam therapy systems, linear accelerators and PET-CT systems, contain radioactive materials or emit radiation during operation. Radiation and radioactive materials are extremely hazardous unless properly managed and contained. Any accident or malfunction that results in radiation contamination could cause significant harm to human beings and could subject us to significant legal expenses and result in harm to our reputation. Although equipment manufacturers and our hospital partners and their staff may bear some or all of the liability and costs associated with any accidents or malfunctions, if we are found to be liable in any way we may also face severe fines, legal reparations and possible suspension of our operating permits, all of which could have a material and adverse effect on our business, results of operations and financial condition. Also, certain of our medical equipment require the periodic replacement of their radioactive source materials. We do not directly oversee the handling of radioactive materials during the replacement or reloading process or during the disposal process, and any failure on the part of our hospital partners to handle or dispose of such radioactive materials in accordance with PRC laws and regulations may have an adverse effect on the operation of such centers.

Any change in the regulations governing the use of medical data in China, which are still in development, could adversely affect our ability to use our medical data and could potentially subject us to liability for our past use of such medical data.

The centers in our network collect and store medical data from radiotherapy treatments for purposes of analysis, use in training doctors providing services in our network and improving the effectiveness of the treatments provided in our network of centers. In addition, doctors in our network utilize such medical data to conduct clinical research. We do not make any such medical data public and only keep such medical data for our internal use and for research purposes by doctors upon the approval of our medical affairs department and our hospital partners. Chinese regulations governing the use of such medical data are still in development but currently do not impose any restrictions on the internal use of such data by us as long as we have the permission of our hospital partners who have ownership of such data. Any change in the regulations governing the use of such medical data could adversely affect our ability to use such medical data and could subject us to liability for past use of such data, either of which could have a material adverse effect on our business, operations and financial results.

Our future high-end cancer hospitals will provide patients high-end medical services and medicines that are not covered by the national basic medical insurance, and as a result we may need to cooperate with commercial insurance companies and face risks in respect of charge fees and patients' ability of payment.

Currently, the majority of patients in our network centers are covered under the national basic medical insurance. We settle the payment with the local medical insurance agencies on regular basis. However, our planned premium cancer hospitals will offer high-end radiotherapy and other services that will not be covered under the national basic medical insurance program. Our patients will be self-pay or covered under various commercial insurances. We need to negotiate with various insurance companies, both domestic and international, which would enroll our hospitals into their coverage. We cannot assure you that we can establish and manage the business relationship with insurance companies properly and effectively. Without the insurance coverage, our future revenue may not meet our forecasts and profitability will be adversely affected. We may also face collection risks as insurance companies may decide not to pay for certain clinical procedures or refuse to pay accordingly to our requests.

With the rising conflicts between doctors and patients, if we cannot properly handle disputes in a timely manner with the patients, we will face the increasing risk of litigation.

Recently, there were more incidents of patient / doctor conflicts and litigations in China. Patients in China are demanding more higher-service quality of the medical services and treatments they receive from the hospitals. In our network centers, we also deal with patient disputes and litigations due to real or perceived medical incidents and practices. While we offer periodic training to all medical staff in our centers and hospitals, our patients may still raise issues with the treatment procedures, especially with cancer patients who experience higher than expected side-effects, sometimes resulting in unexpected deaths. While all of our centers are covered by medical malpractice insurance and we also purchased body-injury insurance for our medical staff, the process to reach a settlement, usually financial settlement under the medical malpractice insurance, is time-consuming and our management team needs to divert their attention from the normal operation of the centers and hospital. If we cannot properly handle the medical disputes in our centers, we may face increasing risks of litigation and our reputation among patients may be affected adversely.

The proper implementation of our strategy requires that we recruit, train and retain the doctors, specialists and other medical staff. If we cannot achieve the proper level of doctor recruitment and retention, our current and future hospitals' business may be affected adversely.

The financial and operational performance of our planned premium cancer hospitals depend significantly on our ability to attract and retain quality doctors, nurses, hospital administrators and managers. Under the current regulatory environment of China, doctors and nurses are affiliated with various hospitals, whose professional registration and accreditation need the approval of hospitals they serve. The government policy is relaxing on the mobility of doctors and other medical professionals, such as the policy to allow "multiple-location practice" for doctors. However, the full enactment and implementation may take time and vary from region to region. In order to attract, train and retain a qualified team of doctors, nurses and hospital managers, we may need to offer compensation packages superior to those of government hospitals, provide more professional training opportunities, including overseas training and exchange, and include the medical team into our ESOP. All these measures may result in higher compensation and administrative expenses and therefore have an adverse effect on our financial and operational results.

Our business is subject to seasonality.

During a fiscal year, the first quarter usually sees fewest patient visits, both inpatient and outpatient, mainly due to the Chinese New Year. The fourth quarter is usually the busiest quarter during the year, as most patients, especially patients from the rural areas, will have more free time to visit hospitals. Since our network centers are located within the government hospitals, they are subjected to seasonality of the patient traffic as well. Our planned premium cancer hospitals will also be affected by seasonality, although to a lesser degree, as cancer patients need to receive treatment and diagnosis immediately. If we cannot manage and mitigate the seasonality effectively, our financial and operational results will be adversely affected.

Our business depends substantially on the continuing efforts of our executive officers and other key personnel, and our business may be severely disrupted if we lose their services.

We depend on key members of our management team, which includes Dr. Jianyu Yang, chairman and our chief executive officer, Dr. Zheng Cheng, a director and our president, Mr. Adam Jigang Sun, our chief investment officer, Mr. Jing Zhang, our chief operating officer, Mr. Yaw Kong Yap, chief financial officer, as well as other key personnel for the continued growth of our business. The loss of any of these members of our management team or other key employees could delay the implementation of our business strategy and adversely affect our operations. Our future success will also depend in large part on our continued ability to attract and retain highly qualified management personnel. The process of hiring suitable, qualified personnel is often lengthy and such talented and highly qualified management personnel is often in short supply in China. If our recruitment and retention efforts are unsuccessful in the future, it may be more difficult for us to execute our business strategy. We cannot assure we can always make similar smooth transition if any executive officers or key personnel were to leave our company in the future. Although none of the key members of our management team is nearing retirement age in the near future and we are not aware of any current key members of our management team or other key personnel planning to retire or leave us, if one or more of such personnel are unable or unwilling to continue in their present positions, we may not be able to replace them readily, if at all. Consequently, our business may be severely disrupted, and we may incur additional expenses to recruit and retain new officers. In addition, we do not maintain key employee insurance. We have entered into employment agreements and confidentiality agreements with all of the key members of our management team and other key personnel. However, if any disputes arise between any of our key members of our management team or other key personnel and us, we cannot assure you, in light of uncertainties associated with the PRC legal system, the extent to which any of these agreements could be enforced in China, where all key members of our management team and other key personnel reside and hold some of their assets. See “—Risks Related to Doing Business in China—Uncertainties with respect to the PRC legal system could have a material adverse effect on us.”

Our articles of association contain anti-takeover provisions that could adversely affect the rights of holders of our ordinary shares and ADSs.

Our fourth amended and restated articles of association limit the ability of others to acquire control of our company or cause us to engage in change-of-control transactions. These provisions could have the effect of depriving our shareholders of an opportunity to sell their shares at a premium over prevailing market prices by discouraging third parties from seeking to obtain control of our company in a tender offer or similar transaction. For example, our board of directors has the authority, without further action by our shareholders, to issue preferred shares in one or more series and to fix their designations, powers, preferences, privileges, and relative participating, optional or special rights and the qualifications, limitations or restrictions, including dividend rights, conversion rights, voting rights, terms of redemption and liquidation preferences, any or all of which may be greater than the rights associated with our ordinary shares, in the form of ADS or otherwise. Preferred shares could be issued quickly with terms calculated to delay or prevent a change in control of our company or to make removal of management more difficult. If our board of directors issues preferred shares, the price of our ADSs may fall and the voting and other rights of the holders of our ordinary shares and ADSs may be adversely affected.

We may require additional funding to finance our operations, which financing may not be available on terms acceptable to us or at all, and if we are able to raise funds, the value of your investment in us may be negatively impacted.

Our business operations may require expenditures that exceed our available capital resources. To the extent that our funding requirements exceed our financial resources, we will be required to seek additional financing or to defer planned expenditures. There can be no assurance that we can obtain these bank loans or additional funds on terms acceptable to us, or at all. In addition, our ability to raise additional funds in the future is subject to a variety of uncertainties, including, but not limited to:

- our future financial condition, results of operations and cash flows;
- general market conditions for capital raising and debt financing activities; and
- economic, political and other conditions in China and elsewhere.

[Table of Contents](#)

Furthermore, if we raise additional funds through equity or equity-linked financings, your equity interest in our company may be diluted. Alternatively, if we raise additional funds by incurring debt obligations, we may be subject to various covenants under the relevant debt instruments that may, among other things, restrict our ability to pay dividends or obtain additional financing. Servicing such debt obligations could also be burdensome to our operations. If we fail to service such debt obligations or are unable to comply with any of these covenants, we could be in default under such debt obligations and our liquidity and financial condition could be materially and adversely affected.

If we fail to comply with financial covenants under our loan agreements, our financial condition, results of operations and business prospects may be materially and adversely affected.

We have entered into and may in the future enter into loan agreements containing financial covenants that require us to maintain certain financial ratios. We may not be able to comply with some of those financial covenants from time to time. However, if we need to obtain waivers from lenders again in the future with respect to prepayment or to amend financial covenants or other relevant provisions under such loan agreements to address potential breaches, we cannot assure you that we would be able to reach agreements with the lenders to avoid a breach. If we are required to repay a significant portion or all of our existing indebtedness prior to their maturity, we may lack sufficient financial resources to do so. Furthermore, a breach of those financial covenants will also restrict our ability to pay dividends. Any of those events could have a material adverse effect on our financial condition, results of operations and business prospects.

We have granted security interests over certain of our medical equipment in order to secure bank borrowings. Any failure to satisfy our obligations under such borrowings could lead to the forced sale of such equipment.

In order to secure bank loans in an aggregate amount of RMB875.5 million, RMB1,086.2 million and RMB903.8 million (US\$145.7 million) as of December 31, 2012, 2013 and 2014, respectively, we have granted security interests in equipment with a net carrying value of RMB205.3 million, RMB502.6 million and RMB164.9 million (US\$26.6 million), respectively, representing 13.5%, 33.7% and 22.0% of the net value of our net property, plant and equipment of RMB1,522.9 million, RMB1,492.6 million and RMB749.7 million (US\$120.8 million) as of December 31, 2012, 2013 and 2014, respectively. Any failure on our part to satisfy our obligations under these loans could lead to the forced sale of our medical equipment that secure these loans, the suspension of the operation of the centers in which such medical equipment is used, or otherwise damage our relationship with our hospital partners and our reputation in the medical community, all of which could have a material adverse effect on our business, financial condition and results of operation. We may grant additional security interests in our equipment in order to secure future bank borrowings.

If we fail to maintain an effective system of internal controls over our financial reporting, we may be unable to accurately report our financial results or prevent fraud, and investor confidence and the market price of our ADSs may, therefore, be adversely impacted.

We have successfully completed our Section 404 assessment for the year ended December 31, 2014 and received the auditor's attestation. However, in the future, if we fail to maintain effective internal controls over financial reporting or to obtain an "unqualified" auditors' attestation, our ability to accurately report our financial results may be impaired, which could adversely impact investor confidence and the market price of our ADSs.

Our business may be adversely affected by fluctuations in the value of the Renminbi as a significant portion of our capital expenditures relates to the purchase of medical equipment priced in U.S. dollars.

A significant portion of our capital expenditures relates to the purchase of radiotherapy and diagnostic imaging equipment from manufacturers outside of China. As the price of such equipment is denominated almost exclusively in U.S. dollars, any depreciation in the value of the Renminbi against the U.S. dollar could cause a significant increase our capital expenditures, reduce the profitability of our network of centers and have a material and adverse effect on our business, results of operations and financial condition.

If we grant employee share options, restricted shares or other equity incentives in the future, our net income could be adversely affected.

We adopted our 2008 share incentive plan on October 16, 2008, which was subsequently amended on November 17, 2009. We are required to account for share-based compensation in accordance with ASC 718, *Compensation-Stock Compensation*, which requires a company to recognize, as an expense, the fair value of share options and other equity incentives to employees based on the fair value of equity awards on the date of the grant, with the compensation expense recognized over the period in which the recipient is required to provide service in exchange for the equity award. On November 27, 2009 and September 30, 2011, we granted options to purchase 4,765,800 ordinary shares at an exercise price of US\$3.67 and US\$2.17 per share, respectively, under our 2008 share incentive plan to our directors and employees. We did not grant any option under our 2008 share incentive plan in 2012 and 2013. On February 18, 2014, we granted option to purchase 3,479,604 ordinary shares at an exercise price of US\$2.037 per share. We also granted 1,370,250 restricted shares, 21,132 restricted shares and 69,564 restricted shares, respectively, on February 18, 2014, July 1, 2014 and August 1, 2014 to certain directors, officers and employees. We granted share options in 2007, before adopting our 2008 share incentive plan, to certain executive officers that were subsequently exercised in 2008. As a result, we have incurred share-based compensation expenses of RMB9.1 million in 2012, RMB8.8 million in 2013 and RMB7.4 million (US\$1.2 million) in 2014 related to such options. If we grant more options, restricted shares or other equity incentives in the future, we could incur significant compensation charges and our results of operations could be adversely affected.

We are a Cayman Islands company and, because judicial precedent regarding the rights of shareholders is more limited under Cayman Islands law than that under U.S. law, you may have less protection for your shareholder rights than you would under U.S. law.

Our corporate affairs are governed by our memorandum and articles of association, as amended and restated from time to time, the Companies Law (as amended) of the Cayman Islands and the common law of the Cayman Islands. The rights of shareholders to take action against the directors, actions by minority shareholders and the fiduciary responsibilities of our directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from English common law, which has persuasive, but not binding, authority on a court in the Cayman Islands. The rights of our shareholders and the fiduciary responsibilities of our directors under Cayman Islands law are not as clearly established as they would be under statutes or judicial precedent in some jurisdictions in the United States. In particular, the Cayman Islands has a less developed body of securities laws than the United States. In addition, some U.S. states, such as Delaware, have more fully developed and judicially interpreted bodies of corporate law than the Cayman Islands.

As a result of all of the above, public shareholders may have more difficulty in protecting their interests in the face of actions taken by management, members of the board of directors or controlling shareholders than they would as shareholders of a company headquartered in the U.S.

You may have difficulty enforcing judgments obtained against us.

We are a Cayman Islands company and substantially all of our assets are located outside of the United States. Substantially all of our current operations are conducted in the PRC. In addition, most of our directors and officers are nationals and residents of countries other than the United States. As a result, it may be difficult for you to effect service of process within the United States upon these persons. It may also be difficult for you to enforce judgments obtained in U.S. courts based on the civil liability provisions of the U.S. federal securities laws against us and our officers and directors, most of whom are not residents in the United States and the substantial majority of whose assets are located outside of the United States. In addition, there is uncertainty as to whether the courts of the Cayman Islands or the PRC would recognize or enforce judgments of U.S. courts against us or such persons predicated upon the civil liability provisions of the securities laws of the United States or any state and it is uncertain whether such Cayman Islands or PRC courts would be competent to hear original actions brought in the Cayman Islands or the PRC against us or such persons predicated upon the securities laws of the United States or any state.

We are exempt from certain corporate governance requirements of the New York Stock Exchange.

We are exempt from certain corporate governance requirements of the New York Stock Exchange, or the NYSE, by virtue of being a foreign private issuer. We are required to provide a brief description of the significant differences between our corporate governance practices and the corporate governance practices required to be followed by U.S. domestic companies under the NYSE rules. The standards applicable to us are considerably different than the standards applied to U.S. domestic issuers. The significantly different standards applicable to us do not require us to:

- have a majority of the board be independent (other than due to the requirements for the audit committee under the United States Securities Exchange Act of 1934, as amended, or the Exchange Act);
- have a minimum of three members in our audit committee;

Table of Contents

- have a compensation committee, a nominating or corporate governance committee;
- provide annual certification by our chief executive officer that he or she is not aware of any non-compliance with any corporate governance rules of the NYSE;
- have regularly scheduled executive sessions with only non-management directors;
- have at least one executive session of solely independent directors each year;
- seek shareholder approval for (i) the implementation and material revisions of the terms of share incentive plans, (ii) the issuance of more than 1% of our outstanding ordinary shares or 1% of the voting power outstanding to a related party, (iii) the issuance of more than 20% of our outstanding ordinary shares, and (iv) an issuance that would result in a change of control;
- adopt and disclose corporate governance guidelines; or
- adopt and disclose a code of business conduct and ethics for directors, officers and employees.

We intend to rely on all such exemptions provided by the NYSE to a foreign private issuer, except that we have established a compensation committee and have three members of the audit committee, will seek shareholder approval for the implementation of share incentive plans and for the increase in the number of shares available to be granted under share incentive plans and have adopted and disclosed corporate governance guidelines and a code of business conduct and ethics for directors, officers and employees. As a result, you may not be provided with the benefits of certain corporate governance requirements of the NYSE.

We may be classified as a passive foreign investment company, which could result in adverse United States federal income tax consequences to United States Holders.

We believe we were not a “passive foreign investment company,” or a PFIC, for our taxable year ended on December 31, 2014, and we do not expect to become one for our current taxable year or in the future, although there can be no assurance in this regard. The determination of whether or not we are a PFIC is made on an annual basis and depends on the composition of our income and assets. A non-U.S. corporation will be considered a PFIC for any taxable year if either (i) at least 75% of its gross income is passive income or (ii) at least 50% of the value of its assets (based on an average of the quarterly values of the assets during a taxable year) is attributable to assets that produce or are held for the production of passive income (which includes cash). The market value of our assets may be determined in large part by the market price of our ADSs and ordinary shares, which is likely to fluctuate. In addition, the composition of our income and assets will be affected by how, and how quickly, we spend our cash. If we are treated as a PFIC for any taxable year during which United States Holders (as defined in “Item 10. Additional Information—E. Taxation—United States Federal Income Taxation”) hold ADSs or ordinary shares, certain adverse United States federal income tax consequences could apply to such United States Holders. See “Item 10. Additional Information—E. Taxation—United States Federal Income Taxation—Passive Foreign Investment Company.”

Risks Related to Our Industry

Healthcare administrative authorities in China currently set procurement quotas for certain types of medical equipment.

The procurement, installation and operation of large medical equipment in China are regulated by the Rules on Procurement and Use of Large Medical Equipment issued on December 31, 2004 by the Ministry of Health, the NDRC, and the Ministry of Finance. Pursuant to these rules, quotas for large medical equipment are set by the NDRC and the Ministry of Health or the relevant provincial healthcare administrative authorities, and hospitals must obtain a large medical equipment procurement license prior to the procurement of any such equipment. For medical equipment classified as Class A large medical equipment, which includes gamma knife systems, proton beam therapy systems and PET-CT scanners, procurement planning and approval are conducted by the Ministry of Health and the NDRC and large medical equipment procurement licenses are issued by the Ministry of Health. For medical equipment classified as Class B large medical equipment, which includes linear accelerators and MRI and CT scanners, procurement planning and approval are conducted by the relevant provincial healthcare administrative authorities with ratification by the Ministry of Health and the large medical equipment procurement licenses are issued by the relevant provincial healthcare administrative authorities. These rules apply to all public and private civilian medical institutions, whether non-profit or for-profit. Although these rules do not directly apply to military hospitals in China, which are hospitals regulated by the military but most of which are otherwise the same as other government-owned civilian hospitals open to the public, they are used as a reference by the healthcare administrative authority of the general logistics department of the PRC People's Liberation Army, or the PLA, in approving the procurement of such medical equipment. The procurement regulations issued by the Ministry of Health stipulate that from 2011 to 2015, the total number of PET-CT large medical equipment procurement licenses issued in China cannot exceed 160 and by the end of 2015, the total number of PET-CT systems in China cannot exceed 270. There is currently no guidance as to the total number of Class A large medical equipment procurement licenses that may be issued for other types of Class A large medical equipment that the centers in our network operate. In addition, many provincial administrative authorities do not provide the general public with information on their procurement planning and quotas for Class B large medical equipment procurement licenses, if any. Although the current number of procurement licenses available did not have a significant impact on our existing expansion plan in 2014, the limitation on the number of procurement licenses available and any adverse change to such procurement licenses available in the future as a result of any change in government policy, increases in competition and the number of applicants for the procurement licenses or other factors, or any failure of our hospital partners to obtain such licenses as expected, may affect our expansion plan after 2014, which could have a material adverse effect on our future prospects.

In addition, for most of the medical equipment that we intend to install and operate in our specialty cancer hospitals, we will need to obtain large medical equipment procurement licenses from the Ministry of Health or provincial level healthcare administrative authorities. Such licenses might not be obtained in a timely manner or at all, which could delay or prevent the opening of our specialty cancer hospitals, and could have a material adverse effect on our growth strategy and results of operations. See “—Risks Related to Our Business—We plan to establish and operate additional specialty cancer hospitals that will be majority owned by us and are subject to significant risks.”

Certain of our hospital partners have not received large medical equipment procurement licenses or interim procurement permits for some of the medical equipment in our network of centers which could result in fines or the suspension from use of such medical equipment.

The quota requirement for large medical equipment procurement became effective in March 2005. A medical institution that houses equipment purchased prior to that time is required to retroactively apply for and obtain a large medical equipment procurement license. If a medical institution is unable to obtain a procurement license as a result of a lack of procurement quotas for such medical equipment allocated to the region in which the medical institution is located, an interim procurement permit for large medical equipment must be obtained instead. As of December 31, 2014, of the 131 units of medical equipment in the centers in our network that are subject to large medical equipment procurement quota requirements, 112 were issued with a procurement license, 13 were issued with procurement permits or authorizations by competent regulatory authorities prior to the implementation of the quota requirement but have not received new procurement licenses or interim procurement permits under the quota requirements that became effective in 2005, and 6 have not yet been issued with any procurement license or permit, which accounted for approximately 3.2%, 1.5% and 3.4% of our total net revenues in 2012, 2013 and 2014 respectively. Although our hospital partners have applied to the competent regulatory authorities for procurement licenses for these last six centers, we cannot assure you that they will be successful. If our hospital partners fail to receive either a procurement license or an interim procurement permit, the centers in our network operating such medical equipment may be required to discontinue operations and may be deprived of the revenue derived from the operation of such equipment or assessed a fine, any of which could have a material adverse effect on our business, financial condition and results of operation.

We believe that the 13 units of equipment, for which procurement permits or authorizations were obtained from the regulatory authorities prior to the implementation of the quota requirement but no new procurement licenses or interim procurement permits under the 2005 quota requirements have been issued, are unlikely to face fines or other penalties from such regulatory authorities, although we cannot be certain. These 13 units of equipment accounted for approximately, 6.6%, 3.7% and 7.9% of our total net revenues in 2012, 2013 and 2014, respectively. In addition, for the two units of medical equipment that were issued with interim procurement permits subsequent to the implementation of the quota requirement, the relevant regulations require that hospitals pay taxes derived from the use of equipment covered by such interim permits, which may increase the operating costs of the centers in our network that operate such equipment. Also, upon the expiration of the useful life of medical equipment issued with interim procurement permits, hospitals are not permitted to replace such medical equipment with a newer model, in which case we may not be able to continue or renew our agreements with such hospital partners with interim procurement permits for medical equipment reaching the end of its life unless they are able to obtain a new procurement license.

Pricing for the services provided by our network of centers may be adversely affected by reductions in treatment and examination fees set by the Chinese government.

Centers in our network are primarily located in non-profit civilian and military hospitals in China. The medical service fees charged by these non-profit hospitals are subject to price ceilings set by the relevant provincial or regional price control authorities and healthcare administrative authorities in accordance with the Opinion Concerning the Reform of Medical Service Pricing Management issued on July 20, 2000 by the NDRC and the Ministry of Health. These price ceilings can be adjusted by those authorities downwards or upwards from time to time. For example, in 2006, treatment fees for the head gamma knife in one of the centers in our network decreased by approximately 30% and in 2007, and treatment fees for the body gamma knife in one of the centers in our network decreased by approximately 25%. However, overall, the average medical service fees for each of the treatments and diagnostic imaging services provided across our network of centers have remained stable since 2008. The relevant price control authorities and healthcare administrative authorities provide notices to hospitals, which in turn provide immediate notice to us, as to any change in the pricing ceiling for medical services. The timing between when notices are provided by the relevant price control authorities and healthcare administrative authorities and the effective date of such pricing change varies in different cities and regions as well as the relevant medical services in question, but typically ranges from one to three months. According to the Implementation Plan for the Recent Priorities of the Health Care System Reform (2009-2011), which was issued by the State Council on March 18, 2009, the Chinese government is aiming to reduce the examination fees for large medical equipment. In addition, according to the Opinion on the Reform of Pharmaceuticals and Healthcare Service Pricing Structures issued on November 9, 2009 by the NDRC, the Ministry of Health and the Ministry of Human Resources and Social Security, or the MHRSS, the Chinese government is also aiming to reduce the treatment fees for large medical equipment. If the examination or treatment fees for the services provided by the centers in our network are reduced by the government under these or other policies, our contracted percentage of each center's revenue net of specified operating expenses may decrease, hospitals may be discouraged from entering into or renewing their agreements with us, and our business, financial condition and results of operations may be materially and adversely affected.

In January 2009, the Chinese government approved in principle a healthcare reform plan to address the affordability of healthcare services, the rural healthcare system and healthcare service quality in China. In March 2009, the Chinese government published the healthcare reform plan for 2009 to 2010, which broadly addressed medical insurance coverage, essential medicines, provision of basic healthcare services and reform of public hospitals. The published healthcare reform plan also called for additional government spending on healthcare over the next three years of RMB850.0 billion to support the reform plan. According to the Implementation Plan for the Recent Priorities of the Health Care System Reform (2009-2011), which was issued by the State Council on March 18, 2009, the Chinese government is aiming to reduce the examination fees for large medical equipment. In addition, according to the Opinion on the Reform of Pharmaceuticals and Healthcare Service Pricing Structures issued on November 9, 2009 by the NDRC, the Ministry of Health and the MHRSS, the Chinese government is also aiming to reduce the treatment fees for large medical equipment. Although many details related to the implementation of the healthcare reform plan are not yet clear, the implementation of any policy that reduces examination or treatment fees for large medical equipment or provides more funding for hospitals to purchase their own equipment may have a material and adverse effect on our business, financial condition and results of operations.

Our business may be harmed by technological and therapeutic changes or by shifts in doctors' or patients' preferences for alternative treatments.

The treatment of cancer patients is subject to potentially revolutionary technological and therapeutic changes. Future technological developments could render our equipment and the services provided in our network of centers obsolete. We may incur significant costs in replacing or modifying equipment in which we have already made a substantial investment prior to the end of its anticipated useful life. In addition, there may be significant advances in other cancer treatment methods, such as chemotherapy, surgery, biological therapy, or in cancer prevention techniques, which could reduce demand or even eliminate the need for the radiotherapy services that we provide. Also, patients and doctors may choose alternative cancer therapies over radiotherapy due to any number of reasons. Any shifts in doctors' or patients' preferences for other cancer therapies over radiotherapy may have a material adverse effect on our business, financial condition and results of operations.

The technology used in some of our radiotherapy equipment, particularly our body gamma knife and our proton beam therapy system, has been in use for a limited period of time and the international medical community has not yet developed a large quantity of peer-reviewed literature that supports their safe and effective use.

The technology in some of our radiotherapy equipment, particularly the body gamma knife system and the proton beam therapy system, has been in use for a limited period of time, and the international medical community has not yet developed a large quantity of peer-reviewed literature that supports their safe and effective use. As a result, such technology may not continue to gain acceptance by doctors and patients in China or may lose any acceptance such technology has previously gained if negative information were to emerge concerning their effectiveness or safety. As our agreements with manufacturers do not directly address such contingencies, we cannot assure you that equipment manufacturers would allow us to return their equipment or to otherwise reimburse us for any losses that we may suffer under all such circumstances. Since each unit of our medical equipment represents a significant investment, any of the foregoing could have a material adverse effect on our business, financial condition and results of operation.

We or our hospital partners may be unable to obtain various permits and authorizations from regulatory authorities in China relating to our medical equipment, which could delay the installation or interrupt the operation of our equipment.

For our hospital-based centers, our hospital partners are required to obtain a radiation safety permit from the Ministry of Environmental Protection, or MEP, and a radiotherapy permit from the competent healthcare administrative authorities in order to operate the medical equipment in our network of centers that contains radioactive materials or emit radiation during operation. Our hospital partners are also required to obtain a radiation worker permit from the competent provincial healthcare administrative authorities for each medical technician who operates such equipment. Any failure on the part of our hospital partners to obtain approvals or renewals of these permits from the MEP or the competent healthcare administrative authorities could delay the installation, or interrupt the operation, of our medical equipment, either of which could have a material adverse effect on our business, financial condition and results of operation.

Each of our planned specialty cancer hospitals that will be majority owned by us will be required to obtain a radiation safety permit from the MEP and a radiotherapy permit as well as a medical institution practicing license and radiation worker permits for our staff from the relevant provincial healthcare administrative authorities. Any failure on our part to obtain approvals or renewals of these permits could delay the opening, or interrupt the operation, of our specialty cancer hospitals, which could have a material adverse effect on our business, financial condition and results of operation. For more information on risks related to our planned specialty cancer hospitals, see “—Risks Related to Our Business—We plan to establish and operate additional specialty cancer hospitals that will be majority owned by us and are subject to significant risks.”

If the government and public insurers in the PRC do not continue to provide sufficient coverage and reimbursement for the radiotherapy and diagnostic imaging services provided by our network of centers, our revenues could be adversely affected.

Self payments account for approximately 34.4% of total medical expenses in China in 2012, approximately 30.0% of total medical expenses were sourced from direct payments by the government and approximately 35.6% of total medical expenses were sourced from government-directed public medical insurance schemes, commercial insurance plans and employers in 2012, according to the Ministry of Health. For public servants and others covered by 1989 Administrative Measure on Public Health Service and the 1997 Circular of Reimbursement Coverage of Large Medical Equipment of Public Health Service, the government currently either fully or partially reimburses medical expenses for certain approved cancer diagnosis and radiotherapy treatment services, including treatments utilizing linear accelerators and diagnostic imaging services utilizing CT and MRI scanners. However, gamma knife treatments and PET scans are currently not eligible for reimbursement under this plan. Urban residents in China are covered by one of two urban public medical insurance schemes and rural residents are covered under a new rural healthcare insurance program launched in 2003. The urban employees basic medical insurance scheme, which covers employed urban residents, partially reimburses urban workers for treatments utilizing linear accelerators and gamma knife systems and diagnostic imaging services utilizing CT and MRI scanners, with reimbursement levels varying from province to province. For urban non-workers and rural residents, the types of cancer diagnosis and radiotherapy treatments that are covered are generally set with reference to the policy for urban employees in the same region of the country, but the reimbursement levels for covered medical expenses for urban non-workers and rural residents, which vary widely from region to region and treatment to treatment, are generally lower than those for urban employees in the same region. We cannot assure you that the current coverage or reimbursement levels for cancer diagnosis or radiotherapy treatments will persist. If the national or provincial authorities in China decide to reduce the coverage or reimbursement levels for the radiotherapy and diagnostic imaging services provided by our network of centers, patients may opt for or be forced to resort to other forms of cancer therapy and our business, financial condition and results of operation could be materially and adversely affected.

We will target the high net-worth population which is not covered by the government insurance programs. If we cannot meet their demands effectively or reach them through effective marketing, our financial position and results of operations may be adversely affected.

Our planned premium cancer hospitals will provide international-standard cancer treatments, especially radiotherapy services. We will target the high net-worth population in China, who may demand high-quality and differentiated medical services not available in government hospitals. As China's economic growth continues, the number of high net-worth population will keep growing as well. However, this group of population usually has access to high-quality medical services and many of them visit hospitals overseas already. Our success depends on whether we will be able to provide the quality of medical services comparable and better to international standard. If we fail to target this group of patients, i.e, high net-worth population, or fail to offer competitive services, our financial position and results of operations may be adversely affected.

We are facing competition from other hospitals in the market. In particular, competition for high-end patients.

As China's healthcare reform deepens and more private hospitals enter into the market, more hospitals will be established to offer differentiated services that are currently unavailable in China's healthcare service market. The high-net-worth population usually has access and resources to the best hospitals and medical experts in China. In order to reach this group of patients, we need to establish our industry position and reputation as the best cancer specialty service provider in China, which offers comparable or better services than other domestic and international hospitals. Our planned premium cancer hospitals will face growing competition from other private and international hospitals in China. If we cannot establish a set of proper medical protocols and build up a strong reputation among the patients, our revenue and profits will be affected adversely.

In recent years, national policy of limiting foreign investment in the healthcare industry has been relaxed, foreign hospitals constantly influx the Chinese market, and Chinese patients have gradually turned to look for healthcare services in the overseas market, such as Japan, Korea, other Southeast Asian countries. We also face the risks of loss of patient source.

As China's healthcare reforms progress and restrictions are relaxed on private and international investments, more international hospitals are planning to enter into the Chinese healthcare service market. As a result our premium cancer hospitals will face future competition from the newly-entered international hospitals, many of which will target the same group of high net-worth population. However, if we cannot execute our strategy properly, our operation and financial conditions will be affected. In addition, more Chinese patients are traveling overseas to seek best treatment available to locations such as Hong Kong, Taiwan, Korea or Southeast Asian nations. MD Anderson Cancer Center also receives patients from mainland China, although the number remained small.

Development of cancer radiotherapy and cancer treatment technology, and medical equipment based on the new technologies and research are advancing rapidly. If we cannot keep pace with advances in medical technology, we will be at risk.

We believe our planned premium cancer hospitals will offer the most advanced and cutting-edge treatment to cancer patients in China, including proton beam therapy, the most sophisticated and expensive radiotherapy available in the market. While considered the most accurate and effective radiotherapy mode now, proton therapy treatment may be overtaken by new trends or breakthroughs in the radiotherapy market. For instance, there is a trend of miniaturization of proton therapy equipment, which delivers the same treatment at lower upfront investment and physical specification. Although the miniature proton therapy equipment is not widely adopted, if the trend becomes popular, our planned premium hospital may face more competition as the capital expenditure required for proton center will be substantially lower and more hospitals and institutions may decide to enter into the segment and offer the treatment at lower price. We need to follow the technology development closely or face the risk of lower cost alternative treatments.

Risks Related to Doing Business in China

Adverse changes in political, economic and other policies of the Chinese government could have a material adverse effect on the overall economic growth of China, which could materially and adversely affect the growth of our business and our competitive position.

All of our business operations are conducted in China. Accordingly, our business, financial condition, results of operations and prospects are affected significantly by economic, political and legal developments in China. The Chinese economy differs from the economies of most developed countries in many respects, including:

- the degree of government involvement;
- the level of development;
- the growth rate;
- the control of foreign exchange;
- the allocation of resources;
- an evolving regulatory system; and
- lack of sufficient transparency in the regulatory process.

While the Chinese economy has experienced significant growth in the past 30 years, growth has been uneven, both geographically and among various sectors of the economy. The Chinese economy has also experienced certain adverse effects due to the recent global financial crisis. The Chinese government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures benefit the overall Chinese economy, but may also have a negative effect on us. For example, our financial condition and results of operations may be adversely affected by government control over capital investments or changes in tax regulations that are applicable to us.

The Chinese economy has been transitioning from a planned economy to a more market-oriented economy. Although in recent years the Chinese government has implemented measures emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of sound corporate governance in business enterprises, a substantial portion of the productive assets in China is still owned by the Chinese government. The continued control of these assets and other aspects of the national economy by the Chinese government could materially and adversely affect our business. The Chinese government also exercises significant control over Chinese economic growth through the allocation of resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies.

Any adverse change in the economic conditions or government policies in China could have a material adverse effect on overall economic growth and the level of healthcare investments and expenditures in China, which in turn could lead to a reduction in demand for our products and consequently have a material adverse effect on our businesses.

Uncertainties with respect to the PRC legal system could have a material adverse effect on us.

The PRC legal system is based on written statutes. Prior court decisions may be cited for reference but have limited precedential value. In 1979, the PRC government began to promulgate a comprehensive system of laws and regulations governing economic matters in general. The overall effect of legislation since then has been to significantly enhance the protections afforded to various forms of foreign investments in China. We conduct all of our business through our subsidiaries established in China. These subsidiaries are generally subject to laws and regulations applicable to foreign investment in China and, in particular, laws applicable to foreign-invested enterprises. However, since these laws and regulations are relatively new and 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 involves uncertainties, which may limit legal protections available to us. In addition, some regulatory requirements issued by certain PRC government authorities may not be consistently applied by other government authorities (including local government authorities), thus making strict compliance with all regulatory requirements impractical, or in some circumstances, impossible. For example, we may have to resort to administrative and court proceedings to enforce the legal protection that we enjoy either by law or contract. However, since PRC administrative and court authorities have significant discretion in interpreting and implementing statutory and contractual terms, it may be more difficult to evaluate the outcome of administrative and court proceedings and the level of legal protection we enjoy than in more developed legal systems. These uncertainties may impede our ability to enforce the contracts we have entered into with our business partners, customers and suppliers. In addition, such uncertainties, including the inability to enforce our contracts, together with any development or interpretation of PRC law that is adverse to us, could materially and adversely affect our business and operations. Furthermore, intellectual property rights and confidentiality protections in China may not be as effective as in the United States or other countries. Accordingly, we cannot predict the effect of future developments in the PRC legal system, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the preemption of local regulations by national laws. These uncertainties could limit the legal protections available to us and other foreign investors, including you. In addition, any litigation in China may be protracted and result in substantial costs and diversion of our resources and management attention.

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

The M&A rule establishes additional procedures and requirements that could make some acquisitions of Chinese companies by foreign investors more time-consuming and complex, including requirements in some instances that the Ministry of Commerce be notified in advance of any change-of-control transaction in which a foreign investor takes control of a Chinese domestic enterprise. We may grow our business in part by acquiring complementary businesses. Complying with the requirements of the M&A rule to complete such transactions could be time-consuming, and any required approval processes, including obtaining approval from the Ministry of Commerce, may delay or inhibit our ability to complete such transactions, which could affect our ability to expand our business or maintain our market share.

Relevant PRC foreign exchange rules may limit our ability to acquire PRC companies and adversely affect the implementation of our strategy as well as our business and prospects. .

On July 4, 2014, SAFE promulgated the Notice on Relevant Issues Concerning Foreign Exchange Control of Domestic Residents' Overseas Investment and Financing and Roundtrip Investment through Offshore Special Purpose Vehicles, or SAFE Circular No. 37, which replaced the former Notice on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents to Engage in Financing and Inbound Investment via Overseas Special Purpose Vehicles (generally known as SAFE Circular No. 75) promulgated by SAFE on October 21, 2005.

SAFE Circular No. 37 requires PRC residents to register with local branches of SAFE in connection with their direct establishment or indirect control of an offshore entity, for the purpose of overseas investment and financing, with such PRC residents' legally owned assets or equity interests in domestic enterprises or offshore assets or interests, which is referred to in SAFE Circular No. 37 as a "special purpose vehicle." SAFE Circular No. 37 further requires amendment to the registration in the event of any significant changes with respect to the special purpose vehicle, such as an increase or decrease of capital contributed by PRC residents share transfer or exchange, merger, division or other material events. In the event that a PRC resident holding interests in a special purpose vehicle fails to complete the required SAFE registration, the PRC subsidiaries of that special purpose vehicle may be prohibited from making profit distributions to the offshore parent and from carrying out subsequent cross-border foreign exchange activities and the special purpose vehicle may be restricted in its ability to contribute additional capital into its PRC subsidiaries. Furthermore, failure to comply with the various SAFE registration requirements described above could result in liability under PRC law for evasion of foreign exchange controls.

Currently, several of our shareholders who are residents in the PRC and are subject to the requirements of making registration with the competent local branch of SAFE with respect to their investments in our company as required by SAFE Circular No. 75 and will update their registration filings with SAFE under SAFE Circular No. 37 when there are any changes that should be registered under SAFE Circular No. 37. However, we may not at all times be fully aware or informed of the identities of all our shareholders or beneficial owners that are required to make such registrations, and if or when we have such shareholders or beneficial owners, we may not always be able to compel them to comply with SAFE Circular No. 37 requirements. As a result, we cannot assure you that all of our shareholders or beneficial owners who are PRC residents will at all times comply with, or in the future make or obtain any applicable registrations or approvals required by, SAFE Circular No. 37 or other related regulations. The failure or inability of such individuals to comply with the registration procedures set forth in these regulations may subject us to fines or legal sanctions, restrictions on our cross-border investment activities or our PRC subsidiaries' ability to distribute dividends to, or obtain foreign-exchange-dominated loans from, our company, or prevent us from making distributions or paying dividends. As a result, our business operations and our ability to make distributions to you could be materially and adversely affected.

Governmental control of currency conversion may limit our ability to use our revenues effectively and the ability of our PRC subsidiaries to obtain financing.

We receive all of our revenues in Renminbi, which currently is not a freely convertible currency. Restrictions on currency conversion imposed by the PRC government may limit our ability to use revenues generated in Renminbi to fund our expenditures denominated in foreign currencies or our business activities outside China, if any. Under China's existing foreign exchange regulations, Renminbi may be freely converted into foreign currency for payments relating to "current account transactions," which include among other things dividend payments and payments for the import of goods and services, by complying with certain procedural requirements. Our PRC subsidiaries are able to pay dividends in foreign currencies to us without prior approval from the SAFE, by complying with certain procedural requirements. Our PRC subsidiaries may also retain foreign currency in their respective current account bank accounts for use in payment of international current account transactions. However, we cannot assure you that the PRC government will not take measures in the future to restrict access to foreign currencies for current account transactions.

Conversion of Renminbi into foreign currencies, and of foreign currencies into Renminbi, for payments relating to "capital account transactions," which principally includes investments and loans, generally requires the approval of SAFE and other relevant PRC governmental authorities. Restrictions on the convertibility of the Renminbi for capital account transactions could affect the ability of our PRC subsidiaries to make investments overseas or to obtain foreign currency through debt or equity financing, including by means of loans or capital contributions from us. In particular, if our PRC subsidiaries borrow foreign currency from us or other foreign lenders, they must do so within approved limits that satisfy their approval documentation and PRC debt to equity ratio requirements. Further, such loans must be registered with the SAFE or its local counterpart. In practice, it could be time-consuming to complete such SAFE registration process.

If we finance our PRC subsidiaries through additional capital contributions, the amount of these capital contributions must be approved by the Ministry of Commerce in China or its local counterpart. On August 29, 2008, SAFE promulgated Circular 142, a notice regulating the conversion by a foreign-invested company of foreign currency into Renminbi by restricting how the converted Renminbi may be used. The notice requires that Renminbi converted from the foreign currency-denominated capital of a foreign-invested company may only be used for purposes within the business scope approved by the applicable governmental authority and may not be used for equity investments within the PRC unless specifically provided for otherwise in its business scope. In addition, SAFE strengthened its oversight of the flow and use of Renminbi funds converted from the foreign currency-denominated capital of a foreign-invested company. The use of such Renminbi may not be changed without approval from SAFE, and may not be used to repay Renminbi loans if the proceeds of such loans have not yet been used for purposes within the company's approved business scope. Violations of Circular 142 may result in severe penalties, including substantial fines as set forth in the Foreign Exchange Administration Regulations.

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

The value of the Renminbi against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in China's political and economic conditions. The conversion of Renminbi into foreign currencies, including U.S. dollars, has historically been set by the People's Bank of China. On April 16, 2012, the PRC government changed its policy of pegging the value of the Renminbi to the U.S. dollar. Under the new policy, the Renminbi is permitted to fluctuate within a band against a basket of certain foreign currencies, determined by the Bank of China, against which it can rise or fall by as much as 1% each day.

There remains significant international pressure on the PRC government to further liberalize its currency policy, which could result in a further and more significant appreciation in the value of the Renminbi against the U.S. dollar. In addition, as we rely entirely on dividends paid to us by our PRC subsidiaries, any significant revaluation of the Renminbi may have a material adverse effect on our revenues and financial condition, and the value of any dividends payable on our ADSs in foreign currency terms. For example, to the extent that we need to convert U.S. dollars that we receive from a future offering into Renminbi for our operations, appreciation of the Renminbi against the U.S. dollar would have an adverse effect on the Renminbi amount that we receive from the conversion. Conversely, if we decide to convert our Renminbi into U.S. dollars for the purpose of making payments for dividends on our ordinary shares or ADSs or for other business purposes, appreciation of the U.S. dollar against the Renminbi would have a negative effect on the U.S. dollar amount available to us. In addition, appreciation or depreciation in the value of the Renminbi relative to the U.S. dollar would affect our financial results reported in U.S. dollar terms without giving effect to any underlying change in our business or results of operations.

The increase in the PRC enterprise income tax and the discontinuation of the preferential tax treatment currently available to us could, in each case, result in a decrease of our net income and materially and adversely affect our financial condition and results of operations.

Our PRC subsidiaries are incorporated in the PRC and are governed by applicable PRC income tax laws and regulations. Prior to January 1, 2008, entities established in the PRC were generally subject to a 30% state and 3% local enterprise income tax rate. There were various preferential tax treatments promulgated by national tax authorities that were available to foreign-invested enterprises or enterprises located in certain areas of China. In addition, some local tax authorities may allow enterprises registered in their tax jurisdiction to enjoy lower preferential tax treatments according to local preferential tax policy. The PRC Enterprise Income Tax Law, or the EIT Law, was enacted on March 16, 2007 and became effective on January 1, 2008. The implementation regulations under the EIT Law issued by the PRC State Council became effective January 1, 2008. Under the EIT Law and the implementation regulations, the PRC has adopted a uniform tax rate of 25% for all enterprises (including foreign-invested enterprises) and revoked the previous tax exemption, reduction and preferential treatments applicable to foreign-invested enterprises. However, there is a transition period for enterprises, whether foreign-invested or domestic, that received preferential tax treatments granted in accordance with the then prevailing tax laws and regulations prior to January 1, 2008. Enterprises that were subject to an enterprise income tax rate lower than 25% prior to January 1, 2008 may continue to enjoy the lower rate and gradually transition to the new tax rate within five years after the effective date of the EIT Law. We cannot assure you that the preferential income tax rates that we enjoy will not be phased out at a faster rate or will not be discontinued altogether, either of which could result in a decrease of our net income and materially and adversely affect our financial condition and results of operations.

Also, the reduced enterprise income tax rate of 15%, as described above, that our subsidiary Shanghai Medstar enjoyed before January 1, 2008, was granted based on Shanghai tax authorities' local preferential tax policy. It is uncertain whether the transitional tax rates under the EIT Law would apply to companies that enjoyed a preferential reduced tax rate of 15% under a local preferential tax policy. If Shanghai Medstar cannot enjoy such transitional tax rates under the EIT Law, it will be subject to the standard enterprise income tax rate, which is currently 25%, and our income tax expenses would increase, which would have a material adverse effect on our net income and results of operation. In addition, under current PRC regulations, if it is determined that a taxpayer has underpaid tax due to prior incorrect advice from relevant tax authorities, the taxpayer may still be required to retroactively pay the full amount of unpaid tax within three years of such determination, although the taxpayer would not be subject to any penalty or late payment interest. If we are required to make such retroactive tax payments due to the retroactive cancellation of Shanghai Medstar's preferential reduced enterprise income tax rate of 15%, our financial condition and results of operation could be materially and adversely affected.

Shenzhen Aohua Medical Technology & Services Co., Ltd., or AMT, our wholly owned subsidiary in Shenzhen, has applied for the preferential tax treatment for high technology companies in 2013 and received the Certificate of High Technology Company, which entitled AMT to a preferential enterprise income tax rate of 15% for three years, subject to the annual review of the local tax authority. However, in 2013 and 2014, we did not utilized the preferential tax rate based on self-review and after consulting with our auditors.

We rely on dividends paid by our subsidiaries for our cash needs, and any limitation on the ability of our subsidiaries to make payments to us could have a material adverse effect on our ability to conduct our business.

We conduct all of our business through our consolidated subsidiaries incorporated in China. We rely on dividends paid by these consolidated subsidiaries for our cash needs, including the funds necessary to pay any dividends and other cash distributions to our shareholders, to service any debt we may incur and to pay our operating expenses. The payment of dividends by entities established in China is subject to limitations. Regulations in China currently permit payment of dividends only out of accumulated profits as determined in accordance with accounting standards and regulations in China. Each of our PRC subsidiaries, including wholly foreign-owned enterprises, or WFOEs, and joint venture enterprises is also required to set aside at least 10% of its after-tax profit based on PRC accounting standards each year to its general reserves or statutory capital reserve fund until the aggregate amount of such reserves reaches 50% of its respective registered capital. Our statutory reserves are not distributable as loans, advances or cash dividends. We anticipate that in the foreseeable future our PRC subsidiaries will need to continue to set aside 10% of their respective after-tax profits to their statutory reserves. In addition, if any of our PRC subsidiaries incurs debt on its own behalf in the future, the instruments governing the debt may restrict its ability to pay dividends or make other distributions to us. Any limitations on the ability of our PRC subsidiaries to transfer funds to us could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our business, pay dividends and otherwise fund and conduct our business.

In addition, under the EIT law, the Circular issued by the State Administration of Taxation on January 29, 2008 regarding a summary on the dividend rates under the double tax treaties, or Notice 112, the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income, or PRC-HK DTA, or the Double Taxation Arrangement (Hong Kong), which became effective on December 8, 2006, and the Notice of the State Administration of Taxation Regarding Interpretation and Recognition of Beneficial Owners under

Tax Treaties, or Notice 601, which became effective on October 27, 2009, dividends from our PRC subsidiaries paid to us through our Hong Kong subsidiary may be subject to a withholding tax at a rate of 10%, or at a rate of 5% if our Hong Kong subsidiary is considered as a “beneficial owner” that is generally engaged in substantial business activities and entitled to treaty benefits under the Double Taxation Arrangement (Hong Kong). Furthermore, the ultimate tax rate will be determined by treaty between the PRC and the tax residence of the holder of the PRC subsidiary. We are actively monitoring the proposed withholding tax and are evaluating appropriate organizational changes to minimize the corresponding tax impact.

Dividends we receive from our operating subsidiaries located in the PRC would be subject to PRC withholding tax.

The EIT Law provides that a maximum income tax rate of 20% may be applicable to dividends payable to non-PRC investors that are “non-resident enterprises,” to the extent such dividends are derived from sources within the PRC, and the State Council has reduced such rate to 10%, in the absence of any applicable tax treaties that may reduce such rate, through the implementation regulations. We are a Cayman Islands holding company and substantially all of our income may be derived from dividends we receive from our operating subsidiaries located in the PRC. If we are required under the EIT Law to pay income tax for any dividends we receive from our subsidiaries, the amount of dividends, if any, we may pay to our shareholders and ADS holders may be materially and adversely affected.

According to the PRC-HK DTA, Notice 112, Notice 601 and Guoshuihan [2009] No. 81, dividends paid to enterprises incorporated in Hong Kong are subject to a withholding tax of 5% provided that a Hong Kong resident enterprise owns over 25% of the PRC enterprise continuously in the last 12 months before distributing the dividend and can be considered as a “beneficial owner” and entitled to treaty benefits under the PRC-HK DTA. Thus, as Cyber Medical is a Hong Kong company and owns 100% of CMS Hospital Management, under the aforementioned arrangement dividends paid to us through Cyber Medical by CMS Hospital Management may be subject to the 5% income tax if we and Cyber Medical are considered as “non-resident enterprises” under the EIT Law and Cyber Medical is considered as a “beneficial owner” and entitled to treaty benefits under the PRC-HK DTA. If Cyber Medical is not regarded as the beneficial owner of any such dividends, it will not be entitled to the treaty benefits under the PRC-HK DTA. As a result, such dividends would be subject to normal withholding income tax of 10% as provided by the PRC domestic law rather than the favorable rate of 5% applicable under the PRC-HK DTA.

The British Virgin Islands, where OMS, the direct holding company of Aohua Medical Technology, is incorporated, does not have a tax treaty with the PRC. Thus, if OMS is considered a “non-resident enterprise” under the EIT law, the 10% withholding tax would be imposed on our dividend income received from Aohua Technology.

We may be classified as a “resident enterprise” for PRC enterprise income tax purposes, which could result in unfavorable tax consequences to us and our non-PRC shareholders.

The EIT Law provides that enterprises established outside of China whose “effective management organizations” are located in China are considered “resident enterprises” and are generally subject to the uniform 25% enterprise income tax rate on their worldwide income. In addition, a circular issued by the State Administration of Taxation on April 22, 2009 regarding the standards used to classify certain Chinese-invested enterprises controlled by Chinese enterprises or Chinese group enterprises and established outside of China as “resident enterprises” clarified that dividends and other income paid by such “resident enterprises” will be considered to be PRC source income, subject to PRC withholding tax, currently at a rate of 10%, when recognized by non-PRC enterprise shareholders. This circular also subjects such “resident enterprises” to various reporting requirements with the PRC tax authorities. Under the implementation regulations to the enterprise income tax, a “effective management organizations” is defined as a body that has material and overall management and control over the manufacturing and business operations, personnel and human resources, finances and properties of an enterprise. In addition, the circular mentioned above sets out criteria for determining whether “effective management organizations” are located in China for overseas incorporated, domestically controlled enterprises. However, as this circular only applies to enterprises established outside of China that are controlled by PRC enterprises or groups of PRC enterprises, it remains unclear how the tax authorities will determine the location of “effective management organizations” for overseas incorporated enterprises that are controlled by individual PRC residents like us and some of our subsidiaries. Therefore, although substantially all of our management is currently located in the PRC, it remains unclear whether the PRC tax authorities would require our overseas registered entities to be treated as PRC tax resident enterprises. We do not currently consider our company to be a PRC tax resident enterprise. However, if the PRC tax authorities disagree with our assessment and determine that we are a “resident enterprise,” we may be subject to enterprise income tax at a rate of 25% on our worldwide income and dividends paid by us to our non-PRC shareholders as well as capital gains recognized by them with respect to the sale of our shares may be subject to a PRC withholding tax. This will have an impact on our effective tax rate, a material adverse effect on our net income and results of operations, and may require us to withhold tax on our non-PRC shareholders.

Dividends payable by us to our foreign investors and gains on the sale of our ADSs or ordinary shares may become subject to taxes under PRC tax laws.

Under the EIT Law and implementation regulations issued by the State Council, a 10% PRC income tax is applicable to dividends payable to investors that are “non-resident enterprises,” which do not have an establishment or place of business in the PRC or which have such establishment or place of business but have income not effectively connected with the establishment or place of business, to the extent such dividends are derived from sources within the PRC. Similarly, any gain realized on the transfer of ADSs or shares by such investors is also subject to a 10% PRC income tax if such gain is regarded as income derived from sources within the PRC. It is unclear whether dividends paid on our ordinary shares or ADSs, or any gain realized from the transfer of our ordinary shares or ADSs, would be treated as income derived from sources within the PRC and would as a result be subject to PRC tax. If we are considered a PRC “resident enterprise,” then any dividends paid to our overseas shareholders or ADS holders that are “non-resident enterprises” may be regarded as being derived from PRC sources and, as a result, would be subject to PRC withholding tax at a rate of 10%. In addition, if we are considered a PRC “resident enterprise,” non-resident enterprise shareholders of our ordinary shares or ADSs may be eligible for the benefits of income tax treaties entered into between China and other countries. If we are required under the EIT Law to withhold PRC income tax on dividends payable to our non-PRC investors that are “non-resident enterprises,” or if you are required to pay PRC income tax on the transfer of our ordinary shares or ADSs, the value of your investment in our ordinary shares or ADSs may be materially and adversely affected.

If we are found to have failed to comply with applicable laws, we may incur additional expenditures or be subject to significant fines and penalties.

Our operations are subject to PRC laws and regulations applicable to us. However, the scope of many PRC laws and regulations are uncertain, and their implementation could differ significantly in different localities. In certain instances, local implementation rules and their implementation are not necessarily consistent with the regulations at the national level. Although we strive to comply with all applicable PRC laws and regulations, we cannot assure you that the relevant PRC government authorities will not determine that we have not been in compliance with certain laws or regulations.

Our auditor, like other independent registered public accounting firms operating in China, is not permitted to be subject to inspection by the Public Company Accounting Oversight Board and, as such, investors may be deprived of the benefits of such inspection.

Our independent registered public accounting firm that issues the audit reports included in our annual reports filed with the SEC, as an auditor of companies that are traded publicly in the United States and a firm registered with the Public Company Accounting Oversight Board (United States), or PCAOB, is required by the laws of the United States to undergo regular inspections by PCAOB to assess its compliance with the laws of the United States and professional standards. Because our auditor is located in China, a jurisdiction where PCAOB is currently unable to conduct inspections without the approval of the PRC authorities, our auditor, like other independent registered public accounting firms operating in China, is currently not inspected by PCAOB. In May 2013, PCAOB announced that it had entered into a Memorandum of Understanding on Enforcement Cooperation with the CSRC and the Ministry of Finance, which establishes a cooperative framework between the parties for the production and exchange of audit documents relevant to investigations undertaken by PCAOB, the CSRC or the Ministry of Finance in the United States and the PRC, respectively. PCAOB continues to be in discussions with the CSRC and the Ministry of Finance to permit joint inspections in the PRC of audit firms that are registered with PCAOB and audit Chinese companies that trade on U.S. exchanges.

Inspections of other firms that PCAOB has conducted outside of China have identified deficiencies in those firms’ audit procedures and quality control procedures, which may be addressed as part of the inspection process to improve future audit quality. The inability of PCAOB to conduct inspections of independent registered public accounting firms operating in China makes it more difficult to evaluate the effectiveness of our auditor’s audit procedures or quality control procedures. As a result, investors may be deprived of the benefits of PCAOB inspections.

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

Our business could be materially and adversely affected by natural disasters or the outbreak of health epidemics in China. For example, in May 2008, Sichuan Province experienced a strong earthquake, measuring approximately 8.0 on the Richter scale, that caused widespread damage and casualties. In addition, as our network of radiotherapy and diagnostic imaging centers are located in hospitals across China, our operations may be particularly vulnerable to any health epidemic. In the last decade, the PRC has suffered health epidemics related to the outbreak of avian influenza and severe acute respiratory syndrome, or SARS. Any future natural disasters or health epidemics in the PRC could also have a material adverse effect on our business and results of operations.

Proceedings instituted recently by the SEC against five PRC-based accounting firms, including our independent registered public accounting firm, could result in financial statements being determined to not be in compliance with the requirements of the Exchange Act.

In December 2012, the SEC brought administrative proceedings against five accounting firms in China, including our independent registered public accounting firm, alleging that they had refused to produce audit work papers and other documents related to certain other China-based companies under investigation by the SEC. On January 22, 2014, an initial administrative law decision was issued, censuring these accounting firms and suspending four of these firms from practicing before the SEC for a period of six months. The decision is neither final nor legally effective unless and until reviewed and approved by the SEC. On February 12, 2014, four of these PRC-based accounting firms appealed to the SEC against this decision. In February 2015, each of the four PRC-based accounting firms agreed to a censure and to pay a fine to the SEC to settle the dispute and avoid suspension of their ability to practice before the SEC. The settlement requires the firms to follow detailed procedures to seek to provide the SEC with access to Chinese firms' audit documents via the CSRC. If the firms do not follow these procedures, the SEC could impose penalties such as suspensions, or it could restart the administrative proceedings.

In the event that the SEC restarts the administrative proceedings, depending upon the final outcome, listed companies in the United States with major PRC operations may find it difficult or impossible to retain auditors in respect of their operations in the PRC, which could result in financial statements being determined to not be in compliance with the requirements of the Exchange Act, including possible delisting. Moreover, any negative news about the proceedings against these audit firms may cause investor uncertainty regarding China-based, United States-listed companies and the market price of our ADSs may be adversely affected.

If our independent registered public accounting firm were denied, even temporarily, the ability to practice before the SEC and we were unable to timely find another registered public accounting firm to audit and issue an opinion on our consolidated financial statements, our consolidated financial statements could be determined not to be in compliance with the requirements of the Exchange Act. Such a determination could ultimately lead to our delisting from the NYSE or deregistration from the SEC, or both, which would substantially reduce or effectively terminate the trading of our ADSs in the United States.

Risks Related to Our Ordinary Shares and ADSs

The market price for our ADSs may be volatile.

The market price for our ADSs has been and may continue to be highly volatile and subject to wide fluctuations in response to factors including the following:

- announcements of technological or competitive developments;
- regulatory developments in China affecting us or our competitors;
- announcements of studies and reports relating to the effectiveness or safety of the services provided in our network of centers or those of our competitors;
- actual or anticipated fluctuations in our quarterly operating results and changes or revisions of our expected results;
- changes in financial estimates by securities research analysts;
- changes in the economic performance or market valuations of other medical services companies;
- addition or departure of our senior management and other key personnel;
- release or expiry of lock-up or other transfer restrictions on our outstanding ordinary shares or ADSs;
- sales or perceived sales of additional ordinary shares or ADSs; and
- general economic or political conditions in China or elsewhere in the world.

In addition, the securities market has from time to time experienced significant price and volume fluctuations that are not related to the operating performance of particular companies. For example, the securities of some China-based companies that have listed their securities in the United States have experienced significant volatility since their initial public offerings, including, in some cases, substantial price declines in the trading prices of their securities. The trading performances of these Chinese companies' securities after their offerings may affect the attitudes of investors toward Chinese companies listed in the United States, which consequently may impact the trading performance of our ADSs, regardless of our actual operating performance. In addition, any negative news or perceptions about inadequate corporate governance practices or fraudulent accounting, corporate structure or other matters of other Chinese companies may also negatively affect the attitudes of investors towards Chinese companies in general, including us, regardless of whether we have engaged in any inappropriate activities. In particular, the global financial crisis and the ensuing economic recessions in many countries have contributed and may continue to contribute to extreme volatility in the global stock markets, such as the large decline in share prices in the United States, China and other jurisdictions in late 2008, early 2009 and the second half of 2011. These broad market and industry fluctuations may adversely affect the market price of our ADSs. In the past, following periods of volatility in the market price of a company's securities, shareholders have often instituted securities class action litigation against that company. If we were involved in a class action suit or other securities litigation, it would divert the attention of our senior management, require us to incur significant expense and, whether or not adversely determined, could have a material adverse effect on our business, financial condition, results of operations and prospects.

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

Sales of our ADSs or ordinary shares in the public market, or the perception that these sales could occur, could cause the market price of our ADSs to decline. In addition, certain of our shareholders or their transferees and assignees have the right to cause us to register the sale of their shares under the Securities Act upon the occurrence of certain circumstances. Registration of these shares under the Securities Act would result in these shares becoming freely tradable without restriction under the Securities Act immediately upon the effectiveness of the registration. Sales of these registered shares in the public market could cause the price of our ADSs to decline.

Holders of ADSs have fewer rights than shareholders and must act through the depositary to exercise those rights.

Holders of ADSs do not have the same rights as our shareholders and may only exercise voting rights with respect to the underlying ordinary shares in accordance with the provisions of the deposit agreement. Under the deposit agreement, if the vote is by show of hands, the depositary will vote the deposited securities in accordance with the voting instructions received from a majority of holders of ADSs that provided timely voting instructions. If the vote is by poll, the depositary will vote the deposited securities in accordance with the voting instructions it timely receives from ADS holders. In the event of poll voting, deposited securities for which no instructions are received will not be voted. Under our fourth amended and restated articles of association, the minimum notice period required to convene a general meeting is seven days. When a general meeting is convened, you may not receive sufficient notice of a shareholders' meeting to permit you to your ordinary shares to allow you to cast your vote with respect to any specific matter. In addition, the depositary and its agents may not be able to send voting instructions to you or carry out your voting instructions in a timely manner. We will make all reasonable efforts to cause the depositary to extend voting rights to you in a timely manner, but we cannot assure you that you will receive the voting materials in time to ensure that you can instruct the depositary to vote your shares. Furthermore, the depositary and its agents will not be responsible for any failure to carry out any instructions to vote, for the manner in which any vote is cast or for the effect of any such vote. As a result, you may not be able to exercise your right to vote and you may lack recourse if your ordinary shares are not voted as you requested. In addition, in your capacity as an ADS holder, you will not be able to call a shareholder meeting.

Holders of our Class B ordinary shares will control the outcome of shareholder actions in our company.

Our ordinary shares are divided into Class A ordinary shares and Class B ordinary shares. Holders of Class A ordinary shares are entitled to one vote per share, while holders of Class B ordinary shares are entitled to ten votes per share. We plan to exchange Class A ordinary shares held by Morgancreek Investment Holding Limited, or Morgancreek, which is beneficially owned by Dr. Jianyu Yang and Dr. Zheng Cheng, with Class B ordinary shares at one-to-one ratio, after which Morgancreek will hold 59,770,876 Class B ordinary shares, or 44.3% of the combined total outstanding ordinary shares (representing 93.7% of the total voting rights) in our company. Their shareholding, in particular the greater voting rights of the Class B ordinary shares, gives Class B ordinary shareholders the power to control any actions that require shareholder approval under Cayman Islands law, our amended and restated memorandum and articles of association and the NYSE requirements, including the election and removal of any member of our board of directors, mergers, consolidations and other business combinations, changes to our amended and restated memorandum and articles of association, the number of shares available for issuance under share incentive plans and the issuance of significant amounts of our ordinary shares in private placements. Due to the disparate voting rights attached to the two classes of our ordinary shares, holders of our Class B ordinary shares could have sufficient voting rights to determine the outcome of all matters requiring shareholder approval even if it should, at some point in the future, hold considerably less than a majority of the combined total of our outstanding Class A and Class B ordinary shares.

[Table of Contents](#)

As a result of their ownership of Class B ordinary shares, the voting power of holders of our Class B ordinary shares may cause transactions to occur that might not be beneficial to you as a holder of ADSs and may prevent transactions that would be beneficial to you. For example, their voting power may prevent a transaction involving a change of control of us, including transactions in which you as a holder of our ADSs might otherwise receive a premium for your securities over the then-current market price. Similarly, they may approve a merger or consolidation of our company that may result in you receiving a stake (either in the form of shares, debt obligations or other securities) in the surviving or new consolidated company, which may not operate our current business model and dissenter rights may not be available to you in such an event.

Due to the disparate voting rights attached to these two classes, our Class B ordinary shareholders will have significant voting rights over matters requiring shareholder approval, including the election and removal of directors and certain corporate transactions, such as mergers, consolidations and other business combinations. This concentrated control could discourage others from pursuing any potential merger, takeover or other change of control transactions that holders of Class A ordinary shares and ADSs may view as beneficial.

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

Your ADSs are transferable on the books of the depository. However, the depository may close its transfer books at any time or from time to time when it deems it expedient to do so in connection with the performance of its duties. In addition, the depository may refuse to deliver, transfer or register transfers of ADSs generally when our books or the books of the depository are closed, or at any time if we or the depository deem it advisable to do so because of any requirement of law or of any government or governmental body, or under any provision of the deposit agreement, or for any other reason.

Your right to participate in any future rights offerings may be limited, which may cause dilution to your holdings and you may not receive cash dividends if it is impractical to make them available to you.

We may, from time to time, distribute rights to our shareholders, including rights to acquire our securities. However, we cannot make any such rights available to you in the United States unless we register such rights and the securities to which such rights relate under the Securities Act or an exemption from the registration requirements is available. Also, under the deposit agreement, the depository bank will not make rights available to you unless the distribution to ADS holders of both the rights and any related securities are either registered under the Securities Act, or exempted from registration under the Securities Act. We are under no obligation to file a registration statement with respect to any such rights or securities or to endeavor to cause such a registration statement to be declared effective. Moreover, we may not be able to establish an exemption from registration under the Securities Act. Accordingly, you may be unable to participate in our rights offerings and may experience dilution in your holdings.

In addition, the depository has agreed to pay to you the cash dividends or other distributions it or the custodian receives on our ordinary shares or other deposited securities after deducting its fees and expenses. You will receive these distributions in proportion to the number of ordinary shares your ADSs represent. However, the depository may, at its discretion, decide that it is inequitable or impractical to make a distribution available to any holders of ADSs. For example, the depository may determine that it is not practicable to distribute certain property through the mail, or that the value of certain distributions may be less than the cost of mailing them. In these cases, the depository may decide not to distribute such property and you will not receive such distribution.

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

Concord Medical Services Holdings Limited, or Concord Medical, was incorporated in the Cayman Islands on November 27, 2007 as a limited liability company. Concord Medical became our ultimate holding company on March 7, 2008, when the shareholders of Ascendium Group Limited, or Ascendium, a holding company incorporated in the British Virgin Islands on September 10, 2007, exchanged all of their shares Ascendium for shares of Concord Medical. Prior to that, on October 30, 2007, Ascendium had acquired 100% of the equity interest in Our Medical Services, Ltd., or OMS, resulting in a change in control. We refer to this transaction as the OMS reorganization in this annual report. Prior to the OMS reorganization, OMS, together with Shenzhen Aohua Medical Services Co., Ltd., or Aohua Medical, in which OMS effectively held all of the equity interest at the time, operated all of our business.

Aohua Medical was incorporated by OMS on July 23, 1997 and OMS contributed RMB4.8 million to Aohua Medical, representing 90% of the equity interest in Aohua Medical. The remaining 10% equity interest in Aohua Medical was held by two nominees who acted as the custodians of such equity interest. On June 10, 2009, this 10% equity interest was transferred to our subsidiary Shenzhen Aohua Medical Leasing and Services Co., Ltd., or Aohua Leasing. The two nominees have not maintained their required capital contributions at any time subsequent to the incorporation of Aohua Medical. Due to this capital deficiency as well as

other legal conditions, the two nominees had no legal rights to participate either retrospectively or prospectively at any time in any profits or losses of Aohua Medical or to share in any residual assets or any proceeds in the event that Aohua Medical encountered a liquidation event. For these reasons, we did not account for this 10% equity interest as a minority interest in our consolidated results of operations or financial position.

On July 31, 2008, our subsidiary Ascendium acquired 100% of the equity interest in China Medstar together with its wholly owned PRC subsidiary, Shanghai Medstar, for approximately £17.1 million. China Medstar, through its then subsidiary Shanghai Medstar, engaged in the provision of medical equipment leasing and management services to hospitals in the PRC. On March 1, 2009, 100% of the equity interest in Shanghai Medstar was transferred from China Medstar to Ascendium. On August 17, 2009, the registration for such transfer was completed.

On October 28, 2008, we acquired 100% of the equity interest in Beijing Yundu Internet Technology Co., Ltd., or Yundu, through our subsidiaries Aohua Leasing and CMS Hospital Management Co., Ltd., or CMS Hospital Management, for a consideration of approximately RMB35.0 million.

In April 2010, we acquired four radiotherapy and diagnostic imaging centers in Hebei Province for RMB60.0 million, including RMB42.0 million in cash and RMB18.0 million in contingent consideration, by acquiring 100% of the equity interest in Tianjin Kangmeng Radiology Equipment Management Co., Ltd.

In July 2010, we acquired 52% of the equity interest in Chang'an CMS International Cancer Center (CCICC, or Xi'an Wanjiehuaxiang Medical Technology Development Co., Ltd. (WHT)) for RMB103.2 million from Chang'an Hospital. In May, June and September 2011, we incorporated four holding companies, namely, (i) US Proton Therapy Holdings Limited (BVI) in British Virgin Islands, (ii) US Proton Therapy Holdings Limited (Delaware) in Delaware, USA, (iii) Guangzhou Concord Medical Cancer Hospital Co., Ltd. in PRC, and (iv) Medstar Oversea Limited in British Virgin Islands for potential future acquisitions and businesses. None of these holding companies had any substantive assets or business as of date of this annual report.

In December 2011, we effectuated a merger through which Aohua Medical was merged into Aohua Leasing. Aohua Leasing acquired all of the assets and assumed all of the liability of Aohua Medical, which was dissolved upon the merger. Aohua Leasing subsequently changed its name to Shenzhen Aohua Medical Technology & Services Co., Ltd., or Aohua Technology.

In June 2012, we acquired through Cyber Medical and Shanghai Medstar 52% of the equity interest in Chang'an Hospital, for a total consideration of approximately RMB248.8 million in cash. The results of operations of Chang'an Hospital were consolidated into our results of operation commencing in the third quarter of 2012.

In December 2012, we acquired 19.98% of equity interest in The University of Texas MD Anderson Cancer Center Proton Therapy Center, a leading proton treatment center in the world, for a total consideration approximately US\$32.3 million.

As of the date of this annual report, we conduct substantially all of our operations through the following subsidiaries in the PRC:

- Shenzhen Aohua Medical Technology & Services Co., Ltd., our wholly owned subsidiary incorporated in the PRC that engages in the provision of radiotherapy and diagnostic equipment leasing services to hospitals in the PRC;
- Medstar (Shanghai) Leasing Co., Ltd., our wholly owned subsidiary incorporated in the PRC that engages in the sale of medical equipment and the provision of radiotherapy and diagnostic equipment leasing and management services to hospitals in the PRC;
- CMS Hospital Management Co., Ltd., our wholly owned subsidiary incorporated in the PRC that engages in the provision of radiotherapy and diagnostic equipment management services to hospitals in the PRC;
- Beijing Yundu Internet Technology Co., Ltd., or Yundu, our wholly owned subsidiary incorporated in the PRC that engages in the provision of radiotherapy and diagnostic equipment management services to hospitals in the PRC;
- Tianjing Kangmeng Radiology Equipment Management Co., Ltd, our wholly owned subsidiary incorporate in the PRC that manages four radiotherapy and diagnostic imaging centers in Hebei province.

In October 2014, we established a wholly-owned free-standing radiotherapy cancer center, Datong Meizhong Jiahe Cancer Center in Datong City, Shanxi Province, to provide advanced, best-practice diagnostic and radiotherapy services with 100 beds.

[Table of Contents](#)

In December 2014, we sold the 52% equity interest in Chang'an Hospital and Xi'an Wanjiehuaxiang Medical Technology Development Co., Ltd., or WHT, for a total cash consideration of approximately RMB397.9 million (US\$64.1 million), in order to fully concentrate on building a nationwide network of diagnosis and treatment centers and specialized cancer hospitals.

In January 2015, our shareholders approved the creation of a dual class share structure. As of the date of this annual report, we had 134,836,300 Class A ordinary shares and as Class B ordinary shares issued and outstanding.

In April 2015, we acquired 100% of the equity interest in Fortis Surgical Hospital of Fortis Healthcare International Pte Ltd, or Fortis Surgical Hospital for SGD55.0 million (RMB257.7 million) in cash, from Fortis Healthcare International Pte Ltd, or Fortis Healthcare International, a subsidiary of Fortis Healthcare Ltd.

On December 11, 2009, our ADSs were listed on the New York Stock Exchange.

Our principal executive offices are located at 18/F, Tower A, Global Trade Center, 36 North Third Ring Road East, Dongcheng District, Beijing, People's Republic of China, 100013. Our telephone number at this address is (86 10) 5903-6688 and our fax number is (86 10) 5957-5252. Our registered office in the Cayman Islands is at Scotia Centre, 4th Floor, P.O. Box 2804, George Town, Grand Cayman, Cayman Islands KY1-1112. Our website is www.concordmedical.com. The information contained on our website is not a part of this annual report.

B. Business Overview

Overview

We operate an extensive network of radiotherapy and diagnostic imaging centers in China. As of December 31, 2014, our network comprised 139 centers based in 80 hospitals, spanning 56 cities across 25 provinces and administrative regions in China. These hospitals are substantially comprised of 3A hospitals, the highest ranked hospitals by quality and size in China as determined in accordance with the standards of the Ministry of Health.

Cancer has become a serious global public health problem. According to WHO World Cancer Report 2014, cancer is a major cause of death, affecting populations in all countries and regions. In China, cancer incidence and mortality are both demonstrating upward trends in the past decade. In 2012, 21.8% of new cancer cases and 26.9% of deaths caused by cancer occurred in China. According to The National Central Cancer Registry (or NCCR, a governmental organization for cancer surveillance affiliated to the Bureau of Disease Control, National Health and Family Planning Commission in China), there were approximately 3.37 million new cancer cases in 2011 (the latest year with statistics available) or six new cases per minute. The total case number increased by 280,000, or 9%, compared with year 2010. In 2011, there were 2.11 million cancer-related deaths occurred in China, representing an year-on-year increase of 150,000 deaths, or 7.6%. It is expected that the number of cancer cases and cancer-caused death will continue to increase in the next decade. Major factors that contribute to the increase of cancer cases include: demographic reasons such as aging population, smoking and air pollution.

Radiotherapy is considered to be a mature treatment for many types of cancer now. For example, nasopharyngeal cancer (NPC), also known as 'Canton Cancer', is the most prevalent cancer in Southern China, including Guangdong, Guangxi and Fujian provinces, and Hong Kong and Taiwan. Currently the most common treatment of NPC is radiotherapy or comprehensive therapy based on radiotherapy. In the future, more advanced treatment methods, such as proton therapy, will be used for the treatment of NPC patients. Proton therapy can significantly reduce the radiation damage to the critical organs. Currently, we are working with leading domestic and international medical institutions to develop a clinical workflow of proton therapy for NPC. We are also working with such institutions to reduce the cancer survival rate gap between China and U.S., by providing more advanced medical treatment to our patients.

We believe that our leading network and our experience and expertise uniquely position us to address the underserved market in China for radiotherapy and diagnostic imaging services.

Most of the centers in our network are established through long-term lease and management services arrangements entered into with our hospital partners. Under these arrangements, we receive a contracted percentage of each center's revenue net of specified operating expenses. Each center is located on the premises of our hospital partners and is typically equipped with a primary unit of advanced radiotherapy or diagnostic imaging equipment, such as a linear accelerator, head gamma knife system, body gamma knife system, positron emission tomography-computed tomography scanner, or PET-CT scanner, or magnetic resonance imaging scanner, or MRI scanner. We provide clinical support services to doctors who work in the centers in our network, which include developing treatment protocols for doctors and organizing joint diagnosis between doctors in our network and clinical research. In addition, we help recruit and determine the compensation of doctors and other medical personnel in our network and are typically in charge of

most of the non-clinical aspects of the centers' daily operations, including marketing, training and administrative duties. Our hospital partners are responsible for the centers' clinical activities, the medical decisions made by doctors, and the employment of the doctors in accordance with regulations.

We believe that our success is largely due to the high quality clinical care provided at our network of centers and our market-oriented management culture and practices. Many of the doctors who work in our network have extensive clinical experience in radiotherapy, some of whom are recognized as leading experts in radiation oncology in China. We enhance the quality of clinical care in our network through established training of, and on-going clinical education for, doctors in our network. We believe that our market-oriented management culture and practices allow us to manage centers more efficiently and offer more consistent and better patient services than our competitors. We believe that our success has given us a strong reputation within the medical community, which in turn gives us a competitive advantage in gaining patient referrals and establishing new centers.

To complement our organic growth, we have also selectively acquired businesses to expand our network. In July 2008, we acquired China Medstar Pte. Ltd., or China Medstar, a company then publicly listed on the Alternative Investment Market of the London Stock Exchange, or the AIM, for approximately £17.1 million. At the time of the acquisition, China Medstar jointly managed 23 centers with its hospital partners across 14 cities in China. In April 2010, we acquired four radiotherapy and diagnostic imaging centers in Hebei Province for RMB60.0 million by acquiring 100% of the equity interest in Tianjin Kangmeng Radiology Equipment Management Co., Ltd.

To further enhance our reputation and to employ high quality doctors, we are in the process of establishing and operating specialty cancer hospitals in China. We are also in the process of establishing the Beijing Proton Medical Center, another specialty cancer hospital. We expect that the Beijing Proton Medical Center will be the first proton beam therapy treatment center in China equipped with a proton beam therapy system licensed for clinical use. In January 2011, we entered into a framework agreement with Sun Yat-Sen University Cancer Center and a third party to build a 400-bed cancer specialty hospital in Guangzhou for cancer diagnosis and treatment. In May 2012, we obtained the approval of establishing medical institution from the Ministry of Health of Guangdong province as well as the land usage rights from the local land administrative bureau.

Our business has grown significantly in recent years through development of new centers, increases in the number of patient cases of existing centers and acquisitions. We have increased the number of centers in our network from 136 as of December 31, 2012 to 144 as of December 31, 2013, and we held 139 centers as of December 31, 2014. Our total net revenues were RMB455.7 million, RMB563.1 million and RMB606.9 million (US\$97.8 million) for the year ended December 31, 2012, 2013 and 2014, respectively. For additional information relating to our history and reorganization and our financial presentation, see “— History and Development of the Company,” “—Organizational Structure” and “Item 5. Operating and Financial Review and Prospects.”

Our Network of Centers

As of December 31, 2014, we operated an extensive network of 139 centers based in 80 hospitals, spanning 56 cities across 25 provinces and administrative regions in China. These hospitals are substantially comprised of 3A hospitals, the highest ranked hospitals by quality and size in China as determined in accordance with the standards of the Ministry of Health. Our network includes 78 radiotherapy centers and 53 diagnostic imaging centers and eight centers that provide other treatment and diagnostic services, such as electroencephalography for the diagnosis of epilepsy, thermotherapy to increase the efficacy of and for pain relief after radiotherapy and chemotherapy, high intensity focused ultrasound therapy for the treatment of cancer, stereotactic radiofrequency ablation for the treatment of Parkinson's Disease and refraction and tonometry for the diagnosis of ophthalmic conditions. Each center is typically equipped with a primary unit of medical equipment, such as a linear accelerator, head gamma knife system, body gamma knife system, PET-CT scanner or MRI scanner. Each center is located on the premises of our hospital partners with the facilities of the centers provided by the hospitals. Each center is usually comprised of a treatment area, a patient preparation and observation room, working areas for the center's doctors and other personnel and a waiting and reception area.

In addition to our network of centers, we are currently in the process of establishing the Beijing Proton Medical Center in Beijing. In January 2011, we entered into a framework agreement with Sun Yat-Sen University Cancer Center and a third party to form a specialty hospital in Guangzhou for cancer diagnosis and treatment. We plan to establish and operate additional specialty cancer hospitals that will be majority owned by us.

Our Arrangements with Hospital Partners

Lease and Management Services Arrangements

As of December 31, 2014, we had 135 centers that were established under lease and management services arrangements. We typically establish such centers with civilian hospitals by entering into a lease agreement and a management agreement. Centers at

military hospitals, which are regulated by the military but most of which are otherwise the same as other government-owned hospitals open to the public, are typically established under a cooperation agreement. The reason for the two different contractual structures is to comply with the different regulations governing civilian and military hospitals in China. See “Item 4. Information on the Company—B. Business Overview—Regulation of Our Industry—Regulation of Medical Institutions—Restrictions on Cooperation Agreements.”

Under these lease and management services arrangements, we are responsible for purchasing the medical equipment used in the centers. We lease this medical equipment to the hospitals for a fixed period of time and establish and manage the centers in conjunction with our hospital partners. These arrangements are typically long-term in nature, ranging from six to 20 years. We receive from the hospital a contracted percentage of each center’s revenue net of specified operating expenses. Such contracted percentage typically ranges from 50% to 90% and are typically adjusted based on a declining scale over the term of the arrangement. We also have centers that operate under revenue-sharing agreements, which stipulate the percentage of the revenue and the pre-operating expenses to be shared with our hospital partners. The specified operating expenses of centers typically include variable expenses such as the salaries and benefits of the medical and other personnel at the center, the cost of medical consumables, marketing expenses, training expenses, utility expenses and routine equipment repair and maintenance expenses. Typically, these lease and management services arrangements may be terminated upon the mutual agreement of the parties if the centers experience an operating loss for a specified period of time or fail to achieve certain operating targets. In addition, the arrangements typically can be terminated upon the default or failure by either party to perform its respective obligations under the arrangement. In the event of termination, most arrangements call for the parties to reach a mutual agreement as to the resolution of the remaining obligations of the parties or the division of assets that have been acquired for the centers. Under certain of these arrangements, our hospital partners are required to compensate us based on the average contracted percentage for an agreed upon period of time if we are not responsible for the early termination. Since the beginning of 2007, we have terminated the agreements of 11 centers in our network with our hospital partners primarily due to the unsatisfactory performances of the centers located in these hospitals.

Management Services

From time to time, we provide management services to radiotherapy and diagnostic imaging centers under service-only agreements. As of December 31, 2014, we had such agreements for four centers. Unlike the centers established under lease and management services arrangements, we do not purchase and lease to the hospitals the medical equipment used at the centers established under service-only agreements. Rather, we only manage such centers in exchange for a management fee typically consisting of a contracted percentage of the revenue net of specified operating expenses of the center. In addition, as compared to our lease and management services arrangements, the terms of the service-only agreements are typically shorter. We enter into such service-only agreements on a strategic basis to expand the coverage of our network. We will continue from time to time enter into additional strategic service-only agreements with other hospitals in the future.

Technical Services

We also provide technical services to radiotherapy and diagnostic imaging centers under technical service agreements. As of December 31, 2014, we had such agreements for six centers. Similar to management services arrangements, we do not invest in the medical equipment installed at the centers. Instead, we provide technical support, equipment and software maintenance and tele-diagnosis services to these centers in exchange for a fixed fee. The terms are usually similar to our lease and management services contracts. As our telemedicine business continues to grow, we expect to enter into more of the technical services agreements with other hospitals in the future.

Service Offerings in Our Network

Each of the centers in our network is typically equipped with a primary unit of medical equipment, such as a linear accelerator, head gamma knife system, body gamma knife system, PET-CT scanner or MRI scanner. Set forth below is a summary of the principal treatment and diagnostic imaging modalities provided at our centers.

Linear Accelerators External Beam Radiotherapy

As of December 31, 2014, we owned 30 linear accelerators. Linear accelerators use microwave technology to deliver a high-energy x-ray beam directed at the tumor. Linear accelerators can be used to treat tumors in the brain or elsewhere in the body. A typical course of treatment given to a patient ranges from 20 to 40 daily sessions and with each session lasting for 10 to 20 minutes. Since linear accelerators move during treatment, they are not as precise as gamma knife systems. However, linear accelerators are capable of treating larger tumors. Linear accelerators can also be integrated with specialized computer software and advanced imaging and detection equipment to provide more effective and advanced treatments. Such advanced treatments include three-dimensional conformal radiation therapy, which uses imaging equipment to create detailed, three-dimensional representations of the tumor and

surrounding organs. The radiation beam can then be shaped to match the patient's tumor, thereby reducing the radiation damage to healthy tissues. In general, such advanced modalities increase the medical service fees that can be charged as compared to the maximum medical service fees that can be charged for treatments.

Gamma Knife Radiosurgery

A gamma knife is used in radiosurgery for the treatment of tumors and other abnormal growths. A gamma knife uses multiple radiation sources, which differentiates it from traditional radiotherapy where only a single radiation source is used. These radioactive sources, which are typically cobalt-60, a radioactive isotope, emit gamma rays that are passed through a collimator unit to produce a highly-focused beam of radiation. The individual beams then converge to deliver an extremely concentrated dose of radiation to locations within the patient that are identified using imaging guidance systems, such as PET-CT or MRI scanners. The intense radiation produced by a gamma knife at a precise target point destroys tumor cells, while minimizing damage to the surrounding healthy tissues. The treatment procedure is minimally or non-invasive and may be used as a primary or supplementary treatment option for cancer patients. The treatment requires no general anesthesia and provides an alternative treatment option to patients who may not be good candidates for surgery. In addition, the gamma knife procedure usually involves shorter patient hospitalization, is more cost effective than surgery and avoids many of the potential risks and complications that are associated with other treatment options. Our network of centers currently operates two types of gamma knife systems, head gamma knife systems and body gamma knife systems. As of December 31, 2014, we owned 37 gamma knife systems, including 24 head gamma knife systems and 13 body gamma knife systems.

Head Gamma Knife Systems

Head gamma knife systems are primarily used for the treatment of brain tumors. The treatment is typically completed in one 10 to 30 minute session rather than in multiple daily sessions spanning several weeks during which time small doses of radiation are given at each session. Head gamma knife systems can also be used to treat other conditions, such as certain types of brain lesions, trigeminal neuralgia (facial pain) and arteriovenous malformations (abnormal connection between veins and arteries).

Body Gamma Knife Systems

Body gamma knife systems are used for the treatment of tumors located in the body but outside of the brain. Treatments using the body gamma knife are provided over a course of multiple sessions spanning several weeks. The radiation that converges from the individual beams is less concentrated than in head gamma knife systems due to the difficulty of fixing and restricting the movement of the body. This is a widely used technology in China that was developed domestically and approved by the PRC State Food and Drug Administration, or the SFDA. However, the body gamma knife system has not been broadly introduced and widely adopted outside of China. We believe this is because the Chinese manufacturers of body gamma knife system have determined that the time and cost of gaining approval for use of the body gamma knife system in countries other than China are likely commercially prohibitive. In addition, potential gamma knife system manufacturers outside of China may not have historically viewed clinical studies conducted by users of body gamma knife systems in China as sufficiently convincing for them to try to develop such systems outside of China. As a result, we believe that the international medical community has not yet had the opportunity to develop a large quantity of peer-reviewed literature that supports the safe and effective use of body gamma knife system and to adopt such technology outside of China.

Cyberknife

The CyberKnife Robotic Radiosurgery System is a non-invasive alternative to surgery for the treatment of both cancerous and non-cancerous tumors anywhere in the body, including the prostate, lung, brain, spine, liver, pancreas and kidney. The treatment – which delivers beams of high dose radiation to tumors with extreme accuracy – offers new hope to patients worldwide. Though its name may conjure images of scalpels and surgery, the CyberKnife treatment involves no cutting. In fact, the CyberKnife System is the world's first and only robotic radiosurgery system designed to treat tumors throughout the body non-invasively. It provides a pain-free, non-surgical option for patients who have inoperable or surgically complex tumors, or who may be looking for an alternative to surgery. As of December 31, 2014, we have two Cyber-knife centers in China. Our first CyberKnife® Robotic Radiosurgery System (the "CyberKnife System") is located in Changhai Hospital, which has treated over 928 patients in 2014. Our second Cyber-knife center is in Jinan City of Shandong Province.

Proton Beam Therapy

Proton beam therapy is a form of external beam radiotherapy that uses beams of protons rather than the x-ray beams used by linear accelerators. The advantages of proton beam therapy compared to other types of external beam radiotherapy is that a proton beam's signature energy distribution curve, known as the "Bragg peak," allows for greater accuracy in targeting tumor cells so that

healthy tissue is exposed to a smaller dosage. Proton beam therapy can focus cell damage caused by the proton beam at the precise depth of the tissue where the tumor is situated, while tissues located before the Bragg peak receive a reduced dose and tissues situated after the peak receive none. These advantages make proton beam therapy a preferred option for treating certain types of cancers where conventional radiotherapy would damage surrounding tissues to an unacceptable level, such as tumors near optical nerves, the spinal cord or central nervous system and in the head and neck area, as well as prostate cancer and cancer in pediatric cases. Proton beam therapy is not a widely utilized treatment modality, with only approximately 55 proton beam therapy treatment centers in operation or under construction worldwide. We plan to enter into the proton therapy market with the construction of our Beijing Proton Medical Center. See “—Our Network of Centers and Specialty Cancer Hospitals—Specialty Cancer Hospitals.”

Diagnostic Imaging

Our network of centers employs a wide range of diagnostic imaging equipment. Such equipment includes some of the most advanced diagnostic imaging technology available in China, including PET-CT scanners. A PET-CT scanner is a device that combines a positron emission tomography, or PET, scanner and a computed tomography, or CT, scanner in one unit. PET-CT scanners allow the functional imaging obtained by PET scanning, which depicts the spatial distribution of metabolic or biochemical activities in the body, to be more precisely aligned or correlated with the anatomic imaging obtained by a CT scanner. Other diagnostic imaging services offered in our centers include MRI. MRI scanners use a powerful magnetic field, radio frequency pulses and computers to produce detailed pictures of organs, soft tissues, bone and virtually all other internal body structures. MRI technology, which does not involve radiation, is typically able to provide a much greater level of contrast between the different soft tissues of the body than CT, making it especially useful in neurological or oncological imaging. As of the date of this annual report, we owned 19 PET-CT scanners and 25 MRI scanners.

Medical Equipment Procurement

The medical equipment used in our network of centers is highly complex and there are usually a limited number of manufacturers worldwide that produce such equipment. We typically purchase the medical equipment used in our network directly from domestic manufacturers and through importers from overseas manufacturers.

In accordance with the relevant PRC laws and regulations, the procurement, installation and operation of Class A or Class B large medical equipment by hospitals in China are subject to procurement quotas or procurement planning and a large medical equipment procurement license must be obtained prior to the purchase of such medical equipment. For medical equipment classified as Class A large medical equipment, which includes gamma knife systems, proton beam therapy systems and PET-CT scanners, quotas are set by the Ministry of Health and the NDRC and large medical equipment procurement licenses are issued by the Ministry of Health. For medical equipment classified as Class B large medical equipment, which includes linear accelerators and MRI and CT scanners, procurement planning and approval is conducted by the relevant provincial healthcare administrative authorities with ratification by the Ministry of Health and the large medical equipment procurement licenses are issued by the relevant provincial healthcare administrative authorities. A large medical equipment procurement license is not required for medical equipment that is not classified as either Class A or Class B large medical equipment. These rules concerning procurement of large medical equipment apply to all public and private medical institutions in China, whether non-profit or for-profit, except for military hospitals in China, which have a separate procurement system. See “Item 4. Information on the Company—B. Business Overview—Regulation of Our Industry—Regulation of Medical Institutions—Large Medical Equipment Procurement License.”

Once non-profit hospitals have obtained large medical equipment procurement licenses, the purchase of medical equipment for such hospitals is conducted through a collective tender process. The tender process is centralized in accordance with relevant PRC laws and regulations and is supervised by the Ministry of Health for Class A large medical equipment. For Class B large medical equipment, the tender process is supervised by the relevant provincial health administrative authorities. Equipment purchases by military hospitals are also conducted through a centralized collective tender process supervised by the general logistics department of the PLA. The government or military authority will appoint an agent to manage the tender process who must be certified by the government and qualified to conduct the tender process. The agent publicizes information relevant to the tender process, such as the type of equipment requested by the hospital and the desired commercial terms. The manufacturers will prepare the tender document according to the agent’s requirement and submit their bids to the agent on or before the specified date. The agent will then consult with industry experts in evaluating each bid and the industry experts will make a determination on the winning manufacturer. When the tender process is complete, the results are publicly announced and an import permit is issued for the equipment of the winning manufacturer. We then begin negotiations with such manufacturer or its importer on the purchase price and the purchasing terms for the equipment based on the general commercial terms submitted by such manufacturer in the tender process.

Other Treatment and Diagnostic Modalities

Our network also includes centers that provide other treatments and diagnostic services through the use of other types of medical equipment. Such equipment currently includes CT, ECT, electroencephalography for the diagnosis of epilepsy, thermotherapy to

increase the efficacy of and for pain relief after radiotherapy and chemotherapy, high intensity focused ultrasound therapy for the treatment of cancer, stereotactic radiofrequency ablation for the treatment of Parkinson's Disease and refraction and tonometry for the diagnosis of ophthalmic conditions. In 2012, 2013 and 2014, revenues derived from centers that provide such other services were approximately 8.3%, 12.8%, 11.3% respectively, of our total net revenues.

Financing Leases and Other Business Arrangements

We entered into financing lease agreements in connection with sale and leaseback agreement with several hospitals to which we lease radiotherapy, diagnostic and other equipment. We will transfer the leased properties to the lessee by the end of the lease term pursuant to the financing lease agreement. The terms of the financing leases vary, usually between 3 to 5 years. The net investment in financing lease is in the range of RMB3.9 million to RMB61.8 million, depending on the types of equipments subject to the leases.

We have, from time to time, purchased medical equipment from manufacturers or distributors for re-sale to hospitals, and have contractual relationships with certain equipment manufacturers, acted as a distributor of such manufacturer's equipment in selling medical equipment to hospitals. Although we may continue these activities on a limited basis in the future, we do not expect these activities to represent an important part of our business going forward.

Our Hospital Business

Permits Needed to Establish a Medical Institution

In order to establish a medical institution, we need to apply for and receive approvals and permits/licenses from various government authorities and agencies. Since 2011, foreign invested healthcare services institutions are removed from "restricted" to "allowed" category. In addition, since 2012, companies that are registered in Hong Kong, Macau and Taiwan are permitted to establish wholly-owned medical institutions in selected cities in China, including Shanghai, Chongqing, Jiangsu, Fujian, Guangdong and Hainan Provinces, after obtaining relevant permits from the local authorities and agencies, the procedure of which may be substantially different in various regions.

The procedure to establish a wholly-owned foreign medical institution in Beijing, for instance, requires applications to the several government agencies and departments, including local public health bureau, fire department, and environmental protection bureau. These agencies need to review the application from different perspectives, such as compliance with local healthcare planning, fire safety and environment impact. If radiation therapy is included in the services to be offered, radiation protection review will be included in the procedures as well. After reviews are completed and approvals from the above agencies are received, we can apply to the local public health bureau for a Permit of Operations for Foreign Invested Medical Institution. Then we need to apply to the Beijing Municipal Bureau of Commerce for Permit to Establish Foreign Invested Corporation, after which, we can apply to the local Administration of Industry and Commerce to obtain a license for the registration of the corporation. All of our self-owned hospitals have received these permits or equivalents.

Beijing Proton Medical Center

We have entered into a framework agreement with Chang'an Information Industry (Group) Co., Ltd. to establish the Beijing Proton Medical Center. The Beijing Proton Medical Center will allow us to bring the latest in radiotherapy treatment technology to China and increase the radiotherapy treatment options available to cancer patients. The Beijing Proton Medical Center is expected to be the first proton beam therapy system in China licensed for clinical use. The Beijing Proton Medical Center is expected to have a gross floor area of approximately 12,700 square meters and have 50 licensed patient beds. The Beijing Proton Medical Center will primarily offer treatments using a proton beam therapy system, which treatments are designed to be non-invasive and usually do not require hospitalization. As a result, the Beijing Proton Medical Center will not require the use of as many patient beds as the Chang'an CMS International Cancer Center. In addition, the proton beam therapy system occupies a much larger installation area than the radiotherapy and diagnostic imaging equipment that is to be used in the Chang'an CMS International Cancer Center, which reduced physical areas for licensed beds that can be made available in the Beijing Proton Medical Center.

The framework agreement contemplates that we are to invest equity capital to the Beijing Proton Medical Center project that was previously invested and developed by Chang'an Information Industry (Group) Co., Ltd., Hong Kong Jian Chang Group Ltd. and China-Japan Hospital. We will then obtain approximately 93.0% of the equity interest in Beijing Century Friendship Science & Technology Development Co., Ltd., or Beijing Century Friendship, which will in turn own approximately 55.0% of the Beijing Proton Medical Center. The remaining approximately 7.0% of the equity interest in Beijing Century Friendship will be owned by Xi'an Wanjie Changxin Medical Development Co., Ltd., or Xi'an Wanjie Changxin, a subsidiary of Chang'an Information Industry. As a result, we will ultimately own approximately 51.2% of the Beijing Proton Medical Center, with the remaining equity interest owned by Xi'an Wanjie Changxin, Hong Kong Jian Chang Group Ltd. and China-Japan Hospital.

Shanghai Concord Medical Cancer Hospital

In April 2014, we received the relevant government approval for the establishment of Shanghai Concord Medical Cancer Hospital, or Shanghai cancer hospital, a 400-bed cancer specialty hospital in Shanghai New Hongqiao International Medical Center. Our Shanghai cancer hospital will utilize the advance domestic and international therapeutic methods, medical process and management system. It plans to install the most advanced cancer diagnosis and treatment equipment and multidiscipline system. We are in the process of finalizing the design and other pre-construction work. The construction is scheduled to start in 2015. The total construction period is expected to be three years.

Guangzhou Concord Medical Cancer Hospital

In January 2011, we entered into a framework agreement with Sun Yat-Sen University Cancer Center and a third party to build Guangzhou Concord Medical Cancer Hospital, a 400-bed specialty hospital in Guangzhou for cancer diagnosis and treatment. In May 2012, we obtained the approval of establishing medical institution from the Ministry of Health of Guangdong province. In August 2012, Guangzhou Concord Medical Cancer Hospital Co., Ltd. was granted the land usage rights from the local land administrative bureau. We paid RMB25.5 million and RMB27.4 million in 2012 and 2013 respectively for land usage rights. Currently, we are undertaking pre-construction design as well as other preparatory works. The construction is expected to commence during the second half of 2015. In 2013, we have obtained the land use right certificate of Guangzhou Concord Medical Cancer Hospital Co., Ltd.

Specialty Cancer Hospitals

We are currently in the process of establishing specialty cancer hospitals that will focus on providing radiotherapy services as well as diagnostic imaging services, chemotherapy and surgery. We intend for these specialty cancer hospitals to provide a complete and coordinated treatment program for cancer patients. We intend for these hospitals to be centers of excellence in our network providing cancer treatments to patients using the latest radiotherapy technology in China. Typically, in China the various specialist doctors such as surgeons, radiation oncologists or medical oncologists who provide care to a given cancer patient do not collaborate. We believe that the quality of cancer treatment will be greatly improved at our specialty cancer hospitals, because we will employ and manage the various specialist doctors directly and thereby promote the appropriate coordination of their services for the benefit of cancer patients. We believe that these hospitals will play an important role in further strengthening our reputation as the leading provider of radiotherapy services in China and developing our corporate brand. These specialty cancer hospitals will be majority owned and operated by us. We will purchase all of the medical equipment for these hospitals and will employ and manage all of the personnel, including doctors, nurses, medical technicians and administrative personnel. The specialty cancer hospitals will be licensed as for-profit hospitals in China and will be subject to the relevant PRC laws and regulations and permits requirements. As for-profit hospitals, the medical service fees of our specialty cancer hospitals will not be subject to price controls but will be subject to certain taxes not applicable to non-profit hospitals. We plan to fund the development of our specialty cancer hospitals with proceeds raised from our initial public offering and with bank loans.

Chang'an Hospital

In June 2012, we acquired 52% equity ownership in Chang'an Hospital, a leading non-public general hospital located in Xi'an, Shaanxi Province. The financial results of Chang'an Hospital was consolidated into our financial results starting from the third quarter of 2012.

In December 2014, we sold the 52% equity interest in Chang'an Hospital and WHT for a total cash consideration of approximately RMB397.9 million (US\$64.1 million), in order to fully concentrate on building a nationwide network of diagnosis and treatment centers and specialized cancer hospitals. Financial results from Chang'an Hospital and WHT were reported as discontinued operations for all periods presented.

Free-standing Radiotherapy Cancer Center

In October, 2014, we established a wholly-owned radiotherapy cancer center, Datong Meizhong Jiahe Cancer Center in Datong City, Shanxi Province, to provide advanced, best-practice diagnostic and radiotherapy services with 100 beds. It will be the first free-standing center in our network and the center is expected to start operations in 2015. The center will be registered as a specialty cancer hospital with required departments, including radiation, imaging, test laboratory, inpatient, and nursing. This center will apply to join the local social insurance coverage. This free-standing center facility is an important step of our broader strategy to build a nationwide chain of free-standing cancer treatment and diagnosis centers in the future.

Concord Cancer Hospital (Singapore)

In April 2015, we acquired 100% of the equity interest in Fortis Surgical Hospital from Fortis Healthcare International and intend to start the application to Singapore's Ministry of Health to change the Fortis Surgical Hospital name into Concord Cancer Hospital and to add more medical specialties (e.g. oncology, cardiology, respiratory, dermatology, renal medicine, endocrinology and radiotherapy) and build Concord Cancer Hospital into a platform for high-end medical treatment institution that includes academic research and cooperation for the Singapore patients as well as for patients coming from China, so as to extend our overseas business.

MD Anderson Cancer Center Proton Therapy Center (MD Anderson Proton Therapy Center)

In January of 2013, we closed the acquisition of 19.98% of indirect ownership of The University of Texas MD Anderson Cancer Center Proton Therapy Center (MD Anderson Proton Therapy Center). MD Anderson Proton Therapy Center is a leading proton treatment center in the world. Concord Medical plans to invest and operate two proton centers in China. The transaction will enable Concord Medical to expand its expertise and knowledge base in preparation for the operation of future proton centers. After the closing, Concord Medical became the second largest owner of the MD Anderson Proton Therapy Center, behind MD Anderson Cancer Center. Concord Medical joined both the Board of Directors of the PTC-Houston Management, LP, the general partner of the center, and the center's Advisory Committee.

MD Anderson Proton Therapy Center is an affiliate of MD Anderson. Opened in 2006, it was the fourth proton treatment center in the U.S. Since it's opening, the center has treated more than 4,000 patients, accounting for 15% of the total number of patients who received proton treatment nationally. For nine of the past 11 years, including 2007-2012, MD Anderson has been ranked No. 1 in cancer care in the U.S. News & World Report's "Best Hospitals" survey.

MD Anderson Proton Therapy Center is an international center of excellence for proton therapy, research and education. It is the world's first proton therapy facility located within a comprehensive cancer center – and the only proton therapy center that is part of the top-ranked cancer center in the world. It's highly skilled and experienced cancer care team includes radiation oncologists, pediatric radiation oncologists, research nurses, registered nurses, radiation therapists, medical dosimetrists, physicists and other cancer professionals who work to provide an individualized treatment plan for each patient's cancer. The MD Anderson Proton Therapy Center houses four treatment rooms that include one fixed beam room and three equipped with gantries within 96,000-square-feet of space. Each gantry is three stories tall, 35 feet in diameter, weighs 190 tons and rotates around a patient to direct the proton beam precisely at the cancerous tumor. The center also includes clinical space and examination rooms for consultations and patient visits, anesthesiology work areas, holding and recovery areas, medical dosimetry areas for treatment planning and other areas specifically related to the care, treatment, education and research of proton technology. Additionally, the Proton Therapy Center has a dedicated, on-site machine shop that produces the apertures and other pieces needed to precisely and effectively deliver proton therapy to the patients.

Operation of Radiotherapy and Diagnostic Imaging Centers in Our Network

The following is a brief summary of the various aspects of the operations of the radiotherapy and diagnostic imaging centers in our network.

Management Structure

We manage each of the radiotherapy and diagnostic centers jointly with our hospital partners. Our hospital partners appoint a medical director to each center and are responsible for the centers' clinical activities, the medical decisions made by doctors, and the employment of doctors in accordance with the licensing regulations. We provide clinical support to doctors, including developing treatment protocols for doctors and organizing joint diagnosis between doctors in our network and clinical research. We appoint either an operations director or a project manager to each center. Such director or manager provides most of the non-clinical aspects of the centers' day-to-day operations, which include marketing, providing training and clinical education to doctors and other medical personnel in the centers and other general administrative duties such as arranging for the repair and maintenance of medical equipment. Budgets for each center are established annually based on discussions between our hospital partners and us. Costs incurred at the centers usually require approval of both our hospital partners and us. As a matter of practice, certain major expenditures of the center are subject to further approval by our hospital partners' management and our management.

We have established operating procedures and a comprehensive quality assurance program to ensure that our centers operate efficiently and provide consistent and high quality services. The operating procedures cover the use and maintenance of the medical equipment and interactions with patients, from initial patient appointment and registration to post-treatment follow-up. The operations director or project manager of each center is primarily responsible for ensuring the adherence to our operating procedures and comprehensive quality assurance program.

At the corporate level, we have established a dedicated operations department to supervise and provide support to ensure the effective operation of each center. We actively monitor the activities of each center and conduct scheduled annual evaluations for all centers. These evaluations focus on whether the applicable procedures are followed and whether our operating personnel are performing at the expected level. In addition to the scheduled annual review, we also conduct unscheduled evaluations for certain randomly selected centers. The results of these evaluations are used to help determine the compensation received by our operations directors or project managers and our other employees at the centers. We receive weekly reports on the operating activities for each center, which help us identify opportunities for continued improvement with regards to various aspects of each center's operations. We also have a risk management department that helps to ensure that we meet applicable PRC laws and regulations and compliance standards for the operation of our business. We have also adopted a code of ethics.

For our specialty cancer hospitals, we intend to maintain full operating control over all clinical and non-clinical aspects of its operation, including direct supervision over medical decisions made by doctors.

Staffing

In addition to the operations director or project manager appointed by us to each center, we also typically staff each center with dedicated marketing and accounting personnel. Our hospital partners appoint medical directors to the centers and, except in very limited cases, they also assign all of the doctors and other medical personnel to the centers. However, we also help our hospital partners to recruit many of the doctors or medical personnel providing services at the center. We provide feedback to our hospital partners as to the suitability and performance of the doctors and other medical personnel at each center, and work with our hospital partners to ensure that each center is staffed with the most qualified and suitable personnel. In addition, we help our hospital partners to determine the compensation of doctors and other medical personnel providing services in our network of centers. We also, on a very limited basis, enter into employment agreements with doctors to work at centers in our network after consulting with our hospital partners where such centers are based. We are currently in the process of establishing specialty cancer hospitals such as Beijing Proton Medical Center . We will be responsible for employing and managing all personnel of these specialty cancer hospitals, including doctors and other medical personnel.

Medical Affairs

We have a medical affairs department to support the training, clinical education and clinical research activities of our network of centers. Prior to setting up a new center, we arrange training for the medical professionals of such new center at certain established centers in our network designated as training centers. This provides the medical professionals of such new center with the opportunity to gain hands-on clinical experience in advanced radiotherapy treatment and diagnostic imaging technologies and to benefit from the considerable clinical knowledge of the doctors and other medical personnel at the designated training centers. The doctors at the designated training centers will evaluate the performance of the medical professionals of the new center and ensure that they can provide high quality clinical care. In addition, we also arrange training for the medical staff with the medical equipment manufacturers. We also periodically provide follow-up training at selected centers and host academic conferences and semi-annual academic seminars where doctors and other medical personnel from our network of centers and medical experts in China are invited to share their knowledge and clinical experience. From time to time, we invite experts from professional or academic institutions, such as the Oncology Hospital of the Chinese Academy of Medical Science, to give lectures and provide guidance as to the latest developments and trends in radiotherapy treatments.

We believe that a well-managed clinical research program enhances the reputation of doctors in our network, which in turn enhances the reputation of our network of centers. We maintain a database of radiotherapy treatments. This collection of data can be used, upon approval by us and our hospital partners, to conduct cross-center clinical research and statistical analysis to determine the efficacy and potential of treatment methods offered in our network. We actively organize, encourage and assist doctors in our network to engage in clinical research and to publish their results. We assist in coordinating the clinical research efforts between different radiotherapy and diagnostic imaging centers in our network, which is critical for certain research initiatives that require a significant amount of clinical data that would be difficult for one center to collect.

Doctors in China have historically had very limited opportunities for discussions or consultations with doctors outside of their own hospital. Our network offers doctors the opportunity to consult with each other on challenging cases and treatments. In addition, we have developed treatment protocols that are introduced to each center and can be followed by doctors in our network of centers. We also evaluate the clinical activities of each center as part of our annual evaluations to ensure that high quality treatments or services are provided to patients. We also publish an internal quarterly magazine titled “Stereotactic Radiosurgery” that highlights the different clinical cases being treated in our centers and the latest developments in radiosurgery treatment. We further assist in the publication of other literature related to radiosurgery.

Marketing

Marketing efforts for each center in our network are primarily initiated and implemented by the marketing personnel or the operations director or project manager situated at each center with the support of our headquarters. Each center’s marketing efforts are directed at other doctors in the hospital where the center is based and at other local hospitals. These marketing efforts are focused on informing such doctors of the applicability and benefits of radiotherapy and the expertise and experience of the doctors at the centers. We also create and distribute educational materials and brochures and engage in consumer advertising and educational campaigns through television, magazines and electronic media.

Each center is required to report its marketing activities to us, and we closely monitor such activities and give approval for major marketing initiatives. We also oversee the budget for marketing activities at the centers. We assist the centers by providing relevant content for marketing materials and help to coordinate with leading experts in the medical community to attend conferences or seminars hosted by the centers. As our network of centers continues to expand and as we begin operating our specialty cancer hospitals, we plan to begin centralizing certain of the marketing and advertising efforts.

Accounting and Payment Collection

Our hospital partners are responsible for patient billing and fee collections and for delivering to us our contracted percentage of medical fees based on our arrangements with them. We typically hire accounting personnel at each of our centers who are in charge of keeping books and records as to the revenues and expenses of the center. We reconcile the accounting records for each center in our network with our hospital partners periodically. After the revenue net of specified operating expenses of a center is agreed upon between us and our hospital partner, we will bill our hospital partner for our portion of the revenue determined based on our contracted percentage. Our hospital partners will then go through their internal approval process, which usually takes about 45 days from the time of billing before making payments to us. We have implemented accounting procedures at each of the centers in our network, and perform periodic reviews to ensure that such activities are properly conducted. For our specialty cancer hospitals, we are responsible for patient billing and fee collection.

Medical Equipment Maintenance and Repair

Equipment maintenance and repair are typically carried out by the equipment manufacturers or third party service companies. The manufacturers typically provide equipment warranties for a period of one year. After the warranty period expires, we typically enter into service agreements with the manufacturers or third party service companies to provide periodic maintenance and repair services. We have also established a dedicated engineering team that is responsible for the general preventive maintenance of medical equipment used in our network of centers. Our engineering team serves as an initial point of contact when problems are encountered and coordinates with equipment manufacturers or a third-party service company to ensure that problems are resolved in a timely manner whenever they arise.

Pricing of Medical Service

Medical service fees generated through the use of both Class A and Class B large medical equipment at non-profit civilian hospitals and military hospitals are subject to the pricing guidance of the relevant provincial or regional price control authorities and healthcare administrative authorities. The pricing guidance sets forth the range of medical service fees that can be charged by non-profit civilian medical institutions and military hospitals. See “Item 3. Key Information—D. Risk Factors—Risks Related to Our Industry—Pricing for the services provided by our network of centers may be adversely affected by reductions in treatment and examination fees set by the Chinese government” and “Item 4. Information on the Company—B. Business Overview—Regulation of Our Industry—Pricing of Medical Services.” The relevant price control authorities and healthcare administrative authorities provide notices to hospitals, which in turn provide immediate notices to us, as to any change in the pricing ceiling for medical services. The timing between when notices are provided by the relevant price control authorities and healthcare administrative authorities and the effective date of such pricing change varies in different cities and regions as well as the relevant medical services in question, but typically ranges from one to three months. For-profit hospitals or centers based in for-profit hospitals in China, such as our planned specialty cancer hospitals, are not subject to such pricing restrictions and are entitled to set medical service fees based on their cost structures, market demand and other factors.

Business Development

We have a business development team responsible for pursuing opportunities to develop centers with hospitals and a hospital investment team responsible for pursuing opportunities to establish specialty cancer hospitals. When examining potential opportunities, we take into account factors that include:

- population density, demographics and the level of economic development of the regions or cities in which such new centers would be located; and
- the reputation of the potential hospital partner and its doctors, nurses and other personnel and the number of licensed patient beds and patient volume.

After each potential opportunity is identified and evaluated by the business development team or the hospital investment team, as applicable, the opportunity is presented to our investment committee for review. Our investment committee is comprised of several of our senior executives and members of our board of directors, and includes Mr. Adam Jigang Sun, our CIO and chairman of the committee, Dr. Jianyu Yang, Dr. Zheng Cheng, Mr. Yaw Kong Yap and two rotating regional directors. New projects need to be approved by a super-majority approval of our investment evaluation committee and also by our chief executive officer.

Competition

The radiotherapy and diagnostic imaging market in China is fragmented and the competition is intense. The centers in our network compete primarily on a regional or local basis with government-owned and private hospitals that offer radiotherapy and diagnostic imaging services either directly or in conjunction with third parties, such as China Renji Medical Group Ltd. and Jiancheng Investment Co. In addition, since hospitals typically establish radiotherapy and diagnostic imaging centers located on their premises through long term lease and management services arrangements with us or our competitors, in a given locality over a given period there may only be a limited number of top-tier hospitals who have not yet entered into long-term arrangements with us or other companies like and type of certain medical equipment that can be purchased by us or our hospital partners, such as head gamma knife systems of PET-CT scanners, further limit the number of top-tier hospitals that we or our competitors can enter into arrangements with in a given period. We primarily compete with our competitors on the range of the option of services provided by us and our competitors, the reputation of centers in our network among doctors and patients in China and level of patient service and satisfaction.

In addition, we also compete with those who offer other types of available treatment methods that we do not offer, such as chemotherapy, surgery, different forms of radiotherapy that we do not currently offer, other alternative treatment methods commercialized in recent years and certain treatments that are currently in the experimental stage. These treatments may be more effective or less costly, or both, compared to the treatment methods that our centers provide.

Environmental Matters

The Ministry of Health enacted the Administrative Measures on Medical Wastes Management of Medical Institutions in 2003, which sets forth the management of and criteria for the disposal of medical waste generated in the operation of medical institutions. As the supervising authority, the environmental protection authority at the county or higher levels is responsible for environmental inspections of hospitals within their jurisdictions. The Ministry of Health and the environmental protection authorities have also promulgated a series of specific regulations on the disposal of dangerous medical waste and the requirements of vehicles used to transport medical wastes. In addition, certain of the medical equipment used in our network of centers, such as gamma knife systems, use radioactive sources. In accordance with the Regulation on Radioisotope and Radiation Equipment Safety and Protection promulgated by the PRC State Council in 2005, these radioactive sources should be returned to the manufacturer of such radioactive materials or sent to dedicated radioactive waste disposal units appointed by the MEP. Radioactive materials are generally obtained from, and returned to, the medical equipment manufacturers or other third parties, which then have the ultimate responsibility for their proper disposal. However, as all centers in our network are located on the premises of our hospital partners, we do not directly oversee the disposal of certain medical waste generated in the centers. The failure of any of our hospital partners to dispose of such waste in accordance with PRC laws and regulations may have an adverse effect on the operation of centers in our network. See “Item 3. Key Information—D. Risk Factors—Risks Related to Our Company—Most of our radiotherapy and diagnostic imaging equipment contains radioactive materials or emits radiation during operation.” For our specialty cancer hospitals, we will be responsible for the disposal of the medical waste generated.

Insurance

We maintain property insurance on many of the medical equipment used in our network of centers to protect against loss in the event of fire, earthquake, flood and a wide range of natural disasters. We do not typically maintain any professional malpractice liability insurance since we do not employ the doctors and other medical personnel providing services in the centers, except in very limited cases and the centers are located on the premises of our hospital partners. Accordingly, we are not directly responsible for any incidents that occur in the course of providing treatment. However, as certain agreements entered into with our hospital partners require us to share in the expenses related to medical disputes and for such expenses to be included as the expenses of the centers, we have obtained malpractice liability insurance for a limited number of centers. We do not maintain product liability insurance for the medical equipment. We do not maintain real property insurance on the centers as this is the responsibility of our hospital partners. We do not maintain business interruption insurance or key employee insurance for our executive offices as we believe it is not the normal industry practice in China to maintain such insurance. We consider our current insurance coverage to be adequate. However, uninsured damage to any of the medical equipment in our network of centers or inadequate insurance carried by our partner hospitals as to their respective centers could result in significant disruption to the operation of centers in our network and result in a material adverse effect to our business, financial condition and results of operations.

We have entered into framework agreements to establish specialty cancer hospitals that are to be majority-owned by us. We will employ all of the personnel of such hospitals, including doctors, nurses and medical technicians. As a result, we plan to obtain professional malpractice liability insurance for such specialty cancer hospitals. However, there can be no assurance that such insurance will be available at a reasonable price or that we will be able to maintain adequate levels of professional and general liability insurance coverage.

Legal and Administrative Proceedings

We are not currently involved in any material litigation, arbitration or administrative proceedings. However, we may from time to time become a party to various other litigation, arbitration or administrative proceedings arising in the ordinary course of our business.

Regulation of Our Industry

This section sets forth a summary of the most significant regulations or requirements that affect our business activities in China or our shareholders' right to receive dividends and other distributions from us.

General Regulatory Environment

China's healthcare industry is regulated by various government agencies, including the Ministry of Health. The Ministry of Health has branch offices across China that oversee the healthcare industry at the provincial and county levels, which branch offices, together with the Ministry of Health, we refer to as the healthcare administrative authorities. The healthcare administrative authorities and other government agencies, such as the National Development and Reform Commission, or NDRC, the State Food and Drug Administration, or SFDA, the Ministry of Environmental.

Protection, or MEP, and the Ministry of Commerce, or MOFCOM, have promulgated rules and regulations relating to the procurement of large medical equipment, the pricing of medical services, the operation of radiotherapy equipment, the licensing and operation of medical institutions and the licensing of medical staff.

Permits Required by Our Company

Medical Equipment Operating Enterprise Permits

The SFDA categorizes medical equipment into three classes according to the level of control by the government authorities that, in the judgment of the SFDA, is required for their safe and effective operation. Class I medical equipment are those medical equipment that require only an ordinary level of control in order to ensure their safe and effective operation. Class II medical equipment are those medical equipment that require a heightened level of control in order to ensure their safe and effective operation. Class III medical equipment are those medical equipment that are used to support or maintain human life, are implanted into the human body or otherwise pose a potential danger to the human body. Class III medical equipment require strict control in order to ensure their safe and effective operation. In order to ensure an adequate level of control in the operation of Class II and Class III medical equipment, enterprises that engage in the operation of such equipment, which include gamma knife systems, linear accelerators, MRI systems and PET-CT systems, must each obtain a medical equipment operating enterprise permit from the relevant provincial drug supervision and administration agency. As a result, our subsidiaries Shanghai Medstar, Beijing Yundu and Aohua Technology must each obtain a medical equipment operating enterprise permit from the relevant provincial drug supervision and administration agency pursuant to the Medical Equipment Supervision and Administration Regulation effective as of April 1, 2000. Each such permit is valid for a term of five years and, prior to expiration, must be reviewed by and an extension of its term must be obtained from the relevant authorities. All of our aforementioned subsidiaries have received medical equipment operating enterprise permit.

Radiation Safety Permits

As organizations that produce, sell or use radioactive materials or devices in the PRC, our subsidiaries Shanghai Medstar, Aohua Technology are required to obtain radiation safety permits from the relevant national or provincial environmental protection authorities pursuant to the Regulation on Radioisotope and Radiation Equipment Safety and Protection issued on September 14, 2005 by the PRC State Council and the Rules on Radioisotopes and Radiation Device Safety Permit issued on January 18, 2006 by the State Environmental Protection Administration (now the MEP) and amended on December 6, 2008 by the MEP. Each such radiation safety permit is valid for a term of five years and, prior to expiration, must be reviewed by and an extension of its term must be obtained from the relevant authorities. All of our aforementioned subsidiaries have received a radiation safety permit.

Any organization that is subject to radiation safety permitting requirements is required to strictly observe state regulations regarding individual radiation dosage monitoring and health administration, conduct individual dosage monitoring and occupational health examinations for its staff that are directly involved in the production, sale or use of radioactive materials or devices and maintain individual dosage files and occupational health files. Any used radioactive source materials must be returned to the manufacturer or the original exporter of the equipment. If return to the manufacturer or the original exporter is not possible, the used radioactive materials must be delivered to a qualified radioactive waste consolidation and storage unit for storage.

Leasing Company Permit

As foreign-invested companies engaged in the leasing or financial leasing business, certain of our subsidiaries must obtain a Foreign-invested Enterprise Approval Certificate from the MOFCOM or its competent local branch. Each such certificate will specify the permitted business scope of the foreign-invested company as either leasing or financial leasing. Foreign-invested leasing companies are permitted to operate their businesses for no more than 30 years after obtaining such certificates, after which time they are required to apply for and obtain an extension of the term of their certificate. Foreign-invested leasing companies are also required to observe the rules for the registered capital and total investment provided in the Company Law issued by the Standing Committee of National People's Congress of the PRC on December 29, 1993, as amended from time to time, and other relevant regulations. Foreign-invested financial leasing companies, such as our subsidiaries Aohua Technology and Shanghai Medstar are, in addition to the aforementioned requirements for foreign-invested leasing companies, subject to the additional requirements of maintaining a registered capital level of at least US\$10 million, having qualified professionals and having senior managers with professional qualifications and with no less than 3 years of management experience. Our subsidiaries Aohua Technology and Shanghai Medstar have each obtained a foreign-invested financial leasing company permit.

Regulation of Medical Institutions

Distinction between For-Profit and Non-Profit Medical Institutions

Medical institutions in China can be divided into three main categories: public non-profit medical institutions, private non-profit medical institutions and for-profit medical institutions. Medical institutions falling under each category have differing registered business purposes and governing financial, tax, pricing and accounting standards than medical institutions falling under one of the other categories. Public non-profit medical institutions, including those owned by the government and military hospitals, are set up and operated to provide a public service and are eligible for financial subsidies from the government. In contrast, private non-profit medical institutions are not eligible for government financial subsidies. Both public and private non-profit medical institutions are required to set their medical service fees within a range stipulated by the relevant governmental price control authorities, to implement financial and accounting systems in accordance with standards promulgated by government authorities and to retain any profits for the continued development of such institutions.

For-profit medical institutions are permitted to set prices for their medical services in accordance with the market, to implement financial and accounting systems in accordance with market practice for business enterprises and to distribute profits to their shareholders. Like private non-profit medical institutions, for-profit medical institutions are not entitled to government financial subsidies. The specialty cancer hospitals that we plan to develop will be established as for-profit medical institutions.

Medical Institution Practicing License

Pursuant to the Regulation on Medical Institution issued on February 26, 1994 by the PRC State Council, any organization or individual that intends to establish a medical institution must obtain a medical institution practicing license from the relevant healthcare administrative authorities. In determining whether to approve any application, the relevant healthcare administrative authorities are to consider whether the proposed medical institution comports with the population, medical resources, medical needs and geographic distribution of existing medical institutions in the regions for which such authorities are responsible as well as whether the proposed medical institution meets the basic medical standards set by the Ministry of Health. Each of the independent specialty cancer hospitals that we intend to establish would need to obtain such a medical institution practicing license.

Large Medical Equipment Procurement License

The procurement, installation and operation in China of large medical equipment, which is defined as any medical equipment valued at over RMB5.0 million or listed in the medical equipment administration catalogue of the Ministry of Health, is regulated by the Rules on Procurement and Use of Large Medical Equipment issued on December 31, 2004 by the Ministry of Health, the NDRC and the Ministry of Finance, which became effective on March 1, 2005. Pursuant to these rules, quotas for large medical equipment are set by the Ministry of Health and the NDRC or the relevant provincial healthcare administrative authorities, and hospitals must obtain a large medical equipment procurement license prior to the procurement of any such equipment that is covered by the rules on procurement. For large medical equipment classified as Class A large medical equipment, which includes gamma knife systems, proton beam therapy systems and PET-CT scanners, quotas are set by the Ministry of Health and the NDRC and large medical equipment procurement licenses are issued by the Ministry of Health. For large medical equipment classified as Class B large medical equipment, which includes linear accelerators and MRI and CT scanners, procurement planning and approval is conducted by the relevant provincial healthcare administrative authorities with ratification by the Ministry of Health and the large medical equipment procurement licenses are issued by the relevant provincial healthcare administrative authorities. However, many provincial administrative authorities do not provide the general public with information on their procurement planning and quotas for Class B large medical equipment procurement licenses, if any. A large medical equipment procurement license is not required for medical equipment that is not classified as either Class A or Class B large medical equipment. These rules concerning procurement of large medical equipment apply to all public and private medical institutions in China, whether non-profit or for-profit, except for military hospitals which have a separate procurement system. See “—Regulation of Military Hospitals.”

In accordance with the 2011-2015 National PET-CT Procurement Plan issued on September 30, 2011, by the Ministry of Health and the NDRC, the total number of PET-CT large medical equipment procurement licenses issued in China cannot exceed 270 from the date of the plan through the end of 2015, the new licenses cannot exceed 160. In accordance with the National Gamma Ray Stereotactic Head Radiosurgery System Procurement Plan issued on March 20, 2007 by the Ministry of Health and the NDRC, from the date of the plan through the end of 2010, the total number of large medical equipment procurement licenses issued for head gamma knife systems cannot exceed 60 nationwide. Procurement applications for head gamma knife equipment must be filed with the relevant provincial healthcare administrative authorities along with a feasibility report, which must be reviewed by such provincial authorities before it is submitted to the Ministry of Health for approval. There is currently no guidance as to the total number of large medical equipment procurement licenses that may be issued for other types of medical equipment that the centers in our network operate.

With respect to any Class A or Class B large medical equipment purchased before the Rules on Procurement and Use of Large Medical Equipment came into effect on March 1, 2005, the medical institution that houses such equipment must apply to the Ministry of Health or the relevant provincial healthcare administrative authorities for a large medical equipment procurement license for such equipment. If such medical institution is unable to obtain a procurement license as a result of a lack of procurement quotas for such medical equipment allocated to the region in which the medical institution is located, an interim procurement permit for large medical equipment is required to be obtained instead. Moreover, any medical institution holding an interim permit must pay taxes on income derived from the use of the equipment covered by the interim permit and, upon the expiration of the useful life of such medical equipment, the medical institution must dispose of such equipment and is not permitted to replace it with a newer model. Some of our medical equipment have not yet received a large medical equipment procurement license or an interim permit. For more information, see “Item 3. Key Information—D. Risk Factors—Risks Related to Our Industry—Certain of our hospital partners have not received large medical equipment procurement licenses or interim procurement permits for some of the medical equipment in our network of centers which could result in fines or the suspension from use of such medical equipment.”

Radiotherapy Permit

Medical institutions that engage in radiotherapy are governed by the Regulatory Rules on Radiotherapy issued on January 24, 2006 by the Ministry of Health and are required to obtain a radiotherapy permit from the relevant healthcare administrative authorities. These rules require such medical institutions to possess qualifications sufficient for radiotherapy work, which include having adequate facilities for housing radiotherapy equipment as well as having qualified, properly trained personnel. Medical institutions that operate medical equipment containing radioactive materials are also required to obtain a radiation safety permit. See “—Permits Required by Our Company—Radiation Safety Permits.”

Radiation Worker Permit

Medical institutions that engage in the operation of medical equipment that contains radioactive materials or emits radiation during operation are required to obtain a radiation worker permit from the competent healthcare administrative authorities for each medical technician who operates such equipment.

Regulation of Military Hospitals

The procurement, installation and operation of large medical equipment by medical institutions of the PLA is regulated by the healthcare administrative authority of the general logistics department of the PLA with reference to the Rules on Procurement and Use of Large Medical Equipment. The general logistic department of the PLA issues a large equipment application permit to those military hospitals approved for procurement. The procurement planning records and annual reviews are provided to the Ministry of Health for its records.

Restrictions on Cooperation Agreements

Since the effectiveness in September 2000 of the Implementation Opinions on the Management by Classification of Urban Medical Institutions by the Ministry of Health, the State Administration of Traditional Chinese Medicine, the Ministry of Finance and the NDRC, non-profit medical institutions other than military hospitals have been prohibited from entering into new cooperation agreements or continuing to operate under existing cooperation agreements with third parties pursuant to which the parties jointly invest in or cooperate to set up for-profit centers or units that are not independent legal entities. However, according to the Opinions on Certain Issues Regarding Management by Classification of Urban Medical Institutions issued on July 20, 2001 by the Ministry of Health, the State Administration of Traditional Chinese Medicine, the Ministry of Finance and the NDRC, a non-profit medical institution that lacks sufficient funds to purchase medical equipment outright may enter into a leasing agreement pursuant to which the medical institution leases medical equipment at market rates. In response to this regulatory change, we have replaced the majority of our cooperation agreements with non-profit civilian hospitals with leasing and management agreements. See “Item 3. Key Information—D. Risk Factors—Risks Related to Our Company—We may not be successful in negotiating the conversion of a few of our cooperation agreements with our partner hospitals into lease and management arrangements due to regulatory changes.”

Regulation of Proton Treatment Centers

Pursuant to the Administrative Measures on Clinical Application of Medical Technology, effective as of May 1, 2009, medical institutions must apply to the Ministry of Health for approval before utilizing certain medical technologies. On November 13, 2009, the Ministry of Health issued the Trial Administrative Rules on Proton and Heavy Ion Radiotherapy Technologies, which provide the guidelines for government authorities to review and approve applications of medical institutions for clinical use of proton and heavy ion radiotherapy technologies. Furthermore, these rules set out the minimum requirements for medical institutions and their medical staff to provide proton and heavy ion radiotherapy. Such requirements include, among other things, that medical institutions that are eligible for providing proton and heavy ion radiotherapy must (i) be 3A hospitals, (ii) have a radiotherapy department with 10 or more years of radiotherapy experience and 30 or more inpatient beds, (iii) have a diagnostic imaging department with five or more years of diagnostic imaging experience and equipped with diagnostic imaging equipment such as MRI, CT and PET-CT, and (iv) have at least two staff doctors possessing technical competence in the clinical application of proton and heavy ion radiotherapy technologies. Our Beijing Proton Medical Center has already received preliminary approval from the Ministry of Health prior to the promulgation of these new rules. These rules will apply to any proton or heavy ion radiotherapy treatment centers that we or our hospital partners may build and operate in the future.

Registration of Doctors

Doctors in China must obtain a doctor practitioner or assistant doctor practitioner license in accordance with the Law on Medical Practitioners, effective as of May 1, 1999, and the Interim Measures for Registration of Medical Practitioners, effective as of July 16, 1999. Currently, each doctor is required to practice in the medical institution specified in such doctor’s registration. If a doctor intends to change such doctor’s practice location, including but not limited to moving to or from a non-profit medical institution or to or from a for-profit medical institution, practice classification, practice scope or other registered matters, such doctor is required to apply for such change with the competent healthcare administrative authorities. However, with the approval of the medical institution with which a doctor is affiliated, such doctor may, within such doctor’s scope of practice, undertake outside consultations, including diagnostic and treatment activities, for patients of another medical institution.

The Notice Concerning the Doctors to Practice in Different Locations, which is issued by the Ministry of Health on September 11, 2009, sets forth the basic principles for doctors to practice in different medical institutions. Pursuant to the notice doctors are allowed to be employed by more than two medical institutions subject to the approval of the Ministry of Health. However the implementation details are currently unclear. On January 1, 2010, the Trial Management Measures Concerning the Doctors to Practice in Different Locations issued by Guangdong provincial branches of the Ministry of Health became effective. The measures provide that doctors, who meet the requirements set forth therein, may apply for practicing in different medical institutions. The measures are currently effective for a trial period of three years.

Pricing of Medical Services

Pursuant to the Opinion Concerning the Reform of Medical Service Pricing Management issued by the NDRC and the Ministry of Health on July 20, 2000, medical services fees generated through the use of both Class A and Class B large medical equipment at non-profit medical institutions and military hospitals are subject to the pricing guidelines of the relevant provincial or regional price control authorities and healthcare administrative authorities. The pricing guidance sets forth the range of medical services fees that can be charged by non-profit medical institutions and military hospitals. For-profit medical institutions are not subject to such pricing restrictions and are entitled to set medical services fees based on their cost structures, market demand and other factors. According to the Implementation Plan for the Recent Priorities of the Health Care System Reform (2009-2011), which was issued by the State Council on March 18, 2009, the Chinese government is aiming to reduce the examination fees for large medical equipment. In addition, according to the Opinion on the Reform of Pharmaceuticals and Healthcare Service Pricing Structures issued on November 9, 2009 by the NDRC, the Ministry of Health and the MHRSS, the Chinese government is also aiming to reduce the treatment fees for large medical equipment. See “Item 3. Key Information—D. Risk Factors—Pricing for the services provided by our network of centers may be adversely affected by reductions in treatment and examination fees set by the Chinese government.”

Medical Insurance Coverage

China has a complex medical insurance system that is currently undergoing reform. Typically, those covered by medical insurance must pay for medical services out of their own pocket at the time services are rendered and must then seek reimbursement from the relevant insurer. For public servants and others covered by the 1989 Administrative Measure on State Provision of Healthcare and the 1997 Circular on Reimbursement Coverage of Large Medical Equipment under State Provision of Healthcare, the PRC government currently either fully or partially reimburses medical expenses for certain approved cancer diagnosis and radiotherapy treatment services, including treatments utilizing linear accelerators and diagnostic imaging services utilizing CT and MRI scanners. However, gamma knife treatments and PET scans are currently not eligible for reimbursement under this plan.

Urban residents in China that are not covered by the 1989 Administrative Measure on State Provision of Healthcare and the 1997 Circular on Reimbursement Coverage of Large Medical Equipment under State Provision of Healthcare are covered by one of two nationwide public medical insurance schemes, which are the Urban Employees Basic Medical Insurance Program and the Urban Residents Basic Medical Insurance Program. Rural residents in China are covered under a new Rural Cooperative Medical Program launched in 2003. The Urban Employees Basic Medical Insurance Program, which covers employed urban residents, partially reimburses urban workers for treatments utilizing linear accelerators and gamma knife systems and diagnostic imaging services utilizing CT and MRI scanners, with reimbursement levels varying from province to province. However, diagnostic imaging services utilizing PET and PET-CT scans are currently not reimbursable under the Urban Employees Basic Medical Insurance Program. For urban non-workers who are covered by the Urban Residents Basic Medical Insurance Program and rural residents who are covered by the new Rural Cooperative Medical Program, the types of cancer diagnosis and radiotherapy treatments that are covered are generally set with reference to the policy for urban employees in the same region of the country. However, the reimbursement levels for covered medical expenses for urban non-workers and rural residents, which vary widely from region to region and treatment to treatment, are generally lower than those for urban employees in the same region. Currently no reimbursement is available for proton beam therapy treatments. The table below summarizes certain key aspects of these three medical insurance programs:

	Urban Employees Basic Medical Insurance Program	Urban Residents Basic Medical Insurance Program	Rural Cooperative Medical Program
Launch Time	1998	2007	2003
Participants	Urban employees	Urban non-employees	Rural residents
Participation	Mandatory	Voluntary	Voluntary
Number of People covered in 2010	Approximately 237 million (36% of China's urban population)	Approximately 195 million (29% of China's urban population)	Approximately 815 million (96% of China's rural population)
Total reimbursement amount	RMB280 billion in 2009	N/A	RMB66.2 billion in 2010
Funding	Employers and employees: <ul style="list-style-type: none"> • employer contributes approximately 6% of each employee's total salary; and 	Households and the government: <ul style="list-style-type: none"> • monthly premium are paid by each household; and 	Individuals and the government: <ul style="list-style-type: none"> • individual pays no less than RMB20 per year and local government subsidizes no less than RMB40 per person annually; and

	Urban Employees Basic Medical Insurance Program	Urban Residents Basic Medical Insurance Program	Rural Cooperative Medical Program
	<ul style="list-style-type: none"> employee contributes approximately 2% of such employee's total salary. 	<ul style="list-style-type: none"> government subsidizes no less than RMB80 per person annually and RMB40 per person annually for the mid/western regions of China, with greater subsidies provided to low-income families and disabled persons. 	<ul style="list-style-type: none"> government subsidizes RMB40 per person annually for the middle and western regions of the country and a smaller amount for the eastern region.
General Reimbursement Policy	<p>Reimbursement comes from two sources — individual's reimbursement account and the social medical expense pool:</p> <ul style="list-style-type: none"> All of the employee's contribution and 30% of the employer's contribution are allocated to the individual's reimbursement account; the reimbursement cap from the individual account is the balance of that account; and The remaining 70% of the employers' contribution is aggregated into a social medical expense pool; the reimbursement cap from the social medical expense pool for an individual participant in a calendar year is around four times the regional average annual salary. 	<p>There is no specific requirement or guidance from the central government. Reimbursement policy is separately determined by local governments.</p>	<p>The central government suggests that, beginning in the second half of 2009, the reimbursement cap for all regions should be no less than six times the average annual per capita net income of rural residents in the region.</p>
Examples of Local Reimbursement Policy	<p><u>Shanghai</u>: reimbursement cap from the social medical expense pool for an individual participant in a calendar year is approximately four times the average annual salary in Shanghai from the previous year.</p> <p><u>Inner Mongolia</u>: reimbursement cap from the social medical expense pool for an individual participant in a calendar year is RMB25,000.</p>	<p><u>Jiangsu Province</u>: approximately 50% to 60% of medical expense can be reimbursed by the program.</p> <p><u>Sichuan Province</u>: approximately 60% (and not less than 50%) of medical expense can be reimbursed by the program.</p> <p><u>Guangdong Province</u>: approximately 40% to 60% of medical expense can be reimbursed by the program; maximum reimbursement amount is approximately two times the average annual salary in Guangdong province from the previous year.</p>	<p><u>Guangdong Province</u>: maximum reimbursement amount is approximately RMB50,000 per person per year.</p> <p><u>Hubei Province</u>: maximum reimbursement amount for hospitalization is approximately RMB30,000 per person per year.</p> <p><u>Anhui Province</u>: maximum reimbursement amount for hospitalization is approximately RMB30,000 per person per year.</p>

Sources: Ministry of Health, MHRSS, National Bureau of Statistics, and various other central and local PRC government websites.

Foreign Exchange Control and Administration

Pursuant to the Foreign Exchange Administration Regulation promulgated on January 29, 1996, as amended on January 14, 1997 and August 5, 2008, and various regulations issued by the SAFE and other relevant PRC government authorities, the Renminbi is freely convertible only with respect to current account items, such as trade-related receipts and payments, interest and dividends. Capital account items, such as direct equity investments, loans and repatriations of investments, require the prior approval of the SAFE or its local branches for conversion of Renminbi into foreign currency, such as U.S. dollars, and remittance of the foreign currency outside the PRC. Payments for transactions that take place within the PRC must be made in Renminbi. Foreign exchange transactions under the capital account are still subject to limitations and require approvals from, or registration with, the SAFE and other relevant PRC governmental authorities, or their competent local branches.

On August 29, 2008, the SAFE promulgated SAFE Circular No. 142, a notice regulating the conversion by a foreign-invested company of foreign currency into Renminbi by restricting how converted Renminbi may be used. This notice requires that Renminbi converted from the foreign currency-denominated capital of a foreign-invested company only be used for purposes within the business scope approved by the applicable governmental authority and may not be used for equity investments within the PRC unless specifically provided for otherwise in its business scope. In addition, the SAFE strengthened its oversight of the flow and use of Renminbi funds converted from the foreign currency-denominated capital of a foreign-invested company. The use of such Renminbi may not be changed without SAFE's approval and may not be used to repay Renminbi loans if the proceeds of such loans have not yet been used for purposes within the company's approved business scope. Violations of SAFE Circular No. 142 may result in severe penalties, including substantial fines as set forth in the Foreign Exchange Administration Regulation. Furthermore, SAFE promulgated a circular on November 19, 2010, or Circular No. 59, which tightens the examination on the authenticity of settlement of net proceeds from an offering and requires that the settlement of net proceeds shall be in accordance with the description in its prospectus. On August 4, 2014, SAFE issued SAFE Circular 36 that launched the pilot reform of administration regarding conversion of foreign currency registered capitals of foreign-invested enterprises in 16 pilot areas. According to SAFE Circular 36, an ordinary foreign-invested enterprise in the pilot areas is permitted to use Renminbi converted from its foreign-currency registered capital to make equity investments in the PRC, subject to certain registration and settlement procedure as set forth in SAFE Circular 36.

On July 4, 2014, SAFE promulgated the Notice on Relevant Issues Concerning Foreign Exchange Control of Domestic Residents' Overseas Investment and Financing and Roundtrip Investment through Offshore Special Purpose Vehicles, or SAFE Circular No. 37, which replaced the former Notice on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents to Engage in Financing and Inbound Investment via Overseas Special Purpose Vehicles (generally known as SAFE Circular No. 75) promulgated by SAFE on October 21, 2005.

SAFE Circular No. 37 requires PRC residents to register with local branches of SAFE in connection with their direct establishment or indirect control of an offshore entity, for the purpose of overseas investment and financing, with such PRC residents' legally owned assets or equity interests in domestic enterprises or offshore assets or interests, which is referred to in SAFE Circular No. 37 as a "special purpose vehicle." SAFE Circular No. 37 further requires amendment to the registration in the event of any significant changes with respect to the special purpose vehicle, such as an increase or decrease of capital contributed by PRC residents share transfer or exchange, merger, division or other material events. In the event that a PRC resident holding interests in a special purpose vehicle fails to complete the required SAFE registration, the PRC subsidiaries of that special purpose vehicle may be prohibited from making profit distributions to the offshore parent and from carrying out subsequent cross-border foreign exchange activities and the special purpose vehicle may be restricted in its ability to contribute additional capital into its PRC subsidiaries. Furthermore, failure to comply with the various SAFE registration requirements described above could result in liability under PRC law for evasion of foreign exchange controls.

Currently, several of our shareholders who are residents in the PRC and are subject to the requirements of making registration with the competent local branch of SAFE with respect to their investments in our company as required by SAFE Circular No. 75 and will update their registration filings with SAFE under SAFE Circular No. 37 when there are any changes that should be registered under SAFE Circular No. 37. However, we cannot assure you that all of our shareholders or beneficial owners who are PRC residents will at all times comply with, or in the future make or obtain any applicable registrations or approvals required by, SAFE Circular No. 37 or other related regulations. See "Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China — Relevant PRC foreign exchange rules may limit our ability to acquire PRC companies and adversely affect the implementation of our strategy as well as our business and prospects."

Dividend Distributions

Pursuant to the Foreign Exchange Administration Regulation promulgated in 1996, as amended in 1997 and 2008, and various regulations issued by the SAFE and other relevant PRC government authorities, the PRC government imposes restrictions on the convertibility of Renminbi into foreign currencies and, in certain cases, on the remittance of currency out of China. Our PRC subsidiaries are regulated under the Foreign Investment Enterprise Law, which was issued on April 12, 1986 and amended on October 31, 2000, the Implementation Rules of the Foreign Investment Enterprise Law, which was issued on October 28, 1990 and amended on April 12, 2001, and the newly revised PRC Company Law, which became effective as of January 1, 2006. Pursuant to these regulations, each of our PRC subsidiaries must allocate at least 10.0% of its after-tax profits to a statutory common reserve fund. When the accumulated amount of the statutory common reserve fund exceeds 50.0% of the registered capital of such subsidiary, no further allocation is required. Funds allocated to a statutory common reserve fund may not be distributed to equity owners as cash dividends. Furthermore, each of our PRC subsidiaries may allocate a portion of its after-tax profits, as determined by such subsidiary's ultimate decision-making body, to its staff welfare and bonus funds, which allocated portion may not be distributed as cash dividends.

Regulations Relating to Employee Share Options

Pursuant to the Administration Measure for Individual Foreign Exchange issued in December 2006 and the Implementation Rules of Administration Measure for Individual Foreign Exchange, issued in January 2007 by the SAFE, all foreign exchange matters relating to employee stock award plans or stock option plans for PRC residents may only be transacted upon the approval of the SAFE or its authorized branch. On March 28, 2007, the SAFE promulgated the Application Procedure of Foreign Exchange Administration for Domestic Individuals Participating in Employee Stock Award Plan or Stock Option Plan of Overseas-Listed Company, or the Stock Option Rule. Under the Stock Option Rule, PRC citizens who participate in employee stock award and share option plans of an overseas publicly-listed company must register with the SAFE and complete certain related procedures. These procedures must be conducted by a PRC agent designated by the subsidiary of such overseas publicly-listed company with which the PRC citizens affiliate. The PRC agent may be a subsidiary of such overseas publicly-listed company, any such PRC subsidiary's trade union having legal person status, a trust and investment company or other financial institution qualified to act as a custodian of assets. Such participant's foreign exchange income received from the sale of shares or dividends distributed by the overseas publicly-listed company must first be remitted into a collective foreign exchange account opened and managed by the PRC agent prior to any distribution of such income to such participants in a foreign currency or in Renminbi.

Pursuant to Circular No. 106, employee stock award plans of SPVs and employee share option plans of SPVs must be filed with the SAFE while applying for the registration for the establishment of the SPVs. After employees exercise their options, they must apply for an amendment to the registration for the SPV with the SAFE. We intend to comply with these regulations and to ask our PRC optionees to comply with these regulations. In accordance with the Circular of the State Administration of Foreign Exchange on Issues concerning the Administration of Foreign Exchange Used for Domestic Individuals' Participation in Equity Incentive Plans of Companies Listed Overseas issued by SAFE on February 15, 2012, individuals who participate in equity incentive plans of the same overseas listed company shall, through the domestic company to which the said company is affiliated, collectively entrust a domestic agency to handle issues like foreign exchange registration, account establishment, funds transfer and remittance, and entrust an overseas institution to handle issues like exercise of options, purchase and sale of corresponding stocks or equity, and transfer of corresponding funds. However, as these rules have only been recently promulgated, it is currently unclear how these rules will be interpreted and implemented. If the applicable authorities determine that we or our PRC optionees have failed to comply with these regulations, we or our PRC optionees may be subject to fines and legal sanctions.

Provisions Regarding Mergers and Acquisitions of Domestic Enterprises by Foreign Investors and Overseas Listings

On August 8, 2006, six PRC regulatory agencies, including the PRC Ministry of Commerce, the State Assets Supervision and Administration Commission, the State Administration for Taxation, the State Administration for Industry and Commerce, the CSRC and the SAFE, jointly issued the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, or the M&A Rule, which became effective on September 8, 2006. The M&A Rule, among other things, includes provisions that require any offshore special purpose vehicle, or SPV, formed for the purpose of an overseas listing of equity interests in a PRC company that is controlled directly or indirectly by one or more PRC companies or individuals, to obtain the approval of the CSRC prior to the listing and trading of such SPV's securities on an overseas stock exchange. The application of the M&A Rule is currently unclear. However, our PRC counsel, Jingtian & Gongcheng Attorneys At Law, has advised us that based on its understanding of the current PRC laws, rules and regulations and the M&A Rule, the M&A Rule does not require that we obtain prior CSRC approval for the listing and trading of our ADSs on the NYSE, because our acquisition of the equity interest in our PRC subsidiaries is not subject to the M&A Rule due to the fact that Shanghai Medstar was already foreign-invested enterprises before September 8, 2006, the effective date of the M&A Rule. Jingtian & Gongcheng Attorneys At Law has further advised us that their opinions summarized above are subject to the timing and content of any new laws, rules and regulations or clear implementations and interpretations from the CSRC in any form relating to the M&A Rule.

Regulation of Loans between a Foreign Company and its Chinese Subsidiary

A loan made by foreign investors as shareholders in a foreign-invested enterprise is considered to be foreign debt in China and is subject to several Chinese laws and regulations, including the Foreign Exchange Administration Regulation of 1996 and its amendments of 1997 and 2008, the Interim Measures on Foreign Debts Administration of 2003, or the Interim Measures, the Statistical Monitoring of Foreign Debts Tentative Provisions of 1987 and its implementing rules of 1998, the Administration Provisions on the Settlement, Sale and Payment of Foreign Exchange of 1996, and the Notice of the SAFE on Issues Related to Perfection of Foreign Debts Administration, dated October 21, 2005.

Under these rules and regulations, a shareholder loan in the form of foreign debt made to a Chinese entity does not require the prior approval of the SAFE. However, such foreign debt must be registered with and recorded by the SAFE or its local branch in accordance with relevant PRC laws and regulations. Our PRC subsidiaries can legally borrow foreign exchange loans up to their respective borrowing limits, which is defined as the difference between the amount of their respective "total investment" and "registered capital" as approved by the MOFCOM, or its local counterparts. Interest payments, if any, on the loans are subject to a 10% withholding tax unless any such foreign shareholder's jurisdiction of incorporation has a tax treaty with China that provides for a different withholding arrangement. Pursuant to Article 18 of the Interim Measures, if the amount of foreign exchange debt of our PRC subsidiaries exceeds their respective borrowing limits, we are required to apply to the relevant Chinese authorities to increase the total investment amount and registered capital to allow the excess foreign exchange debt to be registered with the SAFE.

Taxation

For a discussion of applicable PRC tax regulations, see "Item 5. Operating and Financial Review and Prospects."

Regulation on Employment

On June 29, 2007, the National People's Congress promulgated the Labor Contract Law of PRC, or the Labor Law, which became effective as of January 1, 2008. On September 18, 2008, the PRC State Council issued the PRC Labor Contract Law Implementation Rules, which became effective as of the date of issuance. The Labor Law and its implementation rules are intended to give employees long-term job security by, among other things, requiring employers to enter into written contracts with their employees and restricting the use of temporary workers. The Labor Law and its implementation rules impose greater liabilities on employers, require certain terminations to be based upon seniority rather than merit and significantly affect the cost of an employer's decision to reduce its workforce. Employment contracts lawfully entered into prior to the implementation of the Labor Law and continuing after the date of its implementation remain legally binding and the parties to such contracts are required to continue to perform their respective obligations thereunder. However, employment relationships established prior to the implementation of the Labor Law without a written employment agreement were required to be memorialized by a written employment agreement that satisfies the requirements of the Labor Law within one month after it became effective on January 1, 2008.

The organizational chart illustrates the ownership structure of Concord Medical Services Holding Ltd. (Cayman), referred to as "Concord" or the "Company". The chart is divided into two main regions: Outside PRC mainland and PRC mainland.

Outside PRC mainland:

- Concord Medical Services Holding Ltd. (Cayman) ("Concord" or the "Company")
 - 100% Ascendium Group Ltd. (BVI) ("AGL")
 - 100% Global Medical Imaging (HongKong) Ltd. (HK)
 - 100% US Proton Therapy Holdings Ltd. (BVI)
 - 100% US Proton Therapy Holdings Ltd. (Delaware)

PRC mainland:

- Concord Medical Services Holding Ltd. (Cayman) ("Concord" or the "Company")
 - 100% Ascendium Group Ltd. (BVI) ("AGL")
 - 100% CONCORD MEDICAL SERVICES (INTERNATIONAL) PTE. LTD. (Singapore)
 - 100% Fortis Healthcare Singapore Pte. Ltd. (Singapore)
 - 100% China Medical Services Holdings Ltd. (HK)
 - 70% Beijing Allcure Medical Technology Ltd.
 - 70% Guangzhou Concord Medical Hospital Ltd.
 - 100% Datong Meizhong Jiahe Cancer Center
 - 100% Allcure Medical Holdings Ltd. (BVI)
 - 100% CMS Hospital Management Co., Ltd.
 - 100% Cyber Medical Networks Ltd. (HK)
 - 100% CMS Hospital Management Co., Ltd.
 - 100% CCM(HONG KONG)Medical Investments Ltd. (HK)
 - 100% Shanghai Concord Oncology Hospital Ltd.
 - 100% Medstar (Shanghai) Leasing Co., Ltd.
 - 100% Our Medical Services Ltd. (BVI)
 - 100% Shenzhen Aohua Medical Technology & Services Ltd.
 - 100% Medstar (Shanghai) Leasing Co., Ltd.
 - 100% CMS Radiotherapy Holdings Ltd. (USA)
 - 70% Medstar (Shanghai) Leasing Co., Ltd.
 - 100% King Cheers Holdings Ltd. (HK)
 - 100% Medstar Overseas Ltd. (BVI)

PRC mainland (Continued):

- Beijing Allcure Medical Technology Ltd.
 - 70% Beijing Allcure Medical Technology Ltd.
- Shenzhen Concord Medical Investment Ltd.
 - 30% Shenzhen Concord Medical Investment Ltd.
- Shenzhen Aohua Medical Technology & Services Ltd.
 - 100% Beijing Yundu Internet Technology Co., Ltd.
 - 95% Tianjin Kangmeng Radiology Equipment Management Co., Ltd.
 - 49% Beijing Jinweiyikang Technology Co., Ltd.,
 - 5% Guangzhou Jinkangshenyou Investment Co., Ltd.,
- Medstar (Shanghai) Leasing Co., Ltd.
 - 100% Medstar (Shanghai) Leasing Co., Ltd.
 - 95% Guangzhou Jinkangshenyou Investment Co., Ltd.,
- Medstar Overseas Ltd. (BVI)
 - 100% Medstar Overseas Ltd. (BVI)

55

[Table of Contents](#)

D. Property, Plant and Equipment

<u>Location</u>	<u>Size (in square meters)</u>	<u>Expiration Date</u>
Beijing	1930	May 2015
Shanghai	24	October 2015
Shanghai	342	April 2016
Shenzhen	522	December 2015

The centers in our network typically have gross floor area ranging from approximately 100 to 400 square meters depending on the services provided at the center. We established a specialty cancer hospital in Xi'an Chang'an CMS International Cancer Center, that is majority owned by us and have entered into an agreement to establish and operate another specialty cancer hospital in Beijing, Beijing Proton Medical Center, that is to be majority owned by us. Chang'an CMS International Cancer Center has a gross floor area of approximately 12,000 square meters and Beijing Proton Medical Center has a planned gross floor area of approximately 12,700 square meters. We expect to obtain the land use rights for properties occupied by Beijing Proton Medical Center. For additional information on our centers and specialty cancer hospitals, please see "—Our Network of Centers and Specialty Cancer Hospitals."

We owned the following primary medical equipment as of December 31, 2014, which are located in the various centers across our network:

Number of primary medical equipment owned ⁽¹⁾ :	
Linear accelerators	28
Head gamma knife systems	24
Body gamma knife systems	13
PET-CT scanners	18
MRI scanners	26
Others ⁽²⁾	26
Total	135

(1) Excluding data from four centers under service-only agreements as of December 31, 2014.

(2) Other primary medical equipment used includes CT scanners and ECT scanners for diagnostic imaging, electroencephalography for the diagnosis of epilepsy, thermotherapy to increase the efficacy of and for pain relief after radiotherapy and chemotherapy, high intensity focused ultrasound therapy for the treatment of cancer, stereotactic radiofrequency ablation for the treatment of Parkinson's Disease and refraction and tonometry for the diagnosis of ophthalmic conditions.

ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our consolidated financial statements and the related notes included elsewhere in this annual report. This discussion may contain forward looking statements based upon current expectations that involve risks and uncertainties. See "—G. Safe Harbor." Our actual results may differ materially from those anticipated in these forward looking statements as a result of various factors, including those set forth under "Item 3. Key Information —D. Risk Factors" or in other parts of this annual report.

A. Operating Results

Overview

We operate an extensive network of radiotherapy and diagnostic imaging centers in China. Most of the centers in our network are established through long-term lease and management services arrangements typically ranging from five to 20 years entered into with hospitals. Under these arrangements, we receive a contracted percentage of each center's revenue net of specified operating expenses. Such contracted percentages typically range from 50% to 90% and are adjusted based on a declining scale over the term of the arrangement. Each center is located on the premises of our hospital partners and is typically equipped with a primary unit of advanced radiotherapy or diagnostic imaging equipment, such as a linear accelerator, head gamma knife system, body gamma knife system, PET-CT scanner or MRI scanner. We manage each center jointly with our hospital partner and we purchase the medical equipment used in our network of centers and lease such equipment to our hospital partners. In June 2012, we acquired 52% of the equity interest in Chang'an Hospital for a total cash consideration of approximately RMB248.8 million. After this acquisition, the results of operations of Chang'an Hospital were consolidated into our results of operation commencing in the third quarter of 2012. In December 2014, we sold the 52% equity interest in Chang'an Hospital and WHT for a total cash consideration of approximately RMB397.9 million (US\$64.1 million), in order to fully concentrate on building a nationwide network of diagnosis and treatment centers and specialized cancer hospitals. Financial results from Chang'an Hospital and WHT prior to the disposal were reclassified as "net income from discontinued operations" in the consolidated statements of comprehensive income.

Our business has grown significantly in recent years through development of new centers, increases in the number of patient cases in our network and acquisitions. We have increased the number of centers in our network from 136 as of December 31, 2012 to 142 as of December 31, 2013 and we held 139 centers as of December 31, 2014. Our total net revenues increased to RMB606.9 million (US\$97.8 million) in 2014 from RMB563.1 million in 2013 and RMB455.7 million in 2012, due primarily to business expansion and patient volume growth.

Factors Affecting Our Results of Operations

Our financial performance and results of operations are generally affected by the number of cancer patients in China. According to a report by Frost & Sullivan, patients diagnosed with cancer in China increased from approximately 2.8 million patients in 2003 to 3.5 million patients in 2008. The total number of new cancer cases in China was 3.5 million in 2012, according to 2012 Chinese Cancer Registry Annual Report. Frost & Sullivan further estimates that new cancer cases will increase to approximately 4.1 million in China in 2015. Based on a survey conducted by the Ministry of Health, the increase in cancer cases is primarily attributable to demographic changes and urbanization. With the continued increase in disposable income, government healthcare spending and medical insurance coverage, there has been a considerable increase in demand for cancer diagnosis and treatments and we have been able to grow our business significantly by providing high quality radiotherapy and diagnostic imaging services in China to address such needs. In addition, public hospitals generally lack the financial resources to purchase, or the expertise to operate, radiotherapy and diagnostic imaging centers. Such factors combined have contributed favorably to the growth of our business.

We believe that the radiotherapy and diagnostic imaging market will continue to be favorable in the future. However, changes in the cancer treatment market in China, whether due to changes in government policy or any decrease in the number of cancer cases treated by radiotherapy in China, may have an adverse effect on our results of operations. See "Item 4. Information on the Company—Business Overview—Regulation of Our Industry."

In addition to general industry and regulatory factors, our financial performance and results of operations are affected by company-specific factors. We believe that the most significant of these factors are:

- our ability to expand our network of centers;
- the number of patient cases treated in our network;
- the operational arrangements with our hospital partners;
- the range and mix of services provided in our network; and
- the cost of our medical equipment.

Our Ability to Expand Our Network of Centers

As of December 31, 2014, our network comprised 139 centers based in 80 hospitals, spanning 56 cities across 25 provinces and administrative regions in China. Our ability to expand our network of centers is one of the most important factors affecting our results of operation and financial condition. Historically, our business growth has been primarily driven by developing new centers through entering into new arrangements with hospital partners or acquisitions from third parties and we expect this to continue to be the key driver for our future growth. Each additional center that we develop increases the number of patient cases treated in our network and contributes to our continued revenue growth. However, new centers developed through our entering into new arrangements with hospital partners generally involve a ramp-up period during which time the operating efficiency of such centers may be lower than that of our established centers, which may negatively affect our profitability. In addition, if we establish additional centers through acquisition, our acquired intangible assets will increase and the resulting amortization expenses may, to a significant extent, offset the benefit of the increase in revenues generated from centers established through acquisitions. Further, other factors such as the financial resources and know-how of hospitals in China to purchase medical equipment directly and to operate radiotherapy and diagnostic imaging centers independently, and the number of units of radiotherapy and diagnostic imaging equipment that are allocated by the PRC government for purchase, will also affect our ability to expand our network. Our ability to expand our network will depend on a number of factors, such as:

- the reputation of our existing network of centers and doctors providing services in our network of centers;
- our financial resources;
- our ability to timely establish and manage new centers in conjunction with our hospital partners; and
- our relationship with our hospital partners.

In 2012, we added 10 new centers to our network, of which three were under lease and management services arrangements, and seven were under service-only agreements. We closed five centers in 2012 after their contract expired. In 2013, we added 14 new centers to our network, of which six were under lease and management services arrangements. We closed six centers in 2013. In 2014, we added six new centers to our network, all of which were under lease agreement services arrangements. We closed 11 centers in 2014.

The Number of Patient Cases Treated in Our Network

Increasing the number of patient cases diagnosed and treated at our existing centers and hospital is important for the continued growth of our business. The number of patient cases is primarily driven by doctor referrals. Doctors decide whether to refer patients to centers in our network based on factors such as the reputation of the center, the location of the center and the reputation of the doctors who provide services in the center. In addition, the referring doctors' awareness of the efficacy and benefits of radiotherapy treatments and their preference as to other cancer treatment methods also contribute to their willingness to refer cases for diagnosis and treatment to the centers in our network. Accordingly, we have focused our marketing efforts on increasing referring doctors' awareness of the efficacy of radiotherapy treatments and the advantages of the treatment options available to their patients in our network of centers. There is also typically a ramp-up period for newly established centers during which time acceptance by doctors and patients of such new centers gradually pick up and the number of patient cases increase. The numbers of our treatment and diagnostic patient cases were 29,791 and 323,757 in 2014, respectively, representing 6.5% decrease and 2.0% increase from 2013, respectively.

The Operational Arrangements with Our Hospital Partners

The majority of our total net revenues is derived from our lease and management services arrangements with our hospital partners which typically range from five to 20 years and under which we receive a contracted percentage of each center's revenue net of specified operating expenses. Such contracted percentages typically ranges from 50% to 90% and are typically adjusted based on a declining scale over the term of the arrangement but in certain circumstances, are fixed for the duration of the arrangement. In the event that specified operating expenses exceed the revenues of the center, we would collect no revenues from such center. As a result, our ability to negotiate a higher contracted percentage and our ability to contain operating expenses will have a significant effect on our revenues and profitability.

In negotiations with hospitals as to our contracted percentage, we consider factors such as:

- the size and location of potential hospital partner;
- the length of the arrangement;
- the type of medical equipment to be installed in the hospital's center;

- the capabilities of the doctors that will provide services at the centers; and
- the potential growth of such center.

Our ability to achieve a higher contracted percentage also depends on our bargaining power relative to our potential hospital partners and on the purchase price of the medical equipment to be used at the new centers. We believe that our contracted percentage of centers' revenue for new arrangements will generally decline over time as the purchase prices of the primary medical equipment used in our network of centers decrease due to technological advancement and increased competition.

We also provide management services to a small number of centers through service-only agreements where we receive a management fee equal to a contracted percentage of each center's revenue net of specified operating expenses. Such service-only agreements typically increase our profitability as we do not own the medical equipment used by such centers, and thus do not incur the associated depreciation expenses. However, service-only agreements are usually short-term in nature, and the risk of non-renewal of such agreements is high. We also typically receive a lower contracted percentage under such service-only agreements compared to the percentage we receive from centers managed under lease and management services arrangements. Accordingly, we do not intend to substantially increase the number of service-only agreements in the future.

We are currently in the process of establishing specialty cancer hospitals that will be majority owned and operated by us. For such hospitals, we will need to hire a significant number of medical and other personnel and incur other start-up costs that will result in an increase in our operating expenses without a corresponding increase in revenues during the initial ramp-up period. As a result, our profitability may be negatively affected.

The Range and Mix of Services Provided in Our Network

The medical service fees charged for the services provided in our network of centers vary by the type of medical equipment used as well as the provinces or regions in China in which such centers are located due to the varying applicable price ceilings. Medical service fees in China are subject to government controlled price ceilings established by the relevant government authorities in the different provinces and regions. See "Item 3. Key Information—D. Risk Factors—Risks Related to Our Industry—Pricing for the services provided by our network of centers may be adversely affected by reductions in treatment and examination fees set by the Chinese government" and "Item 4. Information on the Company—B. Business Overview—Regulation of Our Industry—Pricing of Medical Services." The maximum medical service fees for the same treatment using the same equipment may differ between provinces and regions. Centers established in provinces or regions with a significantly higher price ceiling may result in an increase in our revenues derived from such centers and higher profit margin for the centers, resulting in an increase in our profitability. In addition, certain medical services allow us to charge higher fees than other types of medical services. For example, medical service fees for treatments provided through head gamma knife systems typically range from approximately RMB9,000 to RMB20,000 per patient case, with each treatment lasting one session for approximately 10 to 30 minutes, medical service fees for treatments provided through body gamma knife systems typically range from approximately RMB12,500 to RMB25,000 per patient case, with each treatment lasting five to ten sessions and 10 to 20 minutes each, and medical service fees for treatments provided through linear accelerators typically range from approximately RMB8,000 to RMB40,000 per patient case, with each treatment lasting from 20 to 40 sessions and 10 to 20 minutes each. In addition, linear accelerators can be integrated with specialized computer software and advanced imaging and detection equipment to provide more effective and advanced treatments such as three-dimensional conformal radiation therapy, which significantly increase the medical service fees per treatment. Furthermore, diagnostic imaging services typically have a lower profit margin than radiotherapy treatment.

The Cost of Our Medical Equipment

Depreciation expense associated with the medical equipment that we purchase and use in the centers and our hospital represents a significant portion of our cost of revenues. Our ability to reduce the price of medical equipment purchased, thereby reducing the depreciation expense associated with the medical equipment purchased, will serve to increase our profitability. Our extensive network of centers has provided us with increased bargaining power with equipment manufacturers. We have entered into strategic agreements with certain medical equipment manufacturers in order to lower the average cost of our equipment. Such agreements provide that we will receive preferential pricing if we purchase a certain number of units of equipment from a manufacturer within a given period of time. However, we are not required by such agreements to commit to purchase a minimum number of units of equipment from such manufacturers or precluded from purchasing equipment from other manufacturers. We aim to continue to enter into additional strategic agreements with medical equipment manufacturers to further reduce the cost of our equipment in the future. Furthermore, we expect the purchase prices of our primary medical equipment to decrease over time as a result of technological advancement and increased competition.

Financial Impact of Our Acquisitions and Disposals

The consideration we paid for each acquisition was allocated to the net assets acquired at estimated fair value, with the acquired intangible assets amortized over the period of expected benefits to be realized.

In June 2012, we acquired, through Cyber Medical and Shanghai Medstar, 52% of the equity interest in Chang'an Hospital for a total cash consideration of approximately RMB248.8 million, which gave us effective control over the full capacity of 1,100 beds in Chang'an Hospital. The results of operations of Chang'an Hospital were consolidated into our results of operation commencing in the third quarter of 2012.

In December 2014, we sold the 52% equity interest in Chang'an Hospital and WHT for a total cash consideration of approximately RMB397.9 million (US\$64.1 million), in order to fully concentrate on building a nationwide network of diagnosis and treatment centers and specialized cancer hospitals. Financial results from Chang'an Hospital and WHT were reported as discontinued operations for all periods presented.

Revenues

All of our revenues generated from our network are directly related to the number of patient cases treated in our network. We receive a contracted percentage of each center's revenue net of specified operating expenses. Such revenues are derived from medical service fees received by our hospital partners for the services provided in the centers. The specified operating expenses of centers typically include variable expenses, such as salaries and benefits of the medical and other personnel at the center, the cost of medical consumables, marketing expenses, training expenses, utility expenses and routine equipment repair and maintenance expenses. Corporate level expenses that cannot be directly attributable to one center are typically accounted for as our cost of revenues. In addition, under certain lease and management services arrangements with our hospital partners, certain of the center-incurred expenses may be accounted for as our cost of revenues rather than as the expenses of the centers. Our contracted percentages typically range from 50% to 90% and are typically adjusted on a declining scale over the term of the arrangement. Revenues derived from such centers are accounted for as "lease and management services" on our consolidated statement of operation.

We also provide management services to a limited number of centers through service-only agreements under which the medical equipment is owned by the hospital or other third parties. We typically receive a management fee from each center equal to a contracted percentage of the center's revenue net of specified operating expenses. Revenues derived from providing management services through service-only agreements are accounted for as "management services" on our consolidated statement of operation. As of December 31, 2014, we managed four centers under service-only agreements.

[Table of Contents](#)

Fees for medical services provided at the centers are paid directly to our hospital partners by patients and we are not responsible for patient billing and fee collection. Medical service fees in China are typically paid in full upfront by patients prior to receiving services. Generally, patients claim reimbursements, if any is available under the applicable public or private medical insurance plans. As a result, hospitals do not generally experience bad debt problems. However, the healthcare reform announced by the PRC government in January 2009 has introduced pilot public medical insurance plans. Under these plans patients are only responsible for paying their deductible amounts upfront and hospitals are responsible for seeking reimbursements from the relevant government authorities after the treatments are provided. Certain of the hospitals in which some of the centers in our network are based are involved in such pilot medical insurance plan. We do not expect such change in payment timing to have a direct effect on our ability to collect our contracted percentage from our hospital partners. However, the ability of our hospital partners to collect medical service fees from the government authorities in a timely manner may affect the timing of payments made by our hospital partners to us as a result.

In the past, we have recorded uncollectible accounts receivable. Our allowance for doubtful accounts amounted to RMB3.1 million, RMB3.1 million and RMB2.3 million (US\$0.4 million) as of December 31, 2012, 2013 and 2014, respectively.

We have historically derived a large portion of our total net revenues from a limited number of our hospital partners. For the years ended December 31, 2012, 2013 and 2014, net revenue derived from our top five hospital partners amounted to approximately 22.9%, 24.1% and 22.5%, respectively, of our total net revenues. Our largest hospital partner accounted for 6.9%, 5.6% and 6.4%, respectively, of our total net revenues during those periods. We expect this revenue concentration to decline over time as our network of centers continues to expand.

The following table sets forth revenue contribution from the leases and management service centers whose contracts would expire in the next five fiscal years:

	<u>Number of centers</u>	<u>Aggregate revenues in 2014</u>		<u>Percentage to total revenues</u>
		<u>RMB'000</u>	<u>US\$'000</u>	
2015	8	30,230	4,872	5.6%
2016	9	41,439	6,679	7.6%
2017	18	70,508	11,364	12.9%
2018	13	62,680	10,102	11.5%
2019	14	63,826	10,287	11.7%
Total	62	268,752	43,315	49.3%

Cost of Revenues and Operating Expenses

The following table sets forth our cost of revenues and operating expenses in absolute amounts and as percentage of our total net revenues for the periods indicated.

	Year Ended December 31,					
	2012		2013		2014	
	RMB	% of Total Net Revenues	RMB (in thousands, except for percentages)	% of Total Net Revenues	RMB	US\$ % of Total Net Revenues
Cost of revenues	164,523	36.1	217,655	38.7	274,562	44,251 45.2
Gross profit	291,128	63.9	345,469	61.3	332,321	53,562 54.8
Operating expenses:						
Selling expenses ⁽¹⁾	53,911	11.8	104,667	18.6	95,096	15,327 15.7
General and administrative expenses ⁽¹⁾	61,106	13.4	84,506	15.0	53,576	8,635 8.8
Asset impairment	3,360	0.7	—	—	—	— —
Other operating income	(9,185)	-2.0	—	—	—	— —
Total operating expenses	109,193	23.9	189,173	33.6	148,672	23,962 24.5

- (1) Our selling expenses included share-based compensation in the amount of RMB2.3 million, RMB2.3 million and RMB0.7 million (US\$0.1 million) in 2012, 2013 and 2014, respectively, which was related to certain share options granted in 2009, 2011 and 2014. Our general and administrative expenses included share-based compensation expenses in the amount of RMB6.8 million, RMB6.5 million and RMB6.6 million (US\$1.1 million) in 2012, 2013 and 2014, respectively, which was related to certain share options granted in 2009, 2011 and 2014. We did not grant any share options under our 2008 share incentive plan in 2012 and 2013. We granted 1,370,250 restricted shares, 21,132 restricted shares and 69,564 restricted shares, respectively, on February 18, 2014, July 1, 2014 and August 1, 2014. We also granted options to purchase 3,479,604 ordinary shares at an exercise price of US\$2.037 per share on February 18, 2014.

Cost of Revenues. Our cost of revenues for network business primarily consists of the amortization of acquired intangibles, the depreciation of medical equipment purchased, installed and operated in our network of centers and other costs, including material cost of disposal medical supplies. With the exception of the amortization of acquired intangible assets, we expect such cost of revenues to increase in the future in line with the growth in our total net revenues as we continue to expand our network of centers and purchase more medical equipment. Our cost of revenues also include salaries and benefits for personnel employed by us and assigned to centers in our network, such as our project managers, as well as other costs that include certain training, marketing and selling and equipment repair and maintenance expenses that are not accounted for as the centers' operating expenses in accordance with the terms of our lease and management services arrangements with our hospital partners. In addition, certain expenses are allocated as our cost of revenues instead of centers' operating expenses if such expenses are incurred across several centers and cannot be allocated to one individual center. Our amortization of acquired intangibles in connection with the OMS reorganization, the acquisition of China Medstar, Tianjin Kangmeng Radiology Equipment Management Co., Ltd., and other businesses was RMB28.7 million, RMB29.7 million and RMB23.1 million (US\$3.7 million) in 2012, 2013 and 2014, respectively. We expect our amortization of acquired intangibles in connection with the OMS reorganization and the acquisition of China Medstar and other businesses to fall between the range of approximately RMB17.7 million and RMB7.6 million annually between 2015 and 2019.

Selling Expenses. Selling expenses consist primarily of expenses associated with the development of new centers and specialty cancer hospitals, such as salaries and benefits for our business development personnel, marketing expenses and travel related expenses. Selling expenses increased in absolute amount from 2012 to 2013 as a result of increased efforts to expand our network of centers and our specialty cancer hospitals. Selling expenses decreased in absolute amount from 2013 to 2014 due to decreased advertising, reception, entertainment and conference expense. We expect our selling expenses to change to increase in absolute amount in the future, in line with the expansion of our network and the growth in our total net revenues. Our selling expenses include share-based compensation, RMB2.3 million in 2012, RMB2.3 million in 2013 and RMB0.7 million (US\$0.1 million) in 2014.

General and Administrative Expenses. General and administrative expenses consist primarily of salaries and benefits for our finance, human resources and administrative personnel, fees and expenses of legal, accounting and other professional services, insurance expenses, travel related expenses, depreciation of equipment and facilities used for administrative purposes, and other expenses. Our general and administrative expenses also include share-based compensation expenses in 2012, 2013 and 2014 that amounted to RMB6.8 million, RMB6.5 million and RMB6.6 million (US\$1.1 million), respectively. See “—Share-based Compensation.” Without taking into account the share-based compensation expenses, our general and administrative expenses have increased in absolute dollar terms as we have recruited additional general and administrative employees and have incurred additional costs related to the growth of our business. We expect such expenses to continue to increase in absolute dollar terms in the future, in line with the expansion of our network of centers and the growth in our total net revenues.

Asset Impairment. Our asset impairment was RMB3.4 million, nil and nil for the year ended December 31, 2012, 2013 and 2014.

Other Operating Income. Our other operating income was RMB9.2 million, nil and nil for the year ended December 31, 2012, 2013, and 2014.

Share-based Compensation

On November 17, 2007, OMS, the predecessor of our company, adopted a share option plan, or the OMS option plan, pursuant to which OMS granted to three of its executive directors, Mr. Haifeng Liu, Mr. Jianyu Yang and Mr. Steve Sun, or the OMS grantees, options to purchase a total of up to 25,000,000 ordinary shares, or the OMS share options, to purchase the ordinary shares of OMS at an exercise price of US\$0.80 per share, which the board of OMS determined to become vested upon the satisfaction of a number of performance conditions that related to the completion of the OMS reorganization, achievement of net profit target of OMS, and the raising of new financing. The OMS share options were exercisable from the date of completion of the 2007 audited consolidated financial statements of OMS to December 31, 2008 and were transferrable to any individuals designated by the OMS grantees.

On August 18, 2008, the board of directors of OMS contemplated that the OMS grantees had achieved all performance conditions outlined in the OMS option plan. However, as the capital structure of our company had changed at that time such that we had replaced OMS as the ultimate holding company of our subsidiaries, the board of directors of OMS resolved that the OMS option plan would be settled in vested options to purchase 21,184,600 ordinary shares to purchase shares of our company, with each option having an exercise price of US\$0.79 exercisable before December 31, 2008. On the same day, two of the OMS grantees, Mr. Jianyu Yang and Mr. Steve Sun, exercised their respective options to purchase an aggregate of 6,355,400 ordinary shares of our company, with total proceeds from such exercise received by us amounting to approximately RMB34.4 million. We recorded share-based compensation expense of approximately RMB49.5 million in 2007 related to these options granted, which was recorded in general and administrative expenses. The third OMS grantee, Mr. Haifeng Liu, sold all of his vested options to purchase 14,829,200 ordinary shares of our company to three former directors of China Medstar who are now our directors and executive officers as employment incentive for such directors. The three executive directors subsequently exercised the vested options with total proceeds from such exercise received by us amounting to approximately US\$11.7 million. Given the transfer of the OMS share options to the three directors was provided as an employment incentive, we recorded additional share-based compensation expense of approximately RMB4.2 million in 2008, which was recorded in general and administrative expenses.

On October 16, 2008, our board of directors adopted the 2008 share incentive plan, which was subsequently amended on November 17, 2009 and November 26, 2011 to increase the number of ordinary shares available for grant under the plan. The plan provides for the grant of options, share appreciation rights, or other share-based awards to key employees, directors or consultants. Our board of directors and shareholders authorized the issuance of up to 4,765,800 ordinary shares upon exercise of awards granted under our 2008 share incentive plan. On November 27, 2009 and September 30, 2011, we granted options to purchase a total of 4,765,800 ordinary shares at exercise prices of US\$3.67 and US\$2.17 per share, respectively, under our 2008 share incentive plan to our directors and employees. We did not grant any option under our 2008 share incentive plan in 2012 and 2013. On February 18, 2014, we granted options to purchase 3,479,604 shares at an exercise price of US\$2.037 per share. We also granted 1,370,250 restricted shares, 21,132 restricted shares and 69,564 restricted shares on February 18, 2014, July 1, 2014 and August 1, 2014, respectively, to certain directors, officers and employees.

Taxation

Cayman Islands

We are incorporated in the Cayman Islands. Under the current law of the Cayman Islands, we are not subject to income or capital gains tax. In addition, dividend payments made by us are not subject to withholding tax in the Cayman Islands.

British Virgin Islands

Certain of our subsidiaries are established in the British Virgin Islands and under the current laws of the British Virgin Islands, such subsidiaries are not subject to income tax.

United States

We did not have any assessable profits subject to the United States profits tax in 2012. Following our acquisition of 19.98% of equity interest in The University of Texas MD Anderson Cancer Center Proton Therapy Center in December 2012, we had assessable profits subject to U.S. Federal Income Tax (graduated income tax rate up to 35%) in 2013 and 2014.

Hong Kong

We did not have any assessable profits subject to the Hong Kong profits tax in 2012, 2013 and 2014. We do not anticipate having any income subject to income taxes in Hong Kong in the foreseeable future.

Singapore

We did not have any assessable profits subject to the Singapore profits tax 2012, 2013 and 2014. We do not anticipate having any income subject to income taxes in Singapore in the foreseeable future.

People's Republic of China

Our PRC subsidiaries are incorporated in the PRC and are governed by applicable PRC income tax laws and regulations. The EIT Law was enacted on March 16, 2007 and became effective on January 1, 2008. The implementation regulations under the EIT Law issued by the PRC State Council became effective January 1, 2008. Under the EIT Law and the implementation regulations, the PRC has adopted a uniform tax rate of 25% for all enterprises (including foreign-invested enterprises) and has revoked the previous tax exemption, reduction and preferential treatments applicable to foreign-invested enterprises. However, there is a transition period for enterprises, whether foreign-invested or domestic, that were registered on or before March 16, 2007 and received preferential tax treatments granted by relevant tax authorities prior to January 1, 2008. Some enterprises that were subject to an enterprise income tax rate lower than 25% prior to January 1, 2008 may continue to enjoy the lower rate and gradually transition to the new tax rate within five years after the effective date of the EIT Law. Our PRC subsidiaries are subject to the tax rate of 25% since 2012.

The EIT Law provides that enterprises established outside of China whose “effective management organizations” are located in China are considered “resident enterprises” and are generally subject to the uniform 25% enterprise income tax rate on their worldwide income. In addition, a recent circular issued by the State Administration of Taxation regarding the standards used to classify certain Chinese-invested enterprises controlled by Chinese enterprises or Chinese group enterprises and established outside of China as “resident enterprises” clarified that dividends and other income paid by such “resident enterprises” will be considered to be PRC source income, subject to PRC withholding tax, currently at a rate of 10%, when recognized by non-PRC enterprise shareholders. This circular also subjects such “resident enterprises” to various reporting requirements with the PRC tax authorities. Under the implementation regulations to the EIT Law, an “effective management organizations” is defined as a body that has material and overall management and control over the manufacturing and business operations, personnel and human resources, finances and properties of an enterprise. In addition, the recent circular mentioned above details that certain Chinese-invested enterprises controlled by Chinese enterprises or Chinese group enterprises will be classified as “resident enterprises” if all of the following are located or resident in China: senior management personnel and departments that are responsible for daily production, operation and management; financial and personnel decision making bodies; key properties, accounting books, company seal, and minutes of board meetings and shareholders’ meetings; and half or more of the directors with voting rights or senior management. However, as this circular only applies to enterprises established outside of China that are controlled by PRC enterprises or groups of PRC enterprises, it remains unclear how the tax authorities will determine the location of “effective management organizations” for overseas incorporated enterprises that are controlled by individual PRC residents like us and some of our subsidiaries. Therefore, although substantially all of our management is currently located in the PRC, it remains unclear whether the PRC tax authorities would require our overseas registered entities to be treated as PRC tax resident enterprises. If the PRC tax authorities determine that we are a “resident enterprise,” we may be subject to enterprise income tax at a rate of 25% on our worldwide income.

Under the EIT Law, a maximum withholding income tax rate of 20% may be applicable to dividends payable to non-PRC investors that are “non-resident enterprises,” to the extent such dividends are derived from sources within the PRC, and the State Council has reduced such rate to 10% through the implementation regulations. We are a Cayman Islands holding company and substantially all of our income may be derived from dividends we receive from our operating subsidiaries located in the PRC. According to the PRC-HK DTA, Notice 112, Notice 601 and Guoshuihan [2009] No.81, dividends paid to enterprises incorporated in Hong Kong are subject to a withholding tax of 5% provided that a Hong Kong resident enterprise owns no less than 25% of the PRC enterprise continuously in the last 12 months before distributing the dividend and can be considered as a “beneficial owner” and entitled to treaty benefits under the PRC-HK DTA. Thus, dividends paid to us through our Hong Kong subsidiary by our subsidiaries in China may be subject to the 5% income tax if the Cayman Islands holding company and our Hong Kong subsidiary are considered as “non-resident enterprises” under the EIT Law and our Hong Kong subsidiary is considered to be a “beneficial owner” and entitled to treaty benefits under the PRC-HK DTA. If we are considered as non-resident enterprise and required under the EIT Law to pay income tax for any dividends we receive from our subsidiaries, it will materially and adversely affect the amount of dividends, if any, we may pay to our shareholders and ADS holders.

Critical Accounting Policies

We prepare our consolidated financial statements in accordance with U.S. GAAP, which requires us to make judgments, estimates and assumptions that affect (i) the reported amounts of assets and liabilities, (ii) disclosure of contingent assets and liabilities at the end of each reporting period, and (iii) the reported amounts of revenue and expenses during each reporting period. We continually evaluate these estimates and assumptions based on historical experience, knowledge and assessment of current business and other conditions, expectations regarding the future based on available information and reasonable assumptions, which together form a basis for making judgments about matters not readily apparent from other sources. Since the use of estimates is an integral component of the financial reporting process, actual results could differ from those estimates. Some of our accounting policies require higher degrees of judgment than others in their application. When reviewing our financial statements, you should consider (i) our selection of critical accounting policies, (ii) the judgment and other uncertainties affecting the application of such policies and (iii) the sensitivity of reported results to changes in conditions and assumptions. We consider the policies discussed below to be critical to an understanding of our financial statements as their application places the most significant demands on the judgment of our management.

Revenue recognition

The majority of our network revenues are derived directly from hospitals that enter into medical equipment lease and management service arrangements with us. To a lesser extent, revenues are generated from stand-alone management service arrangements where our hospital partner has previously acquired the equipment or through another vendor or sale of medical equipment.

i. Lease and management services

Lease and management service arrangements typically include the purchase and installation of diagnostic imaging and/or radiation oncology system (“medical equipment”) at the hospital, and the full-time deployment of a qualified system technician who is responsible for certain management services related to the radiotherapy or diagnostic services being performed by the hospital centers’ doctors to their patients.

We enter into both leases and management service arrangements with independent hospitals consisting of terms that range from 6 to 20 years. Pursuant to these arrangements, we receive a portion of the profit, based on the profit sharing formula as defined in the arrangements, of the hospital unit that delivers the diagnostic imaging and/or radiation oncology services.

Pursuant to ASC 840, we determined that the lease and management service arrangements contain a lease of medical equipment. The hospital has the ability and right to operate the medical equipment while obtaining more than a minor amount of the output. The arrangements also contain a non-lease deliverable being the management service element. The arrangement consideration should be allocated between the lease element and the non-lease deliverables on a relative fair value basis, however because all of the consideration is earned through the contingent rent feature discussed below, there is no impact of such allocation.

ASC 840 is applied to the lease elements of the arrangement and U.S. Securities and Exchange Commission (“SEC”) Staff Accounting Bulletin No. 104 (“SAB 104”) is applied to other elements of the arrangement not within the scope of ASC 840. Revenue not within the scope of ASC 840 is recognized when there is persuasive evidence of an arrangement, the fee is fixed or determinable, collectability is reasonably assured and the delivery of the medical equipment or services has occurred.

[Table of Contents](#)

The lease rentals and management service receivable under the lease arrangement are based entirely on a profit sharing formula (“contingent rent feature”). The profitability of the business unit is not only dependent on the medical equipment placed at the hospital, but also the hospital’s ability to manage the costs and appoint doctors and clinical staff to operate the equipment. Certain of the lease and management service arrangements may include a transfer of ownership or bargain purchase option at the end of the lease term. Due to the length of the lease term, the collectability of these minimum lease payments is not considered reasonably predictable and there are also inherent uncertainties regarding the future costs to be incurred by us relating to the arrangement. Given these uncertainties, we account for all of these lease arrangements as operating leases.

As the collectability of the minimum lease rental is not considered predictable, and the remaining rental is considered contingent, we recognize revenue when a lease payment under the arrangement becomes fixed, i.e. when the profit share under the arrangement is determined and agreed upon by both parties to the agreement. Similarly, for the service element of the arrangement, revenue is only considered determinable at the time a payment under the arrangement becomes fixed, i.e. when the profit share under the arrangement is determined and agreed upon by both parties. Revenue is recognized when it is determined that the basic criteria, referred to above, have also been met.

For the years ended December 31, 2012, 2013 and 2014, the revenue from lease and management services amounted to RMB412.3 million, RMB498.6 million and RMB511.6 million (US\$82.5 million), respectively.

ii. Management services and technical services

We provide stand-alone management services to certain hospitals which are already in possession of radiotherapy and diagnostic equipment and stand-alone technical services to certain hospitals. Management services typically include the provision of diagnosis and treatment techniques, experts support, advertising and promotion as well as comprehensive operational management. Technical services mainly include services related to the maintenance and upgrade of leasing equipment. The fees for management services and technical services are either based on a contracted percentage of monthly revenue generated by the specified hospital unit (“revenue share”) or in limited instances on a fixed monthly fee. Fixed monthly fees are recognized ratably over the service term. The consideration that is based on a revenue share arrangement is recognized when the monthly fees under the arrangement are determined and agreed upon by both parties to the agreement. Fixed monthly fees are recognized ratably over the service term.

For the years ended December 31, 2012, 2013 and 2014, revenue from management services amounted to RMB11.9 million, RMB15.7 million and RMB37.7 million (US\$6.1 million), respectively. For the years ended December 31, 2012, 2013 and 2014, the revenue from technical services amounted to RMB10.2 million, RMB13.2 million and RMB20.8 million (US\$3.3 million), respectively.

iii. Direct financing lease income

Pursuant to ASC 840, we record revenue attributable to direct financing leases so as to produce a constant rate of return on the balance of the net investment in the lease. During the years ended December 31, 2012, 2013 and 2014, we had financing lease income of RMB19.7 million, RMB33.6 million and RMB29.3 million (US\$4.7 million), net of taxes, respectively.

iv. Medical equipment sales

Pursuant to the application of ASC 605, Revenue Recognition (“ASC 605”), we record revenue related to medical equipment sales on a net basis when the equipment is delivered to the customer and the sales price is determinable. During the years ended December 31, 2012, 2013 and 2014, we had medical equipment sales of RMB1.5 million, RMB2.0 million and RMB7.6 million (US\$1.2 million), respectively.

Cost of revenue

Network costs mainly consist of the amortization of acquired intangibles, depreciation of medical equipment purchased, installed and operated in the network of centers and other costs, including salaries and material costs of medical supplies.

(1) Costs relating to lease and management service arrangement

Cost of medical equipment that is leased under an operating lease is included in property, plant and equipment in the balance sheet. The medical equipment is depreciated using the Group's depreciation policies. The cost of the management service component is recognized as an expense as incurred.

(2) Cost of management services and technical services

Cost of management services and technical services mainly include labor costs, and, where applicable, medical consumables and maintenance expenses which are expensed as incurred.

(3) Cost of equipment sales

Cost of equipment sales, recorded net against the related revenue, includes the cost of the equipment purchased and other direct costs involved in the equipment sales.

Accounts Receivable and Allowance for Doubtful Accounts

We consider many factors in assessing the collectability of its receivables due from its customers, such as, the age of the amounts due, the customer's payment history and credit-worthiness. An allowance for doubtful accounts is recorded in the period in which uncollectability is determined to be probable. Accounts receivable balances are written off after all collection efforts have been exhausted.

Fees for medical services provided at the centers are paid directly to our hospital partners by patients and we are not responsible for patient billing and fee collection. Medical service fees in China are typically paid in full upfront by patients prior to receiving services. Generally, patients claim reimbursements, if any, is available under the applicable public or private medical insurance plans. As a result, hospitals do not generally experience bad debt problems. However, the healthcare reform announced by the PRC government in January 2009 has introduced pilot public medical insurance plans. Under these plans patients are only responsible for paying their deductible amounts upfront and hospitals are responsible for seeking reimbursements from the relevant government authorities after the treatments are provided. Certain of the hospitals in which some of the centers in our network are based are involved in such pilot medical insurance plan. We do not expect such change in payment timing to have a direct effect on our ability to collect our contracted percentage from our hospital partners. However, the ability of our hospital partners to collect medical service fees from the government authorities in a timely manner may affect the timing of payments made by our hospital partners to us as a result.

[Table of Contents](#)

The following table sets forth our account receivables by age and pay or type as of the date indicated:

	1-6 months	7-12 months	1-2 years	Over 2 years	Total
	RMB'000				
Accounts receivable	199,904	40,653	20,323	6,411	267,291
Allowance for doubtful accounts	—	—	(700)	(1,581)	(2,281)
Accounts receivable, net	199,904	40,653	19,623	4,830	265,010

We routinely evaluates the collectibility of accounts receivable of each customer on a specific identification basis. At the time when we are aware of circumstances that may impair a specific customer's ability to meet its financial obligations subsequent to the original sale, we record a specific allowance against amounts due, and thereby reduces the net recognized receivable to the collectible amount.

We attempt to collect accounts receivables within the hospital payment terms. Standard payment terms are typically 90 days after invoice date. Hospital payment terms vary from one another. Any departure from the standard hospital payment term must be approved by the chief financial officer and/or the finance controller.

Our management evaluates our account receivable on a quarterly basis. As of the date of this annual report, we do not expect any material uncertainties which would affect the future realization of revenues.

Goodwill

Goodwill represents the excess of the purchase price over the estimated fair value of net tangible and identifiable intangible assets acquired. In accordance with ASC 350, *Intangibles, Goodwill* ("ASC 350"), goodwill amounts are not amortized, but rather are tested for impairment at least annually or more frequently if there are indicators of impairment present. In accordance with ASC 350, we assign and assess goodwill for impairment at the reporting unit level. A reporting unit is an operating segment or one level below the operating segment. As of December 31, 2014, goodwill was derecognized as result of the disposal of Chang'an Hospital.

Intangible Assets, net

Intangible assets relate to customer relationships, operating leases, medical insurance coverage and radiotherapy permit that are not considered to have an indefinite useful life. These intangible assets are amortized on a straight line basis over the economic life. The customer relationship assets relate to the ability to sell existing and future services to existing customers and have been estimated using the income method. Operating leases relate to favorable operating lease terms based on market conditions that existed on the date of acquisition and are amortized over the term of the leases. The medical insurance coverage as an approved healthcare provider is issued by the medical insurance authority, based on which the hospital can join in the medical insurance network and can be reimbursed by the medical insurance authority for medical services provided to the patients who have been covered by medical insurance included in social insurance or other contribution, which is amortized over the remaining business license period. Radiotherapy permit is a legal license issued by government for deploying and operating radiotherapy equipment in a hospital, the economic live of this license is assessed to be the estimated remaining useful lives of the radiotherapy equipment.

Impairment of long-lived assets and acquired intangibles

We evaluate our long-lived assets or asset group including acquired intangibles with finite lives for impairment whenever events or changes in circumstances (such as a significant adverse change to market conditions that will impact the future use of the assets) indicate that the carrying amount of a group of long-lived assets may not be fully recoverable. When these events occur, we evaluate the impairment by comparing the carrying amount of the assets to future undiscounted cash flows expected to result from the use of the assets and their eventual disposition. If the sum of the expected undiscounted cash flows is less than the carrying amount of the assets, we recognize an impairment loss based on the excess of the carrying amount of the asset group over its fair value, generally based upon discounted cash flows or quoted market prices.

Share-based compensation

Our employees participate in our share-based scheme which is discussed in more details under note 23. Share-based awards granted to employees are accounted for under ASC 718, *Compensation-Stock Compensation*, or ASC 718.

In accordance with ASC 718, we determine whether a share option should be classified and accounted for as a liability award or equity award. All grants of share-based awards to employees classified as equity awards are recognized in the financial statements based on their grant date fair values which are calculated using an option pricing model. We have elected to recognize compensation expense using the straight-line method for all share options granted with graded vesting based on service conditions. To the extent the required vesting conditions are not met resulting in the forfeiture of the share-based awards, previously recognized compensation expense relating to those awards are reversed. ASC 718 requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent period if actual forfeitures differ from initial estimates. Share-based compensation expense was recorded net of estimated forfeitures such that expense was recorded only for those share-based awards that are expected to vest.

Business combination

We account for business combinations using the purchase method of accounting in accordance with ASC 805. ASC 805 requires us to recognize separately from goodwill the assets acquired, the liabilities assumed and the noncontrolling interest at their acquisition date fair values. Goodwill as of the acquisition date is measured as the excess of consideration transferred and the net of the acquisition date fair values of the assets acquired and the liabilities assumed. In cases where we acquire less than 100% ownership interest, we will derive the fair value of the acquired business as a whole, which will typically include a control premium and subtract the consideration transferred by us for the controlling interest to identify the fair value of the non-controlling interest. In addition, the share purchase agreements entered into may contain contingent consideration provisions obligating us to pay additional purchase consideration, upon the acquired business's achievement of certain agreed upon operating performance based milestones. Under ASC 805, these contingent consideration arrangements are required to be recognized and measured at fair value at the acquisition date as either a liability or as an equity instrument, with liability instruments being required to be remeasured at each reporting period through the results of our comprehensive income until such time as to when the contingency is resolved.

We derive estimates of the fair value of assets acquired and liabilities assumed using reasonable assumptions based on historical experiences and on the information obtained from management of the acquired companies. Critical estimates in valuing certain of the intangible assets and pre-existing agreements included but were not limited to the following: deriving estimates of future expected cash flows from the acquired business, the determination of an appropriate discount rate deriving assumptions regarding the period of time that the related benefits would continue and the initial measurement and recognition of any contingent consideration arrangements and the evaluation of whether contingent consideration arrangement is in substance compensation for future services. Unanticipated events may occur which may affect the accuracy or validity of such assumptions or estimates.

Income taxes

We follow the liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial reporting and tax bases of assets and liabilities using enacted tax rates that will be in effect in the period in which the differences are expected to reverse. We record a valuation allowance to offset deferred tax assets if based on the weight of available evidence, it is more-likely-than-not that some portion, or all, of the deferred tax assets will not be realized. The effect on deferred taxes of a change in tax rate is recognized in tax expense in the period that includes the enactment date of the change in tax rate.

We adopted ASC 740, *Income Taxes*, which clarifies the accounting and disclosure for uncertainty in income taxes. Interests and penalties arising from underpayment of income taxes shall be computed in accordance with the related PRC tax laws. The amount of interest expense is computed by applying the applicable statutory rate of interest to the difference between the tax position recognized and the amount previously taken or expected to be taken in a tax return. Interests and penalties recognized in accordance with ASC 740 is classified in the financial statements as a component of income tax expense. In accordance with the provisions of ASC 740, we recognize in its financial statements the impact of a tax position if a tax return position or future tax position is “more likely than not” to prevail based on the facts and technical merits of the position. Tax positions that meet the “more likely than not” recognition threshold are measured at the largest amount of tax benefit that has a greater than fifty percent likelihood of being realized upon settlement. Our estimated liability for unrecognized tax positions which is included in the “accrued expenses and other liabilities” account and “accrued unrecognized tax benefits and surcharges, non-current portion” account is periodically assessed for adequacy and may be affected by changing interpretations of laws, rulings by tax authorities, changes and/or developments with respect to tax audits, and expiration of the statute of limitations. The outcome for a particular audit cannot be determined with certainty prior to the conclusion of the audit and, in some cases, appeal or litigation process. The actual benefits ultimately realized may differ from our estimates. As each audit is concluded, adjustments, if any, are recorded in our financial statements. Additionally, in future periods, changes in facts, circumstances, and new information may require us to adjust the recognition and measurement estimates with regard to individual tax positions. Changes in recognition and measurement estimates are recognized in the period in which the changes occur.

Segment reporting

For the years ended December 31, 2012 and 2013, we had two operating segments, including network and hospital. After the disposal of Chang'an Hospital on December 18, 2014, revenue contribution of which was recorded as discontinued operations in the financial statements for all the periods presented, we are only engaged in network business.

Information reported to our chief operating decision maker (“CODM”) for the purpose of resources allocation and performance assessment, focuses on the operating results of network business which is our sole operating segment. Accordingly, no operating segment information is presented.

As substantially all our long-lived assets (mainly including property, plant and equipment) and revenues are in and derived from the PRC, no geographical segments are presented.

Discontinued operations

We early adopted ASU2014-08 *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity* for the year ended December 31, 2014, pursuant to which, when a component of an entity has been disposed of and the component represents a strategic shift that has or will have a major effect on an entity's operations and financial results, the results of its operations should be classified as discontinued operations in the consolidated statement of comprehensive income (loss) for all periods presented.

Derivative Instruments

ASC topic 815 (“ASC 815”), *Derivatives and Hedging*, requires all contracts which meet the definition of a derivative to be recognized on the balance sheet as either assets or liabilities and recorded at fair value. Changes in the fair value of derivative financial instruments are either recognized periodically in earnings or in other comprehensive income depending on the use of the derivative and whether it qualifies for hedge accounting. Changes in fair values of derivatives not qualified as hedges are reported in earnings. The estimated fair values of derivative instruments are determined at discrete points in time based on the relevant market information. These estimates are calculated with reference to the market rates using industry standard valuation techniques. The fair value of the derivative instruments held by us was RMB33.7 million (US\$5.4 million) as at December 31, 2014.

Results of Operations

The following table sets forth a summary, for the periods indicated, of our consolidated results of operations. Our historical results presented below are not necessarily indicative of the results that may be expected for any future period.

	Concord Medical			
	Year Ended December, 31			
	2012	2013	2014	
	RMB	RMB	RMB	US\$
	(in thousands, except share, per share and per ADS data)			
Selected Consolidated Statements of Comprehensive Income Data				
Revenues, net of business tax, value-added tax and related surcharges	455,651	563,124	606,883	97,813
Cost of revenues	(164,523)	(217,655)	(274,562)	(44,251)
Gross profit	291,128	345,469	332,321	53,562
Operating expenses:				
Selling expenses(1)	(53,911)	(104,667)	(95,096)	(15,327)
General and administrative expenses(2)	(61,106)	(84,506)	(53,576)	(8,635)
Asset impairment	(3,360)	—	—	—
Other operating income	9,185	—	—	—
Operating income	181,936	156,296	183,649	29,600
Interest expense	(12,452)	(36,884)	(53,470)	(8,618)
Foreign exchange (losses) gains, net	(117)	784	9,585	1,545
Gain (loss) from disposal of property, plant and equipment	4,432	(1,235)	(3,955)	(637)
Interest income	5,853	9,828	21,208	3,418
Changes in fair value of derivatives	—	—	2,605	420
Equity pick up of equity investee	1,790	13,470	13,911	2,242
Other (expense) income, net	(307)	2,010	2,113	341
Income from continuing operations before income taxes	181,135	144,269	175,646	28,311
Income tax expenses	(54,249)	(63,838)	(80,850)	(13,032)
Net income from continuing operations	126,886	80,431	94,796	15,279
Net income from discontinued operations	7,594	10,765	25,476	4,106
Net income	134,480	91,196	120,272	19,385
Net income (loss) attributable to non-controlling interests	3,649	5,303	(4,437)	(715)
Net income attributable to ordinary shareholders	130,831	85,893	124,709	20,100
Earning (loss) per share – basic / diluted	0.95	0.64	0.92	0.15
Earning (loss) per ADS – basic / diluted	2.84	1.92	2.76	0.45

(1) Our selling expenses included share-based compensation of RMB2.5 million in 2010, RMB2.4 million in 2011, RMB2.3 million in 2012, RMB2.3 million in 2013 and RMB0.7 million (US\$0.1 million) in 2014.

(2) Our general and administrative expenses included share-based compensation expenses related to certain share options granted in 2010, 2011, 2012, 2013 and 2014 of RMB7.0 million, RMB6.9 million, RMB6.8 million, RMB6.5 million and RMB6.6 million (US\$1.1 million), respectively.

Year Ended December 31, 2014 Compared to the Year Ended December 31, 2013

Total Net Revenues. Our total net revenues increased by 7.8% to RMB606.9 million (US\$97.8 million) for the year ended December 31, 2014 from RMB563.1 million for the year ended December 31, 2013, primarily due to the increased revenue contributions from diagnostic equipment patients.

Cost of Revenues. Total cost of revenues increased by 26.1% to RMB274.6 million (US\$44.3 million) for the year ended December 31, 2014 from RMB217.7 million for the year ended December 31, 2013, primarily due to the increased network depreciation expenses from the new centers.

Gross Profit and Gross Margin. As a result of the foregoing, our gross profit decreased by 3.8% to RMB332.3 million (US\$53.6 million) for the year ended December 31, 2014 from RMB345.5 million for the year ended December 31, 2013. Our gross margin decreased to 54.8% for the year ended December 31, 2014 from 61.3% for the year ended December 31, 2013 primarily due to the increase of depreciation expenses in relation to our new centers.

Operating Expenses. Our operating expenses decreased by 21.4% to RMB148.7 million (US\$24.0 million) for the year ended December 31, 2014 from RMB189.2 million for the year ended December 31, 2013 primarily due to the decrease of selling expenses and general and administrative expenses.

Selling Expenses. Our selling expenses decreased by 9.1% to RMB95.1 million (US\$15.3 million) for the year ended December 31, 2014 from RMB104.7 million for the year ended December 31, 2013. Selling expenses as a percentage of total net revenues decreased to 15.7% for the year ended December 31, 2014 from 18.6% for the year ended December 31, 2013. The decrease was mainly due to decreased advertising, reception, entertainment and conference expenses.

General and Administrative Expenses. Our general and administrative expenses decreased by 36.6% to RMB53.6 million (US\$8.6 million) for the year ended December 31, 2014 from RMB84.5 million for the year ended December 31, 2013. This decrease was primarily due to the collection of bad debt and decreased office expenses.

Operating Income. As a result of the foregoing, our operating income was RMB183.6 million (US\$29.6 million) for the year ended December 31, 2014 as compared to RMB156.3 million for the year ended December 31, 2013.

Interest Expense. Our interest expense increased by 45.0% to RMB53.5 million (US\$8.6 million) for the year ended December 31, 2014 from RMB36.9 million for the year ended December 31, 2013, mainly due to the increase of bank borrowing during the year.

Foreign Exchange Loss/Gain. Our foreign exchange gain increased significantly to RMB9.6 million (US\$1.5 million) for the year ended December 31, 2014 from RMB0.8 million for the year ended December 31, 2013 primarily because of the changes of foreign exchange rate during the year.

Interest Income. Our interest income increased significantly to RMB21.2 million (US\$3.4 million) for the year ended December 31, 2014 from RMB9.8 million for the year ended December 31, 2013. This increase was due primarily to the RMB80.0 million increase of restricted cash deposited in bank for loans.

Income Tax Expenses. Our income tax expenses increased by 26.6% to RMB80.9 million (US\$13.0 million) for the year ended December 31, 2014 from RMB63.8 million for the year ended December 31, 2013. This increase was due primarily to the accrual of withholding tax and FIN 48 income tax expenses.

Net income from discontinued operations. We recorded net income from discontinued operations of RMB25.5 million (US\$4.1 million) for the year ended December 31, 2014 and RMB10.8 million for the year ended December 31, 2013. The net income from discontinued operations was attributable to income generated from Chang'an Hospital and WHT and we will not record net income from discontinued operations in fiscal year 2015.

Net Income. As a result of the foregoing, our net income increased by 31.9% to RMB120.3 million (US\$19.4 million) for the year ended December 31, 2014 from RMB91.2 million for the year ended December 31, 2013.

Year Ended December 31, 2013 Compared to the Year Ended December 31, 2012

Total Net Revenues. Our total net revenues increased by 23.6% to RMB563.1 million for the year ended December 31, 2013 from RMB455.7 million for the year ended December 31, 2012, primarily because of contribution from newly opened centers.

Cost of Revenues. Total cost of revenues increased by 32.3% to RMB217.7 million for the year ended December 31, 2013 from RMB164.5 million for the year ended December 31, 2012. This increase was primarily due to the increase of depreciation expenses in relation to our new centers.

Gross Profit and Gross Margin. As a result of the foregoing, our gross profit increased by 18.7% to RMB345.5 million for the year ended December 31, 2013 from RMB291.1 million for the year ended December 31, 2012. Our gross margin decreased to 61.3% for the year ended December 31, 2013 from 63.9% for the year ended December 31, 2012 primarily due to the increase of depreciation expenses.

Operating Expenses. Our operating expenses increased by 73.2% to RMB189.2 million for the year ended December 31, 2013 from RMB109.2 million for the year ended December 31, 2012 primarily due to the increase of selling expenses and general and administrative expenses.

Selling Expenses. Our selling expenses increased by 94.1% to RMB104.7 million for the year ended December 31, 2013 from RMB53.9 million for the year ended December 31, 2012. This increase in our selling expenses was primarily due to a significant increase in advertising and travel expenses.

General and Administrative Expenses. Our general and administrative expenses increased by 38.3% to RMB84.5 million for the year ended December 31, 2013 from RMB61.1 million for the year ended December 31, 2012. This increase was primarily due to the increase of compensation expenses.

Operating Income. As a result of the foregoing, our operating income was RMB156.3 million for the year ended December 31, 2013 as compared to RMB181.9 million for the year ended December 31, 2012.

Interest Expense. Our interest expense increased significantly to RMB36.9 million for the year ended December 31, 2013 from RMB12.5 million for the year ended December 31, 2012, mainly due to the increase of bank borrowing during the year.

Foreign Exchange Loss/Gain. Our foreign exchange gain was RMB0.8 million for the year ended December 31, 2013 as compared to a net loss of RMB0.1 million for the year ended December 31, 2012 primarily due to the changes of foreign exchange rate during the year.

Interest Income. Our interest income increased significantly to RMB9.8 million for the year ended December 31, 2013 from RMB5.9 million for the year ended December 31, 2012. This increase was due primarily to the RMB138.1 million increase of restricted cash deposited in bank for loans.

Income Tax Expenses. Our income tax expense increased by 17.7% to RMB63.8 million for the year ended December 31, 2013 from RMB54.2 million for the year ended December 31, 2012. This increase was due primarily to the accrual of withholding tax and FIN 48 income tax expenses.

Net income from discontinued operations. We recorded net income from discontinued operations of RMB10.8 million for the year ended December 31, 2013 and RMB7.6 million for the year ended December 31, 2012. The net income from discontinued operations was attributable to income generated from Chang'an Hospital and WHT and we will not record net income from discontinued operations in fiscal year 2015.

Net Income. As a result of the foregoing, our net income decreased by 32.2% to RMB91.2 million for the year ended December 31, 2013 from RMB134.5 million for the year ended December 31, 2012.

B. Liquidity and Capital Resources

Our liquidity needs include (i) net cash used in operating activities that consists of (a) cash required to fund the initial build-out and continued expansion of our network and (b) our working capital needs, which include payment of our operating expenses and financing of our accounts receivable; and (ii) net cash used in investing activities that consists of the investments in our direct investment entities. To date, we have financed our operations primarily through cash flows from operations and short- and long-term bank borrowings, as well as the issuance of convertible notes and contingently redeemable convertible preferred shares and more recently through the proceeds from our initial public offering.

We had net current assets of RMB693.9 million (US\$111.8 million) as of December 31, 2014. As of December 31, 2014, we had RMB478.7 million (US\$77.2 million) in cash, RMB322.1 million (US\$51.9 million) in short-term borrowings outstanding, of which RMB307.1 million (US\$49.5 million) was secured by restricted cash deposited in local banks, and RMB581.7 million (US\$93.8 million) in long-term borrowings outstanding, including the current portion of such long-term borrowings outstanding of which RMB152.5 million (US\$24.6 million) was secured by restricted cash deposited in local banks. We believe that our current cash and anticipated cash flow from operations will be sufficient to meet our anticipated cash needs, including our cash needs for working capital and capital expenditures, for at least the next 12 months.

In September 2013, Medstar (Shanghai) Leasing Co., Ltd, or Shanghai Medstar entered into a short-term loan agreement of RMB15.0 million with HSBC Bank (China) Company Limited. The borrowings contained restrictive covenants requiring the maintenance of tangible net worth of RMB600.0 million and RMB1,350.0 million by Shenzhen Aohua Medical Services Company Limited, or Aohua Medical and Concord Medical Services Holdings Limited, a total liability to tangible net worth ratio, as calculated based on PRC generally accepted accounting principles, of 0.7 times at all time by Shanghai Medstar, a total liability and contingent liability to tangible net worth ratio, as calculated based on PRC generally accepted accounting principles, of 0.5 times, 0.5 times and 0.55 times by Shanghai Medstar, Aohua Medical and Concord Medical Services Holdings Limited and a total loan to tangible net worth ratio, as calculated based on PRC generally accepted accounting principles, of 0.7 times at all time by Shanghai Medstar.

In December 2012 and November 2013, Concord Medical Services Holdings Limited entered into a short-term loan agreement of USD16.5 million and USD16.5 million with HSBC Bank (Hong Kong) Company Limited, respectively, secured by restricted cash deposited in HSBC Bank (China) Company Limited, which are used for the investment of MD Anderson Cancer Center Proton Therapy Center. The loans are with interest rate of LIBOR +1.75% and LIBOR +1%, respective, and have been renewed on a yearly basis.

In September 2014, Concord Medical Services Holdings Limited entered into a long-term loan agreement with HSBC Bank (Hong Kong) Company Limited, whereby we are entitled to borrow a loan of US\$25 million. We drew down of USD12.1 million, a long-term loan agreement of USD3.9 million and a long-term loan agreement of USD1.0 million, in September 2014, October 2014 and December 2014, respectively, the loans were secured by restricted cash deposited in HSBC Bank (China) Company Limited for dividend payment that bearing an interest rate of LIBOR/HIBOR+1%, and were used to pay dividend. As of December 31, 2014, we had an outstanding balance of US\$17.0 million, which will be due in September 2016.

In July 2014, Aohua Medical entered into a long-term loan agreement of RMB66.0 million with China Construction Bank Limited that bearing an interest rate of 6.75%. As of December 31, 2014, we had an outstanding balance of RMB66.0 million, which will be due in July 2017.

In July 2013, Cyber entered in to a long-term agreement with Ping'an Bank for general working capital purpose, we drew down US\$3.0million and US\$4.6 million in July and September 2013, respectively, with a term of two years and fixed annual interest rate of 3.11%. As of December 31, 2014, we had an outstanding balance of US\$7.6 million, of which US\$3.0 million will be due in July 2015 and US\$4.6 million in September 2015, respectively.

In December 2012, Ascendium Group Limited entered into a short-term loan agreement with Agricultural Bank Of China Limited, Hong Kong Branch, whereby we are entitled to borrow a secured loan of US\$18.0 million for general working capital purposes. We drew down US\$16.5.0 million in December 2012 under the loan commitment, with a floating annual interest rate of LIBOR/HIBOR +1.4%. As of December 2013, we had renewed the term of the loan agreement to maximum up to 3 years with a floating annual interest rate of LIBOR/HIBOR +2%. As of December 31, 2014, we had an outstanding balance of US\$16.5 million, which will be due in December 2016.

IFC loan

On February 18, 2014, we borrowed from International Finance Corporation ("IFC") a loan of a principal amount of US\$20 million which is repayable on October 15, 2018 and April 15, 2019 by two equal installments. The loan gives IFC the right to convert

[Table of Contents](#)

the loan in whole or in part, at any time prior to the fifth anniversary of the date of the disbursement of the loan, into ADSs of our Company at the conversion price in effect at such time. The conversion price is initially set at US\$6.90 per ADS subject to adjustments as set forth in the loan agreement. The conversion and other features (i.e. the redemption option upon certain contingencies, step down interest feature), which are not clearly and closely related to the debt host contract, are bifurcated and accounted for as a compound derivative.

At inception, the fair value of the host debt instrument amounted to RMB87.8 million (US\$14.1 million) was recorded as a long term bank borrowing in the consolidated balance sheet. The host debt instrument is accreted to the redemption value on the maturity date using the effective interest method. The compound derivatives are accounted for as a liability at fair value for each reporting period.

The following table sets forth a summary of our cash flows for the periods indicated:

	Year Ended December 31,			
	2012 RMB (in thousands)	2013 RMB	2014 RMB	US\$
Selected Consolidated Statements of Cash Flow Data				
Net cash generated from operating activities	259,515	259,033	490,381	79,036
Net cash (used in) generated investing activities (1)	(659,290)	(133,540)	287,055	46,265
Net cash generated from (used in) financing activities	255,932	77,722	(579,144)	(93,341)
Exchange rate effect on cash	147	4,436	(2,643)	(427)
Net (decrease) increase in cash	(143,696)	207,651	195,649	31,533
Cash at beginning of the year	219,078	75,382	283,033	45,617
Cash at end of the year	75,382	283,033	478,682	77,150

(1) Net cash used in investing activities in 2012 and 2013 included acquisitions, net of cash acquired, of RMB223.4 million and nil, respectively. Net cash generated from investing activities in 2014 includes disposals, net of cash disposed, of RMB280.1 million.

Net Cash Generated from Operating Activities

The primary factors affecting our operating cash flow is the amount and timing of payments of our contractual percentage of each center's revenue net of specified operating expenses that we received from our hospital partners and cash payments that we made in connection with establishing new centers.

Net cash generated from operating activities was RMB490.3 million (US\$79.0 million) for the year ended December 31, 2014 consisting primarily of cash received from hospital partners.

Net cash generated from operating activities was RMB259.0 million for the year ended December 31, 2013 consisting primarily of cash received from hospital partners.

Net cash generated from operating activities was RMB259.5 million for the year ended December 31, 2012 consisting primarily of cash received from hospital partners.

Net Cash (Used in) Generated From Investing Activities

Net cash generated from investing activities for the year ended December 31, 2014 was RMB 287.1 million (US\$46.3 million), consisting primarily of cash generated from disposal of Chang'an Hospital and WHT.

Net cash used in investing activities for the year ended December 31, 2013 was RMB133.5 million consisting primarily of acquisition of property, plant and equipment and deposit for property, plant and equipment.

Net cash used in investing activities for the year ended December 31, 2012 was RMB659.3 million consisting primarily of (i) investment in equity method investments of RMB228.7 million mainly in connection with the acquisition of The University of Texas MD Anderson Cancer Center Proton Therapy Center, (ii) acquisitions and net of cash acquired of RMB223.4 million mainly in connection with the acquisition of Chang'an Hospital, (iii) deposits paid for purchase of non-current assets of RMB218.8 million mainly in connection with purchase of equipment, and (iv) net investment in direct financing leases of RMB115.4 million.

Net Cash Generated from (Used in) Financing Activities

Net cash used in financial activities for the year ended December 31, 2014 was RMB579.1 million (US\$93.3 million), primarily consisting (i) dividends paid to ordinary shareholders of RMB453.6 million (US\$73.1 million) and repayment of long-term and short term bank borrowings of RMB383.9 million (US\$61.9 million), which was partially offset by proceeds received from long-term bank borrowings of RMB291.9 million (US\$47.0 million).

Net cash generated from financing activities for the year ended December 31, 2013 was RMB77.7 million. Net cash generated from financing activities for the year ended December 31, 2013 was due primarily to bank borrowing.

Net cash generated from financing activities for the year ended December 31, 2012 was RMB255.9 million. Net cash generated from financing activities for the year ended December 31, 2012 was due primarily to (i) proceeds from long-term bank borrowings of RMB518.7 million and (ii) proceeds from short-term bank borrowings of RMB258.1 million, which was partially offset by (i) increase in restricted cash of RMB259.5 million as bank deposit (ii) repayment of long-term bank borrowings of RMB112.6 million and (iii) Increase in loan to a non-controlling interest of a subsidiary of RMB100.0 million.

Acquisitions and Capital Expenditures

In June 2012, we acquired 52% of the equity interest in Chang'an Hospital for a total cash consideration of approximately RMB248.8 million.

In December 2012, we acquired 19.98% of equity interest in The University of Texas MD Anderson Cancer Center Proton Therapy Center for a total consideration of approximately RMB201.2 million.

In 2012, 2013 and 2014, our capital expenditures totaled RMB284.7 million, RMB148.6 million and RMB109.9 million (US\$17.7 million), respectively. In past years, our capital expenditures related primarily to the purchase of medical equipment and the acquisition of assets from third parties. Our capital expenditure in 2014 consisted primarily of medical equipment, and decreased by RMB38.7 million as compared to 2013 because we opened fewer centers in 2014.

We estimate that our expected aggregate capital expenditures in 2015 will be approximately RMB300 million to RMB500 million, which we will use mainly for the continued expansion of our network of radiotherapy and diagnostic imaging centers, including for the establishment of free-standing radiotherapy cancer centers and our premium specialty cancer hospitals.

We believe that our current levels of cash and cash flows from operations will be sufficient to meet our anticipated cash needs for at least the next 12 months. However, we may need additional cash resources in the future if we experience changed business conditions or other developments or if we find and wish to pursue opportunities for investment, acquisition, strategic cooperation or other similar actions. If we ever determine that our cash requirements exceed our amounts of cash on hand, we may seek to issue debt or equity securities or obtain a credit facility. Any issuance of equity or equity-linked securities could cause dilution for our shareholders. Any incurrence of indebtedness could increase our debt service obligations and cause us to be subject to restrictive operating and finance covenants. It is possible that, when we need additional cash resources, financing will only be available to us in amounts or on terms that would not be acceptable to us or financing will not be available at all.

Recent accounting pronouncement

In April 2014, the Financial Accounting Standards Board ("FASB") issued ASU No. 2014-08, "Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity" ("ASU 2014-08"). The new guidance changes the criteria for reporting discontinued operations while enhancing disclosures in this area. Under the new guidance, only disposals representing a strategic shift in operations should be presented as discontinued operations. Those strategic shifts should have a major effect on the organization's operations and financial results. Additionally, ASU 2014-08 requires expanded disclosures about discontinued operations that will provide financial statement users with more information about the assets, liabilities, income, and expenses of discontinued operations. The new guidance also requires disclosure of the pre-tax income attributable to a disposal of a significant part of an organization that does not qualify for discontinued operations reporting. ASU 2014-08 is effective for us in the first quarter of fiscal 2015. We have early adopted the standard in the year ended December 31, 2014.

[Table of Contents](#)

In May 2014, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2014-09 (“ASU 2014-09”), Revenue from Contracts with Customers. ASU 2014-09 supersedes the revenue recognition requirements in ASC 605, and requires entities to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early adoption is not permitted. We are currently in the process of evaluating the impact of the adoption of ASU 2014-09 on the consolidated financial statements.

In August 2014, the FASB issued ASU 2014-15, Presentation of Financial Statements—Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern. The guidance requires an entity to evaluate whether there are conditions or events, in the aggregate, that raise substantial doubt about the entity’s ability to continue as a going concern within one year after the date that the financial statements are issued and to provide related footnote disclosures in certain circumstances. The guidance is effective for the annual period ending after December 15, 2016, and for annual and interim periods thereafter. Early application is permitted. The adoption of this guidance is not expected to have a significant impact on our consolidated financial statements.

C. [Research and Development](#)

We do not make, and do not expect to make, significant expenditures on research and development activities.

Intellectual Property

We have applied to the PRC Trademark Office of the State Administration for Industry and Commerce for and obtained the registration of our trademark “Medstar” in October 2009 and in total other nine trademarks, including “Concord Medical”, in 2012, 2013 and 2014, to protect our corporate name. We also own the rights to 178 domain names that we use in connection with the operation of our business. Many of the domain names that we own include domain names in Chinese that contain relevant key words associated with various types of cancer, radiotherapy, gamma knife systems, linear accelerators or other medical equipment used or treatments and services provided in our network. We believe that such domain names provide us with the opportunity to enhance our marketing efforts for the treatments and services provided in our network and enhance patients’ knowledge as to cancers, the benefits of radiotherapy and the various treatment options that are available. Other than the use of our trademark and domain names, our business generally is not directly dependent upon any patents, licensed technology or other intellectual property. However, we cannot be certain that the equipment manufacturers from which we purchase equipment have all requisite third-party consents and licenses for the intellectual property used in the equipment they manufacture. As a result, those equipment manufacturers may be exposed to risks associated with intellectual property infringement and misappropriation claims by third parties which, in turn, may subject us to claims that the equipment we have purchased infringes the intellectual property rights of third parties. See “Item 3. Key Information—D. Risk Factors—Risk Related to Our Company—We may fail to protect our intellectual property rights or we may be exposed to misappropriation and infringement claims by third parties, either of which may have a material adverse effect as to our business.” As we begin to operate specialty cancer hospitals under our own brand name in the future and as our brand name gains more recognition among the general public, we will work to increase, maintain and enforce our rights in our trademark portfolio, the protection of which is important to our reputation and branding strategy and the continued growth of our business.

D. [Trend Information](#)

Other than as disclosed elsewhere in this annual report, we are not aware of any trends, uncertainties, demands, commitments or events since January 1, 2012 that are reasonably likely to have a material adverse effect on our net revenues, income, profitability, liquidity or capital resources, or that caused the disclosed financial information to be not necessarily indicative of our future operating results or financial condition.

E. [Off Balance Sheet Arrangements](#)

We do not engage in trading activities involving non-exchange traded contracts or interest rate swap transactions or foreign currency forward contracts. In the ordinary course of our business, we do not enter into transactions involving, or otherwise form relationships with, unconsolidated entities or financial partnerships that are established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

F. Tabular Disclosure of Contractual Obligations

The following table sets forth our contractual obligations and commercial commitments as of December 31, 2014:

	<u>Total</u>	<u>Less than 1 year</u>	<u>1-3 years</u>	<u>More than 3</u>
	<u>RMB</u>	<u>RMB</u>	<u>RMB</u>	<u>years</u>
		(in thousands)		<u>RMB</u>
Long-term debt obligations	581,712	246,233	245,930	89,549
Capital lease obligations	400	—	—	400
Operating lease obligations	73,419	9,845	7,574	56,000
Purchase obligations	30,663	30,663	—	—
Total	685,794	286,741	253,504	145,549

Our short- and long-term debt obligations as of December 31, 2014 represent bank borrowings obtained by our subsidiaries. Our short-term bank borrowing outstanding as of December 31, 2014 had a weighted average interest rate of 1.96 % per annum. Our long-term bank borrowing outstanding as of December 31, 2014 had a weighted average interest rate of 3.91% per annum.

As of December 31, 2014, we had RMB322.1 million (US\$51.9 million) in short-term borrowings outstanding, of which RMB307.1 million (US\$49.5 million) was secured by restricted cash deposited in local banks, and RMB581.7 million (US\$93.8 million) in long-term borrowings outstanding, of which RMB152.5 million (US\$24.6 million) was secured by restricted cash deposited in local bank, including the current portion of such long-term borrowings outstanding.

As of December 31, 2014, our operating lease obligations for 2015, 2016, 2017 and 2018 and thereafter are RMB9.8 million (US\$1.6 million), RMB4.1 million (US\$0.7 million), RMB3.5 million (US\$0.6 million) and RMB56.0 million (US\$9.0 million) respectively.

As of December 31, 2014, we had purchase obligations for certain medical equipment that amounted to RMB30.7 million (US\$4.9 million), which are all scheduled to be paid within one year.

G. Safe Harbor

This annual report contains forward looking statements that relate to future events, including our future operating results and conditions, our prospects and our future financial performance and condition, all of which are largely based on our current expectations and projections. The forward looking statements are contained principally in the sections entitled “Item 3. Key Information—D. Risk Factors,” “Item 4. Information on the Company” and “Item 5. Operating and Financial Review and Prospects.” These statements are made under the “safe harbor” provisions of the U.S. Private Securities Litigation Reform Act of 1995. You can identify these forward looking statements by terminology such as “may,” “will,” “expect,” “anticipate,” “future,” “intend,” “plan,” “believe,” “estimate,” “is/are likely to” or other and similar expressions. We have based these forward looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. These forward looking statements include, among other things, statements relating to:

- the risks, challenges and uncertainties in the radiotherapy and diagnostic imaging industry and for our business generally;
- our current expansion strategy, including our ability to expand our network of centers and to establish specialty cancer hospitals;
- our ability to maintain strong working relationships with our hospital partners;
- our expectations regarding patients’ and their referring doctors’ demand for and acceptance of the radiotherapy and diagnostic imaging services offered by our centers;

[Table of Contents](#)

- changes in the healthcare industry in China, including changes in the healthcare policies and regulations of the PRC government;
- technological or therapeutic changes affecting the field of cancer treatment and diagnostic imaging;
- our ability to comply with all relevant environmental, health and safety laws and regulations;
- our ability to obtain and maintain permits, licenses and registrations to carry on our business;
- our future prospects, business development, results of operations and financial condition; and
- fluctuations in general economic and business conditions in China.

The forward looking statements made in this annual report relate only to events or information as of the date on which the statements are made in this annual report. Except as required by law, we undertake no obligation to update or revise publicly any forward looking statements, whether as a result of new information, future events or otherwise, after the date on which the statements are made or to reflect the occurrence of unanticipated events. You should read this annual report completely and with the understanding that our actual future results may be materially different from what we expect.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. Directors and Senior Management

Directors and Executive Officers

The following table sets forth information regarding our directors and executive officers as of the date of this annual report.

Name	Age	Position/ Title
Jianyu Yang	43	Chairman, chief executive officer
Zheng Cheng	51	Director and president
Jing Zhang	50	Chief operating officer
Yaw Kong Yap	50	Chief financial officer
Adam Jigang Sun	47	Chief investment officer
Zhe Yin	40	Director
Tian Ji	33	Director
Denny Lee	47	Independent director
Weibo Yin	83	Independent director
Yongjun Li	46	Independent director

Dr. Jianyu Yang has served as our chairman since November 2011 and has served as our chief executive officer since 2008. He served as a director of our company and president from 2008 to 2011. Prior to joining our company, Dr. Yang served as chief executive officer of Eguard Resource Development Co., Ltd., a PRC company listed on the Shenzhen Stock Exchange in China principally engaged in the provision of comprehensive solutions in recycling, re-use of solid wastes and wastewater since 2003, vice president of Beijing Sound Environmental Group Co. Ltd. from 2002 to 2003, assistant to the general manager of Xiangcai Securities Co., Ltd. from 2000 to 2002, and senior economist at China Agricultural Bank from 1999 to 2000. Dr. Yang received a doctorate degree in economics from Liaoning University in 1999 in China.

Dr. Zheng Cheng has served as our president since November 2011 and had served as our chief operating officer from 2008 until March 2015, and remains to be a director. He served as co-chairman of the board from 2008 to 2011. Dr. Cheng was a co-founder of China Medstar. Prior to founding China Medstar in 1996, Dr. Cheng served as division chief of steel products of China National Defense Military Material General Company from 1992 to 1996 and military physician in the Department of Cerebral Surgery of the Beijing Air Force General Hospital from 1986 to 1992 and in the No. 1 Field Clinic of Yunnan Laoshan Frontier in 1986. Dr. Cheng received his bachelor's degree in clinical neurosurgery from the First Military Medical University of the People's Liberation Army of China in 1986. Dr. Cheng is a qualified clinical surgeon in China.

[Table of Contents](#)

Mr. Jing Zhang had served as our chief administrative officer from November 2011 until March 2015 and has been serving as our chief operating officer since then. He served as a director and executive president from 2008 to 2011. Mr. Zhang was a co-founder of China Medstar. Prior to founding China Medstar in 1996, Mr. Zhang was in charge of research and development at the Institute of Chemistry of Beijing Timber General Co., Ltd. from 1987 to 1996. Mr. Zhang received a bachelor's degree in polymer chemistry from the Beijing Institute of Chemical Technology in 1987.

Mr. Yaw Kong Yap had served as a senior vice president from 2008 until July 2014 and has been serving as our chief financial officer since then. He served as a director and financial controller of our company from 2008 to 2011. Mr. Yap joined China Medstar in 2005 and served as its chief financial officer prior to our acquisition of China Medstar. Prior to joining China Medstar, Mr. Yap served as the chief executive officer of Advanced Produce Centre Development Pte, Ltd., a Singapore real estate company, from 2003 to 2005, the chief financial officer of Global Fruits Pte Limited from 1999 to 2003, the regional financial controller of America Air Filtration Asia from 1996 to 1998 and the financial controller of Chevalier International (USA) Ltd. from 1991 to 1996. Mr. Yap received a bachelor's degree from Indiana University of Pennsylvania in the United States in 1990. Mr. Yap is Certified Public Accountant in the United States.

Mr. Adam Jigang Sun had served as our chief financial officer from September 2011 until July 2014 and has been serving as our chief investment officer since then. Prior to joining our company, Mr. Sun was the chief financial officer of a subsidiary of Asia Pacific Medical Group from January to September 2011. Mr. Sun was the vice president of corporate development of China Ritar Power Corp., a publicly traded battery manufacturer in 2010. Mr. Sun served as the chief financial officer of Shijiazhuang Gongda Chemical Engineering Equipment Co., Ltd. from 2008 to 2010. Mr. Sun co-founded IA Exchange, Inc., a financial advisory firm in 2004, and led the company till 2008. Mr. Sun received his master of business administration degree from the University of Chicago Booth School of Business in 1998 and his bachelor of arts degree in English from China Foreign Affairs College in 1990.

Mr. Zhe Yin has served as a director of our company since December 2013. Mr. Yin is currently a co-founder and has been the director and vice president of Noah Holdings Limited since 2005. Mr. Yin was the deputy general manager of the wealth management department at Xiangcai Securities from November 2003 to September 2005. Prior to that, Mr. Yin worked at Bank of Communications of China from July 1997 to November 2003 as a wealth and product manager. Mr. Yin received his bachelor's degree in economics from Shanghai University of Finance and Economics in 1997 and received an Executive MBA degree from China Europe International Business School.

Mr. Tian Ji has served as a director of our company since December 2013. Mr. Ji is currently the partner of Wisdomont Asset Management which is a private equity firm focusing on healthcare investment. From 2012 to 2013, Mr. Ji was managing director and deputy general manager of Gopher Asset Management. Before joining Gopher Asset, Mr. Ji was the head of managed accounts department of AXA SPDB Investment Managers. From 2009 to 2011, Mr. Ji worked in at Wanjia Asset Management, covering equity research and macro economy research. From 2006 to 2009, Mr. Ji worked at the equity derivatives department of ABN AMRO Bank. Mr. Ji received a master degree of business management in Fudan Management School and a bachelor degree of mathematics in Fudan University. Mr. Ji is a holder of Chartered Financial Analyst (CFA).

Mr Denny Lee has served as an independent non-executive director of our company since December 2009. Mr Lee currently serves as an independent non-executive director on the board of Netease.com Inc, one of the China's leading internet and online game service providers, which is listed on the NASDAQ Global Select Market. Mr Lee was the chief financial officer of Netease.com Inc., from 2002 to 2007. Prior to joining Netease.com Inc, Mr Lee worked in the Hong Kong office of KPMG for more than ten years. Mr Lee also serves as independent non-executive director and the chairman of the audit committee of the following companies, Qunar Cayman Islands Limited, a Chinese search-based online travel company, which is listed on the NASDAQ Global Market; New Oriental Education & Technology Group Inc., the provider of private education services in China, which is listed on the New York Stock Exchange; and China Metal Resources Utilization Limited, a company listed on the Main Board of the Hong Kong Stock Exchange. Mr Lee graduated from the Hong Kong Polytechnic University and was awarded the Professional Diploma in Accounting in November 1990. He is a fellow of The Chartered Association of Certified Accountants and an associate member of The Hong Kong Institute of Certified Public Accountants.

Dr. Weibo Yin has served as an independent director since November 2011. He is the Honorary President of Chinese Society of Radiation Oncology and a board member of the International Congress of Radiation Oncology. Dr. Yin has served various positions such as professor emeritus, professor, associate professor and resident doctor in Cancer Hospital of Chinese Academy of Medical Sciences and Peking Union Medical University since 1957. In addition, Dr. Yin has published 155 research papers on radiation oncology, in 32 of which he was the first author. Dr. Yin received his M.D. degree from Peking Union Medical University in 1957.

Mr. Yongjun Li has served as an independent director since December 2013. Mr. Li is currently the Chair of Department of Public Policy in Peking University, a position he has held since 2008. Mr. Li is also the Associate Professor of School of Government in Peking University. Mr. Li was the Lecturer of School of Government in Peking University from 2002 to 2004 and received a Ph.D. in Economics from Peking University in 2002.

The address of our directors and executive officers is Concord Medical Services Holdings Limited, 18/F, Tower A, Global Trade Center, 36 North Third Ring Road East, Dongcheng District, Beijing, People's Republic of China, 100013.

B. Compensation

Compensation of Directors and Executive Officers

In 2014, the aggregate cash compensation to all of our directors and our executive officers was RMB4.8 million (US\$0.8 million). For share-based compensation, see “—Share Incentive Plans.” We did not have any amount accrued in 2014 for pension, retirement or other similar benefits to our directors and our executive officers.

Share Incentive Plans

OMS Share Option Plan

On November 17, 2007, OMS, the predecessor of our company, adopted a share option plan, or the OMS option plan, pursuant to which OMS granted to three of its executive directors, Mr. Haifeng Liu, Mr. Jianyu Yang and Mr. Steve Sun, or the OMS grantees, options to purchase a total of up to 25,000,000 ordinary shares, or the OMS share options, to purchase the ordinary shares of OMS at an exercise price of US\$0.80 per share, which the board of OMS determined to become vested upon the satisfaction of a number of performance conditions that related to the completion of the OMS reorganization, achievement of net profit target of OMS, and the raising of new financing. The OMS share options were exercisable from the date of completion of the 2007 audited consolidated financial statements of OMS to December 31, 2008 and were transferrable to any individuals designated by the OMS grantees.

On August 18, 2008, the board of directors of OMS contemplated that the OMS grantees had achieved certain performance conditions outlined in the OMS option plan. However, as the capital structure of our company had changed at that time such that we had replaced OMS as the ultimate holding company of our subsidiaries, the board of directors of OMS resolved that the OMS option plan would be settled in vested options to purchase 21,184,600 ordinary shares to purchase shares of our company, with each option having an exercise price of US\$0.79 exercisable before December 31, 2008. On the same day, two of the OMS grantees, Mr. Jianyu Yang and Mr. Steve Sun, exercised their respective options to purchase an aggregate of 6,355,400 ordinary shares of our company, with total proceeds from such exercise received by us amounting to approximately RMB34.4 million. We recorded share-based compensation expense of approximately RMB49.5 million in 2007 related to these options granted, which was recorded in general and administrative expenses. The third OMS grantee, Mr. Haifeng Liu, sold all of his vested options to purchase 14,829,200 ordinary shares of our company to three former directors of China Medstar who are now our directors and executive officers as employment incentive for such directors. The three executive directors subsequently exercised the vested options with total proceeds from such exercise received by us amounting to approximately US\$11.7 million. Given the transfer of the OMS share options to the three directors was provided as an employment incentive, we recorded additional share-based compensation expense of approximately RMB4.2 million in 2008, which was recorded in general and administrative expenses.

2008 Share Incentive Plan

The 2008 share incentive plan was adopted by our shareholders on October 16, 2008 and amended on November 17, 2009 to increase the number of ordinary shares available for grant under the plan. Our share incentive plan provides for the grant of options, share appreciation rights, or other share-based awards, referred to as “awards.” The purpose of the plan is to aid us in recruiting and retaining key employees, directors or consultants and to motivate such persons to exert their best efforts on behalf of our company by providing incentives through the granting of awards. Our board of directors believes that our company will benefit from the added interest that such persons will have in the welfare of the company as a result of their proprietary interest in the company’s success.

Termination of Awards. Options have specified terms set forth in a share option agreement. If the recipient’s employment with the company is terminated for any reason, the recipient’s vested options shall remain exercisable subject to the provisions of the plan and the option agreement and the recipient’s unvested options shall terminate without consideration. If the options are not exercised or purchased by the last day of the exercise period, they will terminate.

Administration. Our 2008 share incentive plan is currently administered by the compensation committee of our board of directors. Our board of directors or the compensation committee is authorized to interpret the plan, to establish, amend and rescind any rules and regulations relating to the plan, and to make any other determinations that it deems necessary or desirable for the administration of the plan. Our board of directors or the compensation committee will determine the provisions, terms and conditions of each award consistent with the provisions of the plan, including, but not limited to, the exercise price for an option, vesting schedule, forfeiture provisions, form of payment of exercise price and other applicable terms.

Option Exercise. of options granted under the 2008 share incentive plan may not exceed eight years from the date of grant. The consideration to be paid for our ordinary shares upon exercise of an option or purchase of shares underlying the option may include cash, check or other cash-equivalent, consideration received by us in a cashless exercise and, to the extent permitted by our board of directors or the compensation committee and subject to the provisions of the option agreement, ordinary shares or a combination of ordinary shares and cash or cash-equivalent.

Change in Control. If a third-party acquires us through the purchase of all or substantially all of our assets, a merger or other business combination or if during any two consecutive year period individuals who at the beginning of such period constituted the board of directors cease for any reason to constitute a majority of our board of directors, then, if so determined by our board of directors or the compensation committee with respect to the applicable award agreement or otherwise, any outstanding awards that are unexercisable or otherwise unvested or subject to lapse restrictions will automatically be deemed exercisable or otherwise vested or no longer subject to lapse restrictions, as the case may be, as of immediately prior to such change in control. Our board of directors or the compensation committee may also, in its sole discretion, decide to cancel such awards for fair value, provide for the issuance of substitute awards that will substantially preserve the otherwise applicable terms of any affected awards previously granted, or provide that affected options will be exercisable for a period of at least 15 days prior to the change in control but not thereafter.

Amendment and Termination of Plan. Our board of directors may at any time amend, alter or discontinue our 2008 share incentive plan. Amendments or alterations to our 2008 share incentive plan are subject to shareholder approval if they increase the total number of shares reserved for the purposes of the plan or change the maximum number of shares for which awards may be granted to any participant. Any amendment, alteration or termination of our 2008 share incentive plan must not adversely affect awards already granted without written consent of the recipient of such awards. Unless terminated earlier, our 2008 share incentive plan will continue in effect for a term of ten years from the date of its adoption.

Our board of directors and shareholders authorized the issuance of up to 4,765,800 ordinary shares upon exercise of awards granted under our 2008 share incentive plan upon the adoption of the plan. On November 26, 2011, the board of directors and the shareholders authorized the issuance of additional 5,101,968 ordinary shares under the 2008 share incentive plan. On November 27, 2009 and September 30, 2011, we granted options to purchase 4,765,800 ordinary shares at an exercise price of US\$3.67 and US\$2.17 per share, respectively, of which options to purchase an aggregate of 1,716,500 ordinary shares were granted to our executive officers and directors, including 288,700 ordinary shares to Mr. Jianyu Yang, 288,700 ordinary shares to Mr. Zheng Cheng, 264,400 ordinary shares to Mr. Steve Sun, 250,000 ordinary shares to Mr. Jing Zhang, 230,000 ordinary shares to Mr. Yaw Kong Yap, 264,400 ordinary shares to Mr. Boxun Zhang, 130,300 ordinary shares to Mr. Denny Lee and 355,884 ordinary shares to Mr. Jigang Sun, and the remainder to other employees. On February 18, 2014, we granted options to purchase 3,479,604 ordinary shares at an exercise price of US\$2.037, of which options to purchase an aggregate of 2,439,126 ordinary shares were granted to our executive officers and directors, including 716,310 ordinary shares to Mr. Jiangyu Yang, 716,310 ordinary shares to Mr. Zheng Cheng, 275,250 ordinary shares to Mr. Jing Zhang, 225,204 ordinary shares to Mr. Yaw Kong Yap, 116,283 ordinary shares to Mr. Denny Lee, 69,771 ordinary shares to Mr. Weibo Yin, 69,771 ordinary shares to Mr. Yongjun Li, and 250, 227 ordinary shares to Mr. Adam Jigang Sun, and the remainder to other employees. Such options have an exercise price equal to the price per ordinary share of our initial public offering and are subject to a four-year vesting schedule with 25% vesting on each of the first, second, third and fourth anniversary of the grant date, and will terminate no later than eight years from their grant date. On February 18, 2014, July 1, 2014 and August 1, 2014, we granted 1,370,250, 21,132 and 69,564 restricted shares, respectively, of which 116,223 restricted shares to Mr. Jing Zhang, 116,223 restricted shares to Mr. Yaw Kong Yap, 105,657 restricted shares to Mr. Adam Jigang Sun and 1,122,843 restricted shares to other employees. Such restricted shares are subject to a four-year vesting schedule with 25% vesting on each of the first, second, third and fourth anniversary of the grant date, and will terminate no later than eight years from their grant date.

[Table of Contents](#)

The following table summarizes, as of December 31, 2014, the outstanding options and restricted shares granted to our directors and executive officers and other individuals as a group.

Name	Ordinary Shares Underlying Outstanding Options	Exercise Price Underlying Outstanding Options (US\$/Share)	Restricted Shares	Grant Date	Expiration Date
Mr. Jianyu Yang	288,700	3.7	—	November 27, 2009	November 26, 2017
	716,310	2.037	—	February 18, 2014	February 17, 2022
Mr. Zheng Cheng	288,700	3.7	—	November 27, 2009	November 26, 2017
	716,310	2.037	—	February 18, 2014	February 17, 2022
Mr. Jing Zhang	250,000	3.7	—	November 27, 2009	November 26, 2017
	275,250	2.037	—	February 18, 2014	February 17, 2022
	—	—	116,223	February 18, 2014	February 17, 2022
Mr. Yaw Kong Yap	230,000	3.7	—	November 27, 2009	November 26, 2017
	225,204	2.037	—	February 18, 2014	February 17, 2022
	—	—	95,091	February 18, 2014	February 17, 2022
	—	—	21,132	July 1, 2014	June 30, 2022
Mr. Denny Lee	130,300	3.7	—	November 27, 2009	November 26, 2017
	116,283	2.037	—	February 18, 2014	February 17, 2022
Mr. Weibo Yin	69,771	2.037	—	February 18, 2014	February 17, 2022
Mr. Yongjun Li	69,771	2.037	—	February 18, 2014	February 17, 2022
Mr. Adam Jigang Sun	355,884	2.2	—	September 30, 2011	September 30, 2019
	250,227	2.037	—	February 18, 2014	February 17, 2022
	—	—	105,657	February 18, 2014	February 17, 2022
Other individuals as group	2,835,750	3.7	—	November 27, 2009	November 26, 2017
	1,040,478	2.037	—	February 18, 2014	February 17, 2022
	—	—	1,053,279	February 18, 2014	February 17, 2022
	—	—	69,564	August 1, 2014	July 31, 2022

C. [Board Practices](#)

Committees of the Board of Directors

Board of Directors

We currently have seven directors, including three independent directors, on our board of directors. Our board of directors consists of an audit committee and a compensation committee. We currently do not plan to establish a nominating committee. Each committee's members and functions are described below.

Audit Committee

Our audit committee consists of Mr. Denny Lee, Dr. Weibo Yin and Mr. Yongjun Li. Mr. Denny Lee is the chairman of our audit committee. Mr. Denny Lee and Mr. Yongjun Li meet the criteria of audit committee financial experts as set forth under the applicable rules of the SEC. Our board of directors has determined that each of our audit committee members satisfies the requirements for an "independent director" within the meaning of Section 303A of the NYSE Listed Company Manual and meets the criteria for independence set forth in Rule 10A-3 of the Exchange Act. Our board of directors has also determined that the simultaneous service by Mr. Denny Lee on the audit committee of three other public companies would not impair his ability to effectively serve on our audit committee. The audit committee oversees our accounting and financial reporting processes and the audits of the financial statements of our company. The audit committee is responsible for, among other things:

- selecting our independent registered public accounting firm and pre-approving all auditing and non-auditing services permitted to be performed by our independent registered public accounting firm;
- reviewing with our independent registered public accounting firm any audit problems or difficulties and management's response;
- reviewing and approving all proposed related-party transactions, as defined in Item 404 of Regulation S-K under the Securities Act;
- discussing the annual audited financial statements with management and our independent registered public accounting firm;
- reviewing major issues as to the adequacy of our internal controls and any special audit steps adopted in light of significant control deficiencies;

[Table of Contents](#)

- annually reviewing and reassessing the adequacy of our audit committee charter;
- such other matters that are specifically delegated to our audit committee by our board of directors from time to time;
- meeting separately and periodically with management and our internal auditor and independent registered public accounting firm; and
- reporting regularly to the full board of directors.

Compensation Committee

Our compensation committee consists of Mr. Jianyu Yang, Mr. Denny Lee and Mr. Yongjun Li. Mr. Jianyu Yang is the chairperson of our compensation committee. Our compensation committee assists the board in reviewing and approving the compensation structure of our directors and executive officers, including all forms of compensation to be provided to our directors and executive officers. Members of the compensation committee are not prohibited from direct involvement in determining their own compensation. Our chief executive officer may not be present at any committee meeting during which his compensation is deliberated. The compensation committee is responsible for, among other things:

- approving and overseeing the compensation package for our executive officers;
- reviewing and making recommendations to the board with respect to the compensation of our directors;
- reviewing and approving corporate goals and objectives relevant to the compensation of our chief executive officer, evaluating the performance of our chief executive officer in light of those goals and objectives, and setting the compensation level of our chief executive officer based on such evaluation; and
- reviewing periodically and making recommendations to the board regarding any long-term incentive compensation or equity plans, programs or similar arrangements, annual bonuses, employee pension and welfare benefit plans.

Duties of Directors

Under Cayman Islands law, our directors have a fiduciary duty to act honestly, in good faith and with a view to our best interests. Our directors also have a duty to exercise the skill they actually possess and such care and diligence that a reasonably prudent person would exercise in comparable circumstances. In fulfilling their duty of care to us, our directors must ensure compliance with our memorandum and articles of association, as amended and restated from time to time. A director may be liable for any loss suffered by us as a result of a breach of their fiduciary duties.

The functions and powers of our board of directors include, among others:

- convening shareholders' annual general meetings and reporting its work to shareholders at such meetings;
- declaring dividends and other distributions;
- appointing officers and determining the term of office of officers;
- exercising the borrowing powers of our company and mortgaging the property of our company; and
- approving the transfer of shares of our company, including the registration of such shares in our share register.

Terms of Directors and Executive Officers

Our executive officers are elected by and serve at the discretion of the board of directors. Our directors are not subject to a term of office and hold office until such time as they resign or are removed from office without cause by special resolution or the unanimous written resolution of all shareholders or with cause by ordinary resolution or the unanimous written resolutions of all shareholders. A director will be removed from office automatically if, among other things, the director (i) becomes bankrupt or makes any arrangement or composition with his creditors or (ii) dies or is found by our company to be or becomes of unsound mind. We have not entered into any service agreements with our directors that provide for any type of compensation upon termination.

Employment Agreements

We have entered into employment agreements with all of our executive officers. Under these agreements, each of our executive officers is employed for a non-fixed period of time. These employment agreements can be terminated in accordance with the Labor Contract Law of the PRC and other relevant regulations. Under the Labor Contract Law, we can terminate without any prior notice the employment agreement with any of our executive officers in the event that such officer's actions have resulted in material and demonstrable harm to our interest. Under certain circumstances, including where the officer has not performed as expected and, upon internal reassignment or training, still fails to be qualified for the job, we may also terminate the employment agreement with any of our executive officers upon providing 30 days notice or paying one month in severance. Our executive officer may typically terminate his or her employment at any time if we fail to provide labor protection or work conditions as stipulated in the employment agreement. The executive officers may also terminate the employment agreement at any time without cause upon 30 days notice. Usually, if we terminate the employment agreement of any of our executive officers, we have to pay them certain severance pay in proportion to their working years with us, except where such officer's actions have resulted in material and demonstrable harm to our interests, among other circumstances.

Each executive officer has agreed to hold, both during and subsequent to the terms of his or her agreement, in confidence and not to use, except in pursuance of his or her duties in connection with the employment, any of our confidential information, technological secrets, commercial secrets and know-how. Each of our executive officers has entered into a confidentiality agreement with us. Our executive officers have also agreed to disclose to us all inventions, designs and techniques resulted from work performed by them, and to assign us all right, title and interest of such inventions, designs and techniques.

Interested Transactions

A director may vote in respect of any contract or transaction in which he or she is interested, provided that the nature of the interest of any directors in such contract or transaction is disclosed by him or her at or prior to its consideration and any vote on that matter.

Remuneration and Borrowing

The directors may determine remuneration to be paid to the directors. The compensation committee assists the directors in reviewing and approving the compensation structure for the directors. The directors may exercise all the powers of the company to borrow money and to mortgage or charge its undertaking, property and uncalled capital, and to issue debentures or other securities whether outright or as security for any debt obligations of our company or of any third party.

Qualification

There is no shareholding qualification for directors.

D. Employees

Our employees consist of all personnel that work in our headquarters and our regional offices and certain personnel that work in our network of centers. Our employees in our network are generally the operations directors or project managers and the marketing, accounting or administrative personnel of the centers. We had 616, 608 and 601 employees as of December 31, 2012, 2013 and 2014, respectively. The following table set forth certain information about our employees by function as of the period indicated:

	As of December 31, 2014	
	Employees	% of Total
Management	31	5.2
Administration	25	4.2
Financial control	78	13.0
Operation	34	5.7
Marketing	3	0.5
Business development	6	1.0
Centers	424	70.5
Total	601	100.0

[Table of Contents](#)

We have entered into employment agreements with each of our employees. We may terminate the employment of any of our employees in the event that such employee's actions have resulted in material and demonstrable harm to our interests or if the employee has not performed as expected. An employee may typically terminate his or her employment at any time for any material breach of the employment agreement by us. The employee may also terminate the employment agreement at any time without cause upon 30 days prior notice. Each of our employees who have access to sensitive and confidential information has also entered into a non-disclosure and confidentiality agreement with us. For information as to employment agreements with our executive officers, see "Item 6. Directors, Senior Management and Employees—Compensation of Directors and Executive Officers—Employment Agreements." We are required under PRC law to make contributions to our employee benefit plans based on specified percentages of the salaries, bonuses, housing allowances and certain other allowances of our employees, up to a maximum amount specified by the respective local government authorities. The total amount of the contributions that we made to employee benefit plans in 2012, 2013 and 2014 was, RMB12.2 million, RMB30.3 million and RMB12.8 million (US\$2.1 million) respectively.

Our success depends to a significant extent upon, among other factors, our ability to attract, retain and motivate qualified personnel. Many of our employees have extensive industry experience, and we place a strong emphasis on continuously improving our employees' expertise by providing periodic training to enhance their skills and knowledge. Our employees are not covered by any collective bargaining agreement. We believe that we have a good relationship with our employees. All of our employees are based in China.

In accordance with applicable PRC laws and regulations, the Ministry of Health oversees the activities of doctors in China. The relevant local healthcare administrative authorities above the county level are responsible for the supervision of doctors located in their regions. Doctors in China are regulated by a registration system and each doctor may only practice medicine in the sole medical institution where such doctor is registered. Doctors are not permitted to be registered in more than one medical institution. However, doctors may, upon the approval of the medical institution with which they are registered, enter into consulting agreements with third parties to engage in medical practice for another institution. We enter into such consulting contracts with doctors from time to time to provide expert assistance and consultation to our company and our network of centers. In very limited cases, we enter into employment agreements with doctors to work at centers in our network after consulting with our hospital partners where such centers are based. These doctors register their practice with the hospitals in accordance with applicable PRC laws and regulations.

E. Share Ownership

In January 2015, our shareholders passed a special resolution authorizing us to (i) re-designate each share issued and outstanding immediately prior to the adoption of our fourth amended and restated memorandum of association as a Class A ordinary share; and (ii) issue a new class of convertible shares as the Class B ordinary shares. The Class B ordinary shares will have different voting rights and conversion features to the Class A ordinary share. The total number of ordinary shares outstanding as of the date of this annual report is 134,836,300 Class A ordinary shares. We plan to exchange Class A ordinary shares held by Morgancreek with Class B ordinary shares at a one-to-one ratio, after which Morgancreek will hold, 59,770,876 Class B ordinary shares, or 44.3% of the combined total outstanding ordinary shares (representing 93.7% of the total voting rights) in our Company.

The following table sets forth information with respect to the beneficial ownership of our ordinary shares as of the date of this annual report by:

- each of our directors and executive officers; and
- each person known to us to own beneficially more than 5.0% of our ordinary shares.

	Ordinary Shares Beneficially Owned ⁽¹⁾⁽²⁾	
	Number	%
Directors and Executive Officers:		
Jianyu Yang ⁽³⁾	60,238,654	44.5%
Zheng Cheng ⁽⁴⁾	60,238,654	44.5%
Jing Zhang ⁽⁵⁾	1,877,698	1.4%
Yaw Kong Yap ⁽⁶⁾	851,874	0.6%
Zhe Yin	—	—
Tian Ji	—	—
Weibo Yin	*	*
Yongjun Li	*	*
Denny Lee	*	*
Adam Jigang Sun	*	*
All directors and officers as a group	63,518,367	46.5%
Principal Shareholders:		
Morgancreek Investment Holdings Limited ⁽⁷⁾	59,770,876	44.3%
Solar Honor Limited ⁽⁸⁾	15,379,303	11.4%
Carlyle Entities ⁽⁹⁾	13,086,350	9.7%

* Less than 1%

- (1) Beneficial ownership is determined in accordance with Rule 13d-3 of the General Rules and Regulations under the Exchange Act, and includes voting or investment power with respect to the securities and outstanding share options exercisable within 60 days of this annual report.
- (2) The number of ordinary shares outstanding in calculating the percentages for each listed person includes the ordinary shares underlying share options exercisable by such person within 60 days of this annual report. Percentage of beneficial ownership of each listed person is based on 134,836,300 ordinary shares issued and outstanding as of the date of this annual report.
- (3) Represents (i) 45,787,948 ordinary shares and 4,660,976 ADSs held by Morgancreek Investment Holdings Limited of which Mr. Yang is a director and indirectly holds 60% of the shares, and by virtue of such relationship may be deemed its beneficial owner, and (ii) 467,778 ordinary shares issuable upon exercise of options held by Mr. Yang that are exercisable currently or within 60 days of the date of this annual report.
- (4) Represents (i) 45,787,948 ordinary shares and 4,660,976 ADSs held by Morgancreek Investment Holdings Limited of which Mr. Cheng is a director and indirectly holds 40% of the shares, and by virtue of such relationship may be deemed its beneficial owner, and (ii) 467,778 ordinary shares issuable upon exercise of options held by Mr. Cheng that are exercisable currently or within 60 days of the date of this annual report.
- (5) Represents (i) 1,529,829 ordinary shares held by, (ii) 318,813 ordinary shares issuable upon exercise of share options to, and (iii) 29,056 restricted shares held by, Thousand Ocean Group Limited, a limited liability company organized under the laws of the British Virgin Islands wholly owned by Mr. Zhang.
- (6) Represents (i) 541,800 ordinary shares held by, (ii) 286,301 ordinary shares issuable upon exercise of share options to, and (iii) 23,773 restricted shares held by, Top Mount Group Limited, a limited liability company organized under the laws of the British Virgin Islands wholly owned by Mr. Yap.
- (7) Represents 45,787,948 ordinary shares and 4,660,976 ADSs held by Morgancreek Investment Holdings Limited, a limited liability company organized under the laws of the British Virgin Islands. Cherrylane Investments Limited, a limited liability company organized under the laws of the British Virgin Islands indirectly wholly owned by Mr. Yang, holds 60% of the shares of Morgancreek Investment Holdings Limited. Bluestone Holdings Limited a limited liability company organized under the laws of the British Virgin Islands indirectly wholly owned by Mr. Cheng, holds 40% of the shares of Morgancreek Investment Holdings Limited. The directors of Morgancreek are Mr. Yang and Mr. Cheng. Mr. Yang and Mr. Cheng have the power to direct Morgancreek Investment Holdings Limited as to the voting and disposition of ordinary shares and ADSs held by Morgancreek Investment Holdings Limited. The address of the principal office of Morgancreek Investment Holdings Limited is P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands.
- (8) Represents 14,163,325 ordinary shares and 405,326 ADSs held by Solar Honor Limited, a limited liability company organized under the laws of British Virgin Islands wholly owned by Mr. Hao Zhou. The address of the principal office of Solar Honor Limited is Unit 8, 3/F., Qwomar Trading Complex, Blackburne Road, Port Purcell, Road Town, Tortola, British Virgin Islands.
- (9) Represents 12,584,500 and 501,850 ordinary shares held by Carlyle Asia Growth Partners III, L.P. and CAGP III Co-Investment, L.P., respectively. The general partner of each Carlyle Entity is CAGP General Partner, L.P., which is in turn managed by its general partner, CAGP Ltd. The directors of CAGP Ltd. are Mr. William E. Conway, Jr., Mr. Daniel A. D’Aniello, Mr. David Rubenstein, Mr. Jeffery Ferguson and Mr. Curtis L. Buser. The address of the Carlyle Entities is Walker House, 87 Mary Street, George Town, Grand Cayman KY1-9002, Cayman Islands.

We are not aware of any arrangement that may, at a subsequent date, result in a change of control of our company. For information regarding our ordinary shares and ADSs held or beneficially owned by persons in the United States, see “Item 9. The Offering and Listing” in this annual report.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. Major Shareholders

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

B. Related Party Transactions

Borrowings with Related Parties

In September 2012, Chang’an Hospital took a short-term bank borrowing in the amount of RMB100 million, or the Chang’an Bank loan, from Chang’an Bank. The application for the Chang’an Bank loan was submitted to Chang’an Bank prior to our acquisition of the 52% equity interest in Chang’an Hospital. The Chang’an Bank loan was secured by all of the 48% equity interest in Chang’an Hospital currently owned by Xi’an New Chang’an Medical Investment Co., Ltd., or New Chang’an. Chang’an Hospital subsequently granted a loan to New Chang’an which has the same key terms as the Chang’an Bank loan, including loan amount, interest rate and repayment schedule. Chang’an Bank is not a related party to us or New Chang’an.

In 2014, we purchase certain medical supplies in the amount of RMB0.5 million (US\$0.1 million) from Xi’an Jiangyuan Andike Positron Co., Ltd., of which Shanghai Medstar is a non-controlling shareholder.

As of December 31, 2014, outstanding amount due to related parties were derecognized upon the disposal of Chang’an Hospital.

Reorganization and Private Placement

See “Item 4. Information on the Company—History and Development of the Company,” “Item 4. Information on the Company—Organizational Structure”

Share Incentives

For a discussion of the share option plan adopted in 2007 by OMS, our predecessor, and our 2008 share incentive plan, see “Item 6. Directors, Senior Management and Employees—Compensation of Directors and Executive Officers—Share Incentive Plans.”

C. Interests of Experts and Counsel

Not applicable.

ITEM 8. FINANCIAL INFORMATION

A. Consolidated Statements and Other Financial Information

We have appended consolidated financial statements filed as part of this annual report.

Legal and Administrative Proceedings

We are not currently involved in any other material litigation, arbitration or administrative proceedings. However, we may from time to time become a party to various other litigation, arbitration or administrative proceedings arising in the ordinary course of our business.

Dividend Policy

We did not declare any dividend in 2012. On January 7, 2014 and July 28, 2014, our Board of Directors declared special cash dividends of US\$0.24 per ordinary share (or US\$0.72 per ADS)) on and US\$0.30 per ordinary share (or US\$0.90 per ADS) the Company's outstanding ordinary shares, respectively. The total amount for the special dividend is approximately US\$32.4 million and US\$40.6 million, based on the number of ordinary shares outstanding as of September 30, 2013 and March 31, 2014, respectively.

Going forward, we intend to retain most, if not all, of our available funds and any future earnings to operate and expand our business. Our board of directors has complete discretion as to whether to distribute dividends. Even if our board of directors decides to pay further dividends, the form, frequency and amount will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that our board of directors may deem relevant.

If we pay any further dividends, we will pay our ADS holders to the same extent as holders of our ordinary shares, subject to the terms of the deposit agreement, including any applicable fees and expenses. Cash dividends on our ordinary shares, if any, will be paid in U.S. dollars.

B. Significant Changes

We have not experienced any significant changes since the date of our audited consolidated financial statements included in this annual report.

ITEM 9. THE OFFER AND LISTING

A. Offering and Listing Details

Our ADSs, each representing three of our ordinary shares, have been listed on the New York Stock Exchange since December 11, 2009 under the symbol "CCM." The table below shows, for the periods indicated, the high and low market prices for our ADSs. The closing price for our ADSs on the New York Stock Exchange on April 24, 2015 was US\$7.13 per ADS.

	Market Price Per ADS	
	High	Low
Yearly:		
2010	10.70	5.60
2011	7.67	3.10
2012	4.95	2.60
2013	5.59	4.00
2014	9.96	5.20
Quarterly:		
2012		
First quarter	4.02	3.44
Second quarter	3.90	2.60
Third quarter	4.17	2.70
Fourth quarter	4.95	3.66
2013		
First quarter	4.35	4.12
Second quarter	4.44	4.00
Third quarter	5.52	4.00
Fourth quarter	5.59	4.95
2014		
October	7.72	6.86
November	7.35	6.91
December	6.91	5.87
2015		
January	7.69	6.45
February	7.31	6.66
March	5.81	6.92
April (through April 24)	7.13	5.84

[Table of Contents](#)

As of April 24, 2015, a total of 16,606,332 ADSs representing 49,818,996 Class A ordinary shares were outstanding. Such ordinary shares were registered in the name of a nominee of JPMorgan Chase Bank, N.A., the depository for the ADSs. We have no further information as to ordinary shares or ADSs held, or beneficially owned, by U.S. persons.

B. Plan of Distribution

Not applicable.

C. Markets

Our ADSs, each representing three of our ordinary shares, have been listed on the New York Stock Exchange since December 11, 2009 under the symbol “CCM.”

D. Selling Shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expenses of the Issue

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

A. Share Capital

Not applicable.

B. Memorandum and Articles of Association

We are a Cayman Islands exempted company with limited liability and our affairs are governed by our memorandum and articles of association, as amended and restated from time to time, and the Companies Law (as amended) of the Cayman Islands, which is referred to as the Companies Law below. Our registered office in the Cayman Islands is at Scotia Centre, 4th Floor, P.O. Box 2804, George Town, Grand Cayman, Cayman Islands KY1-1112.

On January 27, 2015, our shareholders by special resolution adopted our fourth amended and restated memorandum and articles of association, which replaced the third memorandum and articles of association in its entirety. The following are summaries of material provisions of our fourth amended and restated memorandum and articles of association and the Companies Law insofar as they relate to the material terms of our ordinary shares.

Ordinary Shares

General

Our ordinary shares are divided into Class A ordinary shares and Class B ordinary shares. Holders of Class A ordinary shares and Class B ordinary shares have the same rights except for voting and conversion rights. All references to ordinary shares include the Class A ordinary shares and the Class B ordinary shares.

All of our outstanding ordinary shares are fully paid and non-assessable. Certificates representing our ordinary shares are issued in the registered form. Our shareholders who are non-residents of the Cayman Islands may freely hold and vote their ordinary shares.

Dividends

The holders of our ordinary shares are entitled to such dividends as may be declared by our board of directors subject to the Companies Law.

Voting Rights

Each holder of Class A ordinary shares is entitled to one vote on all matters upon which the Class A ordinary shares are entitled to vote. Each holder of Class B ordinary shares is entitled to ten votes on all matters upon which the Class B ordinary shares are entitled to vote. Each holder is entitled to have the respective number(s) of vote for each share registered in his name on the register of members. Voting at any meeting of shareholders is by show of hands unless a poll is demanded by the chairman of our board of directors or by any shareholder present in person or by proxy.

A quorum is required for a meeting of shareholders. Shareholders who hold at least one-third of all our ordinary shares in issue at the meeting present in person or by proxy or, if a corporation or other non-natural person, by its duly authorized representative constitutes a quorum. Shareholders' meetings are held annually and may be convened by our board of directors on its own initiative or upon a request to the directors by shareholders holding in the aggregate at least ten percent of our ordinary shares. At least seven days advanced notice is required prior to convening our annual general meeting and other shareholders meetings.

An ordinary resolution of the shareholders requires the affirmative vote of a simple majority of the votes attaching to the ordinary shares cast in a general meeting to pass. A special resolution requires the affirmative vote of not less than two-thirds of the votes cast attaching to the ordinary shares to pass.

Transfer of Ordinary Shares

Subject to the restrictions of our articles of association, as applicable, any of our shareholders may transfer all or any of such shareholder's ordinary shares by an instrument of transfer in the usual or common form or any other form approved by our board.

Our board of directors may, in its absolute discretion, decline to register any transfer of any ordinary share which is not fully paid up or on which we have a lien. Our directors may also decline to register any transfer of any ordinary share unless:

- the instrument of transfer is lodged with us, accompanied by the certificate for the ordinary shares to which it relates and such other evidence as our board of directors may reasonably require to show the right of the transferor to make the transfer;
- the instrument of transfer is in respect of only one class of ordinary shares;
- the instrument of transfer is properly stamped, if required;
- in the case of a transfer to joint holders, the number of joint holders to whom the ordinary share is to be transferred does not exceed four; or
- the ordinary shares transferred are free of any lien in favor of us.

If our directors refuse to register a transfer they shall, within two months after the date on which the instrument of transfer was lodged, send notice of such refusal to both the transferor and transferee. The registration of transfers may, on 14 days' notice, given by advertisement in one or more newspapers or by electronic means, be suspended and the register closed at such times and for such periods as our board of directors may from time to time determine, provided, however, that the registration of transfers shall not be suspended nor the register closed for more than 30 days in any year.

Liquidation

On a return of capital in connection with the winding up of the company or otherwise (other than in connection with conversion, redemption or purchase of ordinary shares), assets available for distribution to the holders of ordinary shares shall be distributed among them on a pro rata basis. If our assets available for distribution are insufficient to repay all of the paid-up capital, the assets will be distributed so that the losses are borne by our shareholders proportionately.

Calls on Ordinary Shares and Forfeiture of Ordinary Shares

Our board of directors may from time to time call upon shareholders for any amounts unpaid on their ordinary shares in a notice served to such shareholders at least 14 days prior to the specified time of payment. Ordinary shares that have been called upon and remain unpaid are subject to forfeiture.

Redemption of Ordinary Shares

Subject to the provisions of the Companies Law, we may under the terms of our fourth amended and restated memorandum and articles of association to be adopted upon the completion of this offering:

- issue ordinary shares on terms that they are to be redeemed or are liable to be redeemed at our option or at the option of the shareholders, on such terms and in such manner as we may, before the issue of such ordinary shares, determine;
- purchase our own ordinary shares (including any redeemable shares) on such terms and in such manner as we may determine and agree with our shareholders; and
- make a payment in respect of the redemption or purchase of our own ordinary shares in any manner authorized by the Companies Law, including out of our capital, profits or the proceeds of a fresh issue of ordinary shares.

Variations of Rights of Shares

All or any of the special rights attached to any class of shares may, subject to the provisions of the Companies Law, be varied either with the unanimous written consent of the holders of the issued shares of that class or with the sanction of a special resolution passed at a general meeting of the holders of the shares of that class.

Inspection of Books and Records

Holders of our ordinary shares have no general right under Cayman Islands law to inspect or obtain copies of our list of shareholders or our corporate records. However, we will provide our shareholders with annual audited financial statements. See “Where You Can Find Additional Information.”

Changes in Capital

We may from time to time by ordinary resolutions:

- increase the share capital by such sum, to be divided into shares of such classes and amount, as the resolution shall prescribe;
- consolidate and divide all or any of our share capital into shares of a larger amount than our existing shares;
- convert all or any of our paid up shares into stock and reconvert that stock into paid up shares of any denomination;
- sub-divide our existing shares, or any of them into shares of a smaller amount that is fixed by the fourth amended and restated memorandum and articles of association; and
- cancel any shares that, at the date of the passing of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of our share capital by the amount of the shares so cancelled.

Subject to the Companies Law and our fourth amended and restated memorandum and articles of association with respect to matters to be dealt with by ordinary resolution, we may, by special resolution, reduce our share capital and any capital redemption reserve in any manner authorized by law.

Issuance of Additional Shares

Our fourth amended and restated memorandum of association authorizes our board of directors to issue additional ordinary shares from time to time as our board of directors shall determine, to the extent there are available authorized but unissued shares.

Our fourth amended and restated memorandum of association authorizes our board of directors to establish from time to time one or more series of preferred shares and to determine, with respect to any series of preferred shares, the terms and rights of that series, including:

- the designation of the series;
- the number of shares of the series;
- the dividend rights, dividend rates, conversion rights, voting rights; and
- the rights and terms of redemption and liquidation preferences.

Our board of directors may issue preferred shares without action by our shareholders to the extent there are available authorized but unissued preferred shares. In addition, the issuance of preferred shares may be used as an anti-takeover device without further action on the part of the shareholders. Issuance of these shares may dilute the voting power of holders of ordinary shares.

Actions Requiring the Approval of a Supermajority of Our Board of Directors

Actions require the approval of a supermajority of at least two-thirds of our board of directors, including:

- the appointment or removal of either our chief executive officer or chief financial officer;
- any anti-takeover action in response to a takeover attempt;
- any merger resulting in our shareholders immediately prior to such merger holding less than a majority of the voting power of the outstanding share capital of the surviving business entity;
- the sale or transfer of all or substantially all of our assets; and
- any change in the number of directors on our board of directors.

Conversion of the Shares

All of the issued and outstanding Class B ordinary shares shall automatically convert into Class A ordinary shares, at a ratio of one Class A ordinary share for each Class B ordinary share, in the event that the total number of issued and outstanding Class B ordinary shares is less than 5% of the total number of ordinary shares issued and outstanding. Any Class B ordinary share that is sold, transferred, assigned or disposed of by a registered holder or beneficial owner of such Class B ordinary share to any person who is not (i) the registered holder or beneficial owner of Class B ordinary shares or (ii) an affiliate of the registered holder or beneficial owner such Class B ordinary share being transferred, assigned or disposed of, such Class B ordinary share shall automatically convert into one Class A ordinary share upon the completion of such transfer, assignment or disposition.

Class A ordinary shares are not convertible under any circumstances.

Difference Between Class A and Class B Ordinary Shares

The difference between the Class A ordinary shares and Class B ordinary shares are the special voting attached to the Class B ordinary shares and the conversion rights as disclosed above.

C. Material Contracts

We have not entered into any material contracts other than in the ordinary course of business and other than those described in “Item 4. Information on the Company” or elsewhere in this annual report.

D. Exchange Controls

See “Item 4. Information on the Company—B. Business Overview—Regulation of Our Industry.”

E. Taxation

Cayman Islands Taxation

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciation, and there is no taxation in the nature of inheritance tax or estate duty. No Cayman Islands stamp duty will be payable unless an instrument is executed in, brought to, or produced before a court of the Cayman Islands. The Cayman Islands are not parties to any double tax treaties. There are no exchange control regulations or currency restrictions in the Cayman Islands.

People’s Republic of China Taxation

The PRC Enterprise Income Tax Law, or the EIT Law, and the implementation regulations for the EIT Law issued by the PRC State Council, became effective as of January 1, 2008. The new EIT law and its implementation regulation impose a single uniform income tax rate of 25% on all Chinese enterprises, including foreign-invested enterprises, and levies a withholding tax rate of 10% on dividends payable by Chinese subsidiaries to their non-PRC enterprise shareholders except with respect to any such non-PRC enterprise shareholder whose jurisdiction of incorporation has a tax treaty with China that provides for a different withholding agreement. The EIT Law provides that enterprises established outside of China whose “effective management organizations” are located in China are considered “resident enterprises” and are generally subject to the uniform 25% enterprise income tax rate on their worldwide income. Under the implementation regulations for the EIT Law issued by the PRC State Council, a “effective management organizations” is defined as a body that has material and overall management and control over the manufacturing and business operations, personnel and human resources, finances and treasury and assets of an enterprise. On April 22, 2009, the State

[Table of Contents](#)

Administration of Taxation promulgated a circular which sets out criteria for determining whether “effective management organizations” are located in China for overseas incorporated, domestically controlled enterprises. However, as this circular only applies to enterprises incorporated under the laws of foreign countries or regions that are controlled by PRC enterprises or groups of PRC enterprises, it remains unclear how the tax authorities will determine the location of “effective management organizations” for overseas incorporated enterprises that are controlled by individual PRC residents like us and some of our subsidiaries. Therefore, although substantially all of our operational management is currently based in the PRC, it is unclear whether PRC tax authorities would require us to be treated as a PRC tax resident enterprise. We do not currently consider our company to be a PRC tax resident enterprise. However, if the Chinese tax authorities disagree with our assessment and determine that we are a PRC tax resident enterprise, we may be subject to a 25% enterprise income tax on our global income.

Under the EIT Law and implementation regulations issued by the State Council, a 10% PRC income tax is applicable to dividends payable to investors that are “non-resident enterprises,” which do not have an establishment or place of business in the PRC, or which have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such dividends have their sources within the PRC. Furthermore, a circular issued by the Ministry of Finance and the State Administration of Taxation on February 22, 2008 stipulates that undistributed earnings generated prior to January 1, 2008 are exempt from enterprise income tax. We are a holding company incorporated in the Cayman Islands, which indirectly holds, through Ascendium, Cyber Medical and OMS, our equity interests in our PRC subsidiaries. Our business operations are principally conducted through PRC subsidiaries. Thus, dividends for earnings accumulated beginning on January 1, 2008 payable to us by our subsidiaries in China, if any, will be subject to the 10% income tax if we are considered as “non-resident enterprises” under the EIT Law. Under the EIT law, Notice 112, which was issued on January 29, 2008 and the PRC-HK DTA, which became effective on December 8, 2006, dividends from our PRC subsidiaries paid to us through our Hong Kong subsidiary may be subject to a 10% withholding tax or a 5% withholding tax if our Hong Kong subsidiary can be considered as a “beneficial owner” and entitled to treaty benefits under the PRC-HK DTA. Under the existing implementation rules of the EIT Law, it is unclear whether the PRC tax authority would treat us as PRC tax resident enterprise. Accordingly dividends paid by us to our non-PRC tax resident enterprise ADS holders and ordinary shareholders may be deemed to be derived from sources within the PRC and, therefore, be subject to the 10% PRC income tax.

Similarly, any gain realized on the transfer of our ADSs or ordinary shares by our non-PRC tax resident enterprise ADS holders and ordinary shareholders may also be subject to the 10% PRC income tax if we are considered as PRC tax resident enterprise and such gain will be regarded as income derived from sources within the PRC.

United States Federal Income Taxation

The following discussion describes the material United States federal income tax consequences of the ownership of our ordinary shares and ADSs as of the date hereof. The discussion is applicable to United States Holders (as defined below) who hold our ordinary shares or ADSs as capital assets. As used herein, the term “United States Holder” means a holder of an ordinary share or ADS that is for United States federal income tax purposes:

- an individual citizen or resident of the United States;
- a corporation (or other entity treated as a corporation for United States federal income tax purposes) created or organized in or under the laws of the United States, any state thereof or the District of Columbia;
- an estate the income of which is subject to United States federal income taxation regardless of its source; or
- a trust if it (1) is subject to the primary supervision of a court within the United States and one or more United States persons have the authority to control all substantial decisions of the trust or (2) has a valid election in effect under applicable United States Treasury regulations to be treated as a United States person.

This discussion does not represent a detailed description of the United States federal income tax consequences applicable to you if you are subject to special treatment under the United States federal income tax laws, including if you are:

- a dealer in securities or currencies;
- a financial institution;
- a regulated investment company;
- a real estate investment trust;
- an insurance company;
- a tax exempt organization;

- a person holding our ordinary shares or ADSs as part of a hedging, integrated or conversion transaction, a constructive sale or a straddle;
- a trader in securities that has elected the mark-to-market method of accounting for your securities;
- a person liable for alternative minimum tax;
- a person who owns or is deemed to own more than 10% of our voting stock;
- a partnership or other pass-through entity for United States federal income tax purposes; or
- a person whose “functional currency” is not the United States dollar.

The discussion below is based upon the provisions of the Internal Revenue Code of 1986, as amended (the “Code”), and regulations, rulings and judicial decisions thereunder as of the date hereof, and such authorities may be replaced, revoked or modified so as to result in United States federal income tax consequences different from those discussed below. In addition, this discussion is based, in part, upon representations made by the depository to us and assumes that the deposit agreement, and all other related agreements, will be performed in accordance with their terms.

If a partnership holds our ordinary shares or ADSs, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. If you are a partner of a partnership holding our ordinary shares or ADSs, you should consult your tax advisors.

This discussion does not contain a detailed description of all the United States federal income tax consequences to you in light of your particular circumstances and does not address the effects of any state, local or non-United States tax laws. **If you are considering the purchase, ownership or disposition of our ordinary shares or ADSs, you should consult your own tax advisors concerning the United States federal income tax consequences to you in light of your particular situation as well as any consequences arising under the laws of any other taxing jurisdiction.**

ADSs

If you hold ADSs, for United States federal income tax purposes, you generally will be treated as the owner of the underlying ordinary shares that are represented by such ADSs. Accordingly, deposits or withdrawals of ordinary shares for ADSs will not be subject to United States federal income tax.

Taxation of Dividends

Subject to the discussion under “— Passive Foreign Investment Company” below, the gross amount of distributions on the ADSs or ordinary shares (including any amounts withheld to reflect PRC withholding taxes) will be taxable as dividends, to the extent paid out of our current or accumulated earnings and profits as determined under United States federal income tax principles. Such income (including withholding taxes) will be includable in your gross income as ordinary income on the day actually or constructively received by you, in the case of the ordinary shares, or by the depository, in the case of ADSs. Such dividends will not be eligible for the dividends-received deduction allowed to corporations under the Code. To the extent that the amount of the distribution exceeds our current and accumulated earnings and profits for a taxable year, as determined under United States federal income tax principles, it will be treated first as a tax-free return of your tax basis in your ADSs or ordinary shares, and to the extent the amount of the distribution exceeds your tax basis, the excess will be taxed as capital gain. We do not expect to keep earnings and profits in accordance with United States federal income tax principles. Therefore, you should expect that a distribution will be treated as a dividend (as discussed above).

With respect to non-corporate United States Holders, certain dividends received from a qualified foreign corporation may be subject to reduced rates of taxation. A foreign corporation is treated as a qualified foreign corporation with respect to dividends received from that corporation on shares (or ADSs backed by such shares) that are readily tradable on an established securities market in the United States. United States Treasury Department guidance indicates that our ADSs (which are listed on the NYSE), but not our ordinary shares, are readily tradable on an established securities market in the United States. Thus, we believe that dividends we pay on our ordinary shares that are represented by ADSs, but not on our ordinary shares that are not so represented, will meet such conditions required for the reduced tax rates. There can be no assurance that our ADSs will be considered readily tradable on an established securities market in later years. A qualified foreign corporation also includes a foreign corporation that is eligible for the benefits of certain income tax treaties with the United States. In the event that we are deemed to be a PRC “resident enterprise” under PRC tax law (see discussion under “Taxation — People’s Republic of China Taxation”), we may be eligible for the benefits of the income tax treaty between the United States and the PRC and, if we are eligible for such benefits, dividends we pay on our ordinary shares, regardless of whether such ordinary shares are represented by ADSs, would be subject to the reduced rates of taxation. Non-

corporate United States Holders that do not meet a minimum holding period requirement during which they are not protected from the risk of loss or that elect to treat the dividend income as “investment income” pursuant to Section 163(d)(4) of the Code will not be eligible for the reduced rates of taxation regardless of our status as a qualified foreign corporation. In addition, the rate reduction will not apply to dividends if the recipient of a dividend is obligated to make related payments with respect to positions in substantially similar or related property. This disallowance applies even if the minimum holding period has been met. Moreover, non-corporate United States Holders will not be eligible for reduced rates of taxation on any dividends received from us if we are a PFIC in the taxable year in which such dividends are paid or in the preceding taxable year. You should consult your own tax advisors regarding the application of these rules given your particular circumstances.

In the event that we are deemed to be a PRC “resident enterprise” under PRC tax law, you may be subject to PRC withholding taxes on dividends paid to you with respect to the ADSs or ordinary shares (see discussion under “Taxation — People’s Republic of China Taxation”). However, you may be able to obtain a reduced rate of PRC withholding taxes under the treaty between the United States and the PRC if certain requirements are met. In addition, subject to certain conditions and limitations, PRC withholding taxes on dividends may be treated as foreign taxes eligible for credit against your United States federal income tax liability. For purposes of calculating the foreign tax credit, dividends paid on the ADSs or ordinary shares will be treated as foreign-source income and will generally constitute passive category income. Furthermore, in certain circumstances, if you have held the ADSs or ordinary shares for less than a specified minimum period during which you are not protected from risk of loss, or are obligated to make payments related to the dividends, you will not be allowed a foreign tax credit for any PRC withholding taxes imposed on dividends paid on the ADSs or ordinary shares. The rules governing the foreign tax credit are complex. You are urged to consult your tax advisors regarding the availability of the foreign tax credit under your particular circumstances.

Passive Foreign Investment Company

Based on our financial statements, relevant market data, and the projected composition of our income and valuation of our assets, including goodwill, we believe we were not a passive foreign investment company, or a PFIC, for United States federal income tax purposes for our taxable year ending December 31, 2014, and we do not expect to become one for our current taxable year or in the future, although there can be no assurance in this regard. If we are a PFIC for any taxable year during which you hold our ADSs or ordinary shares, you will be subject to special tax rules discussed below.

In general, we will be a PFIC for any taxable year in which:

- at least 75% of our gross income is passive income; or
- at least 50% of the value of our assets (based on an average of the quarterly values) is attributable to assets that produce or are held for the production of passive income (which includes cash).

For this purpose, passive income generally includes dividends, interest, royalties and rents (other than royalties and rents derived in the active conduct of a trade or business and not derived from a related person). If we own at least 25% (by value) of the stock of another corporation, we will be treated for purposes of the PFIC tests, as owning our proportionate share of the other corporation’s assets and receiving our proportionate share of the other corporation’s income.

The determination of whether we are a PFIC is made annually. Accordingly, it is possible that we may become a PFIC in the current or any future taxable year due to changes in our asset or income composition. Because we have valued our goodwill based on the market value of our equity, a decrease in the price of our ADSs or ordinary shares may result in our becoming a PFIC. In addition, the composition of our income and assets will be affected by how, and how quickly, we spend our cash. If we are a PFIC for any taxable year during which you hold our ADSs or ordinary shares, you will be subject to special tax rules discussed below.

If we are a PFIC for any taxable year during which you hold our ADSs or ordinary shares, you will be subject to special tax rules with respect to any “excess distribution” received and any gain realized from a sale or other disposition, including a pledge, of ADSs or ordinary shares. Distributions received in a taxable year that are greater than 125% of the average annual distributions received during the shorter of the three preceding taxable years or your holding period for the ADSs or ordinary shares will be treated as excess distributions. Under these special tax rules:

- the excess distribution or gain will be allocated ratably over your holding period for the ADSs or ordinary shares;
- the amount allocated to the current taxable year, and any taxable year prior to the first taxable year in which we were a PFIC, will be treated as ordinary income; and
- the amount allocated to each other year will be subject to tax at the highest tax rate in effect for that year and the interest charge generally applicable to underpayments of tax will be imposed on the resulting tax attributable to each such year.

[Table of Contents](#)

In addition, non-corporate United States Holders will not be eligible for reduced rates of taxation on any dividends received from us if we are a PFIC in the taxable year in which such dividends are paid or in the preceding taxable year. You will be required to file Internal Revenue Service Form 8621 if you hold our ADSs or ordinary shares in any year in which we are classified as a PFIC.

If we are a PFIC for any taxable year during which you hold our ADSs or ordinary shares and any of our non-United States subsidiaries is also a PFIC, a United States Holder would be treated as owning a proportionate amount (by value) of the shares of the lower-tier PFIC for purposes of the application of these rules. You are urged to consult your tax advisors about the application of the PFIC rules to any of our subsidiaries.

In certain circumstances, in lieu of being subject to the excess distribution rules discussed above, you may make an election to include gain on the stock of a PFIC as ordinary income under a mark-to-market method, provided that such stock is regularly traded on a qualified exchange. Under current law, the mark-to-market election may be available to holders of our ADSs which are listed on the NYSE, which also constitute a qualified exchange, although there can be no assurance that the ADSs will be “regularly traded” for purposes of the mark-to-market election. It should be noted that only the ADSs, and not the ordinary shares, are listed on the NYSE. Consequently, if you are a holder of ordinary shares that are not represented by ADSs, you generally will not be eligible to make a mark-to-market election if we are or were to become a PFIC. If you make an effective mark-to-market election, you will include in each year as ordinary income the excess of the fair market value of your ADSs at the end of the year over your adjusted tax basis in the ADSs. You will be entitled to deduct as an ordinary loss in each such year the excess of your adjusted tax basis in the ADSs over their fair market value at the end of the year, but only to the extent of the net amount previously included in income as a result of the mark-to-market election. If you make an effective mark-to-market election, any gain you recognize upon the sale or other disposition of ADSs will be treated as ordinary income and any loss will be treated as ordinary loss, but only to the extent of the net amount previously included in income as a result of the mark-to-market election.

Your adjusted tax basis in the ADSs will be increased by the amount of any income inclusion and decreased by the amount of any deductions under the mark-to-market rules. If you make a mark-to-market election it will be effective for the taxable year for which the election is made and all subsequent taxable years unless the ADSs are no longer regularly traded on a qualified exchange or the Internal Revenue Service consents to the revocation of the election. You are urged to consult your tax advisors about the availability of the mark-to-market election and whether making the election would be advisable in your particular circumstances.

A U.S. investor in a PFIC generally can mitigate the consequences of the rules described above by electing to treat the PFIC as a “qualified electing fund” under Section 1295 of the Code. However, this option is not available to you because we do not intend to comply with the requirements necessary to permit you to make this election. You are urged to consult your tax advisors concerning the United States federal income tax consequences of holding ADSs or ordinary shares if we are considered a PFIC in any taxable year.

Taxation of Capital Gains

For United States federal income tax purposes and subject to the discussion under “ — Passive Foreign Investment Company” above, you will recognize taxable gain or loss on any sale or exchange of ADSs or ordinary shares in an amount equal to the difference between the amount realized for the ADSs or ordinary shares and your tax basis in the ADSs or ordinary shares. Such gain or loss will generally be capital gain or loss. Capital gains of non-corporate United States Holders derived with respect to capital assets held for more than one year are eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations. Any gain or loss recognized by you will generally be treated as United States source gain or loss. However, if we are treated as a PRC “resident enterprise” for PRC tax purposes and PRC tax was imposed on any gain, and if you are eligible for the benefits of the income tax treaty between the United States and the PRC, you may elect to treat such gain as PRC source gain. If you are not eligible for the benefits of the income tax treaty between the United States and the PRC or you fail to make the election to treat any gain as PRC source, then you generally would not be able to use the foreign tax credit arising from any PRC tax imposed on the disposition of our ADSs or ordinary shares, unless such credit can be applied (subject to applicable limitations) against tax due on other income treated as derived from foreign sources. You are urged to consult your tax advisors regarding the tax consequences if a foreign tax, such as a PRC tax, is imposed on gain on a disposition of our ADSs or ordinary shares, including the availability of the foreign tax credit and the election to treat any gain as PRC source, under your particular circumstances.

Information Reporting and Backup Withholding

In general, information reporting will apply to dividends in respect of our ADSs or ordinary shares and to the proceeds from the sale, exchange or redemption of our ADSs or ordinary shares that are paid to you within the United States (and in certain cases, outside the United States), unless you are an exempt recipient such as a corporation. A backup withholding tax may apply to such payments if you fail to provide a taxpayer identification number or certification of other exempt status or fail to report in full dividend and interest income.

[Table of Contents](#)

Any amounts withheld under the backup withholding rules will be allowed as a refund or a credit against your United States federal income tax liability provided the required information is furnished to the Internal Revenue Service in a timely manner.

F. [Dividends and Paying Agents](#)

Not applicable.

G. [Statement by Experts](#)

Not applicable.

H. [Documents on Display](#)

We have filed this annual report, including exhibits, with the SEC. As allowed by the SEC, in Item 19 of this annual report, we incorporate by reference certain information we filed with the SEC. This means that we can disclose important information to you by referring you to another document filed separately with the SEC. The information incorporated by reference is considered to be part of this annual report.

You may read and copy this annual report, including the exhibits incorporated by reference in this annual report, at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549 and at the SEC's regional offices in New York, New York and Chicago, Illinois. You can also request copies of this annual report, including the exhibits incorporated by reference in this annual report, upon payment of a duplicating fee, by writing information on the operation of the SEC's Public Reference Room.

The SEC also maintains a website at www.sec.gov that contains reports, proxy statements and other information regarding registrants that file electronically with the SEC. Our annual report and some of the other information submitted by us to the SEC may be accessed through this web site.

As a foreign private issuer, we are exempt from the rules under the Exchange Act prescribing the furnishing and content of quarterly reports and proxy statements, and officers, directors and principal shareholders are exempt from the reporting and short swing profit recovery provisions contained in Section 16 of the Exchange Act.

Our financial statements have been prepared in accordance with U.S. GAAP.

We will furnish our shareholders with annual reports, which will include a review of operations and annual audited consolidated financial statements prepared in conformity with U.S. GAAP.

I. [Subsidiary Information](#)

For a listing of our subsidiaries, see "Item 4. Information on the Company — C. Organizational Structure."

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Exchange Risk

All of our revenues and substantially all of our expenditures are denominated in Renminbi. However, the price of medical equipment that we purchase from foreign manufacturers is denominated in U.S. dollars. We pay for such equipment in Renminbi through importers at a pre-determined exchange rate that is typically agreed to at the time of purchase that will be adjusted to a certain extent if there is significant fluctuation as to the exchange rate. As a result, fluctuations in the exchange rate between the U.S. dollar and the Renminbi will affect the cost of such medical equipment to us and will affect our results of operation and financial condition.

The Renminbi's exchange rate with the U.S. dollar and other currencies is affected by, among other things, changes in China's political and economic conditions. See "Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—Fluctuations in the value of the Renminbi may have a material adverse effect on your investment." Any significant revaluation of the Renminbi may materially and adversely affect our cash flows, revenues, earnings and financial position, and the value of, and any dividends payable on, our ADSs in U.S. dollars. Based on the amount of our cash denominated in U.S. dollar as of December 31, 2014, a 10% change in the exchange rates between the Renminbi and the U.S. dollar would result in an increase or decrease of RMB32.7 million (US\$5.3 million) in our total cash position.

The functional currency of our company and our subsidiaries, including Ascendium, CMS Holdings, OMS, Cyber Medical, China Medstar, King Cheers Holding Limited, Medstar Overseas Ltd, US Proton Therapy Holdings Limited (BVI), and US Proton

[Table of Contents](#)

Therapy Holdings Limited (Delaware) is the U.S. dollar. Our PRC subsidiaries have determined their functional currencies to be the Renminbi based on the criteria set forth under ASC 830, *Foreign Currency Matters*. We use the Renminbi as our reporting currency. Translation differences are recorded in accumulated other comprehensive income, a component of shareholders' equity. Transactions denominated in foreign currencies are remeasured into our functional currency at the exchange rates prevailing on the transaction dates. Foreign currency denominated financial assets and liabilities are remeasured at the balance sheet date exchange rate. Exchange gains and losses are included in the consolidated statements of income.

Interest Rate Risk

Our exposure to interest rate risk relates to interest expenses incurred by our short-term and long-term bank borrowings and interest income on our interest-bearing bank deposits. We have not used any derivative financial instruments or engaged in any interest rate hedging activities to manage our interest rate risk exposure. Our future interest expense on our short-term and long-term borrowings may increase or decrease due to changes in market interest rates. During 2014, our short-term and long-term bank borrowings, 60% of which were denominated in US Dollar while 40% of which were denominated in Renminbi, had a weighted average interest rate of 1.96% per annum and 3.91% per annum, respectively. Our future interest income on our interest-bearing cash and pledged deposit balances may increase or decrease due to changes in market interest conditions. We monitor interest rates in conjunction with our cash requirements to determine the appropriate level of bank borrowings relative to other sources of funds. Based on our outstanding borrowings as of December 31, 2014, a 10% change in the interest rates would result in an increase or decrease of RMB5.4 million (US\$0.9 million) of our total amount of interest expense for the year ended December 31, 2014. Based on our outstanding interest earning instruments during the year ended December 31, 2014, a 10% change in the interest rates would result in an increase or decrease of approximately RMB2.1 million (US\$0.3 million) in our total amount of interest income for the year ended December 31, 2014.

Inflation

According to the National Bureau of Statistics of China, China's overall national inflation rate, as represented by the general consumer price index, was approximately 3.3 % in 2012, 2.6% in 2013 and 2.0% in 2014. We have not in the past been materially affected by any such inflation, but we can provide no assurance that we will not be affected in the future.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

A. Debt Securities

Not applicable

B. Warrants and Rights

Not applicable

C. Other Securities

Not applicable

D. American Depositary Shares

The depositary may charge each person to whom ADSs are issued, including, without limitation, issuances against deposits of shares, issuances in respect of share distributions, rights and other distributions, issuances pursuant to a stock dividend or stock split declared by us or issuances pursuant to a merger, exchange of securities or any other transaction or event affecting the ADSs or deposited securities, and each person surrendering ADSs for withdrawal of deposited securities or whose ADRs are cancelled or reduced for any other reason, US\$5.00 for each 100 ADSs (or any portion thereof) issued, delivered, reduced, cancelled or surrendered, as the case may be. The depositary may sell (by public or private sale) sufficient securities and property received in respect of a share distribution, rights and/or other distribution prior to such deposit to pay such charge.

The following additional charges shall be incurred by the ADR holders, by any party depositing or withdrawing shares or by any party surrendering ADSs or to whom ADSs are issued (including, without limitation, issuance pursuant to a stock dividend or stock split declared by us or an exchange of stock regarding the ADRs or the deposited securities or a distribution of ADSs), whichever is applicable:

- a fee of up to US\$1.50 per ADR or ADRs for transfers of certificated or direct registration ADRs;

Table of Contents

- a fee of up to US\$0.05 per ADS for any cash distribution made pursuant to the deposit agreement;
- a fee of up to US\$0.05 per ADS per calendar year (or portion thereof) for services performed by the depositary in administering the ADRs (which fee may be charged on a periodic basis during each calendar year and shall be assessed against holders of ADRs as of the record date or record dates set by the depositary during each calendar year and shall be payable in the manner described in the next succeeding provision);
- reimbursement of such fees, charges and expenses as are incurred by the depositary and/or any of the depositary's agents (including, without limitation, the custodian and expenses incurred on behalf of holders in connection with compliance with foreign exchange control regulations or any law or regulation relating to foreign investment) in connection with the servicing of the shares or other deposited securities, the delivery of deposited securities or otherwise in connection with the depositary's or its custodian's compliance with applicable law, rule or regulation (which charge shall be assessed on a proportionate basis against holders as of the record date or dates set by the depositary and shall be payable at the sole discretion of the depositary by billing such holders or by deducting such charge from one or more cash dividends or other cash distributions);
- a fee for the distribution of securities (or the sale of securities in connection with a distribution), such fee being in an amount equal to the fee for the execution and delivery of ADSs which would have been charged as a result of the deposit of such securities (treating all such securities as if they were shares) but which securities or the net cash proceeds from the sale thereof are instead distributed by the depositary to those holders entitled thereto;
- stock transfer or other taxes and other governmental charges;
- cable, telex and facsimile transmission and delivery charges incurred at your request in connection with the deposit or delivery of shares;
- transfer or registration fees for the registration of transfer of deposited securities on any applicable register in connection with the deposit or withdrawal of deposited securities; and
- expenses of the depositary in connection with the conversion of foreign currency into U.S. dollars.

We will pay all other charges and expenses of the depositary and any agent of the depositary (except the custodian) pursuant to agreements from time to time between us and the depositary. The charges described above may be amended from time to time by agreement between us and the depositary.

Our depositary has agreed to reimburse us for certain expenses we incur that are related to establishment and maintenance of the ADR program, including investor relations expenses and exchange application and listing fees. Neither the depositary nor we can determine the exact amount to be made available to us because (i) the number of ADSs that will be issued and outstanding, (ii) the level of fees to be charged to holders of ADSs and (iii) our reimbursable expenses related to the ADR program are not known at this time. The depositary collects its fees for issuance and cancellation of ADSs directly from investors depositing shares or surrendering ADSs for the purpose of withdrawal or from intermediaries acting for them. The depositary collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay the fees. The depositary may collect its annual fee for depositary services by deduction from cash distributions, or by directly billing investors, or by charging the book-entry system accounts of participants acting for them. The depositary may generally refuse to provide services to any holder until the fees and expenses owing by such holder for those services or otherwise are paid.

We received payments from the depositary or any reimbursement relating to the ADS facility in the amount of US\$323,398 and US\$318,623 in 2013 and 2014, respectively.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

Material Modifications to the Rights of Securities Holders

See "Item 10. Additional Information" for a description of the rights of securities holders, which remain unchanged.

Use of Proceeds

We completed our initial public offering of 36,000,000 ordinary shares, in the form of ADSs, at a price of US\$11.00 per ADS, in December 2009, after our ordinary shares and American Depositary Receipts were registered under the Securities Act. The aggregate price of the offering amount registered and sold was US\$132.0 million, of which we received net proceeds of US\$120.3 million. Morgan Stanley & Co. International plc, J.P. Morgan Securities Inc. and China International Capital Corporation Hong Kong Securities Limited were the underwriters for the initial public offering of our ADSs.

As of December 31, 2014, all of the net proceeds from our public offerings had been used. We are continuously examining opportunities to expand our business through merger and acquisitions, organic growth and strategic alliances with our business partners, and anticipate that the remaining amount of the net proceeds from our initial public offering may be used for such purposes.

ITEM 15. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As required by Rule 13a-15(b) under the Exchange Act, we have carried out an evaluation with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this Annual Report. Based upon this evaluation, our management has concluded that, as of December 31, 2014, our existing disclosure controls and procedures were effective to provide reasonable assurance that material information required to be disclosed by us in the reports that we file with, or submit to, the SEC under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in by the SEC's rules and regulations.

Management's Assessment of Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) under the Exchange Act. Our management evaluated the effectiveness of our internal control over financial reporting, as required by Rule 13a-15(c) of the Exchange Act, based on criteria established in the framework in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), or COSO. Based on this evaluation, our management has concluded that our internal control over financial reporting was effective as of December 31, 2014 based on the criteria established in Internal Control-Integrated Framework issued by COSO (2013 framework).

Attestation Report of the Registered Public Accounting Firm

The effectiveness of internal control over financial reporting as of December 31, 2014 has been audited by Ernst & Young Hua Ming LLP, our independent registered public accounting firm, which has also audited our consolidated financial statements for the year ended December 31, 2014. The attestation report issued by Ernst & Young Hua Ming LLP can be found on page F-3 of this annual report.

Changes in Internal Control over Financial Reporting

There were no changes in our internal controls over financial reporting that occurred during the period covered by this annual report that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Our Board of Directors has determined that each of our audit committee members satisfies the requirements for an "independent director" within the meaning of Section 303A of the NYSE Listed Company Manual and meets the criteria for independence set forth in Rule 10A-3 of the Exchange Act and that Mr. Denny Lee and Mr. Yongjun Li of our audit committee qualify as "audit committee financial experts" as defined in Item 16A of Form 20-F.

ITEM 16B. CODE OF ETHICS

Our board of directors has adopted a code of ethics that applies to our directors, officers, employees and agents, including certain provisions that specifically apply to our chief executive officer, chief financial officer, chief strategy officer, president, executive president, financial controller and any other persons who perform similar functions for us. We have filed our code of business conduct and ethics as an exhibit to our registration statement on Form F-1. We hereby undertake to provide to any person without charge, a copy of our code of business conduct and ethics within ten working days after we receive such person's written request.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table sets forth the aggregate fees by categories specified below in connection with certain professional services rendered by Ernst & Young Hua Ming LLP, or Ernst & Young, our independent registered public accounting firm.

	For the Year Ended				
	December 31,				
	2012	2013		2014	
	RMB	RMB	US\$	RMB	US\$
	(in thousands)				
Audit Fees ⁽¹⁾	7,000	7,144	1,180	6,800	1,096
Non Audit Fee ⁽²⁾	498	—	—		
Tax Fee ⁽³⁾	—	91	15	80	13

- (1) Audit fees include the aggregate fees billed in each of the fiscal periods listed for professional services rendered by Ernst & Young Hua Ming LLP for the audits of our annual consolidated financial statements.
- (2) Non audit fee is service fee paid to Ernst & Young for due diligence report on The University of Texas MD Anderson Cancer Center Proton Therapy Center in connection with the acquisition of equity interest.
- (3) Tax fee is tax compliance service fee paid to the Houston tax team of Ernst & Young for service provided to US Proton.

The policy of our audit committee or our board of directors is to pre approve all audit and non-audit services, such as audit-related, tax and other services provided by a professional party.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Not applicable.

ITEM 16E. PURCHASE OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

None.

ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT

Not applicable.

ITEM 16G. CORPORATE GOVERNANCE

We are exempt from certain corporate governance requirements of the New York Stock Exchange, or the NYSE, by virtue of being a foreign private issuer. We are required to provide a brief description of the significant differences between our corporate governance practices and the corporate governance practices required to be followed by U.S. domestic companies under the NYSE rules. The standards applicable to us are considerably different than the standards applied to U.S. domestic issuers. The significantly different standards applicable to us do not require us to:

- have a majority of the board be independent (other than due to the requirements for the audit committee under the United States Securities Exchange Act of 1934, as amended, or the Exchange Act);
- have a minimum of three members in our audit committee;
- have a compensation committee, a nominating or corporate governance committee;
- provide annual certification by our chief executive officer that he or she is not aware of any non-compliance with any corporate governance rules of the NYSE;
- have regularly scheduled executive sessions with only non-management directors;
- have at least one executive session of solely independent directors each year;
- seek shareholder approval for (i) the implementation and material revisions of the terms of share incentive plans, (ii) the issuance of more than 1% of our outstanding ordinary shares or 1% of the voting power outstanding to a related party, (iii) the issuance of more than 20% of our outstanding ordinary shares, and (iv) an issuance that would result in a change of control;
- adopt and disclose corporate governance guidelines; or
- adopt and disclose a code of business conduct and ethics for directors, officers and employees.

[Table of Contents](#)

We intend to rely on all such exemptions provided by the NYSE to a foreign private issuer, except that:

- we have established a compensation committee;
- we will seek shareholder approval for the implementation of share incentive plans and for the increase in the number of shares available to be granted under share incentive plans;
- we have adopted and disclosed corporate governance guidelines and a code of business conduct and ethics for directors, officers and employees; and
- we have an audit committee with three independent directors,

As a result, you may not be provided with the benefits of certain corporate governance requirements of the NYSE.

ITEM 16H. MINE SAFETY DISCLOSURE

Not applicable.

PART III

ITEM 17. FINANCIAL STATEMENTS

We have elected to provide financial statements pursuant to Item 18.

ITEM 18. FINANCIAL STATEMENTS

The following financial statements are filed as part of this annual report, together with the report of the independent registered public accounting firm:

- Consolidated Balance Sheets as of December 31, 2012, 2013 and 2014
- Consolidated Statements of Comprehensive Income for the years ended December 31, 2012, 2013 and 2014
- Consolidated Statements of Cash Flows for the years ended December 31, 2012, 2013 and 2014
- Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2012, 2013 and 2014
- Notes to the Consolidated Financial Statements for the years ended December 31, 2012, 2013 and 2014.

ITEM 19. EXHIBITS

<u>Exhibit Number</u>	<u>Description of Document</u>
1.1	Fourth Amended and Restated Memorandum and Articles of Association (incorporated by reference to Exhibit 99.2 from our announcement on Form 6-K (File No. 001-34563) filed with the Securities and Exchange Commission on January 30, 2015)
2.1	Form of American Depositary Receipt (incorporated by reference to Exhibit 4.1 from our Registration Statement on Form F-1 (File No. 333-163155) filed with the Securities and Exchange Commission on December 7, 2009)
2.2	Specimen Certificate for Ordinary Shares (incorporated by reference to Exhibit 4.2 from our Registration Statement on Form F-1 (File No. 333-163155) filed with the Securities and Exchange Commission on November 17, 2009)
2.3	Form of Deposit Agreement among Concord Medical, the Depositary and Owners and Beneficial Owners of the American Depositary Shares issued thereunder (incorporated by reference to Exhibit 4.3 from our Registration Statement on Form F-1 (File No. 333-163155) filed with the Securities and Exchange Commission on December 7, 2009)

[Table of Contents](#)

<u>Exhibit Number</u>	<u>Description of Document</u>
2.4	Series A Preferred Shares Subscription Agreement, dated as of February 5, 2008, as amended on April 2, 2008 and on October 20, 2008, among CICC Sun Company Limited, Carlyle Asia Growth Partners III, L.P., CAGP III Co-Investment, L.P., Liu Haifeng, Steve Sun, Yang Jianyu, Bona Liu, Our Medical Services, Ltd., Ascendium Group Limited, Shenzhen Aohua Medical Services Co., Ltd. and Concord Medical Services Holdings Limited (incorporated by reference to Exhibit 4.4 from our Registration Statement on Form F-1 (File No. 333-163155) filed with the Securities and Exchange Commission on November 17, 2009)
2.5	Amendment No. 1 to Series A Preferred Shares Subscription Agreement, dated as of April 2, 2008, among CICC Sun Company Limited, Carlyle Asia Growth Partners III, L.P., CAGP III Co-Investment, L.P., Liu Haifeng, Steve Sun, Yang Jianyu, Bona Liu, Our Medical Services, Ltd., Ascendium Group Limited, Shenzhen Aohua Medical Services Co., Ltd. and Concord Medical Services Holdings Limited (incorporated by reference to Exhibit 4.5 from our Registration Statement on Form F-1 (File No. 333-163155) filed with the Securities and Exchange Commission on November 17, 2009)
2.6	Amendment No. 2 to Series A Preferred Shares Subscription Agreement, dated as of October 20, 2008, among CICC Sun Company Limited, Carlyle Asia Growth Partners III, L.P., CAGP III Co-Investment, L.P., Liu Haifeng, Steve Sun, Yang Jianyu, Bona Liu, Our Medical Services, Ltd., Ascendium Group Limited, Shenzhen Aohua Medical Services Co., Ltd. and Concord Medical Services Holdings Limited (incorporated by reference to Exhibit 4.6 from our Registration Statement on Form F-1 (File No. 333-163155) filed with the Securities and Exchange Commission on November 17, 2009)
2.7	Series B Preferred Shares Subscription Agreement, dated as of October 10, 2008, as amended on October 20, 2008, among CICC Sun Company Limited, Carlyle Asia Growth Partners III, L.P., CAGP III Co-Investment, L.P., Starr Investments Cayman II, Inc., Concord Medical Services Holdings Limited and other persons named therein (incorporated by reference to Exhibit 4.7 from our Registration Statement on Form F-1 (File No. 333-163155) filed with the Securities and Exchange Commission on November 17, 2009)
2.8	Amendment to Series B Preferred Shares Subscription Agreement, dated as of October 20, 2008, among CICC Sun Company Limited, Carlyle Asia Growth Partners III, L.P., CAGP III Co-Investment, L.P., Starr Investments Cayman II, Inc., Concord Medical Services Holdings Limited and other persons named therein (incorporated by reference to Exhibit 4.8 from our Registration Statement on Form F-1 (File No. 333-163155) filed with the Securities and Exchange Commission on November 17, 2009)
2.9	Amended and Restated Shareholders Agreement, dated as of October 20, 2008 among Concord Medical Services Holdings Limited, Carlyle Asia Growth Partners III, L.P., CAGP III Co-Investment, CICC Sun Company Limited, Perfect Key Holdings Limited, Starr Investments Cayman II, Inc. and certain other persons named therein (incorporated by reference to Exhibit 4.9 from our Registration Statement on Form F-1 (File No. 333-163155) filed with the Securities and Exchange Commission on November 17, 2009)
2.10	Share Charge, dated as of November 10, 2008, by CZY Investments Limited in favor of CICC Sun Company Limited, Carlyle Asia Growth Partners III, L.P., CAGP III Co-Investment, L.P. and Starr Investments Cayman II, Inc. (incorporated by reference to Exhibit 4.10 from our Registration Statement on Form F-1 (File No. 333-163155) filed with the Securities and Exchange Commission on November 17, 2009)
2.11	Share Charge, dated as of November 10, 2008, by Daketala International Investment Holdings Ltd. in favor of CICC Sun Company Limited, Carlyle Asia Growth Partners III, L.P., CAGP III Co-Investment, L.P. and Starr Investments Cayman II, Inc. (incorporated by reference to Exhibit 4.11 from our Registration Statement on Form F-1 (File No. 333-163155) filed with the Securities and Exchange Commission on November 17, 2009)
2.12	Share Charge, dated as of November 10, 2008, by Dragon Image Investment Ltd. in favor of CICC Sun Company Limited, Carlyle Asia Growth Partners III, L.P., CAGP III Co-Investment, L.P. and Starr Investments Cayman II, Inc. (incorporated by reference to Exhibit 4.12 from our Registration Statement on Form F-1 (File No. 333-163155) filed with the Securities and Exchange Commission on November 17, 2009)

Table of Contents

<u>Exhibit Number</u>	<u>Description of Document</u>
2.13	Share Charge, dated as of November 10, 2008, by Notable Enterprise Limited in favor of CICC Sun Company Limited, Carlyle Asia Growth Partners III, L.P., CAGP III Co-Investment, L.P. and Starr Investments Cayman II, Inc. (incorporated by reference to Exhibit 4.13 from our Registration Statement on Form F-1 (File No. 333-163155) filed with the Securities and Exchange Commission on November 17, 2009)
2.14	Share Charge, dated as of November 10, 2008, by Thousand Ocean Group Limited in favor of CICC Sun Company Limited, Carlyle Asia Growth Partners III, L.P., CAGP III Co-Investment, L.P. and Starr Investments Cayman II, Inc. (incorporated by reference to Exhibit 4.14 from our Registration Statement on Form F-1 (File No. 333-163155) filed with the Securities and Exchange Commission on November 17, 2009)
2.15	Share Charge, dated as of November 10, 2008, by Top Mount Group Limited in favor of CICC Sun Company Limited, Carlyle Asia Growth Partners III, L.P., CAGP III Co-Investment, L.P. and Starr Investments Cayman II, Inc. (incorporated by reference to Exhibit 4.15 from our Registration Statement on Form F-1 (File No. 333-163155) filed with the Securities and Exchange Commission on November 17, 2009)
2.16	Deed of Amendment, dated as of September 14, 2009, among CICC Sun Company Limited, Carlyle Asia Growth Partners III, L.P., CAGP III Co-Investment, L.P., Starr Investments Cayman II, Inc. and Notable Enterprise Limited (incorporated by reference to Exhibit 4.16 from our Registration Statement on Form F-1 (File No. 333-163155) filed with the Securities and Exchange Commission on November 17, 2009)
2.17	Deed of Partial Release, dated as of September 14, 2009, by CICC Sun Company Limited, Carlyle Asia Growth Partners III, L.P., CAGP III Co-Investment, L.P. and Starr Investments Cayman II, Inc. in favor of CZY Investment Limited (incorporated by reference to Exhibit 4.17 from our Registration Statement on Form F-1 (File No. 333-163155) filed with the Securities and Exchange Commission on November 17, 2009)
2.18	Amendment to Amended and Restated Shareholders Agreement, dated as of November 17, 2009, among Concord Medical Services Holdings Limited, Carlyle Asia Growth Partners III, L.P., CAGP III Co-Investment, CICC Sun Company Limited, Perfect Key Holdings Limited, Starr Investments Cayman II, Inc. and certain other persons named therein (incorporated by reference to Exhibit 4.18 from our Registration Statement on Form F-1 (File No. 333-163155) filed with the Securities and Exchange Commission on November 20, 2009)
2.19	Amendment No. 2 to Amended and Restated Shareholders Agreement, dated as of December 7, 2009, among Concord Medical Services Holdings Limited, Carlyle Asia Growth Partners III, L.P., CAGP III Co-Investment, CICC Sun Company Limited, Perfect Key Holdings Limited, Starr Investments Cayman II, Inc. and certain other persons named therein (incorporated by reference to Exhibit 4.18 from our Registration Statement on Form F-1 (File No. 333-163155) filed with the Securities and Exchange Commission on December 7, 2009)
4.1	2008 Share Incentive Plan adopted as of October 16, 2008 (incorporated by reference to Exhibit 10.1 from our Registration Statement on Form F-1 (File No. 333-163155) filed with the Securities and Exchange Commission on November 17, 2009)
4.2	Form of Indemnification Agreement with the Registrant's directors and officers (incorporated by reference to Exhibit 10.2 from our Registration Statement on Form F-1 (File No. 333-163155) filed with the Securities and Exchange Commission on November 20, 2009)
4.3	Form of Medical Equipment Lease Agreement (incorporated by reference to Exhibit 10.3 from our Registration Statement on Form F-1 (File No. 333-163155) filed with the Securities and Exchange Commission on November 17, 2009)
4.4	Form of Equipment Management Services Agreement (incorporated by reference to Exhibit 10.4 from our Registration Statement on Form F-1 (File No. 333-163155) filed with the Securities and Exchange Commission on November 17, 2009)
4.5	Form of Service-only Management Agreement (incorporated by reference to Exhibit 10.5 from our Registration Statement on Form F-1 (File No. 333-163155) filed with the Securities and Exchange Commission on November 17, 2009)

Table of Contents

<u>Exhibit Number</u>	<u>Description of Document</u>
4.6	Summary of the Oral Agreement entered into between China Medstar Pte. Ltd. and Beijing Medstar Hi-Tech Investment Co., Ltd. (incorporated by reference to Exhibit 10.6 from our Registration Statement on Form F-1 (File No. 333-163155) filed with the Securities and Exchange Commission on November 17, 2009)
4.7	Summary of the Oral Agreement entered into between China Medstar Pte. Ltd. and Cheng Zheng (incorporated by reference to Exhibit 10.7 from our Registration Statement on Form F-1 (File No. 333-163155) filed with the Securities and Exchange Commission on November 17, 2009)
4.8	Summary of the Oral Agreement entered into between China Medstar Pte. Ltd. and Yaw Kong Yap (incorporated by reference to Exhibit 10.8 from our Registration Statement on Form F-1 (File No. 333-163155) filed with the Securities and Exchange Commission on November 17, 2009)
4.9	Translation of Medical Equipment Lease Agreement, dated as of August 25, 2009, by and between Medstar (Shanghai) Leasing Co., Ltd. and Chang'an Hospital Co., Ltd. (incorporated by reference to Exhibit 10.9 from our Registration Statement on Form F-1 (File No. 333-163155) filed with the Securities and Exchange Commission on November 23, 2009)
4.10	Translation of Service-Only Management Agreement, dated as of August 1, 2008, among CMS Hospital Management Co., Ltd., Xi'an Wanjiechangxin Medical Services Company Limited and Chang'an Hospital Co., Ltd. (incorporated by reference to Exhibit 10.10 from our Registration Statement on Form F-1 (File No. 333-163155) filed with the Securities and Exchange Commission on November 23, 2009)
4.11	Translation of Agreement Concerning the Establishment of the Aohai Radiotherapy Treatment and Diagnosis Research Center, dated as of September 19, 1995, by and between the Chinese People's Liberation Army Navy General Hospital and Beijing Our Medical Equipment Development Company, which transferred its interest in the agreement to Shenzhen Aohua Medical Services Co., Ltd. (incorporated by reference to Exhibit 10.11 from our Registration Statement on Form F-1 (File No. 333-163155) filed with the Securities and Exchange Commission on November 23, 2009)
4.12	Translation of Supplemental Agreement Concerning the Development of the Aohai Radiotherapy Treatment and Diagnosis Research Center, dated as of March 18, 1999, by and between Shenzhen Aohua Medical Services Co., Ltd. and the Chinese People's Liberation Army Navy General Hospital. (incorporated by reference to Exhibit 10.12 from our Registration Statement on Form F-1 (File No. 333-163155) filed with the Securities and Exchange Commission on November 23, 2009)
4.13	Translation of Supplemental Agreement Concerning the Development of the Aohai Radiotherapy Treatment and Diagnosis Research Center, dated as of September 27, 2003, by and between Shenzhen Aohua Medical Services Co., Ltd. and the Chinese People's Liberation Army Navy General Hospital. (incorporated by reference to Exhibit 10.13 from our Registration Statement on Form F-1 (File No. 333-163155) filed with the Securities and Exchange Commission on November 23, 2009)
4.14	Translation of Medical Equipment Lease Agreement, dated as of September 29, 2006, by and between Shanghai Medstar Investment Management Co., Ltd., the predecessor of Medstar (Shanghai) Leasing Co., Ltd., and the Chinese People's Liberation Army Navy General Hospital. (incorporated by reference to Exhibit 10.14 from our Registration Statement on Form F-1 (File No. 333-163155) filed with the Securities and Exchange Commission on November 17, 2009)
4.15	Translation of Supplemental Agreement Concerning the Development of the Aohai Radiotherapy Treatment and Diagnosis Research Center, dated as of July 8, 2009, by and between Shenzhen Aohua Medical Services Co., Ltd. and the Chinese People's Liberation Army Navy General Hospital. (incorporated by reference to Exhibit 10.15 from our Registration Statement on Form F-1 (File No. 333-163155) filed with the Securities and Exchange Commission on November 23, 2009)

Table of Contents

<u>Exhibit Number</u>	<u>Description of Document</u>
4.16	Translation of Supplemental Agreement to the Service-only Management Agreement, dated as of August 1, 2008, among Xi'an Wanjiechangxin Medical Services Company Limited, Chang'an Hospital Co., Ltd. and CMS Hospital Management Co., Ltd. (incorporated by reference to Exhibit 10.16 from our Registration Statement on Form F-1 (File No. 333-163155) filed with the Securities and Exchange Commission on November 17, 2009)
4.17	Translation of Agreement Regarding the Transfer of Equity in Aohai Radiotherapy Treatment and Diagnosis Research Center, dated as of May 5, 1997, among Beijing Our Medical Equipment Development Company, Shenzhen Aohua Medical Services Co., Ltd. and the Chinese People's Liberation Army Navy General Hospital. (incorporated by reference to Exhibit 10.17 from our Registration Statement on Form F-1 (File No. 333-163155) filed with the Securities and Exchange Commission on November 17, 2009)
4.18	Translation of Supplemental Agreement to the Supplemental Agreement Concerning the Development of the Aohai Radiotherapy Treatment and Diagnosis Research Center, dated as of September 15, 2004, by and between Shenzhen Aohua Medical Services Co., Ltd. and the Chinese People's Liberation Army Navy General Hospital. (incorporated by reference to Exhibit 10.18 from our Registration Statement on Form F-1 (File No. 333-163155) filed with the Securities and Exchange Commission on November 17, 2009)
4.19	Translation of Supplemental Agreement to the Cooperation Contract Concerning the Aohai Radiotherapy Treatment and Diagnosis Research Center, dated as of August 16, 2003, by and between Shenzhen Aohua Medical Services Co., Ltd. and the Chinese People's Liberation Army Navy General Hospital. (incorporated by reference to Exhibit 10.19 from our Registration Statement on Form F-1 (File No. 333-163155) filed with the Securities and Exchange Commission on November 17, 2009)
4.20	Amendment to 2008 Share Incentive Plan adopted as of November 17, 2009 (incorporated by reference to Exhibit 10.19 from our Registration Statement on Form F-1 (File No. 333-163155) filed with the Securities and Exchange Commission on November 20, 2009)
4.21	Translation of Strategic Cooperative Agreement, dated as of November 17, 2009, between China Construction Bank Corporation, Shenzhen Branch and China Medical Services Holdings Limited (incorporated by reference to Exhibit 10.19 from our Registration Statement on Form F-1 (File No. 333-163155) filed with the Securities and Exchange Commission on December 7, 2009)
8.1*	List of Subsidiaries
11.1	Code of Business Conduct and Ethics (incorporated by reference to Exhibit 99.1 from our Registration Statement on Form F-1 (File No. 333-163155) filed with the Securities and Exchange Commission on November 20, 2009)
12.1*	CEO Certification Pursuant to Section 302 of the Sarbanes Oxley Act of 2002
12.2*	CFO Certification Pursuant to Section 302 of the Sarbanes Oxley Act of 2002
13.1*	CEO Certification Pursuant to Section 906 of the Sarbanes Oxley Act of 2002
13.2*	CFO Certification Pursuant to Section 906 of the Sarbanes Oxley Act of 2002
101.INS*	XBRL Instance Document.
101.SCH*	XBRL Taxonomy Extension Schema Document.
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document.

* Filed with this annual report

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing its annual report on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

CONCORD MEDICAL SERVICES HOLDINGS
LIMITED

By: /s/ Jianyu Yang
Name: Jianyu Yang
Title: Chief Executive Officer

Date: April 27, 2015

NDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	Page
Consolidated financial statements	
Report of Independent Registered Public Accounting Firm	F-2 - F-3
Consolidated Balance Sheets as of December 31, 2013 and 2014	F-4 - F-5
Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2012, 2013 and 2014	F-6
Consolidated Statements of Cash Flows for the Years Ended December 31, 2012, 2013 and 2014	F-7 - F-8
Consolidated Statements of Shareholders' Equity for the Years Ended December 31, 2012, 2013 and 2014	F-9 - F-10
Notes to the Consolidated Financial Statements	F-11 - F-46

[Table of Contents](#)

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of Concord Medical Services Holdings Limited

We have audited the accompanying consolidated balance sheets of Concord Medical Services Holdings Limited (the “Company”) as of December 31, 2014 and 2013, and the related consolidated statements of comprehensive income, shareholders’ equity, and cash flows for each of the three years in the period ended December 31, 2014. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Concord Medical Services Holdings Limited at December 31, 2014 and 2013, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Concord Medical Services Holdings Limited’s internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated April 27, 2015 expressed an unqualified opinion thereon.

/s/ Ernst & Young Hua Ming LLP

Shenzhen, People’s Republic of China

April 27, 2015

[Table of Contents](#)

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of Concord Medical Services Holdings Limited

We have audited Concord Medical Services Holdings Limited's (the "Company") internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). Concord Medical Services Holdings Limited's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Assessment of Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

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

In our opinion, Concord Medical Services Holdings Limited maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Concord Medical Services Holdings Limited as of December 31, 2014 and 2013 and the related consolidated statements of comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2014 of Concord Medical Services Holdings Limited and our report dated April 27, 2015 expressed an unqualified opinion thereon.

/s/ Ernst & Young Hua Ming LLP

Shenzhen, People's Republic of China

April 27, 2015

CONCORD MEDICAL SERVICES HOLDINGS LIMITED
CONSOLIDATED BALANCE SHEETS
(Amounts in thousands of Renminbi (“RMB”) and US dollar (“US\$”), except for number of shares)

		As at December 31		
	Note	2013	2014	2014
		RMB	RMB	US\$
ASSETS				
Current assets:				
Cash		283,033	478,682	77,150
Restricted cash, current portion	5	422,140	392,328	63,232
Accounts receivable (net of allowance of RMB3,091 and RMB2,281 (US\$368) as of December 31, 2013 and 2014, respectively)	6	313,909	265,010	42,712
Inventories	8	19,717	2,986	481
Prepayments and other current assets (net of reserve of RMB9,292 and RMB1,522 (US\$245) as of December 31, 2013 and 2014, respectively)	7	111,480	177,267	28,570
Amounts due from related parties	23	10,265	—	—
Net investment in direct financing leases, current portion	13	128,814	143,853	23,185
Deferred tax assets, current portion	21	10,652	3,556	573
Total current assets		1,300,010	1,463,682	235,903
Non-current assets:				
Property, plant and equipment, net	9	1,492,573	749,683	120,827
Goodwill	11	292,885	—	—
Intangible assets, net	11	116,843	61,243	9,871
Deposits for non-current assets (net of reserve of RMB26,552 and RMB26,552 (US\$4,279) as of December 31, 2013 and 2014, respectively)	12	76,669	101,166	16,305
Net investment in direct financing leases, non-current portion	13	199,467	130,934	21,103
Deferred tax assets, non-current portion	21	17,721	17,183	2,769
Equity method investments	14	217,413	221,180	35,648
Other non-current assets	15	86,847	52,892	8,525
Prepaid land lease payments	10	140,201	51,529	8,305
Restricted cash, non-current portion	5	—	109,840	17,703
Indemnification assets	4	59,518	—	—
Loan to a noncontrolling shareholder of a subsidiary	23	93,410	—	—
Total non-current assets		2,793,547	1,495,650	241,056
Total assets		4,093,557	2,959,332	476,959

CONCORD MEDICAL SERVICES HOLDINGS LIMITED
CONSOLIDATED BALANCE SHEETS (continued)
(Amounts in thousands of Renminbi (“RMB”) and US dollar (“US\$”), except for number of shares)

		As at December 31		
	Note	2013	2014	2014
		RMB	RMB	US\$
LIABILITIES AND EQUITY				
Current liabilities:				
Short-term bank borrowings	16	487,964	322,128	51,918
Long-term bank borrowings, current portion	16	273,310	246,233	39,686
Accounts payable		149,209	1,064	171
Accrual for purchases of property, plant and equipment		49,741	11,784	1,899
Accrued expenses and other liabilities	17	146,489	130,193	20,983
Income tax payable	21	48,201	56,151	9,050
Deferred revenue, current portion		15,668	1,038	167
Amount due to related parties, current portion	23	3,217	—	—
Deferred tax liabilities, current portion	21	860	1,228	198
Total current liabilities		1,174,659	769,819	124,072
Non-current liabilities:				
Long-term bank borrowings, non-current portion	16	324,974	335,479	54,069
Deferred tax liabilities, non-current portion	21	32,891	50,227	8,095
Accrued unrecognized tax benefits and surcharges, non-current portion	21	67,719	—	—
Amounts due to related parties, non-current portion	23	26,828	—	—
Other long-term liabilities	18	32,769	3,749	604
Total non-current liabilities		485,181	389,455	62,768
Total liabilities		1,659,840	1,159,274	186,840
Commitments and contingencies	25			
Equity:				
Ordinary shares (par value of US\$0.0001 per share; authorized shares—500,000,000; issued shares—142,353,532 as of December 31, 2013 and 2014; outstanding shares—134,836,300 and 134,836,300 as of December 31, 2013 and 2014, respectively)	19	105	105	17
Treasury stock (7,517,232 and 7,517,232 as of December 31, 2013 and 2014, respectively)		(5)	(5)	(1)
Additional paid-in capital		2,520,338	2,074,125	334,288
Accumulated other comprehensive loss		(15,283)	(18,651)	(3,006)
Accumulated deficit		(383,162)	(258,025)	(41,583)
Total Concord Medical Services Holdings Limited shareholders' equity		2,121,993	1,797,549	289,715
Noncontrolling interests		311,724	2,509	404
Total equity		2,433,717	1,800,058	290,119
Total liabilities and equity		4,093,557	2,959,332	476,959

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

CONCORD MEDICAL SERVICES HOLDINGS LIMITED
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in thousands of Renminbi (“RMB”) and US dollar (“US\$”),
except for number of shares and per share data)

	Note	For the Years Ended December 31			
		2012 RMB	2013 RMB	2014 RMB	2014 US\$
Revenues, net of business tax, value-added tax and related surcharges		455,651	563,124	606,883	97,813
Cost of revenues		(164,523)	(217,655)	(274,562)	(44,251)
Gross profit		291,128	345,469	332,321	53,562
Operating expenses:					
Selling expenses		(53,911)	(104,667)	(95,096)	(15,327)
General and administrative expenses		(61,106)	(84,506)	(53,576)	(8,635)
Asset impairment		(3,360)	—	—	—
Other operating income		9,185	—	—	—
Operating income		181,936	156,296	183,649	29,600
Interest expense		(12,452)	(36,884)	(53,470)	(8,618)
Foreign exchange (losses) gains, net		(117)	784	9,585	1,545
Gain (loss) from disposal of property, plant and equipment		4,432	(1,235)	(3,955)	(637)
Interest income		5,853	9,828	21,208	3,418
Changes in fair value of derivative	17	—	—	2,605	420
Equity pick up of equity investees	14	1,790	13,470	13,911	2,242
Other (expenses) income, net		(307)	2,010	2,113	341
Income from continuing operations before income tax		181,135	144,269	175,646	28,311
Income tax expenses	21	(54,249)	(63,838)	(80,850)	(13,032)
Net income from continuing operations		126,886	80,431	94,796	15,279
Net income from discontinued operations	4	7,594	10,765	25,476	4,106
Net income		134,480	91,196	120,272	19,385
Net income (loss) attributable to noncontrolling interests		3,649	5,303	(4,437)	(715)
Net income attributable to ordinary shareholders		130,831	85,893	124,709	20,100
Earnings per share					
Net income from continuing operations	27	0.94	0.61	0.70	0.11
Net income from discontinued operations	27	0.01	0.03	0.22	0.04
Basic	27	0.95	0.64	0.92	0.15
Net income from continuing operations	27	0.94	0.61	0.70	0.11
Net income from discontinued operations	27	0.01	0.03	0.22	0.04
Diluted	27	0.95	0.64	0.92	0.15
Weighted average number of shares outstanding:					
Basic	27	138,211,177	135,077,172	134,836,300	134,836,300
Diluted	27	138,211,177	135,077,172	135,180,642	135,180,642
Other comprehensive income (loss), net of tax					
Foreign currency translation		640	1,672	(3,368)	(543)
Total other comprehensive income (loss), net of tax		640	1,672	(3,368)	(543)
Comprehensive income		135,120	92,868	116,904	18,842
Comprehensive income (loss) attributable to noncontrolling interests		3,649	5,303	(4,437)	(715)
Comprehensive income attributable to Concord Medical Services Holdings Limited's shareholders		131,471	87,565	121,341	19,557

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

CONCORD MEDICAL SERVICES HOLDINGS LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in thousands of Renminbi (“RMB”) and US dollar (“US\$”))

	For the Years Ended December 31			
	2012 RMB	2013 RMB	2014 RMB	2014 US\$
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income from continuing operations	126,886	80,431	94,796	15,279
Net income from discontinued operations	7,594	10,765	25,476	4,106
Adjustments to reconcile net income to net cash generated from operating activities:				
Share-based compensation	9,084	8,804	7,349	1,185
Depreciation of property, plant and equipment	119,919	149,975	175,008	28,206
Amortization of intangible assets	28,658	29,669	23,061	3,717
Amortization of prepaid land lease payments	1,637	2,801	3,610	582
Share of net profit of equity investees	(1,790)	(15,521)	(13,911)	(2,242)
Other noncash income	(2,681)	—	—	—
Loss on disposal of property, plant and equipment, net	1,072	1,235	3,610	582
Amortization of acquired executory contracts	(412)	(822)	—	—
Deferred tax benefits	1,869	3,361	23,307	3,756
Allowance for doubtful accounts, net	(12,966)	—	(9,010)	(1,452)
Asset impairment	3,360	—	—	—
Changes in fair value of derivatives	—	—	2,605	420
Gain on disposal of CAH and WHT (note 4)	—	—	(38,487)	(6,203)
Changes in operating assets and liabilities net of effects of acquisition and disposals:				
Accounts receivable	9,870	(102,187)	4,505	726
Prepayments and other current assets	(12,622)	11,673	(5,029)	(811)
Inventories	(362)	(11,036)	237	38
Amounts due from related parties	(650)	(9,058)	(3,384)	(545)
Amounts due to related parties	5,109	(2,693)	(326)	(53)
Other non-current assets	2,889	7,025	36,234	5,840
Deposits for the purchases of land use rights	(25,451)	(27,427)	—	—
Accounts payable	(6,966)	48,646	31,288	5,043
Accrued expenses and other liabilities	(1,975)	36,966	35,488	5,720
Deferred revenue	(2,842)	(4,362)	11,146	1,796
Income tax payable	1,610	23,024	22,397	3,610
Accrued unrecognized tax benefit	8,675	17,764	60,411	9,736
Net cash generated from operating activities	<u>259,515</u>	<u>259,033</u>	<u>490,381</u>	<u>79,036</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of held to maturity securities	—	(30,000)	—	—
Maturity of held to maturity securities	100,466	30,000	—	—
Maturity of the time deposit	50,372	—	—	—
Investments in equity method investees	(228,696)	(2,640)	(6,534)	(1,053)
Acquisitions, net of cash acquired (note 4)	(223,403)	—	—	—
Disposal net of cash disposed (note 4)	—	—	280,142	45,151
Purchase of subsidiary shares from noncontrolling interests	—	(1,500)	—	—
Acquisition of property, plant and equipment	(65,904)	(74,553)	(51,480)	(8,297)
Deposits for the purchases of property, plant and equipment	(218,833)	(85,448)	(58,370)	(9,408)
Refund of deposits for the purchase of property, plant and equipment	—	11,357	—	—
Proceeds from disposal of property, plant and equipment	4,707	6,500	27,779	4,477
Proceeds from principal portion of direct financing leases	37,426	47,319	117,328	18,910
Net investment in direct financing leases	(115,425)	(59,289)	(43,794)	(7,058)
Cash distribution from equity investees	—	24,714	21,984	3,543
Net cash (used in) generated from investing activities	<u>(659,290)</u>	<u>(133,540)</u>	<u>287,055</u>	<u>46,265</u>

[Table of Contents](#)

	For the Years Ended December 31			
	2012 RMB	2013 RMB	2014 RMB	2014 US\$
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from short-term bank borrowings	258,083	190,692	9,000	1,451
Proceeds from long-term bank borrowings	518,749	407,969	291,892	47,044
Repayment of obligations under capital leases	(3,354)	(2,117)	(8,567)	(1,381)
Repayment of short-term bank borrowings	(2,000)	(79,246)	(110,569)	(17,820)
Repayment of long-term bank borrowings	(112,554)	(302,058)	(273,310)	(44,050)
Increase in restricted cash	(259,523)	(138,093)	(80,028)	(12,898)
Dividends paid to ordinary shareholders	—	—	(453,562)	(73,101)
Proceeds received from sales lease back	—	—	46,000	7,414
Repurchase of ordinary shares	(43,469)	(6,015)	—	—
Increase in loan to a noncontrolling interest of a subsidiary	(100,000)	—	—	—
Repayment of loan from a noncontrolling shareholder of a subsidiary	—	6,590	—	—
Net cash generated from (used in) financing activities	<u>255,932</u>	<u>77,722</u>	<u>(579,144)</u>	<u>(93,341)</u>
Exchange rate effect on cash	147	4,436	(2,643)	(427)
Net (decrease) increase in cash	(143,696)	207,651	195,649	31,533
Cash at beginning of year	219,078	75,382	283,033	45,617
Cash at end of year	<u>75,382</u>	<u>283,033</u>	<u>478,682</u>	<u>77,150</u>
Supplemental schedule of cash flows information:				
Income tax paid	(50,474)	(6,318)	(34,452)	(5,553)
Interest paid (net of amounts capitalized)	(16,255)	(37,527)	(53,470)	(8,618)
Supplemental schedule of non-cash activities:				
Acquisition of property, plant and equipment and other intangible assets through utilization of deposits	221,291	74,267	27,492	4,431
Acquisition of property, plant and equipment included in accrual for purchase of property, plant and equipment	—	9,050	1,519	245
Acquisition of net investment in financing lease through utilization of deposits	52,881	27,940	—	—
Consideration of acquisition of CAH due to effective settlement of preexisting balance as the result of the business combination	128,573	—	—	—
Contribution by the noncontrolling shareholder – JWYK of intangible assets	4,900	—	—	—
Deposit for land use right transfer to land use right	—	25,451	—	—

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

CONCORD MEDICAL SERVICES HOLDINGS LIMITED
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(Amounts in thousands of Renminbi ("RMB") and United States Dollar ("US\$"), except for number of shares)

	Attributable to Concord Medical Services Holdings Limited							
	Number of ordinary shares	Ordinary shares RMB	Treasury stock RMB	Additional paid-in capital RMB	Accumulated other comprehensive loss RMB	Accumulated deficit RMB	Noncontrolling interests RMB	Total equity RMB
Balance as of January 1, 2012	141,403,597	105	(1)	2,551,877	(17,595)	(599,886)	103,596	2,038,096
Net income	—	—	—	—	—	130,831	3,649	134,480
Other comprehensive income	—	—	—	—	640	—	—	640
Share-based compensation	—	—	—	9,084	—	—	—	9,084
Share repurchase	(5,916,189)	—	(4)	(43,465)	—	—	—	(43,469)
Contribution by noncontrolling interests of JWYK (note 1)	—	—	—	—	—	—	4,900	4,900
Acquisition of CAH (note 4)	—	—	—	—	—	—	196,179	196,179
Balance as of December 31, 2012	<u>135,487,408</u>	<u>105</u>	<u>(5)</u>	<u>2,517,496</u>	<u>(16,955)</u>	<u>(469,055)</u>	<u>308,324</u>	<u>2,339,910</u>
Net income	—	—	—	—	—	85,893	5,303	91,196
Other comprehensive income	—	—	—	—	1,672	—	—	1,672
Share-based compensation	—	—	—	8,804	—	—	—	8,804
Share repurchase	(651,108)	—	—	(6,015)	—	—	—	(6,015)
Contribution by noncontrolling interests of JWYK (note 1)	—	—	—	53	—	—	(1,903)	(1,850)
Balance as of December 31, 2013	<u>134,836,300</u>	<u>105</u>	<u>(5)</u>	<u>2,520,338</u>	<u>(15,283)</u>	<u>(383,162)</u>	<u>311,724</u>	<u>2,433,717</u>

CONCORD MEDICAL SERVICES HOLDINGS LIMITED
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (continued)
(Amounts in thousands of Renminbi ("RMB") and United States Dollar ("US\$"), except for number of shares)

	Attributable to Concord Medical Services Holdings Limited							
	Number of ordinary shares	Ordinary shares RMB	Treasury stock RMB	Additional paid-in capital RMB	Accumulated other comprehensive loss RMB	Accumulated deficit RMB	Noncontrolling interests RMB	Total equity RMB
Balance as of January 1, 2014	134,836,300	105	(5)	2,520,338	(15,283)	(383,162)	311,724	2,433,717
Net income	—	—	—	—	—	124,709	(4,437)	120,272
Other comprehensive income	—	—	—	—	(3,368)	—	—	(3,368)
Share-based compensation	—	—	—	7,349	—	—	—	7,349
Dividends	—	—	—	(453,562)	—	—	—	(453,562)
Disposal of CAH and WHT (note 4)	—	—	—	—	—	—	(304,370)	(304,370)
Others	—	—	—	—	—	428	(408)	20
Balance as of December 31, 2014	<u>134,836,300</u>	<u>105</u>	<u>(5)</u>	<u>2,074,125</u>	<u>(18,651)</u>	<u>(258,025)</u>	<u>2,509</u>	<u>1,800,058</u>
Balance as of December 31, 2014 (US\$)		<u>17</u>	<u>(1)</u>	<u>334,288</u>	<u>(3,006)</u>	<u>(41,583)</u>	<u>404</u>	<u>290,119</u>

CONCORD MEDICAL SERVICES HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands of Renminbi (“RMB”) and United States Dollar (“US\$”),
except for number of shares and per share data)

1. ORGANIZATION AND BASIS OF PRESENTATION

The accompanying consolidated financial statements include the financial statements of Concord Medical Services Holdings Limited (the “Company”) and its subsidiaries. The Company and its subsidiaries are collectively referred to as the “Group”.

The Group is principally engaged in the leasing of radiotherapy and diagnostic imaging equipment, the provision of management services to hospitals. During the year ended December 31, 2014, the operations of Chang’an Hospital (“CAH”) and Xi’an Wanjie Huaxiang Medical Technology Development (“WHT”) have been classified as discontinued operations upon the disposal (note 4).

The Group develops and operates its business through its subsidiaries. Details of the Company’s subsidiaries as of December 31, 2014 are as follows:

Company	Date of establishment	Place of establishment	Percentage of ownership by the Company	Principal activities
Ascendium Group Limited (“Ascendium”)	September 10, 2007	British Virgin Islands (“BVI”)	100%	Investment holding
Our Medical Services Limited (“OMS”)	August 22, 1996	BVI	100%	Investment holding
Medstar Oversea Ltd. (“Medstar Overseas”)	September 22, 2011	BVI	100%	Investment holding
US Proton Therapy Holdings Limited (“Proton BVI”)	May 16, 2011	BVI	100%	Investment holding
US Proton Therapy Holdings Limited (“US Proton”)	June 29, 2011	United States of America	100%	Investment holding
Concord Medical Services (International) Pte. Ltd. (“China Medstar”) (formerly known as China Medstar Pte. Limited)	August 8, 2003	Singapore	100%	Investment holding
Cyber Medical Networks Limited (“Cyber”)	May 26, 2006	Hong Kong	100%	Investment holding
China Medical Services (Holdings) Limited (“CMS Holdings”)	July 18, 2008	Hong Kong	100%	Investment holding
King Cheers Holdings Limited (“King Cheers”)	May 18, 2001	Hong Kong	100%	Investment holding
Shenzhen Aohua Medical Technology and Services Co., Ltd (“AMT”) (AMT merged from formerly known as Shenzhen Aohua Medical Leasing & Services Limited (“AML”) and Shenzhen Aohua Medical Services Co., Ltd (“AMS”))	February 21, 2008	PRC	100%	Leasing of medical equipment and provision of management services
Medstar (Shanghai) Leasing Co., Ltd. (“MSC”)	March 21, 2003	PRC	100%	Leasing of medical equipment and provision of management services
CMS Hospital Management Co., Ltd. (“CHM”)	July 23, 2008	PRC	100%	Provision of management services
Beijing Yundu Internet Technology Co., Ltd. (“Yundu”)	July 26, 2007	PRC	100%	Provision of management services

[Table of Contents](#)

Company	Date of establishment	Place of establishment	Percentage of ownership by the Company	Principal activities
Tianjin Kangmeng Radiology Equipment Management Co., Ltd. (“TKM”)	April 22, 2010	PRC	100%	Leasing of medical equipment and provision of management services
Guangzhou Jinkangshenyou Investment Co., Ltd. (“JKSY”)	August 12, 2010	PRC	100%	Leasing of medical equipment
Guangzhou Concord Medical Cancer Hospital Co., Ltd (“GZ Proton”)	June 29, 2011	PRC	70%	Medical technology research and development, and provision of management and consulting services.
Beijing Jinweiyikang Technology Co., Ltd. (“JWYK”)	April 26, 2012	PRC	100%	Medical information and technology services
CCM (Hong Kong) Medical Investments Limited (“CCM (HK)”)	June 03, 2013	Hong Kong	100%	Investment holding
CMS Radiotherapy Holdings Limited (“CMS (USA)”)	August 13, 2013	United States of America	100%	Investment holding
Shenzhen Concord Medical Investment Limited (“SZ CMS”)	January 10, 2014	PRC	100%	Investment holding
Shanghai Concord Oncology Hospital Limited (“SHC”)	March 17, 2014	PRC	100%	Group’s medical treatment and service business
Global Medical Imaging (HongKong) Limited. (“GMI”)	May 26, 2014	Hong Kong	100%	Investment holding
Allcure Medical Holdings Limited (“Allcure”)	July 29, 2014	BVI	100%	Investment holding
Datong Meizhong Jiahe Cancer Center (“DTMZ”)	October 23, 2014	PRC	100%	Group’s medical treatment and service business

The Company was incorporated under the laws of the Cayman Islands on November 27, 2007.

On December 16, 2009, the Company completed its initial public offering of 12,000,000 American Depositary Shares (“ADSs”) at US\$11.0 per ADS. Each ADS comprises three ordinary shares of the Company. The net proceeds to the Company from the offering amounted to approximately RMB813,938 (US\$119,211), net of underwriter commission and issuance costs.

GZ Proton was incorporated by the Group and a third party on June 29, 2011, for purposes of expanding the Group’s business of medical technology research and development as well as provision of management and consultant services. The Group held 90% equity interest in GZ Proton upon incorporation. On June 6, 2013, 20% of equity interest in GZ Proton held by the Group was transferred to an independent third party in exchange for the services to be provided to GZ Proton when GZ Proton commences operations. Up to December 31, 2014, no services have been rendered as GZ Proton has not commenced operations.

On April 26, 2012, the Group and a third party set up JWYK, for purposes of expanding the Group’s business of medical information and technology services. The Group held 51% of the equity interest in JWYK upon incorporation. On June 28, 2013, the Group acquired the remaining 49% equity interest in JWYK with a consideration of a fixed amount of RMB1,850 plus a contingent amount of RMB3,150 which is payable up to three years after incorporation subject to the achievement of certain conditions. As at December 31, 2014, the conditions have not been fulfilled.

On December 18, 2014, the Group sold its 52% equity interest in CAH and WHT to Datang Healthcare Corporation Limited (“Datang”), a Hong Kong company, at a total consideration of RMB397,923 (US\$64,134) (note 4).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The accompanying consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles (“U.S. GAAP”).

Use of estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the balance sheet dates and the reported amounts of revenues and expenses during the reporting periods. Significant estimates and assumptions reflected in the Company’s financial statements include, but are not limited to, purchase price allocation, contingent business acquisition consideration, contingent consideration of acquisition of noncontrolling interests, revenue recognition, allowance for doubtful accounts, asset impairment, useful lives of property, plant and equipment and intangible assets, realization of deferred tax assets, share-based compensation expenses, unrecognized tax benefits, accrued liabilities, the valuation of the Company’s acquired equity investments and the valuation of derivative instruments. Actual results could materially differ from those estimates.

Principles of consolidation

The consolidated financial statements of the Group include the financial statements of the Company and its subsidiaries. All transactions and balances between the Company and its subsidiaries have been eliminated upon consolidation.

Foreign currency translation and transactions

The Company’s PRC subsidiaries determine their functional currencies to be the Chinese Renminbi (“RMB”) based on the criteria of ASC 830, *Foreign Currency Matters* (“ASC 830”). The Company uses the RMB as its reporting currency. The functional currency of the Company and its subsidiaries, Ascendium, CMS Holdings, OMS, Cyber, China Medstar, King Cheers, Medstar Overseas, Proton BVI, CCM (HK), US Proton, CMS (USA), Allcure and GMI is the United States dollar (“US\$”). The Company and the subsidiaries whose functional currency is the US\$ use the monthly average exchange rate for the year and the exchange rate at the balance sheet date to translate the operating results and financial position, respectively. Translation differences are recorded in accumulated other comprehensive loss, a component of shareholders’ equity.

Transactions denominated in foreign currencies are remeasured into the functional currency at the exchange rates prevailing on the transaction dates. Foreign currency denominated financial assets and liabilities are remeasured at the exchange rates prevailing at the balance sheet date. Exchange gains and losses are included in the consolidated statements of comprehensive income.

Accumulated other comprehensive loss represents the cumulative foreign currency translation adjustments at each balance sheet date.

Convenience translation

Amounts in U.S. dollars are presented for the convenience of the reader and are translated at the noon buying rate of RMB6.2046 to US\$1.00 on December 31, 2014 as published on the website of the Federal Reserve Board. No representation is made that the RMB amounts could have been, or could be, converted into US\$ at such rate.

Business combination

The Company accounts for business combinations using the purchase method of accounting in accordance with ASC 805. ASC 805 requires the Company to recognize separately from goodwill the assets acquired, the liabilities assumed and the noncontrolling interest at their acquisition date fair values. Goodwill as of the acquisition date is measured as the excess of consideration transferred and the net of the acquisition date fair values of the assets acquired and the liabilities assumed. In cases where the Company acquires less than 100% ownership interest, the Company will derive the fair value of the acquired business as a whole, which will typically include a control premium and subtract the consideration transferred by the Company for the controlling interest to identify the fair value of the noncontrolling interest. In addition, the share purchase agreements entered into may contain contingent consideration provisions obligating the Group to pay additional purchase consideration, upon the acquired business’s achievement of certain agreed upon operating performance based milestones. Under ASC 805, these contingent consideration arrangements are required to be recognized and measured at fair value at the acquisition date as either a liability or as an equity instrument, with liability instruments being required to be remeasured at each reporting period through the Company’s statements of comprehensive income until such time as to when the contingency is resolved.

The Company derives estimates of the fair value of assets acquired and liabilities assumed using reasonable assumptions based on historical experiences and on the information obtained from management of the acquired companies. Critical estimates in valuing certain of the intangible assets and pre-existing agreements included but were not limited to the following: deriving estimates of future expected cash flows from the acquired business, the determination of an appropriate discount rate, deriving assumptions regarding the period of time that the related benefits would continue and the initial measurement and recognition of any contingent consideration arrangements and the evaluation of whether contingent consideration arrangement is in substance compensation for future services. Unanticipated events may occur which may affect the accuracy or validity of such assumptions or estimates.

Cash

Cash includes cash deposits with original maturities of less than three months, which are unrestricted as to withdrawal and use.

Restricted cash

Short-term and long-term restricted cash represent collateral required to be maintained pursuant to contractual financing arrangements the Group has entered into with certain financial institutions (note 5).

Equity method investments

Investments in less-than-majority-owned investees over which the Group has significant influence are accounted for under the equity method of accounting in accordance with ASC 323, *Investments-Equity Method and Joint Venture* ("ASC 323"), which requires equity investments be carried at original cost adjusted for the proportionate share of the investees' income, losses and distributions. The share of net profit of equity investee includes the effect of basis difference between the carrying value of the investments and the Group's share of the underlying assets of the investee. An interest in a limited partnership is also accounted for using the equity method of accounting as described in ASC 323, unless the limited partner's interest is so minor that the Company may have virtually no influence over partnership operating and financial policies. The Group assesses the carrying value of equity investments when an indicator of a loss in value is present and records a loss in value of the investment when the assessment indicates that another-than-temporary decline in the investment exists.

Accounts receivable and allowance for doubtful accounts

The Group considers many factors in assessing the collectability of its receivables due from its customers, such as, the age of the amounts due, the customer's payment history and credit-worthiness. An allowance for doubtful accounts is recorded in the period in which uncollectability is determined to be probable. The Group routinely evaluates the collectability of accounts receivable of each customer on a specific identification basis. At the time when the Group is aware of circumstances that may impair a specific customer's ability to meet its financial obligations subsequently, the Group records a specific allowance against amounts due, and thereby reduces the net recognized receivable to the collectible amount. Accounts receivable balances are written off after all collection efforts have been exhausted.

Inventories

Inventories, consisting of medicine, medical supplies and low-value consumables, are accounted for using the first-in first-out method, and are valued at the lower of cost or market.

Lease obligations

In accordance with ASC 840, *Leases* ("ASC 840"), leases for a lessee are classified at the inception date as either a capital lease or an operating lease. The Company assesses a lease to be a capital lease if any of the following conditions exist: a) ownership is transferred to the lessee by the end of the lease term, b) there is a bargain purchase option, c) the lease term is at least 75% of the property's estimated remaining economic life or d) the present value of the minimum lease payments at the beginning of the lease term is 90% or more of the fair value of the leased property to the lessor at the inception date. A capital lease is accounted for as if there was an acquisition of an asset and an incurrence of an obligation at the inception of the lease. The capital lease obligation reflects the present value of future rental payments, discounted at the appropriate interest rates. The cost of the asset is amortized over the lease term. However, if ownership is transferred at the end of the lease term, the cost of the asset is amortized as set out under the property, plant and equipment, net section of this note.

Operating lease expenses are recognized on a straight-line basis over the applicable lease term.

Net investment in direct financing leases

Net investment in direct financing leases represents leases of medical equipment arising from sale and leaseback and direct financing lease transactions. For leases where the Group is the lessor, a transaction is accounted for as a direct financing lease if the transaction satisfies one of the four capital lease conditions as discussed under the lease obligations section of this note, the collectability of the minimum lease payments is reasonably predictable, and there are no important uncertainties surrounding the amount of unreimbursable costs yet to be incurred by the Group under the lease.

The net investment in the direct financing leases consists of the minimum lease payments, net of executory costs and profits thereon, unguaranteed residual value, accruing to the benefit of the Group and initial direct costs less unearned income. Over the period of a lease, each lease payment received is allocated between the repayment of the net investment in the lease and financing lease income based on the effective interest method so as to produce a constant rate of return on the balance of the net investment in the lease. The leased property is collateralized against the lease payments and is transferred to the lessee upon the maturity of the lease. There are no executory costs and profits thereon and unguaranteed residual value with respect to such leased equipment for the periods presented.

Property, plant and equipment, net

Property, plant and equipment are stated at cost and are depreciated using the straight-line method over the estimated useful lives of the assets, as follows:

Category	Estimated useful life	Estimated residual value
Buildings	38 years	—
Medical equipment*	5-20 years	—
Electronic and office equipment	3-5 years	—
Motor vehicles	5 years	—
Leasehold improvement and building improvement	shorter of lease term or 5 years	—

* The cost of the asset is amortized over the estimated useful life. However, if ownership is transferred at the end of the lease term, the cost of the asset is amortized over the shorter of customer contract or the useful life of the asset which ranges from 5-20 years.

Repair and maintenance costs are charged to expense as incurred, whereas the cost of renewals and betterments that extends the useful lives of property, plant and equipment is capitalized as additions to the related assets. Retirements, sales and disposals of assets are recorded by removing the cost and accumulated depreciation from the asset and accumulated depreciation accounts with any resulting gain or loss reflected in the consolidated statements of comprehensive income.

Costs incurred in constructing new facilities, including progress payment, interest and other costs relating to the construction are capitalized and transferred to fixed assets upon completion. Total interest costs incurred and capitalized during the years ended December 31, 2012, 2013 and 2014 amounted to RMB5,599, RMB2,496 and nil, respectively.

Goodwill

Goodwill represents the excess of the purchase price over the estimated fair value of net tangible and identifiable intangible assets acquired. In accordance with ASC 350, *Intangibles, Goodwill* ("ASC 350"), goodwill amounts are not amortized, but rather are tested for impairment at least annually or more frequently if there are indicators of impairment present.

In accordance with ASC 350, the Group assigns and assesses goodwill for impairment at the reporting unit level. A reporting unit is an operating segment or one level below the operating segment. As of December 31, 2014, goodwill was derecognized as a result of the disposal of CAH.

Intangible assets, net

Intangible assets relate to customer relationships, operating leases, medical insurance coverage and radiotherapy permits that are not considered to have an indefinite useful life. These intangible assets are amortized on a straight line basis over the economic life. The customer relationship assets relate to the ability to sell existing and future services to existing customers and have been estimated using the income method. Operating leases relate to favorable operating lease terms based on market conditions that exist on the date of acquisition and are amortized over the remaining term of the leases. The medical insurance coverage as an approved healthcare provider is issued by the medical insurance authority, based on which the hospital can join in the medical insurance network and can be reimbursed by the medical insurance authority for medical services provided to the patients who have been covered by medical insurance included in social insurance or other contribution, which is amortized over the remaining business license period. A radiotherapy permit is a legal license issued by the government for deploying and operating radiotherapy equipment in a hospital and the economic life of this license is assessed to be the estimated remaining useful life of the corresponding radiotherapy equipment.

Prepaid land lease payments

Prepaid land lease payments represent amounts paid for the right to use land in the PRC and are recorded at purchase cost less accumulated amortization. Amortization is provided on a straight line basis over the terms of the land use rights agreement of 49 years.

Impairment of long-lived assets and acquired intangibles

The Group evaluates its long-lived assets or asset group including acquired intangibles with finite lives for impairment whenever events or changes in circumstances (such as a significant adverse change to market conditions that will impact the future use of the assets) indicate that the carrying amount of a group of long-lived assets may not be fully recoverable. When these events occur, the Group evaluates the impairment by comparing the carrying amount of the assets to future undiscounted cash flows expected to result from the use of the assets and their eventual disposition. If the sum of the expected undiscounted cash flows is less than the carrying amount of the assets, the Group recognizes an impairment loss based on the excess of the carrying amount of the asset group over its fair value, generally based upon discounted cash flows or market prices.

For the year ended December 31, 2012, the Company recorded impairment on deposits for non-current assets amounting to RMB3,360, which is included in the caption of “Asset impairment” in the consolidated statements of comprehensive income. No impairment of long-lived assets and acquired intangibles was recorded for the years ended December 31, 2013 and 2014.

Treasury stock

The Company has share repurchase programs where the shares are acquired and subject to cancellation. Cost of the Company’s shares acquired is treated as a deduction from shareholders’ equity. Upon cancellation, any excess purchase price over par value is charged directly to additional paid-in capital.

Fair value of financial instruments

The carrying amounts of the Group’s financial instruments, including cash, restricted cash, accounts receivable, balances with related parties, accounts payable, and other liabilities approximate fair value because of their short maturities. The carrying amounts of the Group’s short-term and long-term bank borrowings and loan to a noncontrolling shareholder of a subsidiary mostly bear interest at floating rates and therefore approximate the fair value of these obligations. For those bank borrowings with fixed interest rates, management uses the discounted cash flow technique based on market interest rate for similar instruments at the balance sheet date and concludes that the carrying value approximates the fair value. Derivative financial instruments were recognized at fair value at the end of each reporting period with the adjustment in its fair value recognized in profit or loss. The Company, with the assistance of an independent third party valuation firm, determined the estimated fair value of its derivative financial instruments that are recognized in the consolidated financial statements.

Cash falls into level 1 of the fair value hierarchy while the other financial assets and liabilities fall into level 2 of the fair value hierarchy.

Deferred revenue

Deferred revenue arises from upfront cash payment where the related services have not been rendered and the revenue recognition criteria have yet been fulfilled.

Discontinued operations

The Group early adopted ASU2014-08 *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity* for the year ended December 31, 2014, pursuant to which, when a component of an entity has been disposed of and the component represents a strategic shift that has or will have a major effect on an entity’s operations and financial results, the results of its operations should be classified as discontinued operations in the consolidated statement of comprehensive income (loss) for all periods presented.

Revenue recognition

The majority of the Group’s revenues are derived directly from hospitals that enter into medical equipment lease and management service arrangements with the Group. To a lesser extent, revenues are generated from stand-alone management service arrangements where a hospital has previously acquired the equipment from the Company or through another vendor or sale of medical equipment.

i. *Lease and management services*

Lease and management service arrangements typically include the purchase and installation of diagnostic imaging and/or radiation oncology system (“medical equipment”) at the hospital, and the full-time deployment of a qualified system technician who is responsible for certain management services related to the radiotherapy or diagnostic services being performed by the hospital centers’ doctors to their patients.

The Group enters into both leases and management service arrangements with independent hospitals consisting of terms that range from 5 to 20 years. Pursuant to these arrangements, the Group receives a portion of the profit, based on the profit sharing formula as defined in the arrangements, of the hospital unit that delivers the diagnostic imaging and/or radiation oncology services.

Pursuant to ASC 840, the Group determined that the lease and management service arrangements contain a lease of medical equipment. The hospital has the ability and right to operate the medical equipment while obtaining more than a minor amount of the output. The arrangements also contain a non-lease deliverable being the management service element. The arrangement consideration should be allocated between the lease element and the non-lease deliverables on a relative fair value basis, however because all of the consideration is earned through the contingent rent feature discussed below, there is no impact of such allocation.

ASC 840 is applied to the lease elements of the arrangement and U.S. Securities and Exchange Commission (“SEC”) Staff Accounting Bulletin No. 104 (“SAB 104”) is applied to other elements of the arrangement not within the scope of ASC 840. Revenue not within the scope of ASC 840 is recognized when there is persuasive evidence of an arrangement, the fee is fixed or determinable, collectability is reasonably assured and the delivery of the medical equipment or services has occurred.

The lease rentals and management service receivable under the lease arrangement are based entirely on a profit sharing formula (“contingent rent feature”). The profitability of the business unit is not only dependent on the medical equipment placed at the hospital, but also the hospital’s ability to manage the costs and appoint doctors and clinical staff to operate the equipment. Certain of the lease and management service arrangements may include a transfer of ownership or bargain purchase option at the end of the lease term. Due to the length of the lease term, the collectability of these minimum lease payments is not considered reasonably predictable and there are also inherent uncertainties regarding the future costs to be incurred by the Group relating to the arrangement. Given these uncertainties, the Group accounts for all of these lease arrangements as operating leases.

As the collectability of the minimum lease rental is not considered predictable, and the remaining rental is considered contingent, the Group recognizes revenue when a lease payment under the arrangement becomes fixed, i.e. when the profit share under the arrangement is determined and agreed upon by both parties to the agreement. Similarly, for the service element of the arrangement, revenue is only considered determinable at the time a payment under the arrangement becomes fixed, i.e. when the profit share under the arrangement is determined and agreed upon by both parties. Revenue is recognized when it is determined that the basic criteria, referred to above, have also been met.

For the years ended December 31, 2012, 2013 and 2014, the revenue from lease and management services amounted to RMB412,330, RMB498,556 and RMB511,591 (US\$82,453), respectively.

ii. *Management services and technical services*

The Group provides stand-alone management services to certain hospitals which are already in possession of radiotherapy and diagnostic equipment and stand-alone technical services to certain hospitals. Management services typically include the provision of diagnosis and treatment techniques, experts support, advertising and promotion as well as comprehensive operational management. Technical services mainly include services related to the maintenance and upgrade of leasing equipment. The fees for management services and technical services are either based on a contracted percentage of monthly revenue generated by the specified hospital unit (“revenue share”) or in limited instances on a fixed monthly fee. Fixed monthly fees are recognized ratably over the service term. The consideration that is based on a revenue share arrangement is recognized when the monthly fees under the arrangement are determined and agreed upon by both parties to the agreement. Fixed monthly fees are recognized ratably over the service term.

For the years ended December 31, 2012, 2013 and 2014, revenue from management services amounted to RMB11,874, RMB15,723 and RMB37,713 (US\$6,078), respectively. For the years ended December 31, 2012, 2013 and 2014, the revenue from technical services amounted to RMB10,178, RMB13,243 and RMB20,777 (US\$3,349), respectively.

iii. *Direct financing lease income*

Pursuant to ASC 840, the Group records revenue attributable to direct financing leases so as to produce a constant rate of return on the balance of the net investment in the lease. During the years ended December 31, 2012, 2013 and 2014, the Company had financing lease income of RMB19,748, RMB33,639 and RMB29,250 (US\$4,714), net of taxes, respectively.

iv. *Medical equipment sales*

Pursuant to the application of ASC 605, *Revenue Recognition* (“ASC 605”), the Group records revenue related to medical equipment sales on a net basis when the equipment is delivered to the customer and the sales price is determinable. During the years ended December 31, 2012, 2013 and 2014, the Company had medical equipment sales of RMB1,520, RMB1,963 and RMB7,552 (US\$1,217), respectively.

Cost of revenue

Network costs mainly consist of the amortization of acquired intangibles, depreciation of medical equipment purchased, installed and operated in the network of centers and other costs, including salaries and material costs of medical supplies.

(1) Costs relating to lease and management service arrangement

Cost of medical equipment that is leased under an operating lease is included in property, plant and equipment in the balance sheet. The medical equipment is depreciated using the Group’s depreciation policies. The cost of the management service component is recognized as an expense as incurred.

(2) Cost of management services and technical services

Cost of management services and technical services mainly include labor costs, and, where applicable, medical consumables and maintenance expenses which are expensed as incurred.

(3) Cost of equipment sales

Cost of equipment sales, recorded net against the related revenue, includes the cost of the equipment purchased and other direct costs involved in the equipment sales.

Advertising expenditure

Advertising costs are expensed when incurred and are included in selling expenses in the consolidated statements of comprehensive income. For the years ended December 31, 2012, 2013 and 2014, the advertising expenses were RMB5,790, RMB7,679, and RMB6,680(US\$1,077), respectively.

Income taxes

The Group follows the liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial reporting and tax bases of assets and liabilities using enacted tax rates that will be in effect in the period in which the differences are expected to reverse. The Group records a valuation allowance to offset deferred tax assets if based on the weight of available evidence, it is more-likely-than-not that some portion, or all, of the deferred tax assets will not be realized. The effect on deferred taxes of a change in tax rate is recognized in tax expense in the period that includes the enactment date of the change in tax rate.

The Group adopted ASC 740, *Income Taxes* (“ASC 740”), which clarifies the accounting and disclosure for uncertainty in income taxes. Interests and penalties arising from underpayment of income taxes shall be computed in accordance with the applicable tax laws. The amount of interest expense is computed by applying the applicable statutory rate of interest to the difference between the tax position recognized and the amount previously taken or expected to be taken in a tax return. Interests and penalties recognized in accordance with ASC 740 is classified in the financial statements as a component of income tax expense. In accordance with the provisions of ASC 740, the Group recognizes in its financial statements the impact of a tax position if a tax return position or future tax position is “more likely than not” to prevail based on the facts and technical merits of the position. Tax positions that meet the “more likely than not” recognition threshold are measured at the largest amount of tax benefit that has a greater than fifty percent likelihood of being realized upon settlement. The Group’s estimated liability for unrecognized tax positions which are included in the “accrued expenses and other liabilities” account and “accrued unrecognized tax benefits and surcharges, non-current portion” accounts are periodically assessed for adequacy and may be affected by

changing interpretations of laws, rulings by tax authorities, changes and/or developments with respect to tax audits, and expiration of the statute of limitations. The outcome for a particular audit cannot be determined with certainty prior to the conclusion of the audit and, in some cases, appeal or litigation process. The actual benefits ultimately realized may differ from the Group's estimates. As each audit is concluded, adjustments, if any, are recorded in the Group's financial statements. Additionally, in future periods, changes in facts, circumstances, and new information may require the Group to adjust the recognition and measurement estimates with regard to individual tax positions. Changes in recognition and measurement estimates are recognized in the period in which the changes occur.

Share-based compensation

The Group's employees participate in the Company's share-based scheme which is discussed in more detail under note 23. Share-based awards granted to employees are accounted for under ASC 718, *Compensation-Stock Compensation* ("ASC 718").

In accordance with ASC 718, the Company determines whether a share option should be classified and accounted for as a liability award or equity award. All grants of share-based awards to employees classified as equity awards are recognized in the financial statements based on their grant date fair values which are calculated using an option pricing model. The Group has elected to recognize compensation expense using the straight-line method for all share options granted with graded vesting based on service conditions. To the extent the required vesting conditions are not met resulting in the forfeiture of the share-based awards, previously recognized compensation expense relating to those awards are reversed. ASC 718 requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from initial estimates. Share-based compensation expense is recorded net of estimated forfeitures such that expense is recorded only for those share-based awards that are expected to vest.

Income per share

Income per share is computed in accordance with ASC 260, *Earnings Per Share* ("ASC 260"). Basic income per ordinary share is computed by dividing income attributable to holders of ordinary shares by the weighted average number of ordinary shares outstanding during the period. Diluted income per share for continuing operations is calculated by dividing net profit from continuing operations 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 period. Diluted income per share for discontinued operations is then calculated by dividing net profit from discontinued operations attributable to ordinary shareholders by the same number of potential ordinary shares determined in the earlier step. Ordinary equivalent shares consist of the ordinary shares issuable upon the conversion of the share based awards, using the treasury stock method and the ordinary shares issuable upon the conversion of convertible debt instruments, using if-converted method. Ordinary share equivalents are excluded from the computation of diluted per share if their effects would be anti-dilutive.

Comprehensive income (loss)

Comprehensive income (loss) is defined to include all changes in equity except those resulting from investments by owners and distributions to owners. Among other disclosures, ASC 220, *Comprehensive Income* ("ASC 220"), requires that all items that are required to be recognized under current accounting standards as components of comprehensive income (loss) be reported in a financial statement that is displayed with the same prominence as other financial statements. During the periods presented, the Group's comprehensive income includes net income and foreign currency translation adjustments and is presented in the consolidated statement of comprehensive income.

Derivative Instruments

ASC topic 815 ("ASC 815"), *Derivatives and Hedging*, requires all contracts which meet the definition of a derivative to be recognized on the balance sheet as either assets or liabilities and recorded at fair value. Changes in the fair value of derivative financial instruments are either recognized periodically in earnings or in other comprehensive income depending on the use of the derivative and whether it qualifies for hedge accounting. Changes in fair values of derivatives not qualified as hedges are reported in earnings. The estimated fair values of derivative instruments are determined at discrete points in time based on the relevant market information. These estimates are calculated with reference to the market rates using industry standard valuation techniques. The fair value of the derivative instruments held by the Company was RMB33,663(US\$5,425) as at December 31, 2014.

Segment reporting

In accordance with ASC 280, *Segment Reporting* (“ASC 280”), the Group’s chief operating decision maker (“CODM”) has been identified as the Chief Executive Officer, who reviews consolidated results when making decisions about allocating resources and assessing performance of the Group. For the years ended December 31, 2012 and 2013, the Group’s CODM evaluates segment performance based on revenues and profit by the network and hospital segments. After the disposal of CAH and WHT on December 18, 2014, which is presented as discontinued operations in the financial statements, the Group has only one reporting segment for network. Substantially all of the Group’s revenue and long lived assets (mainly include property, plant and equipment) are derived from the PRC.

Recent accounting pronouncement

In April 2014, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2014-08, “Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity” (“ASU 2014-08”). The new guidance changes the criteria for reporting discontinued operations while enhancing disclosures in this area. Under the new guidance, only disposals representing a strategic shift in operations should be presented as discontinued operations. Those strategic shifts should have a major effect on the organization’s operations and financial results. Additionally, ASU 2014-08 requires expanded disclosures about discontinued operations that will provide financial statement users with more information about the assets, liabilities, income, and expenses of discontinued operations. The new guidance also requires disclosure of the pre-tax income attributable to a disposal of a significant part of an organization that does not qualify for discontinued operations reporting. ASU 2014-08 is effective for the Company in the first quarter of fiscal 2015. The Company has early adopted the standard in the year ended December 31, 2014.

In May 2014, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2014-09 (“ASU 2014-09”), *Revenue from Contracts with Customers*. ASU 2014-09 supersedes the revenue recognition requirements in ASC 605, and requires entities to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early adoption is not permitted. The Company is currently in the process of evaluating the impact of the adoption of ASU 2014-09 on the consolidated financial statements.

In August 2014, the FASB issued ASU 2014-15, *Presentation of Financial Statements—Going Concern* (Subtopic 205-40): *Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern*. The guidance requires an entity to evaluate whether there are conditions or events, in the aggregate, that raise substantial doubt about the entity’s ability to continue as a going concern within one year after the date that the financial statements are issued and to provide related footnote disclosures in certain circumstances. The guidance is effective for the annual period ending after December 15, 2016, and for annual and interim periods thereafter. Early application is permitted. The adoption of this guidance is not expected to have a significant impact on the Company’s consolidated financial statements.

3. CONCENTRATION OF RISKS

Concentration of credit risk

Assets that potentially subject the Group to significant concentration of credit risk primarily consist of cash, restricted cash, accounts receivable and advances made to suppliers and hospital customers. The maximum exposure of such assets to credit risk is their carrying amounts as of the balance sheet dates.

As of December 31, 2014, substantially all of the Group’s cash and restricted cash were deposited in financial institutions located in the PRC and in Hong Kong, which management believes are of high credit quality.

Accounts receivable are typically unsecured and are derived from revenue earned from hospitals in the PRC. The risk with respect to accounts receivable is mitigated by credit evaluations the Group performs on its customers and its ongoing monitoring of outstanding balances.

Advances made to suppliers are typically unsecured and arise from deposits paid in advance for future purchases of medical equipment. Due to the Group’s concentration of advances made to a limited number of suppliers and the significant prepayments that are made to them, any negative events or deterioration in financial strength with respect to the Group’s suppliers may cause material loss to the Group and have a material adverse effect on the Group’s financial condition and results of operations. The risk with respect to advances made to suppliers is mitigated by credit evaluations that the Group performs on its suppliers prior to making any advances and the ongoing monitoring of its suppliers’ performance.

With respect to advances made to hospital customers, the Group conducts periodic credit evaluation of its customers but does not require collateral or other security from its hospital customers.

Concentration of customers

The Group currently generates a substantial portion of its revenue from a limited number of customers. As a percentage of revenues, the top five customers accounted for 23%, 24% and 23% for the years ended December 31, 2012, 2013 and 2014, respectively. The loss of revenue from any of these customers would have a significant negative impact on the Group's business. However, arrangements with customers are mostly long-term in nature. Due to the Group's dependence on a limited number of customers and the contingent fees received based on variables the Group does not control, any negative events with respect to the Group's customers may cause material fluctuations or declines in the Group's revenue and have a material adverse effect on the Group's financial condition and results of operations.

Concentration of suppliers

A significant portion of the Group's medical equipment is sourced from its five largest suppliers who collectively accounted for 73%, 79% and 86% of total medical equipment purchases of the Group for the years ended December 31, 2012, 2013 and 2014, respectively. Failure to develop or maintain the relationships with these suppliers may cause the Group not able to identify other suppliers timely in order to expand its business with new hospitals. Any disruption in the supply of medical equipment to the Group may adversely affect the Group's business, financial condition and results of operations.

Current vulnerability due to certain other concentrations

The Group's operations may be adversely affected by significant political, economic and social uncertainties in the PRC. Although the PRC government has been pursuing economic reform policies for more than 20 years, no assurance can be given that the PRC government will continue to pursue such policies or that such policies may not be significantly altered, especially in the event of a change in leadership, social or political disruption or unforeseen circumstances affecting the PRC's political, economic and social conditions. There is also no guarantee that the PRC government's pursuit of economic reforms will be consistent or effective.

The Group transacts most of its business in RMB, which is not freely convertible into foreign currencies. On January 1, 1994, the PRC government abolished the dual rate system and introduced a single rate of exchange as quoted daily by the People's Bank of China (the "PBOC"). However, the unification of the exchange rates does not imply that the RMB may be readily convertible into United States dollars or other foreign currencies. All foreign exchange transactions continue to take place either through the PBOC or other banks authorized to buy and sell foreign currencies at the exchange rates quoted by the PBOC. Approval of foreign currency payments by the PBOC or other institutions requires submitting a payment application form together with suppliers' invoices, shipping documents and signed contracts.

Additionally, the value of the RMB is subject to changes in central government policies and international economic and political developments affecting supply and demand in the PRC foreign exchange trading system market.

A medical-related business is subject to significant restrictions under current PRC laws and regulations. Currently, the Group conducts its operations in China through contractual arrangements entered into with hospitals in the PRC. The relevant regulatory authorities may find the current contractual arrangements and businesses to be in violation of any existing or future PRC laws or regulations. If so, the relevant regulatory authorities would have broad discretion in dealing with such violations.

4. ACQUISITIONS AND DISPOSALS

For the year ended December 31, 2012

Acquisition of CAH

As a part of the Group's business expansion strategy to expand into hospital services in the PRC, on June 21, 2012, the Company, through its wholly owned subsidiaries MSC and Cyber, purchased 52% equity interest of CAH, a private general hospital located in the City of Xi'an, through capital injection into CAH, for a total cash consideration of RMB248,784. The cash consideration was net of the pre-existing receivables of RMB128,573, which were effectively settled between the Group and CAH upon acquisition and pre-existing favorable agreements to the Company with a fair value of RMB1,248.

	RMB
Purchase consideration	378,605
Cash	248,784
Pre-existing receivables from CAH	128,573
Pre-existing favorable agreements	1,248
	RMB
Purchase consideration	378,605
Current assets	72,188
Indemnification assets	61,706
Intangible assets	40,000
Other long lived assets (excluding intangible assets)	421,598
Current liabilities	(186,484)
Unrecognized tax benefits, non current	(61,706)
Non-current liabilities	(56,439)
Deferred tax assets	17,299
Deferred tax liabilities	(26,263)
Total net assets	281,899
Noncontrolling interests	(196,179)
Goodwill	292,885

There were pre-existing agreements between the Group and CAH as at the acquisition date. There were no terms of settlement provision in these agreements. The Group recognized a gain from the settlement of these pre-existing agreements with its acquisition date fair value and concurrently adjusted the consideration of the business combination by RMB1,248. The gain from the settlement of the pre-existing agreements was recorded in the "other operating income" in the consolidated statements of comprehensive income.

As at the acquisition date, the Group had outstanding balances due from CAH of RMB128,573. Meanwhile, CAH had the corresponding RMB128,573 payables to the Group. The consideration transferred for the business combination was adjusted by the previously recognized amount which was effectively settled upon acquisition and there was no impact to the consolidated statements of comprehensive income or goodwill account.

The valuation used in the purchase price allocation described above was determined by the Company with the assistance of an independent third party valuation firm. The valuation report utilizes and considers generally accepted valuation methodologies including the income, market and cost approaches.

The Company has evaluated the fair value of the acquired intangible assets and has assigned the following value and the estimated useful lives to those intangible assets: medical insurance coverage qualification of RMB30,000 with a 10-year estimated useful life, which is based on CAH's remaining business license period and radiotherapy permits of RMB10,000 with a 7-year estimated useful life, which is based on the remaining estimated useful lives of radiotherapy equipment.

Pursuant to the terms of the acquisition, New Chang'an, the sole shareholder of CAH before the acquisition and noncontrolling shareholder after the acquisition, made an undertaking that it would be responsible for tax liabilities of CAH arising from the period before the acquisition. Such indemnification assets were recognized at the same time that the Group recognized the indemnified item of tax liabilities, measured on the same basis as such liabilities, subject to the need for a valuation allowance for uncollectible amounts.

The tax liabilities, related to uncertain tax positions in CAH up to the acquisition date, amounted to RMB61,706, mainly arising from the deductibility of certain losses claimed in the previous tax filings. In March 2013, CAH submitted documentation related to claims amounting to RMB174,576 (tax effected amount of RMB43,644) to the local tax bureau with respect to losses incurred in 2011 prior to acquisition. As of December 31, 2013, the local tax bureau has accepted the claim stated in the application and approved RMB with the remaining RMB pending approval. Accordingly, the indemnification assets decreased to RMB59,518 as at December 31, 2013.

Based on the acquisition agreement, a “Put Option” was issued by New Chang’an pursuant to which the Company could put all its equity interests in CAH to New Chang’an with a consideration which should be not less than the original cost, including the consideration of the acquisition of WHT in 2010. This Put Option will expire after 39 months from the date on which the Company legally becomes a shareholder of CAH. Although the Put Option is an embedded feature, the Put Option is not able to be net settled to qualify as a derivative in accordance with ASC815-10-15-83, therefore the Put Option was not bifurcated.

The goodwill which is not tax deductible is primarily attributable to synergies expected to be achieved from the acquisition. Goodwill as of the acquisition date is measured as the excess of consideration transferred and the net of the acquisition date fair values of the assets acquired, the liabilities assumed and the noncontrolling interest. The goodwill arising from the acquisition of CAH was assigned to the hospital segment and there was no impairment in the amount of goodwill resulting from the acquisition of CAH.

The Group derived the fair value of the acquired business as a whole, which included a control premium and subtract the consideration transferred by the Group for the controlling interest to identify the fair value of the noncontrolling interest. There were no significant acquisition related costs.

For the year ended December 31, 2014

Disposal of CAH and WHT

In 2014, the Group decided to exercise the Put Option and to sell CAH and WHT to New Chang’an. On December 3, 2014, the Group entered into a share transfer agreement with Datang Healthcare Corporation Limited (“Datang”), a related company of New Chang’an and independent of the Group, pursuant to which, the Group sold and Datang acquired, the Group’s 52% equity interests in CAH and WHT at a consideration of RMB248,311(US\$40,020) and RMB149,612(US\$24,114), respectively. The disposal was completed on December 18, 2014. The Group received RMB317,470(US\$51,167) and RMB80,453(US\$12,967) of the consideration in December 2014 and January 2015, respectively.

The disposal of CAH and WHT represent a strategic shift that has a major effect on the Group’s operations and financial results. According to ASU2014-08, the financial results of CAH and WHT have been accounted for as discontinued operations whereby the results of operations of CAH and WHT have been excluded from the results of continuing operations and reported as discontinued operations for all periods presented.

The breakdown of assets and liabilities attributed to discontinued operations as of December 18, 2014 (the date of disposal), are as follows:

	<u>RMB</u>	<u>US\$</u>
Current assets	122,280	19,708
Property, plant and equipment, net	620,883	100,068
Goodwill	292,885	47,204
Acquired intangible assets, net	28,929	4,663
Prepaid land lease payments	85,061	13,710
Indemnification assets, non-current portion	59,518	9,593
Loan to a non-controlling shareholder	72,609	11,702
Other non-current assets	40,651	6,552
Current liabilities	(483,969)	(78,002)
Non-current liabilities	(175,041)	(28,211)
Non-controlling interests	(304,370)	(49,056)
Net assets disposed	<u>359,436</u>	<u>57,931</u>

As a result of the disposal, the Group recognized a gain on the disposal of CAH and WHT of RMB38,487(US\$6,203) as summarized below:

	<u>RMB</u>	<u>US\$</u>
Consideration	397,923	64,134
Disposition of net assets	359,436	57,931
Gain on disposal of CAH and WHT	<u>38,487</u>	<u>6,203</u>

Table of Contents

Reconciliation of the major line items of CAH and WHT to net income from discontinued operations that are presented in the consolidated statement of comprehensive income is as follows:

	For the years ended December 31			
	2012 RMB	2013 RMB	2014 RMB	2014 US\$
Revenues	206,698	417,511	489,787	78,939
Cost of revenues	(172,681)	(369,295)	(435,785)	(70,236)
Selling, general and administrative expenses	(10,648)	(23,782)	(20,210)	(3,257)
Interest expense	(3,804)	(10,143)	(11,519)	(1,857)
Other (expenses) income	(4,035)	8,517	10,259	1,654
Gain on disposal	—	—	38,487	6,203
Income tax expense	(7,936)	(12,043)	(45,543)	(7,340)
Net income from discontinued operations	7,594	10,765	25,476	4,106
Net income (loss) attributable to noncontrolling interests	5,741	6,625	(4,291)	(692)
Net income attributable to ordinary shareholders	1,853	4,140	29,767	4,798

The following table summarizes cash flows from discontinued operations for the periods presented:

	For the Years Ended December 31			
	2012 RMB	2013 RMB	2014 RMB	2014 US\$
Net cash generated from operating activities	93,136	85,867	61,372	9,891
Net cash used in investing activities	(109,126)	(46,461)	(43,420)	(6,998)
Net cash (used in) generated from financing activities	(5,467)	(38,153)	10,627	1,713
Cash acquired in acquisition of CAH in 2012	28,939	—	—	—
Net increase in cash	7,482	1,253	28,579	4,606
Cash at beginning of the year	13	7,495	8,748	1,410
Cash at end of the year	7,495	8,748	37,327	6,016

5. RESTRICTED CASH

Restricted cash includes bank deposits that are required under the Company's borrowing arrangements to be kept as part of the security pursuant to the respective loan agreements. The current and non-current restricted cash amounted to RMB422,140 and RMB502,168 (US\$80,935), as of December 31, 2013 and 2014 respectively, based on the classification of the underlying bank borrowings (see note 16).

6. ACCOUNTS RECEIVABLE

	As at December 31,		
	2013 RMB	2014 RMB	2014 US\$
Accounts receivable	317,000	267,291	43,080
Allowance for doubtful accounts	(3,091)	(2,281)	(368)
Accounts receivable, net	313,909	265,010	42,712

	For the Years Ended December 31,			
	2012	2013	2014	2014
	RMB	RMB	RMB	US\$
Movement in allowance for doubtful accounts:				
Balance at beginning of the year	16,057	3,091	3,091	498
Provisions for the year	—	—	700	113
Written back during the year	(12,966)	—	(1,510)	(243)
Balance at end of the year	<u>3,091</u>	<u>3,091</u>	<u>2,281</u>	<u>368</u>

Provisions are charged directly to the statement of comprehensive income. The related expense is included in the caption “general and administrative expense” in the consolidated statements of comprehensive income.

Accounts receivable with carrying value of RMB49,481 and RMB76,333 (US\$12,303) were used to secure bank borrowings of RMB136,626 and RMB137,942 (US\$22,232) as at December 31, 2013 and 2014, respectively (note 16).

7. PREPAYMENTS AND OTHER CURRENT ASSETS

Prepayments and other current assets consist of the following:

	As at December 31,		
	2013 RMB	2014 RMB	2014 US\$
Prepayments to suppliers	1,141	317	51
Due from suppliers*	65,181	58,357	9,405
Advances to hospitals**	21,476	4,473	721
Advances to employees***	10,825	10,154	1,637
Deferred costs	6,200	—	—
Consideration receivable for disposal of CAH and WHT	—	80,453	12,967
Others	15,949	25,035	4,035
	120,772	178,789	28,816
Reserve for unrecoverable deposits	(9,292)	(1,522)	(245)
	111,480	177,267	28,570
	For the Years Ended December 31,		
	2013 RMB	2014 RMB	2014 US\$
Movement in reserve for unrecoverable deposits:			
Balance at beginning of the year	10,270	9,292	1,498
Provisions for the year	1,533	1,324	213
Write off of provisions	(1,533)	(9,524)	(1,535)
Foreign currency translation	(978)	430	69
Balance at end of the year	9,292	1,522	245

Provisions are charged directly to the statement of comprehensive income. The related expense is included in the caption “general and administrative expenses” in the consolidated statements of comprehensive income.

- * Amounts due from suppliers represent returnable deposits of cancelled orders from suppliers. There were no remaining contractual obligations associated with purchase contracts as of December 31, 2013 and 2014, respectively. The risk of loss arising from non-performance by or bankruptcy of suppliers is assessed prior to the order of the equipment. The Group has provided reserve amounting to RMB9,292 and RMB1,522 (US\$245) on amounts due from suppliers as at December 31, 2013 and 2014, respectively.
- ** The amount represents interest-free advances to hospital customers. The Group has assessed the impact of such advances on revenue recognition at the outset of the arrangement and has concluded that they do not affect revenue recognition. The risk of loss arising from any failure by hospital customers to fulfill their financial obligations is assessed prior to making the advances and is monitored for recoverability on a regular basis by management. A charge to cost of revenue is recorded in the period in which a loss is incurred.
- *** The amount represents interest-free advance to hospitals held by the Company’s employees to cover expenses incurred by hospital customers. The risk of loss is assessed prior to making the advances and is monitored on a regular basis by management. To date, the Group has not experienced any loss of such advances.

8. INVENTORIES

	As at December 31,		
	2013 RMB	2014 RMB	2014 US\$
Medicine	12,255	—	—
Medical supplies	7,190	2,698	435
Low-value consumables	272	288	46
	19,717	2,986	481

9. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment consist of the following:

	As at December 31,		
	2013 RMB	2014 RMB	2014 US\$
Buildings	402,671	285	46
Medical equipment	1,324,206	1,077,612	173,680
Electronic and office equipment	36,458	12,432	2,004
Motor vehicles	3,931	1,768	285
Leasehold improvement and building improvements	5,087	5,087	820
Construction in progress	116,445	26,532	4,275
Total	1,888,798	1,123,716	181,110
Less: accumulated depreciation	(393,046)	(370,854)	(59,771)
	1,495,752	752,862	121,339
Less: accumulated impairment charges	(3,179)	(3,179)	(512)
	1,492,573	749,683	120,827

Depreciation expenses were RMB119,919, RMB149,975 and RMB175,008 (US\$28,206) for the years ended December 31, 2012, 2013 and 2014, respectively.

As at December 31, 2013 and 2014, certain of the Group's property, plant and equipment with a total net book value of RMB502,575 and RMB164,938 (US\$26,583) were pledged as security for bank borrowings of RMB254,308 and RMB163,185 (US\$26,301), respectively (note 16).

As at December 31, 2013 and 2014, the Group held equipment under operating lease contracts with customers with an original cost of RMB1,113,934 and RMB1,067,057 (US\$171,978) and accumulated depreciation of RMB305,165 and RMB347,524 (US\$56,011), respectively.

10. PREPAID LAND LEASE PAYMENTS

	As at December 31,		
	2013 RMB	2014 RMB	2014 US\$
Prepaid land lease payments	145,692	52,878	8,522
Less: accumulated amortization	(5,491)	(1,349)	(217)
Net carrying value	140,201	51,529	8,305

Amortization expenses for the years ended December 31, 2012, 2013 and 2014 were RMB1,637, RMB2,801 and RMB3,610 (US\$582), respectively.

The estimated annual amortization expenses for the above prepaid land leases for each of the five succeeding years are as follows:

	Amortization	
	RMB	US\$
2015	1,083	175
2016	1,083	175
2017	1,083	175
2018	1,083	175
2019	1,083	175

11. GOODWILL AND INTANGIBLE ASSETS, NET

Goodwill is comprised of the following:

	For the Years Ended December 31,			
	2012 RMB	2013 RMB	2014 RMB	2014 US\$
Balance at beginning of year	—	292,885	292,885	47,204
Acquisition of CAH (note 4)	292,885	—	—	—
Less: Disposal of CAH and WHT (note 4)	—	—	(292,885)	(47,204)
Balance at end of year	<u>292,885</u>	<u>292,885</u>	<u>—</u>	<u>—</u>

Intangible assets consist of the following:

	Customer relationship intangibles RMB	Operating lease intangibles RMB	Medical insurance coverage RMB	Radiotherapy permits RMB	Others RMB	Total RMB
Intangible assets, net:						
At January 1, 2013	98,779	5,537	28,500	9,286	4,410	146,512
Amortization expenses	(22,899)	(1,361)	(3,000)	(1,429)	(980)	(29,669)
Intangible assets, net at December 31, 2013 and January 1, 2014	<u>75,880</u>	<u>4,176</u>	<u>25,500</u>	<u>7,857</u>	<u>3,430</u>	<u>116,843</u>
Amortization expenses	(16,383)	(1,270)	(3,000)	(1,428)	(980)	(23,061)
Disposal of CAH and WHT (note 4)	—	—	(22,500)	(6,429)	—	(28,929)
Other disposal	(3,388)	(222)	—	—	—	(3,610)
Intangible assets, net at December 31, 2014	<u>56,109</u>	<u>2,684</u>	<u>—</u>	<u>—</u>	<u>2,450</u>	<u>61,243</u>
Intangible assets, net at December 31, 2014, in US\$	<u>\$ 9,046</u>	<u>\$ 430</u>	<u>—</u>	<u>—</u>	<u>\$ 395</u>	<u>\$ 9,871</u>
At December 31, 2014						
Intangible assets, cost	154,080	14,857	—	—	4,900	173,837
Less: accumulated amortization	(97,971)	(12,173)	—	—	(2,450)	(112,594)
	<u>56,109</u>	<u>2,684</u>	<u>—</u>	<u>—</u>	<u>2,450</u>	<u>61,243</u>

Table of Contents

Amortization expenses for intangibles were RMB28,658, RMB29,669 and RMB23,061 (US\$3,717) for the years ended December 31, 2012, 2013 and 2014, respectively. The estimated annual amortization expenses for the above intangible assets for each of the five succeeding years are as follows:

	Amortization	
	RMB	US\$
2015	17,685	2,850
2016	13,331	2,149
2017	11,672	1,881
2018	9,065	1,461
2019	7,603	1,225

12. DEPOSITS FOR NON-CURRENT ASSETS

Deposits for non-current assets consist of the following:

	As at December 31,		
	2013 RMB	2014 RMB	2014 US\$
Deposits for purchases of property, plant and equipment *	73,621	98,118	15,814
Others **	29,600	29,600	4,770
	103,221	127,718	20,584
Reserve for unrecoverable deposits	(26,552)	(26,552)	(4,279)
	76,669	101,166	16,305

	For the Years Ended December 31,		
	2013 RMB	2014 RMB	2014 US\$
Movement in reserve for unrecoverable deposits:			
Balance at beginning of the year	26,552	26,552	4,279
Provisions for the year	—	—	—
Balance at end of the year	26,552	26,552	4,279

* The amount represents interest-free non-refundable partial payments to suppliers associated with contracts the Group enters into for the future scheduled delivery of medical equipment to customers. As at December 31, 2014, the remaining contractual obligations associated with these purchase contracts are approximately RMB30,663(US\$4,942) which is included in the amount disclosed as purchase commitments in note 25.

** On December 18, 2007, the Group entered into a framework agreement to build a proton treatment center in Beijing, pursuant to which the Group paid deposits to a subsidiary of Chang'an Information Industry (Group) Co., Ltd., to be used towards the construction of the proton treatment center. Total deposits paid as of December 31, 2013 and 2014 pursuant to this arrangement amounted to RMB29,600 and RMB29,600(US\$4,770), respectively. As at December 31, 2014, the proton treatment center has not commenced operations. Management expects to convert it into the equity investment of the proton treatment center in the future.

The Group recorded a reserve of unrecoverable deposits for purchase of property, plant and equipment amounting to RMB3,360, nil and nil based on its assessment of realizability and financial strength of the counterparties, for the years ended December 31, 2012, 2013 and 2014 respectively. The total amount of impairment charge is included in the caption of "asset impairment" in the consolidated statements of comprehensive income.

13. NET INVESTMENT IN DIRECT FINANCING LEASES

The Group operates as a lessor in direct financing lease agreements for medical equipment, with hospitals and other companies that engage in ongoing cooperation agreements with hospitals. These leases have terms ranging generally from three to five years. Net investment in direct financing leases is comprised of the following:

	As at December 31,		
	2013 RMB	2014 RMB	2014 US\$
Total minimum lease payments to be received	396,734	312,184	50,315
Initial direct cost	3,963	3,963	639
	400,697	316,147	50,954
Unearned income	(72,416)	(41,360)	(6,666)
Net investment in direct finance leases	328,281	274,787	44,288
Current	128,814	143,853	23,185
Non-current	199,467	130,934	21,103
Total	328,281	274,787	44,288

Net investment in financing leases with carrying value of RMB321,602 and RMB207,445 (US\$33,434) and were used to secure bank borrowings of RMB117,940 and RMB136,785 (US\$22,046), as of December 31, 2013 and 2014, respectively (note 16).

The future minimum lease payments to be received from such non-cancelable direct financing leases are as follows:

	Future minimum lease payments	
	RMB	US\$
2015	148,264	23,896
2016	104,696	16,874
2017	60,130	9,691
2018	3,057	493
2019	—	—

14. EQUITY METHOD INVESTMENTS

As of December 31, 2013 and 2014, the Group had the following equity method investments:

	Note	Equity interest owned by the Group As of December 31,	
		2013	2014
Xi'an Jiangyuan Andike Ltd("JYADK")	i)	33%	33%
Beijing Proton Medical Center Co. Ltd("BPC")	ii)	25%	25%
PTC – Houston Management, LP("PTC")	iii)	45%	45%
Suzhou Chorus Medical Technologies Co., Ltd	iv)	36%	36%
Global Oncology One, Inc. ("Global Oncology")	v)	—	46.9%

- i) During 2011 and 2012, the Group respectively subscribed to 27% and 6% equity interest of JYADK, for a consideration of RMB540 and RMB120, respectively. On August 31, 2013, the Group injected additional RMB2,640 to JYADK with no change in the percentage of equity interest.
- ii) On October 19, 2012, the Group incorporated BPC with other investors. The Group holds 25% equity interest in BPC with the investment amounting to RMB25,000.
- iii) On December 28, 2012, the Group acquired 44.55% limited partner interests of PTC, a limited partnership in Texas, U.S.A., and 45% legal interest of PTC GP Management LLC, a limited liability company registered in Texas, U.S.A and the sole general partner of PTC with 1% interest of PTC, with a consideration of RMB201,176 (US\$32,291) in cash. After the transaction, the Group owned 45% interests of PTC which ultimately holds 44.4% legal ownership interests of the University of Texas MD Anderson Cancer Center Proton Therapy Center, a proton treatment center in Texas, U.S.A.

According to the partnership agreements, the Group has significant influence over PTC which can demonstrate control over MDA Proton by acting as the sole general partner. The Group accounts for its investment in PTC, and ultimately MDA Proton, under the equity method of accounting. The Group's share of the net profit of PTC, after accounting for the effect of the difference between the cost basis of the equity method investment and the underlying assets of the investee, was RMB13,911(US\$2,242) for the year ended December 31, 2014. Total cash distribution received by the Group from PTC was RMB18,812 (US\$3,032) for the year ended December 31, 2014.

The difference between the cost basis of the equity method investment and the underlying assets of the investee on the acquisition date was RMB107,139 (US\$17,268) which was mainly arisen from the identified intangibles in the purchase price allocation and are amortized over the remaining useful life.

- iv) On December 17, 2012, the Group acquired 36% of Suzhou Chorus Medical Technologies Co., Ltd, for a consideration of RMB2,400. On October 27, 2014, the Group injected additional RMB1,920 (US\$309) with no change in the percentage of equity interest.
- v) On March 3, 2014, the Group invested in 340,000 shares of Global Oncology, a Texas Corporation, at a consideration of RMB4,610 (US\$743) and currently owns 46.9% of Global Oncology.

15. OTHER NON-CURRENT ASSETS

Other non-current assets consist of the following:

	As at December 31,		
	2013 RMB	2014 RMB	2014 US\$
Deferred costs	740	3,134	505
Deposits – long-term*	62,139	19,442	3,133
Others	23,968	30,316	4,887
	<u>86,847</u>	<u>52,892</u>	<u>8,525</u>

- * On June 21, 2011, the Group made interest-free financing deposits amounting to RMB23,608 to Changhai Hospital, for a robotic radiosurgery system. As at December 31, 2014, the outstanding balance was RMB18,346(US\$2,957), in which the non-current balance amounted to RMB14,647 (US\$2,361).

On September 1, 2011, the Group made interest-free performance security deposits amounting to RMB9,500 to Hanzhong 3201 Hospital, for management services to be rendered. The deposits are refundable in monthly installments starting from September 1, 2011 till May 31, 2020. As at December 31, 2014, the outstanding balance was RMB6,316(US\$1,018), in which the non-current balance amounted to RMB4,795(US\$772).

16. BANK BORROWINGS

	As at December 31,		
	2013 RMB	2014 RMB	2014 US\$
Total bank borrowings	<u>1,086,248</u>	<u>903,840</u>	<u>145,673</u>
Comprised of:			
Short-term	487,964	322,128	51,918
Long-term, current portion	273,310	246,233	39,686
	<u>761,274</u>	<u>568,361</u>	<u>91,604</u>
Long-term, non-current portion	324,974	335,479	54,069
	<u>1,086,248</u>	<u>903,840</u>	<u>145,673</u>

All bank borrowings at December 31, 2013 and 2014 were obtained from financial institutions in both the PRC and overseas. One short term bank borrowing with balance of RMB72,500 as at December 31, 2013 is secured by the 48% equity interest in CAH held by New Chang'an. In turn, CAH granted a loan to New Chang'an which has the same key terms as the corresponding bank loan, including the loan amount, interest rate and terms of repayment (note 23). Other bank borrowings are secured by equipment with a net carrying value of RMB502,575 and RMB164,938 (US\$26,583), accounts receivable with a carrying value of RMB49,481 and RMB76,333 (US\$12,303), net investment in financing leases with carrying value of RMB321,602 and RMB207,445(US\$33,434) and total restricted cash with carrying value of RMB422,140 and RMB502,168(US\$80,935), as of December 31, 2013 and 2014, respectively.

[Table of Contents](#)

As at December 31, 2013 and 2014, the short-term bank borrowing bore a weighted average interest of 4.64% and 1.96% per annum, and the long-term bank borrowings bore a weighted average interest of 6.02% and 3.91% per annum, respectively. As at December 31, 2014, bank borrowings amounting to RMB543,877 (US\$87,657) (2013: RMB436,472) and RMB359,963 (US\$58,016) (2013: RMB649,776) were denominated in US\$ and RMB, respectively.

As of December 31, 2014, the maturity profile of these long-term bank borrowings are as follows:

	<u>RMB</u>	<u>US\$</u>
Within one year	246,233	39,686
Between one and two years	196,783	31,716
Between two and three years	49,147	7,921
Between three and four years	67,310	10,848
Between four and five years	22,239	3,584
	<u>581,712</u>	<u>93,755</u>

As of December 31, 2014, the Company had unutilized short-term and long term bank credit lines totaling RMB9,307 (US\$1,500) and RMB1,878,460 (US\$302,753), respectively.

IFC loan

On February 18, 2014, the Group borrowed from International Finance Corporation (“IFC”) a loan of a principal amount of US\$20,000 which is repayable on October 15, 2018 and April 15, 2019 by two equal installments. The loan gives IFC the right to convert the loan in whole or in part, at any time prior to the fifth anniversary of the date of the disbursement of the loan, into ADSs of the Company at the conversion price in effect at such time. The conversion price is initially set at US\$6.90 per ADS subject to adjustments as set forth in the loan agreement. The conversion and other features (i.e. the redemption option upon certain contingencies, step down interest feature), which are not clearly and closely related to the debt host contract, are bifurcated and accounted for as a compound derivative.

At inception, the fair value of the host debt instrument amounted to RMB87,792 (US\$14,149) was recorded as a long term bank borrowing in the consolidated balance sheet. The host debt instrument is accreted to the redemption value on the maturity date using the effective interest method. The compound derivatives are accounted for as a liability at fair value for each reporting period (note 17).

17. ACCRUED EXPENSES AND OTHER LIABILITIES

The components of accrued expenses and other liabilities are as follows:

	<u>As at December 31,</u>		
	<u>2013</u>	<u>2014</u>	<u>2014</u>
	<u>RMB</u>	<u>RMB</u>	<u>US\$</u>
Accrued expenses	14,424	13,986	2,254
Salaries and welfare payable	43,687	5,178	835
Business and other taxes payable	12,617	6,627	1,068
Unrecognized tax positions (note 25)	49,355	36,616	5,901
Other accruals	25,611	34,123	5,500
Financial derivatives*	—	33,663	5,425
Notes payable	795	—	—
	<u>146,489</u>	<u>130,193</u>	<u>20,983</u>

* IFC loan includes the host debt instrument and embedded derivatives. The embedded derivatives are subject to bifurcation as a separate instrument and stated at fair value. As of December 31, 2014, the fair value of derivatives was RMB33,663 (US\$5,425). The loss on changes in the fair value of derivatives amounted to RMB2,605 (US\$420) was recognized in the consolidated statements of comprehensive income for the year ended December 31, 2014.

18. OTHER LONG-TERM LIABILITIES

	As at December 31,		
	2013 RMB	2014 RMB	2014 US\$
Deferred revenue, non-current portion	1,992	1,349	217
Lease deposits	2,000	2,000	322
Liability arising from an unfavorable contract*	28,377	—	—
Others	400	400	65
Total	32,769	3,749	604

* Pursuant to a contract entered into between CAH and New Chang'an in 2011, CAH agreed to sell certain prepaid land lease to New Chang'an for a consideration of RMB7,527. This contract had not been executed upon acquisition of CAH by the Group in 2012. The excess of the fair value of the prepaid land lease over the consideration was accounted for as an unfavorable contract. The liability was derecognized upon the disposal of CAH in 2014.

19. SHAREHOLDERS' EQUITY

Share repurchase program

On June 30, 2010, the Company announced a share repurchase program authorized by the Board of Directors. Pursuant to the program, the Company repurchased 1,700,656 ADSs, representing 5,101,968 ordinary shares, with a total consideration of US\$11,416 during 2010. The shares repurchased by the Company were all cancelled before December 31, 2010.

On September 30, 2011, the Company announced a share repurchase program authorized by the Board of Directors. Pursuant to the program, the Company repurchased 316,645 ADSs, representing 949,935 ordinary shares, with a total consideration of US\$1,087 for the year ended December 31, 2011.

On October 9, 2012, the Company announced that its Board of Directors had approved the extension of its previously announced share repurchase program until the aggregate value of the shares repurchased reaches US\$20,000. Pursuant to the program, the Company repurchased 1,972,063 ADSs, representing 5,916,189 ordinary shares, with a total consideration of US\$6,950 for the year ended December 31, 2012.

Pursuant to the program, the Company repurchased 217,036 ADSs, representing 651,108 ordinary shares, with a total consideration of US\$982 for the year ended December 31, 2013.

Special dividend

On January 7, 2014, the Board of Directors declared a special cash dividend of US\$0.24 per ordinary share. The total amount for the special dividend is RMB201,583 (US\$32,489), based on the number of ordinary shares that were outstanding as of September 30, 2013, which was paid in April 2014.

On July 28, 2014, the Board of Directors declared a special cash dividend of US\$0.30 per ordinary share. The total amount for the special dividend is RMB251,979 (US\$40,612), based on the number of ordinary shares that were outstanding as of March 31, 2014, which was paid in November 2014.

No other dividend has been declared for the years ended December 31, 2012, 2013 and 2014.

20. RESTRICTED NET ASSETS

The Company's ability to pay dividends is primarily dependent on the Company receiving distributions of funds from its subsidiaries. Relevant PRC statutory laws and regulations permit payments of dividends by the Group's PRC subsidiaries only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. The results of operations reflected in the financial statements prepared in accordance with U.S. GAAP differ from those reflected in the statutory financial statements of the Company's subsidiaries.

In accordance with the PRC Regulations on Enterprises with Foreign Investment and their articles of association, a foreign invested enterprise established in the PRC is required to provide certain statutory reserves, namely general reserve fund, the enterprise expansion fund and staff welfare and bonus fund which are appropriated from net profit as reported in the enterprise's PRC statutory accounts. A foreign invested enterprise is required to allocate at least 10% of its annual after-tax profit to the general reserve until such reserve has reached 50% of its respective registered capital based on the enterprise's PRC statutory accounts. Appropriations to the enterprise expansion fund and staff welfare and bonus fund are at the discretion of the board of directors for all foreign invested enterprises. The aforementioned reserves can only be used for specific purposes and are not distributable as cash dividends. MSC, CHM, AMT, Yundu, TKM, GZ Proton, JKSY and SHC were established as foreign invested enterprises and therefore are subject to the above mandated restrictions on distributable profits.

Additionally, in accordance with the company law of the PRC, a domestic enterprise is required to provide at least 10% of its annual after-tax profit to the statutory common reserve until such reserve has reached 50% of its respective registered capital based on the enterprise's PRC statutory accounts. A domestic enterprise is also required to provide discretionary surplus reserve, at the discretion of the board of directors, from the profits determined in accordance with the enterprise's PRC statutory accounts. The aforementioned reserves can only be used for specific purposes and are not distributable as cash dividends. CCM (SZ), JWYK and DTMZ were established as domestic invested enterprises and therefore are subject to the above mentioned restrictions on distributable profits.

As a result of these PRC laws and regulations that require annual appropriations of 10% of after-tax income to be set aside prior to payment of dividends as general reserve fund, the Company's PRC subsidiaries are restricted in their ability to transfer a portion of their net assets to the Company. In addition, foreign exchange and other regulation in the PRC may further restrict the Company's PRC subsidiaries from transferring funds to the Company in the form of dividends, loans and advances.

The amount of net assets restricted was RMB1,851,112 (US\$298,345) as of December 31, 2014.

21. TAXATION

Enterprise income tax:

Cayman Islands

Under the current laws of the Cayman Islands, the Company is not subject to tax on income or capital gains. In addition, upon payments of dividends by the Company to its shareholders, no Cayman Islands withholding tax will be imposed.

British Virgin Islands

Under the current laws of the British Virgin Islands, Ascendium, OMS, Proton BVI and Allcure are not subject to tax on income or capital gains. In addition, upon payments of dividends by these companies to their shareholders, no British Virgin Islands withholding tax will be imposed.

United States

US Proton is incorporated in the State of Delaware, U.S.A. in 2011. The entity is subject to U.S. Federal Income Tax (graduated income tax rate up to 35%) on its taxable income under the current laws of the United States of America. The Company's activities are located solely in the state of Texas; therefore only the Federal Income tax of 35% is applied as there is no income sourced to Delaware for income tax purposes. The Texas sourced pass through income from investments is taxed at the partner level. CMS (USA) is incorporated in the State of Texas, U.S.A. in 2013 and does not conduct any substantive operations of its own. RMB1,246(US\$201) profits tax has been made for US Proton for the year ended December 31, 2014.

Singapore

China Medstar is incorporated in Singapore and does not conduct any substantive operations of its own. No provision for Singapore profits tax has been made in the consolidated financial statements as the Company has no assessable profits for the year ended December 31, 2014. In addition, upon payments of dividends by China Medstar to its shareholder, no Singapore withholding tax will be imposed.

Hong Kong

CMS Holdings, Cyber, King Cheers, CCM(HK) and GMI are incorporated in Hong Kong and do not conduct any substantive operations of their own.

No provision for Hong Kong profits tax has been made in the consolidated financial statements as the Company has no assessable profits for the year ended December 31, 2014. In addition, upon payment of dividends by these companies to their shareholders, no Hong Kong withholding tax will be imposed.

China

In March 2007, enterprise income tax law (the “EIT Law”) in the PRC was enacted which was effective on January 1, 2008. The EIT Law applies a uniform 25% EIT rate to both foreign invested enterprises and domestic enterprises. The law provides a five-year transition period from its effective date for those enterprises which were established before the promulgation date of the tax law and which were entitled to a preferential tax treatment such as a reduced tax rate or a tax holiday. Based on the transitional rule, certain categories of enterprises, including the foreign invested enterprise located in Shenzhen Special Economic Zone and Pudong New District, which previously enjoyed a preferential tax rate of 15% are eligible for a five-year transition period during which the income tax rate will be gradually increased to the unified rate of 25%. The applicable rates for China entities (i.e. AMT, MSC, CHM, Yundu and TKM) would be 25%, 25% and 25% for 2012, 2013, 2014 and thereafter, respectively.

AMT and MSC have accounted for their current and deferred income tax based on the five-year transitional tax rates, as applicable.

Dividends paid by PRC subsidiaries of the Group out of the profits earned after December 31, 2007 to non-PRC tax resident investors would be subject to PRC withholding tax. The withholding tax would be 10%, unless a foreign investor’s tax jurisdiction has a tax treaty with China that provides for a lower withholding tax rate and the foreign investor is qualified as a beneficial owner under the relevant tax treaty.

In general, for circumstances not being tax evasion, the PRC tax authorities will conduct examinations of the PRC entities’ tax filings of up to five years. Accordingly, the PRC entities’ tax years from 2009 to 2014 remain subject to examination by the tax authorities.

(Loss) income from continuing operations before income taxes consists of:

	For the Years Ended December 31			
	2012 RMB	2013 RMB	2014 RMB	2014 US\$
Non – PRC	(22,250)	(24,037)	(17,561)	(2,830)
PRC	203,385	168,306	193,207	31,141
	<u>181,135</u>	<u>144,269</u>	<u>175,646</u>	<u>28,311</u>

The current and deferred components of the income tax expense from continuing operations appearing in the consolidated statements of comprehensive income are as follows:

	For the Year Ended December 31			
	2012 RMB	2013 RMB	2014 RMB	2014 US\$
Current tax expense	51,890	46,377	56,526	9,111
Deferred tax expense	2,359	17,461	24,324	3,921
	<u>54,249</u>	<u>63,838</u>	<u>80,850</u>	<u>13,032</u>

A reconciliation of the differences between the statutory tax rate and the effective tax rate for EIT is as follows:

	For the Years Ended December 31,			
	2012 RMB	2013 RMB	2014 RMB	2014 US\$
Income from continuing operations before income taxes	181,135	144,269	175,646	28,311
Income tax computed at the statutory tax rate of 25%	45,284	36,067	43,912	7,078
Effect of different tax rates in different jurisdictions	5,506	7,910	2,960	478
Non-deductible expenses	1,530	6,448	11,887	1,916
Interests and penalties on unrecognized tax positions	1,929	3,576	2,044	329
Changes of valuation allowance	—	(6,070)	(466)	(76)
Withholding tax	—	15,907	20,513	3,306
	<u>54,249</u>	<u>63,838</u>	<u>80,850</u>	<u>13,032</u>

The reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	For the Years Ended December 31,		
	2013 RMB	2014 RMB	2014 US\$
Balance at beginning of year	104,480	101,485	16,356
Additions based on tax positions related to the current year	19,182	8,890	1,433
Additions (decrease) related to prior year tax position	(22,177)	1,219	197
Decrease due to the disposal of CAH and WHT	—	(91,274)	(14,711)
Balance at end of year	<u>101,485</u>	<u>20,320</u>	<u>3,275</u>

At December 31, 2013 and 2014, there were RMB21,220 and RMB12,585(US\$2,028) of unrecognized tax benefits that if recognized would affect the annual effective tax rate. In addition, at December 31, 2013 and 2014, there were approximately RMB80,762 and RMB7,735(US\$1,247) of unrecognized tax benefits for which the ultimate recognition is relatively certain but there is uncertainty about the timing of the recognition. The amounts may affect the effective tax rate if recognized, in view of valuation allowance considerations.

It is possible that the amount of unrecognized tax positions will change in the next twelve months. However, an estimate of the range of the possible change cannot be made at this time.

The bases for interest and penalties are 0.05% per day and 50% respectively of the relevant income tax liabilities of the PRC subsidiaries. The Company recognized an increase amounting to RMB30,922, RMB9,822, RMB2,044 (US\$329) in interest and penalties during the years ended December 31, 2012, 2013 and 2014, respectively. As of December 31, 2013 and 2014, the Company recognized RMB53,274 and RMB16,296(US\$2,626), respectively of interest and penalties.

The components of deferred taxes are as follows:

	2013	As at December 31	
	RMB	2014	2014
		RMB	US\$
Deferred tax assets, current portion			
Accrued expenses	10,860	3,826	617
Allowance for doubtful accounts	46,565	697	112
Deferred revenue, current	2,679	1,002	161
Others	1,223	726	118
	61,327	6,251	1,008
Valuation allowance	(46,611)	(866)	(140)
Net deferred tax assets, current portion	14,716	5,385	868
Deferred tax liabilities, current portion			
Deferred cost, current portion	(2,918)	(618)	(100)
Revenue generated from financing lease	(2,006)	(2,439)	(393)
Total deferred tax liabilities, current portion	(4,924)	(3,057)	(493)
Deferred tax assets, current portion, net*	10,652	3,556	573
Deferred tax liabilities, current portion, net*	(860)	(1,228)	(198)
Deferred tax assets, non-current portion			
Depreciation and amortization	41,244	22,683	3,656
Deposits for non-current assets	5,548	5,548	894
Intangible assets	1,132	972	157
Deferred revenue, non-current portion	498	337	54
Long term receivables	432	432	70
Long term investment impairment	10,204	—	—
Net operating loss**	6,555	6,659	1073
Others	2,659	1,250	201
	68,272	37,881	6,105
Valuation allowance	(15,406)	(5,668)	(914)
Net deferred tax assets, non-current portion	52,866	32,213	5,192
Deferred tax liabilities, non-current portion			
Deferred costs	(19,253)	(39,144)	(6,311)
Intangible assets	(7,972)	(6,098)	(983)
Property, plant and equipment	(40,811)	(12,015)	(1,935)
GZ Proton share transfer	—	(8,000)	(1,289)
Total deferred tax liabilities, non-current portion	(68,036)	(65,257)	(10,518)
Deferred tax assets, non-current portion, net ***	17,721	17,183	2,769
Deferred tax liabilities, non-current portion, net ***	(32,891)	(50,227)	(8,095)

* As at December 31, 2013 and 2014, deferred tax assets, current portion of approximately RMB4,064 and RMB1,829 (US\$295) have been offset against deferred tax liabilities, current portion relating to a particular tax-paying component of an enterprise and within a particular tax jurisdiction, respectively.

** As of December 31, 2014, the Company had net operating losses from several of its PRC entities of RMB22,725, which can be carried forward to offset future taxable profit. The net operating loss carry forwards as of December 31, 2014 will expire in years 2016 to 2019 if not utilized.

*** As at December 31, 2013 and 2014, deferred tax assets, non-current portion of approximately RMB35,145 and RMB15,030 (US\$2,423) have been offset against deferred tax liabilities, non-current portion relating to a particular tax-paying component of an enterprise and within a particular tax jurisdiction, respectively.

The movement of valuation allowance is as follows:

	<u>2013</u> <u>RMB</u>	<u>2014</u> <u>RMB</u>	<u>2014</u> <u>US\$</u>
Balance at beginning of year	(62,938)	(62,017)	(9,995)
Disposal of CAH and WHT	—	55,949	9,017
Change of valuation allowance in the current year	921	(466)	(76)
Balance at end of year	<u>(62,017)</u>	<u>(6,534)</u>	<u>(1,054)</u>

Under the EIT Law and its implementation rules, a withholding tax at 10%, unless a foreign investor's tax jurisdiction has a tax treaty with the PRC that provides a lower withholding tax rate and the foreign investor is recognized as the beneficial owner of the income under the relevant tax rules. Undistributed earnings prior to January 1, 2008 are exempt from such withholding tax.

Based on the current year's financial position and expected cash need of the Company, it is determined that a portion of the aggregate undistributed earnings of its PRC subsidiaries that were available for distribution were not considered to be indefinitely reinvested. In this regard, deferred income tax liabilities of RMB35,946(US\$5,793) (2013: RMB14,571) have been provided under ASC 740-30, *Income Taxes: Other Consideration or Special Areas* as at 31 December 2014.

In 2013, the Company's subsidiary in the U.S.A. entered into a loan agreement denominated in US dollar with the Company's PRC subsidiary. A withholding tax of 10% under the US-China tax treaty is applied on interest payable to a non-US resident. The accrued interest payable to inter-company is nil (2013: RMB1,032) and the related provision for withholding tax is nil (2013: RMB103) as at December 31, 2014.

Undistributed earnings of the Company's subsidiaries in the U.S.A. that are available for distribution at December 31, 2014 are considered to be transferred to the parent entity under ASC 740, *Income Taxes*, and accordingly, provision has been made for taxes that would be payable upon the distribution of those amounts to any entity within the Group outside the U.S.A. The cumulative amount of such retained earnings are RMB1,656 (US\$267) (2013: RMB4,110) and the related provision for withholding tax is RMB497 (US\$80) (2013: RMB1,233) as at December 31, 2014.

Value-added taxes

Generally revenue earned from the provision of leasing and technical services is subject to 5% business tax for contracts prior to VAT reform, and is subject to 17% value added tax ("VAT") for leasing and 6% for technical service for contracts signed after the promulgation of the VAT reform in the PRC. According to Guoshuihan [1999] No. 3402 issued by State Administration of Tax (the "SAT"), the revenue generated from certain qualified profit sharing cooperation arrangements, which is treated as investment income under existing PRC tax regulation is not subject to business taxes. One of the Group's subsidiaries has not recorded any business taxes on certain of its leasing and management services on the basis that revenue generated from these profit sharing cooperation arrangements with hospitals are not subject to business taxes. Based on the above, management believes that it is not probable the SAT will challenge this subsidiary's position that it's not subject to business tax for those profit sharing cooperation arrangements.

22. SHARE-BASED AWARDS

On October 16, 2008, the Board of Directors adopted the 2008 Share Incentive Plan (the "2008 Share Incentive Plan"). The 2008 Share Incentive Plan provides for the granting of options, share appreciation rights, or other share based awards to key employees, directors or consultants. The total number of the Company's ordinary shares that may be issued under the 2008 Share Incentive Plan is up to 13,218,000 ordinary shares.

Share options

On September 30, 2011, the Company granted options to purchase 355,884 ordinary shares to its employees at an exercise price \$2.17 per share, a contractual life of eight years and vest equally on the first, second, third, and fourth anniversary of the grant date. The Company recognizes the compensation expense on a straight-line basis over the requisite service period for the entire award. However, the amount of compensation cost recognized at any date must at least equal the portion of the grant-date value of the award that is vested at that date. The Company calculated the estimated grant date fair value of the share options granted on September 30, 2011, using a Black-Scholes Model.

On February 18, 2014, the Company granted options to purchase 3,479,604 ordinary shares to its employees at an exercise price of \$2.04 per share that have a contractual life of eight years and vest over four equal installments on the first, second, third, and fourth anniversary of the grant date. The company recognizes the compensation expense on a straight-line basis over the requisite service period for the entire award. The Company calculated the estimated grant date fair value of the share options granted on February 18, 2014, using a Binomial Tree Model, with key assumptions as follows.

Table of Contents

	February 18, 2014
Risk-free interest rate	2.33%
Dividend yield	5%
Expected volatility range	39.03%

The risk-free rate was based on the US Treasury bond yield curve in effect at the time of grant for periods corresponding with the expected term of the option. The dividend yield was estimated based on the average of historical dividend yields of the Company. The volatility assumption was estimated based on the historical price volatility of ordinary shares of comparable companies in the health care industry. Forfeiture rate is estimated based on the historical and future expectation of employee turnover rate and will be adjusted to reflect future change in circumstances and facts, if any.

The following table summarizes employee share options activities for the year ended December 31 2014:

Share Options Granted to Employees	Number of Shares	Weighted-Average Exercise Price	Weighted Average Grant-date Fair Value	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding, January 1, 2014	4,643,734	US\$ 3.55	US\$ 1.25	4.05	—
Forfeited	—	—	—	—	—
Granted	3,479,604	US\$ 2.04	US\$ 0.65	7.13	—
Outstanding, December 31, 2014	8,123,338	US\$ 2.90	US\$ 0.99	5.37	—
Exercisable at December 31, 2014	5,218,911	US\$ 2.90	US\$ 0.99	5.37	—

The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the fair value of the Company's shares that would have been received by the option holders if all in-the-money options had been exercised on the issuance date.

There were no options exercised for the years ended December 31, 2012, 2013 and 2014.

As of December 31, 2014, there was RMB11,178 (US\$1,802) unrecognized share-based compensation cost related to share options. That deferred cost is expected to be recognized over a weighted-average vesting period of 3.13 years. To the extent the actual forfeiture rate is different from original estimate, actual share-based compensation costs related to these awards may be different from the expectation.

Restricted shares

On February 18, 2014, July 1, 2014 and August 1, 2014, the Company granted restricted shares of the Company ("Restricted Shares") of 1,370,250, 21,132 and 69,564, respectively. The Restricted Shares have a service condition where the grantees can remove restriction on 25% of total number of restricted shares on annual basis over a four year period ending the fourth anniversary of the grant date.

The following table summarizes the Restricted Shares granted for the year ended December 31, 2014. The fair value of Restricted Shares is simply the spot price of the Company's ordinary shares in the absence of dividends.

Grant Date	Number of Awards	Fair Value per Share at the Grant date (US\$)
February 18, 2014	1,370,250	1.93
July 1, 2014	21,132	2.35
August 1, 2014	69,564	2.44

Table of Contents

The company recognizes the compensation expense on a straight-line basis over the requisite service period for the entire award. Restricted shares activity for the year ended December 31, 2014 was as follows:

	Numbers of shares	Weighted average grant date fair value US\$
Outstanding, January 1, 2014	—	—
Granted	1,460,946	1.96
Vested	—	—
Forfeited	—	—
Outstanding, December 31, 2014	<u>1,460,946</u>	<u>1.96</u>
Expected to vest, December 31, 2014	<u>1,460,946</u>	<u>1.96</u>

There was RMB13,536 (US\$2,182) unrecognized share-based compensation cost related to restricted shares that is expected to be recognized over a weighted-average vesting period of 3.05 years.

The share-based compensation expense of the share-based awards granted to employees for the years ended December 31, 2012, 2013 and 2014 is as follows:

	For the Years ended December 31,			
	2012	2013	2014	2014
	RMB	RMB	RMB	US\$
General and administrative expenses	6,776	6,541	6,605	1,065
Selling expenses	2,308	2,263	744	120
	<u>9,084</u>	<u>8,804</u>	<u>7,349</u>	<u>1,185</u>

23. RELATED PARTY TRANSACTIONS

a) Related parties

Name of Related Parties	Relationship with the Group
JYADK	Equity investee of the Group (note 14)
New Chang'an	Noncontrolling shareholder of CAH before disposal (note 4)
Shaanxi Juntai Real Estate Co., Ltd ("Shaanxi Juntai")	Entity indirectly controlled by New Chang'an

b) The Group had the following related party transactions for the years ended December 31, 2012, 2013 and 2014. These transactions arose from the discontinued operations.

	For the Years Ended December 31,			
	2012	2013	2014	2014
	RMB	RMB	RMB	US\$
Provision of medical services:				
Shaanxi Juntai	637	1,052	984	159
Loan to (repayment of a loan from):				
New Chang'an	100,000	(6,590)	—	—
Interest income				
New Chang'an	—	7,839	6,755	1,089
Purchase of medical supplies:				
JYADK	5,249	805	484	78

The transaction amounts stated above for the year ended 31 December 2014 represented the transactions conducted by the Group before the completion of the disposal of CAH and WHT on December 18, 2014.

In addition, on December 3, 2014, the Group entered into an agreement with Datang, a related company of New Chang'an and independent of the Group, to sell the 52% equity interests in CAH and WHT to Datang for a total consideration of RMB397,923 (US\$64,134). Further details of the transaction are included in note 4 to the financial statements.

Table of Contents

- c) The balances between the Company and its related parties as of December 31, 2013 and 2014 are listed below. These balances relate to the discontinued operations and were derecognized on December 18, 2014 upon the disposal of CAH and WHT.

	Note	As of December 31,		
		2013 RMB	2014 RMB	2014 US\$
Due from related parties, current:				
New Chang'an		7,839	—	—
Shaanxi Juntai		2,426	—	—
		<u>10,265</u>	<u>—</u>	<u>—</u>
Loan to a noncontrolling shareholder, non-current				
New Chang'an*		<u>93,410</u>	<u>—</u>	<u>—</u>
Due to related parties, current				
JYADK		(1,717)	—	—
New Chang'an		<u>(1,500)</u>	<u>—</u>	<u>—</u>
		<u>(3,217)</u>	<u>—</u>	<u>—</u>
Due to related parties, non-current				
Shaanxi Juntai		(19,301)	—	—
New Chang'an		<u>(7,527)</u>	<u>—</u>	<u>—</u>
		<u>(26,828)</u>	<u>—</u>	<u>—</u>

* The repayment terms of the loan to New Chang'an are the same as the loan granted by a bank as at December 31, 2013 (note 16).

24. EMPLOYEE DEFINED CONTRIBUTION PLAN

Full time employees of the Group in the PRC participate in a government mandated defined contribution plan, pursuant to which certain pension benefits, medical care, employee housing fund and other welfare benefits are provided to employees. Chinese labor regulations require that the PRC subsidiaries of the Group make contributions to the government for these benefits based on certain percentages of the employees' salaries. The Group has no legal obligation for the benefits beyond the contributions made. The total amounts for such employee benefits, which were expensed as incurred, were RMB12,189 and RMB30,252 and RMB12,789 (US\$2,061) for the years ended December 31, 2012, 2013 and 2014, respectively.

Obligations for contributions to defined contribution retirement plans for full-time employees in Singapore are recognized as expense in the statements of comprehensive income as incurred. The total amounts for such employee benefits were approximately RMB108, RMB106 and nil for the years ended December 31, 2012, 2013 and 2014, respectively.

25. COMMITMENTS AND CONTINGENCIES

Operating lease commitments

Future minimum payments under non-cancelable operating leases with initial terms in excess of one year consist of the following at December 31, 2014:

	RMB	US\$
2015	9,845	1,587
2016	4,074	657
2017	3,500	564
2018 and thereafter	56,000	9,025
	<u>73,419</u>	<u>11,833</u>

Payments under operating leases are expensed on a straight-line basis over the periods of their respective leases. The terms of the leases do not contain material rent escalation clauses or contingent rents. For the years ended December 31, 2012, 2013 and 2014, total rental expenses for all operating leases amounted to RMB8,986, RMB10,330 and RMB13,764 (US\$2,218), respectively.

Purchase commitments

The Group has commitments to purchase certain medical equipment of RMB30,663(US\$4,942) at December 31, 2014, which are scheduled to be paid within one year.

Income taxes

As of December 31, 2014, the Group has recognized approximately RMB36,616(US\$5,901) as an accrual for unrecognized tax positions (note 17). The final outcome of the tax uncertainty is dependent upon various matters including tax examinations, interpretation of tax laws or expiration of status of limitation. However, due to the uncertainties associated with the status of examinations, including the protocols of finalizing audits by the relevant tax authorities, there is a high degree of uncertainty regarding the future cash outflows associated with these tax uncertainties.

26. SEGMENT REPORTING

For the years ended December 31, 2012 and 2013, the Group had two operating segments, including network and hospital. After the disposal of CAH and WHT on December 18, 2014, which is presented as discontinued operations in the financial statements for the year ended December 31, 2014, the Group is only engaged in network business.

Information reported to the Group's chief operating decision maker ("CODM") for the purpose of resources allocation and performance assessment, focuses on the operating results of network business which is the sole operating segment of the Group. Accordingly, no operating segment information is presented.

As substantially all of the Group's long-lived assets (mainly including property, plant and equipment) and revenues are in and derived from the PRC, no geographical segments are presented.

27. INCOME PER SHARE

Basic and diluted income per share for each of the periods presented is calculated as follows:

	For the Years Ended December 31,			
	2012 RMB	2013 RMB	2014 RMB	2014 US\$
Numerator:				
Net income from continuing operations	128,978	81,753	94,942	15,302
Net income from discontinued operations	1,853	4,140	29,767	4,798
Net income attributable to ordinary shareholders used in calculating income per ordinary share—basic and diluted	130,831	85,893	124,709	20,100
Denominator:				
Weighted average number of ordinary shares outstanding used in calculating basic income per share	138,211,177	135,077,172	134,836,300	134,836,300
Weighted average number of ordinary shares outstanding used in calculating diluted income per share	138,211,177	135,077,172	135,180,642	135,180,642
Income per share – basic				
Net income from continuing operations	0.94	0.61	0.70	0.11
Net income from discontinued operations	0.01	0.03	0.22	0.04
	0.95	0.64	0.92	0.15
Income per share – diluted				
Net income from continuing operations	0.94	0.61	0.70	0.11
Net income from discontinued operations	0.01	0.03	0.22	0.04
	0.95	0.64	0.92	0.15

The effects of share options have been excluded from the computation of diluted income per share for the years ended December 31, 2012, 2013 and 2014 as their effects would be anti-dilutive.

For the year ended December 31, 2014, the effects of IFC loan have been excluded from the computation of diluted income per share as its effect would be anti-dilutive.

28. FAIR VALUE MEASUREMENTS

The Group applies ASC Topic 820, *Fair Value Measurements and Disclosures* (“ASC 820”), which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements.

ASC 820 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1 — Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 — Include other inputs that are directly or indirectly observable in the marketplace.

Level 3 — Unobservable inputs which are supported by little or no market activity.

ASC 820 describes three main approaches to measuring the fair value of assets and liabilities: (1) market approach; (2) income approach and (3) cost approach. The market approach uses prices and other relevant information generated from market transactions involving identical or comparable assets or liabilities. The income approach uses valuation techniques to convert future amounts to a single present value amount. The measurement is based on the value indicated by current market expectations about those future amounts. The cost approach is based on the amount that would currently be required to replace an asset.

In accordance with ASC 820, the Group measured derivative instruments at fair value as at December 31, 2014, on recurring basis using a valuation model with significant inputs that are directly or indirectly observable in the marketplace (Level 2).

The Group has no assets or liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended December 31, 2013 and 2014.

The Group measures certain financial assets, including equity method investments, at fair value on a nonrecurring basis only if an impairment charge were to be recognized. The Group’s non-financial assets, such as intangible assets, goodwill and fixed assets, would be measured at fair value only if they were determined to be impaired.

29. PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION

Condensed balance sheets

	2013	As at December 31	2014
	RMB	RMB	US\$
ASSETS			
Current assets:			
Cash	195,038	175,125	28,225
Amounts due from subsidiaries	386,909	374,237	60,316
Total current assets	<u>581,947</u>	<u>549,362</u>	<u>88,541</u>
Non-current assets:			
Investment in subsidiaries	2,063,610	2,203,785	355,186
Deferred cost, non current	—	2,867	462
Total assets	<u>2,645,557</u>	<u>2,756,014</u>	<u>444,189</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Short-term bank borrowings	390,464	307,128	49,500
Accrued expenses and other liabilities	6,421	45,920	7,401
Amounts due to subsidiaries	126,679	415,826	67,019
Total current liabilities	<u>523,564</u>	<u>768,874</u>	<u>123,920</u>
Long-term bank borrowings	—	189,591	30,554
Total liabilities	<u>523,564</u>	<u>958,465</u>	<u>154,474</u>
Shareholders' equity:			
Ordinary shares (par value of US\$0.0001 per share; authorized shares—500,000,000; issued shares—142,353,532 as of December 31, 2013 and 2014; outstanding shares—134,836,300 and 134,836,300 as of December 31, 2013 and 2014, respectively)	105	105	17
Treasury stock (7,517,232 and 7,517,232 as of December 31, 2013 and 2014, respectively)	(5)	(5)	(1)
Additional paid-in capital	2,520,338	2,074,125	334,288
Accumulated other comprehensive loss	(15,283)	(18,651)	(3,006)
Accumulated deficit	(383,162)	(258,025)	(41,583)
Total shareholders' equity	<u>2,121,993</u>	<u>1,797,549</u>	<u>289,715</u>
Total liabilities and shareholders' equity	<u>2,645,557</u>	<u>2,756,014</u>	<u>444,189</u>

Condensed statements of comprehensive income

	For the Years Ended December 31			
	2012	2013	2014	2014
	RMB	RMB	RMB	US\$
Revenues	—	—	—	—
Cost of revenues	—	—	—	—
General and administrative expenses	(19,879)	(24,028)	(7,892)	(1,272)
Selling expenses	(2,296)	(2,231)	(754)	(122)
Operating loss	(22,175)	(26,259)	(8,646)	(1,394)
Equity in profit or loss of subsidiaries	152,691	114,146	146,488	23,610
Interest income	307	1	570	93
Interest expense	—	(3,398)	(17,899)	(2,885)
Change in fair value of derivatives	—	—	2,605	420
Exchange gain	8	1,402	1,591	256
Net income	130,831	85,893	124,709	20,100
Net income attributable to ordinary shareholders	130,831	85,893	124,709	20,100
Other comprehensive income, net of tax of nil	—	—	—	—
Foreign currency translation adjustments	640	1,672	(3,368)	(543)
Total other comprehensive income	640	1,672	(3,368)	(543)
Comprehensive income	131,471	87,565	121,341	19,557

Condensed statements of cash flows

	For the Years Ended December 31			
	2012	2013	2014	2014
	RMB	RMB	RMB	US\$
Net cash used in operating activities	(11,493)	(17,599)	(8,613)	(1,389)
Net cash provided (used in) by investing activities	(153,651)	20,827	304,646	49,100
Net cash provided (used in) by financing activities	163,177	187,455	(322,317)	(51,948)
Exchange rate effect on cash	399	(2,946)	6,371	1,027
Net increase (decrease) in cash	(1,568)	187,737	(19,913)	(3,210)
Cash at beginning of the year	8,869	7,301	195,038	31,435
Cash at end of the year	7,301	195,038	175,125	28,225

Basis of presentation

For the presentation of the parent company only condensed financial information, the Company records its investment in subsidiaries under the equity method of accounting as prescribed in ASC 323. Such investment is presented on the balance sheet as “Investment in subsidiaries” and the subsidiaries profit or loss as “Equity in profit or loss of subsidiaries” on the statements of comprehensive income. The parent company only financial statements should be read in conjunction with the Company’s consolidated financial statements.

30. SUBSEQUENT EVENTS

(1) On January 27, 2015, a special resolution was adopted by the Company’s shareholders at its annual general meeting to adopt a Fourth Amended and Restated Memorandum and Articles of Association (the “Amended M&A”), pursuant to which, (i) each share issued and outstanding immediately prior to the adoption of the Amended M&A was re-designated as a Class A Ordinary Share; and (ii) a new class of convertible shares was created (the “Class B Ordinary Shares”, and together with Class A Ordinary Shares, the “Shares”). The Amended M&A provides that each Class B Ordinary Share entitles the holder thereof to 10 votes on any ordinary resolution or special resolution.

The directors of the Company had resolved, subject to the adoption of the Amended M&A, to issue 45,787,948 Class B Ordinary Shares to Morgancreek Investment Holdings Limited (“Morgancreek”), in exchange of 45,787,948 Class A Ordinary Shares held by Morgancreek. As of January 27, 2015, the date of the annual general meeting, Morgancreek held 45,787,948 ordinary shares and 4,660,976 American Depositary Shares (representing 13,982,928 ordinary shares) of the Company. Mr. Jianyu Yang, the chairman and chief executive officer of the Company and Mr. Zheng Cheng, the president, chief operating officer and a director of the Company, beneficially owns 60% and 40% equity interest of Morgancreek, respectively.

(2) On March 27, 2015, the Company announced the signing of a purchase agreement to acquire 100% equity interests in Fortis Healthcare Singapore Pte. Limited (“FSH”) from Fortis Healthcare International Pte. Limited, which is a private facility in Singapore that was established in July 2012, currently with 31 bed patient capacity, for a cash consideration of SGD55,000 (RMB257,666). The consideration was paid on April 6, 2015 and the acquisition was closed on April 7, 2015.

After the acquisition, the Company will start the application to Singapore’s Ministry of Health to change the FSH name into Singapore Concord Cancer Hospital, and to add more medical specialties (e.g. oncology, cardiology, respiratory, dermatology, renal medicine, endocrinology radiotherapy, and robot-assisted surgery).

The Company is in the process of completing the initial accounting for the business combination at the date of these financial statements.

Concord Medical Services Holdings Ltd. (Cayman)

subsidiary

Outside PRC Mainland

- Ascendium Group Limited
- Cyber Medical Network Limited
- China Medical Services Holdings Limited
- Our Medical Services Ltd.
- CONCORD MEDICAL SERVICES (INTERNATIONAL) Pte. Ltd.
- King Cheers Holdings Limited
- US PROTON THERAPY HOLDINGS LIMITED (BVI)
- US PROTON THERAPY HOLDINGS LIMITED(Delaware)
- Medstar Overseas Limited(BVI)
- CCM (HONG KONG)MEDICAL INVESTMENTS LIMITED
- CMS Radiotherapy Holdings Limited
- Allcure Medical Holdings Limited (BVI)
- Global Medical Imaging (HongKong) Ltd
- Fortis Healthcare Singapore Pte. Ltd.

PRC Mainland

- CMS Hospital Management Co., Ltd.
- Beijing Yundu Internet Technology Co., Ltd
- Tianjin Kangmeng Radiology Equipment Management Co., Ltd.
- Medstar (Shanghai) Leasing Co., Ltd.
- Shenzhen Aohua Medical Technology & Services Ltd.
- Guangzhou Concord Medical Cancer Hospital Co., Ltd.
- Guangzhou Jinkangshenyou Investment Co., Ltd.
- Beijing Jinweiyikang Technology Co., Ltd.
- Shenzhen Concord Medical Investment Ltd.
- Shanghai Concord Oncology Hospital Ltd.
- Datong Meizhong Jiahe Cancer Center
- Beijing Allcure Medical Technology Ltd.

**Certification by the Chief Executive Officer
Pursuant to Section 302 of the Sarbanes Oxley Act of 2002**

I, Jianyu Yang, Chief Executive Officer of Concord Medical Services Holdings Limited (the “**Company**”), certify that:

1. I have reviewed this annual report of the Company;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this annual report;
4. The Company’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a 15(e) and 15d 15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a 15 (f) and 15d 15(f)) for the Company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the Company’s disclosure controls and procedures and presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this annual report based on such evaluation; and
 - (d) Disclosed in this annual report any change in the Company’s internal control over financial reporting that occurred during the period covered by this annual report that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting; and

5. The Company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of Company's board of directors (or persons performing the equivalent function):
- (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: April 27, 2015

By: /s/ Jianyu Yang
Name: Jianyu Yang
Title: Chief Executive Officer

**Certification by the Chief Financial Officer
Pursuant to Section 302 of the Sarbanes Oxley Act of 2002**

I, Yaw Kong Yap, Chief Financial Officer of Concord Medical Services Holdings Limited (the “Company”), certify that:

1. I have reviewed this annual report of the Company;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this annual report;
4. The Company’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a 15(e) and 15d 15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a 15 (f) and 15d 15(f)) for the Company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the Company’s disclosure controls and procedures and presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this annual report based on such evaluation; and
 - (d) Disclosed in this annual report any change in the Company’s internal control over financial reporting that occurred during the period covered by this annual report that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting; and

5. The Company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of Company's board of directors (or persons performing the equivalent function):
- (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: April 27, 2015

By: /s/ Yaw Kong Yap
Name: Yaw Kong Yap
Title: Chief Financial Officer

**Certification by the Chief Executive Officer
Pursuant to Section 906 of the Sarbanes Oxley Act of 2002**

In connection with the Annual Report on Form 20-F of Concord Medical Services Holdings Limited (the “Company”) for the year ended December 31, 2014 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Jianyu Yang, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 27, 2015

By: /s/ Jianyu Yang
Name: Jianyu Yang
Title: Chief Executive Officer

Certification by the Chief Financial Officer
Pursuant to Section 906 of the Sarbanes Oxley Act of 2002

In connection with the Annual Report on Form 20-F of Concord Medical Services Holdings Limited (the “Company”) for the year ended December 31, 2014 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Yaw Kong Yap, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 27, 2015

By: /s/ Yaw Kong Yap
Name: Yaw Kong Yap
Title: Chief Financial Officer