Concord Medical Services Holdings Ltd
Form 20-F
April 28, 2014
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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

x **Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the fiscal year ended December 31, 2013

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)

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36 North Third Ring Road, Dongcheng District

Beijing 100013

People s Republic of China

(Address of Principal Executive Offices)

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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:

Title of Each Class	Name of Each Exchange on Which Registered
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.

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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 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 x

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 x

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 x No ¨

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

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

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨

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

International Financial Reporting Standards as issued

U.S. GAAP x 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 x

(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 ¨

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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., Shenzhen Lingdun Medical Investment & Management Co., Ltd., Tianjin Kangmeng Radiology Equipment Management Co., Ltd., Medstar (Shanghai) Leasing Co., Ltd., Guangzhou Concord Medical Cancer Hospital Co., Ltd., Xi An Wanjiehuaxiang Medical Technology Development Co., Ltd., Beijing Jinweiyikang Technology Co., Ltd., Guangzhou Jinkangshenyou Investment Co., Ltd. and Chang an Hospital Co., Ltd.

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.

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PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not Applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not Applicable.

ITEM 3. KEY INFORMATION

A. Selected Financial Data

The following selected consolidated statements of comprehensive income and other consolidated financial data for the years ended December 31, 2011, December 31, 2012 and December 31, 2013 (other than the income (loss) per ADS data) and the selected consolidated balance sheets data as of December 31, 2012 and 2013 have been derived from our audited consolidated financial statements, which is included elsewhere in this annual report on Form 20-F. The selected consolidated balance sheets data as of December 31, 2009, 2010 and 2011 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.

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	Concord Medical Year Ended December, 31					
	2009 RMB	2010 RMB	2011 RMB	2012 RMB	2013 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:						
Network	292,436	389,524	450,125	465,040	563,124	93,021
Hospital-medicine income				89,813	180,130	29,755
Hospital-medical service income				107,496	237,381	39,213
Total net revenues	**292,436**	**389,524**	**450,125**	**662,349**	**980,635**	**161,989**
Cost of revenues:						
Network	(87,561)	(122,700)	(159,416)	(169,905)	(224,062)	(37,012)
Hospital-medicine cost				(76,590)	(151,920)	(25,095)
Hospital-medical service cost				(90,709)	(210,967)	(34,849)
Total cost of revenues	**(87,561)**	**(122,700)**	**(159,416)**	**(337,204)**	**(586,949)**	**(96,956)**
Gross profit	**204,875**	**266,824**	**290,709**	**325,145**	**393,686**	**65,033**
Operating expenses:						
Selling expenses [(1)]	(7,675)	(17,150)	(37,453)	(53,911)	(107,842)	(17,814)
General and administrative expenses [(2)]	(29,821)	(66,789)	(80,628)	(71,754)	(105,114)	(17,364)
Asset impairment		(3,219)	(333,934)	(3,360)		
Other operating income				10,433		
Total operating expenses	(37,496)	(87,518)	(452,015)	(118,592)	(212,956)	(35,178)
Operating income (loss)	**167,379**	**179,666**	**(161,306)**	**206,553**	**180,730**	**29,855**
Interest expense	(6,891)	(7,448)	(6,454)	(16,255)	(47,027)	(7,768)
Foreign exchange (losses) gains, net	(213)	(5,436)	(10,975)	(101)	767	127
Gain (loss) from disposal of equipment		543		(1,072)	(1,235)	(204)
Interest income	948	7,865	13,357	5,895	17,712	2,926
Share of net profit of equity investee				1,790	15,521	2,564
Other (expense) income, net		(399)	346	(144)	608	100
Income (loss) before income taxes	**161,223**	**174,791**	**(165,032)**	**196,666**	**167,076**	**27,600**
Income tax expenses	(36,396)	(43,873)	(46,320)	(62,186)	(75,880)	(12,534)
Net income (loss)	**124,827**	**130,918**	**(211,352)**	**134,480**	**91,196**	**15,066**
Net income attributable to non-controlling interests		**1,518**	**3,651**	**3,649**	**5,303**	**876**
Net income (loss) attributable to Concord Medical Services Holdings Limited s shareholders	**46,418**	**129,400**	**(215,003)**	**130,831**	**85,893**	**14,190**

Earning (loss) per share	basic / diluted[3]	0.62	0.89	(1.51)	0.95	0.64	0.11
Earning (loss) per ADS	basic / diluted	1.86	2.66	(4.53)	2.84	1.92	0.32

(1) Our selling expenses included share-based compensation of RMB0.3 million in 2009, RMB2.5 million in 2010, RMB2.4 million in 2011; RMB2.3 million in 2012; and RMB2.3 million (US$0.4 million) in 2013.

(2) Our general and administrative expenses included share-based compensation expenses related to certain share options granted in 2009, 2010, 2011, 2012 and 2013 of RMB0.7 million, RMB7.0 million, RMB6.9 million, RMB6.8 million and RMB6.5 million (US$1.1 million) respectively.

(3) On November 17, 2009, we effected a share split whereby all of our issued and outstanding 704,281 ordinary shares of a par value of US$0.01 per share were split into 70,428,100 ordinary shares of US$0.0001 par value per share and the number of our authorized ordinary shares was increased from 4,500,000 to 450,000,000. The share split has been retroactively reflected in this annual report so that share numbers, per share price and par value data are presented as if the share split had occurred from our inception.

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	Concord Medical					
	As of December 31,					
	2009 RMB	2010 RMB	2011 RMB	2012 RMB	2013 RMB	2013 US$
	(in thousands)					
Selected Consolidated Balance Sheets Data						
Cash	1,037,239	535,783	219,078	75,382	283,033	46,754
Total current assets	1,252,512	904,416	733,657	853,133	1,300,010	214,748
Property, plant and equipment, net	573,042	907,336	1,068,703	1,522,920	1,492,573	246,555
Goodwill	300,163	300,163		292,885	292,885	48,381
Intangible assets, net	155,345	146,113	129,018	146,512	116,843	19,301
Total assets	2,443,865	2,663,044	2,393,446	3,665,220	4,093,557	676,209
Long-term bank borrowings, current portion	57,487	60,906	77,479	191,473	273,310	45,148
Total equity	2,153,748	2,301,835	2,038,096	2,339,910	2,433,717	402,023
Total liabilities and equity	2,443,865	2,663,044	2,393,446	3,665,220	4,093,557	676,209

	Concord Medical					
	Year Ended December 31,					
	2009 RMB	2010 RMB	2011 RMB	2012 RMB	2013 RMB	2013 US$
	(in thousands)					
Selected Consolidated Statements of Cash Flow Data						
Net cash generated from operating activities	135,883	190,972	137,102	259,515	259,033	42,788
Net cash used in investing activities [(1)]	(272,269)	(529,468)	(494,867)	(659,290)	(133,540)	(22,059)
Net cash generated from (used in) financing activities	819,846	(154,933)	41,785	255,932	77,722	12,839
Exchange rate effect on cash	(212)	(8,027)	(725)	147	4,436	734
Net increase (decrease) in cash	683,248	(501,456)	(316,705)	(143,696)	207,651	34,302

(1) Net cash used in investing activities in 2009, 2010, 2011, 2012 and 2013 includes acquisitions, net of cash acquired, of RMB32.2 million, RMB45.0 million, RMB20.3 million, RMB223.4 million and nil respectively.

	Concord Medical					
	Year Ended December 31,					
	2009 RMB	2010 RMB	2011 RMB	2012 RMB	2013 RMB	2013 US$
	(in thousands)					
Total net revenues generated by our primary medical equipment under lease and management services arrangements:						

Linear accelerators	90,278	108,974	114,250	115,009	135,268	22,345
Head gamma knife systems	67,406	80,909	77,035	76,239	68,553	11,324
Body gamma knife systems	25,241	38,599	42,512	31,365	42,016	6,941
PET-CT scanners	24,196	41,036	59,054	71,895	107,536	11,170
MRI scanners	33,880	51,738	65,031	79,220	83,619	13,813
Others [1]	19,161	27,992	22,576	38,602	61,564	16,763
Total net revenues lease and management services	260,162	349,248	380,457	412,330	498,556	82,356

(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.

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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, for all dates through December 31, 2009, at the noon buying rate in the City of New York for cable transfers in Renminbi per U.S. dollar as certified for customs purposes by the Federal Reserve Bank of New York, or the noon buying rate, and for January 1, 2010 and all later dates and periods, 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 RMB6.0537 to US$1.00, the noon buying rate in effect as of December 31, 2013. 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 18, 2014, the noon buying rate was RMB6.2240 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.

	Exchange Rate (Renminbi per US Dollar)[1]			
	Period End	Average[2]	High	Low
Period	(RMB per US$1.00)			
2009	6.8259	6.8295	6.8470	6.8176
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
October	6.0943	6.1032	6.1209	6.0815
November	6.0922	6.0929	6.0993	6.0903
December	6.0537	6.0738	6.0927	6.0537
2014				
January	6.0590	6.0509	6.0600	6.0402
February	6.1448	6.0816	6.1488	6.0591
March	6.2164	6.1729	6.2273	6.1183
April (through April 18)	6.2240	6.2121	6.2240	6.2064

(1) The source of the exchange rate is: (i) with respect to any period ending on or prior to December 31, 2009, the Federal Reserve Bank of New York, and (ii) with respect to any period ending on or after January 1, 2010, 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.

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D. Risk Factors

Risks Related to Our Company

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 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 2011, 2012 and 2013, net revenues derived from our top five hospital partners amounted to approximately 33.0%, 22.9% and 24.2% of our total net revenues, respectively. Our largest hospital partner accounted for 14.3%, 6.9% and 5.6% of our total net revenues during those periods, respectively. In addition, centers located in Beijing, Shaanxi province and Liaoning province accounted for 19.0%, 15.9% and 8.5% of our total net revenues in 2011, respectively, 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, and centers located in Beijing, Heinan province and Sichuan Province accounted for 17.1%, 9.4% and 8.5% of our total net revenues in 2013, 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, ten of our hospital partners in terms of revenue contribution, accounted for 43.2% of our total network accounts receivable as of December 31, 2013. Any significant delay in the payment of such accounts receivable could have a material impact on our financial condition and results of operations.

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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 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 RMB244.2 million, RMB210.3 million and RMB272.3 million (US$45.0 million) as of December 31, 2011, 2012 and 2013, respectively. As of December 31, 2013, approximately 12.3% of our network accounts receivable reported on our consolidated balance sheets as of December 31, 2012 were still outstanding. The average turnover days of our network accounts receivable in 2013 were 145 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. 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. 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.

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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. For example, we plan to transform Chang an Hospital into a full-service hospital with a special focus on cancer diagnosis and treatment services. In addition, we plan to merge Xi An Wanjiehuaxiang Medical Technology Development Co. Ltd. (CCICC) into Chang an Hospital after which CCICC will become part of Chang an Hospital. We cannot assure such 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 RMB125.4 million (US$20.7 million) as of December 31, 2013. 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. However, we are still negotiating the transition of our cooperation agreements relating to 1 of our centers located at one of our partner hospitals, which center s revenue in 2013 was immaterial. 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.

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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 41 military hospitals as of December 31, 2013. 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.

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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. As of December 31, 2013, 3 centers in our network have agreed to pay an aggregate amount of approximately RMB0.1 million (US$22.3 thousand) to settle such claims. 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.

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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 in China to protect our corporate name. As of December 31, 2013, we also owned the rights to 87 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.

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Our reported earnings could decline if we recognize impairment losses on intangible assets and goodwill relating to the Chang an Hospital and other acquisitions.

We acquired 52% equity interest in Chang an Hospital in 2012 and recorded goodwill in the amount of RMB292.9 million as well as certain acquired intangibles. We quantitatively assessed the goodwill for impairment as of December 31, 2013. The fair value of the reporting unit exceeded its carrying amount and therefore goodwill was not impaired and we were not required to perform further testing. If there are any significant adverse changes in the operating results of Chang an Hospital in the future, the impairment losses on goodwill may be resulted. The headroom of the goodwill impairment test as of December 31, 2013 was 10%. We may continue to selectively acquire complementary businesses in the future, which may result in recorded goodwill and additional acquired intangibles. Any future goodwill we record will be tested for impairment by us annually or more frequently if an event occurs or a circumstance develops that would require more frequent assessments. Examples of such events or circumstances include, but are not limited to, a significant adverse change in the legal or business climate, an adverse regulatory action or unanticipated competition. In the future, we could recognize additional impairment losses on the intangible assets and goodwill, which could result in a charge to our reported results of operations and cause our reported earnings to decline.

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

We do not have insurance for nine units of electroencephalography and thermotherapy equipment at centers from which we derived less than 0.11% of our total revenues in each of 2011, 2012 and 2013. 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.

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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.

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, in June 2012, we acquired, through our subsidiaries, Cyber Medical Network Limited, or Cyber Medical, and Medstar (Shanghai) Leasing Co., Ltd., or Shanghai Medstar, 52% of the equity interest in Chang an Hospital or a total consideration of approximately RMB248.8 million. In addition, 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.

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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 Chang an Hospital and 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 and Chang an Hospital 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 and Chang an Hospital, we may face increasing risks of litigation and our reputation among patients may be affected adversely. As of December 31, 2013, Chang an Hospital has agreed to pay an aggregate amount of approximately RMB1.09 million (US$0.18 million) to settle such claims.

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 and Chang an Hospital 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.

Both our network centers and hospital business are subjected 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 future high-end cancer Hospitals will provide patients high-end medical services and medicines that are 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 and Chang an Hospital 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.

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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 Mr. Jianyu Yang, chairman and our chief executive officer, Dr. Zheng Cheng, a director and our chief operating officer, Mr. Adam Jigang Sun, our chief financial officer, Mr. Jing Zhang, our chief administrative officer, Mr. Yaw Kong Yap, senior vice president, 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 directors, executive officers and significant shareholders have substantial influence over our company and their interests may not be aligned with the interests of our other shareholders.

As of the date of this annual report, our directors, executive officers and significant shareholders beneficially owned approximately 46.4% of our outstanding share capital. As such, they have substantial influence over our business, including decisions regarding mergers, consolidations and the sale of all or substantially all of our assets, election of directors and other significant corporate actions. This concentration of ownership may discourage, delay or prevent a change in control of our company, which could deprive our shareholders of an opportunity to receive a premium for their shares as part of a sale of our company and might reduce the price of our ADSs. These actions may be taken even if they are opposed by our other shareholders.

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

Our third 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.

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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. For example, as of December 31, 2013, we were not in compliance with certain financial covenants as provided in a loan agreement which would give the lender the right to demand immediate repayment of the outstanding loan amount. In March 2014, we obtained from the relevant lender a waiver on the right to demand immediate repayment of the outstanding loan amount based on the non-compliance of the financial covenants as of December 31, 2013. 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. In addition, Chang an Hospital might be deemed not in incompliance with certain terms of the loan agreement for a loan which Chang an Hospital took from Chang an Bank. For more details, see Item 7B. Related Party Transactions. 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 RMB201.2 million, RMB875.5 million and RMB1,086.2 million (US$179.4 million) as of December 31, 2011, 2012 and 2013, respectively, we have granted security interests in equipment with a net carrying value of RMB171.3 million, RMB205.3 million and RMB502.6 million (US$83.0 million), respectively, representing 16.0%, 13.5% and 33.7% of the net value of our net property, plant and equipment of RMB1,068.7 million, RMB1,522.9 million and RMB1,492.6 million (US$246.6 million) as of December 31, 2011, 2012 and 2013, 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 establish or 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.

In connection with management s assessment of the effectiveness of our internal control over financial reporting for the year ended December 31, 2010, we and our current independent registered public accounting firm identified a material weakness in our internal controls over financial reporting related to our lack of adequate resources with the

requisite U.S. GAAP and SEC financial accounting and reporting expertise to support the accurate and timely assembly and presentation of our consolidated financial statements and related disclosures. As of December 31, 2011, this material weakness has been remediated. We have successfully completed our Section 404 assessment for the year ended December 31, 2013 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.

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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. 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 RMB9.2 million in 2011, RMB9.1 million in 2012 and RMB8.8 million (US$1.5 million) in 2013 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;

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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, 2013, 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.

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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 2013, 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 2013, 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, 2013, of the 138 units of medical equipment in the centers in our network that are subject to large medical equipment procurement quota requirements, 116 were issued with a procurement license, 3 were issued with an interim procurement permit subsequent to the implementation of the quota requirement, 15 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, which accounted for approximately 4.2%, 3.2% and 1.5% of our total net revenues in 2011, 2012 and 2013 respectively, have not yet been issued with any procurement license or permit. 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.

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We believe that the 20 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 20 units of equipment accounted for approximately 12.5%, 6.6% and 3.7% of our total net revenues in 2011, 2012 and 2013, 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.

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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.

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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.

Although self payments account for a high percentage of total medical expenses in China, approximately 27.5% of total medical expenses were sourced from direct payments by the government and approximately 35.1% of total medical expenses were sourced from government-directed public medical insurance schemes, commercial insurance plans and employers in 2009, 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. Based on the latest statistics, there are over 2.7 million people in China with net worth over RMB6 million and about 63.5 thousand people with net worth over RMB100 million. 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.

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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 bean 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.

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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.

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Recent PRC regulations, particularly SAFE Circular No. 75 relating to acquisitions of PRC companies by foreign entities, may limit our ability to acquire PRC companies and adversely affect the implementation of our strategy as well as our business and prospects.

In 2005, the State Administration of Foreign Exchange, or the SAFE issued a number of rules regarding offshore investments by PRC residents. The currently effective rule, the Notice on Issues Relating to the Administration of Foreign Exchange in Fund-Raising and Return Investment Activities of Domestic Residents Conducted Via Offshore Special Purpose Companies, known as SAFE Circular No. 75, was issued on October 21, 2005 and further clarified by Circular No. 106 issued by the SAFE on May 29, 2007. SAFE Circular No. 75 requires PRC residents to register with and receive approvals from the SAFE in connection with certain offshore investment activities. Since we are a Cayman Islands company that is controlled by PRC residents, we are affected by the registration requirements imposed by SAFE Circular No. 75. Also, any failure by our shareholders who are PRC residents to comply with SAFE Circular No. 75, or change in SAFE policy and regulations in respect of SAFE Circular No. 75, could adversely affect us in a variety of ways. SAFE Circular No. 75 provides, among other things, that prior to establishing or assuming control of an offshore company for the purpose of transferring to that offshore company assets of, or equity interests in, an enterprise in the PRC, each PRC resident (whether a natural or legal person) who is an ultimate controller of the offshore company must complete prescribed registration procedures with the relevant local branch of the SAFE. Such PRC resident must amend his or her SAFE registration under certain circumstances, including upon any further transfer of equity interests in, or assets of, an onshore enterprise to the offshore company as well as any material change in the capital of the offshore company, including by way of a transfer or swap of shares, a merger or division, a long-term equity or debt investment or the creation of any security interests in favor of third parties. The registration and filing procedures under SAFE rules are prerequisites for other approval and registration procedures necessary for capital inflow from the offshore entity, such as inbound investments or shareholder loans, or capital outflow to the offshore entity, such as the payment of profits or dividends, liquidating distributions, equity sale proceeds, or the return of funds upon a capital reduction. SAFE Circular No. 75 applies retroactively and to indirect shareholdings. PRC residents who have established or acquired direct or indirect control of offshore companies that have made onshore investments in the PRC in the past are required to complete the registration procedures by March 31, 2006. On May 27, 2011, the SAFE issued Circular of the State Administration of Foreign Exchange on Printing and Distributing on the Operating Rules for the Administration of Foreign Exchange with Respect to the Financing and Round-tripping Investment of Domestic Residents via Overseas Special Purpose Companies, called as SAFE Circular No.19 as well, in which regulates procedures in detail, including legal basis, materials to be examined, principles for examination and scope of authorization for all kinds of relevant registrations. The failure or inability of a PRC resident shareholder to receive any required approvals or make any required registrations could subject the PRC subsidiary to fines and legal sanctions, restrict the offshore company s additional investments in the PRC subsidiary, or limit the PRC subsidiary s ability to make distributions or pay dividends offshore. Due in part to the uncertainties relating to the interpretation and execution of SAFE Circular No. 75 and No.19, their effect on companies such as ours is difficult to predict.

Currently, several of our shareholders who are residents in the PRC and are subject to the above registration or amendment of registration requirements have applied to SAFE s local branches to make the required make-up SAFE registration with respect to their existing investments in our company. Furthermore, there may be additional PRC shareholders, whose identities we may not be aware of and whose actions we do not control, who are not in compliance with the registration procedures set forth in SAFE Circular No. 75 and No. 19. If the SAFE determines that any of our PRC shareholders failed to make filings that they should have made with respect to any of our offshore entities, we could be subject to fines and legal penalties, or the SAFE could impose restrictions on our foreign exchange activities, including the payment of dividends and other distributions to us or our affiliates and our PRC subsidiaries ability to receive capital from us. Any of these actions could, among other things, materially and adversely affect our business operations, acquisition opportunities and financing alternatives.

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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.

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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. In 2011, our subsidiary Shanghai Medstar had a preferential income tax rate of 24% that is increased to 25% in 2012 and 25% in 2013. 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.

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.

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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.

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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 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 U.S. Securities and Exchange Committee, 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 the PCAOB, is required by the laws of the United States to undergo regular inspections by the 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 the 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 the PCAOB.

Inspection of other firms that the 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 auditor quality. The inability of the 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 procedure. As a result, investors may be deprived of the benefits of the PCAOB inspections. Investors

may lose confidence in our reported financial information and procedures and quality of our financial statements.

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.

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Proceedings instituted recently by the SEC against five PRC-based accounting firms, including our independent registered public accounting firm, could result in our financial statements being determined to not be in compliance with the requirements of the Securities Exchange Act of 1934, or the Exchange Act.

In December 2012, the SEC brought administrative proceedings against five accounting firms, including our independent registered public accounting firm, in China, 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 for potential accounting fraud. On January 22, 2014, an initial administrative law decision was issued, censuring these accounting firms and suspending four of the five 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 sanction. Accordingly, the sanction will not become effective until after a full appeal process is concluded and a final decision is issued by the SEC. We are not involved in the proceedings brought by the SEC against the accounting firms. However, our independent registered public accounting firm is one of the four accounting firms subject to the six month suspension from practicing before the SEC in the initial administrative law decision. We may therefore be adversely affected by the outcome of the proceedings, along with other U.S.-listed companies audited by these accounting firms.

On May 24, 2013, the PCAOB announced that it had entered into a Memorandum of Understanding on Enforcement Cooperation with the China Securities Regulatory Commission, and the Ministry of Finance which establishes a cooperative framework between the parties for the production and exchange of audit documents relevant to investigations in the United States and China. However, it is not clear how these recent developments could affect the SEC s final decision in the case against the five accounting firms or any subsequent appeal to courts that the accounting firms may initiate. Therefore, it is difficult to determine the final outcome of the administrative proceedings and the potential consequences thereof.

If our independent registered public accounting firm were denied, 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 financial statements, our financial statements could be determined to not be in compliance with the requirements of the Exchange Act. Such a determination could ultimately lead to delisting of our ADSs from the New York Stock Exchange 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.

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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 third 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.

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

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

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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 depositary 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 depositary 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 depositary may, at its discretion, decide that it is inequitable or impractical to make a distribution available to any holders of ADSs. For example, the depositary 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 depositary 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.

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In July 2010, we acquired 52% of the equity interest in Chang an CMS International Cancer Center 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 (US$39.9 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;

- Chang an CMS International Cancer Center, which specializes in cancer diagnosis and treatment in Xi An, was established by us and Chang an Hospital in which we have controlling equity interest upon the consummation of the acquisition described above; and

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.

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 the largest network of radiotherapy and diagnostic imaging centers in China in terms of revenues and the total number of centers in operation in 2008, according to a report by Frost & Sullivan commissioned by us that compared our pro forma revenues against the revenues of our competitors in 2008 and our number of centers and units of equipment against those of our competitors as of the end of 2008. As of December 31, 2013, our network comprised 144 centers based in 81 hospitals, spanning 55 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 was the leading cause of death in China in 2008 according to the Ministry of Health, and there is a relatively low penetration of radiotherapy and diagnostic imaging equipment compared to developed countries. 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.

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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 established our first specialty cancer hospital, Chang an CMS International Cancer Center, in Xi an, Shanxi Province in July 2010 with Chang an Hospital, a licensed full-service private hospital. In June 2012, we acquired, through our subsidiaries, Cyber Medical and Shanghai Medstar 52% of the equity interest in Chang an Hospital for a total cash consideration of approximately RMB248.8 million. The consummation of this acquisition gave us effective control over the full capacity of 1,100 beds in Chang an Hospital. We are also in the process of establishing the Beijing Proton Medical Center, another specialty cancer hospital, which is expected to commence operation in late 2014. 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 131 as of December 31, 2011 to 136 as of December 31, 2012 and to 144 as of December 31, 2013. Our total net revenues were RMB450.1 million, RMB662.3 million and RMB980.6 million (US$162.0 million) for the year ended December 31, 2011, 2012 and 2013, 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, 2013, we operated an extensive network of 144 centers based in 81 hospitals, spanning 55 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 111 radiotherapy and diagnostic imaging centers and 28 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.

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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, 2013, we had 136 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 ten 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, 2013, we had such agreements for eight 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, 2013, we had such agreements for four 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.

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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, 2013, we owned 30 linear accelerators and one MM50 intensity-modulated radiation therapy systems. 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.

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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, 2013, we owned 38 gamma knife systems, including 23 head gamma knife systems and 15 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, 2013, 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 1,551 patients since the start of its trial run in February 2012. 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.

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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 and Chang an Hospital 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 and Chang an Hospital 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 heath 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 2011, 2012 and 2013, revenues derived from centers that provide such other services were approximately 4.7%, 8.3% and 12.8%, 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.

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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

Chang an Hospital

In June of 2012, we closed the acquisition of 52% equity ownership in Chang an Hospital, a leading non-public general hospital located in Xi an, Shaanxi Province. The Company announced the signing of a definite agreement in connection with the acquisition of 52% equity ownership in Chang an Hospital on March 22, 2012. Since then, the Company has received all necessary government approvals including New Business License of Chang an Hospital, and completed all registration procedures, including Capital Verification Report, Share Ownership Report, and Business Registration Change Report. Chang an Hospital convened a board meeting, at which the board appointed the new directors selected by the Company effective as of July 1, 2012. The financial results of Chang an Hospital have been consolidated by the Company starting from the third quarter of 2012.

Chang an Hospital is an international general hospital integrating clinical care, healthcare, preventative care and research. It is a Sino-foreign JV hospital licensed by National Ministry of Health, and Ministry of Foreign Trade and Economic Cooperation, and registered through the State Administration of Industry and Commerce. The construction starting in 1998, the hospital opened to patients in September 2002. Its stage II project finished in May, 2010; its stage III project started in 2012. It currently operates 1,100 hospital beds, covering floor area of 180,000 square meters, with 2,000 medical staff. The total investment is RMB1.5 billion.

Chang an Hospital is located at the 3rd Fengcheng Avenue, Weiyang District, Xi an, Shaanxi province. It is the biggest and only Class-3 private hospital in the Middle/West region. It is listed as a contract hospital to the employee medical insurance in Xi an city and Shaanxi province, to the new rural medical insurance in Xi an city and Shaanxi province, to China Life Insurance and Ping-An Insurance. It is the first digitalized hospital in northwest China, and the first 24-hour-operating hospital.

Chang an Hospital owns state-of-art medical equipment in China, such as MM50, Novalis, 3.0T MRI, GE LightSpeed CT750 HD, PET-CT, SPECT, and DSA. The hospital has strong medical team, including 3 medical experts who enjoy special allowance from the Chinese State Council, 8 physicians with doctors and post-doc degrees, 26 with master degrees, as well as 80 senior doctors and 91 intermediates doctors. Since its inception in 2002, the hospital has received the gold award of 2010 China Hospital Informatization Demonstration Unit , National Integrity Hospital , Top 100 National Integrity Hospital , 2010 China Medical Informatization Construction Demonstration Unit .

In May 2012, Chang an Hospital was accredited with Stage 6 of Electronic Medical Record (EMR) capabilities by U.S. Healthcare Information and Management Systems Society (HIMSS). Chang an Hospital has been ranked the highest among Chinese hospitals in terms of EMR capabilities by China s Ministry of Health, and is the only Chinese hospital accredited with Stage 6 of EMR capabilities by HIMSS.

Beijing Proton Medical Center

We have also entered into a framework agreement with Chang an Information Industry 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, Hong Kong Jian Chang Group Ltd. and China-Japan Friendship 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 Friendship Hospital.

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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. On December 31, 2012, we paid RMB25.6 million 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 2014. 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.

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.

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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.

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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 will be responsible for patient billing and fee collection.

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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 CFO 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.

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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.

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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.

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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. We are applying for a license for CCICC

and it is currently operated within Chang an Hospital, which has the necessary license.

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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.

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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.

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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	**Urban Residents Basic**

	Medical Insurance Program	**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: employer contributes approximately 6% of each employee s total salary; and	Households and the government: monthly premium are paid by each household; and	Individuals and the government: individual pays no less than RMB20 per year and local government subsidizes no less than RMB40 per person annually; and

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	Urban Employees Basic Medical Insurance Program	Urban Residents Basic Medical Insurance Program	Rural Cooperative Medical Program
	employee contributes approximately 2% of such employee s total salary.	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.	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	Reimbursement comes from two sources individual s reimbursement account and the social medical expense pool:	There is no specific requirement or guidance from the central government. Reimbursement policy is separately determined by local governments.	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.
	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.		
Examples of Local Reimbursement Policy	Shanghai: 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	Jiangsu Province: approximately 50% to 60% of medical expense can be reimbursed by the program.	Guangdong Province: maximum reimbursement amount is approximately RMB50,000 per person per year.

Shanghai from the previous year.		
Inner Mongolia: reimbursement cap from the social medical expense pool for an individual participant in a calendar year is RMB25,000.	Sichuan Province: approximately 60% (and not less than 50%) of medical expense can be reimbursed by the program.	Hubei Province: maximum reimbursement amount for hospitalization is approximately RMB30,000 per person per year.
	Guangdong Province: 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.	Anhui Province: maximum reimbursement amount for hospitalization is approximately RMB30,000 per person per year.

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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.

Pursuant to SAFE Circular No. 75, (i) a PRC resident must register with the local SAFE branch before establishing or controlling an overseas special purpose vehicle, or SPV, for the purpose of obtaining overseas equity financing using the assets of or equity interests in a domestic enterprise; (ii) when a PRC resident contributes the assets of or its equity interests in a domestic enterprise into an SPV, or engages in overseas financing after contributing assets or equity interests into an SPV, such PRC resident must register his or her interest in the SPV and any subsequent change thereto with the local SAFE branch; and (iii) when the SPV experiences a material event, such as a change in share capital, merger or acquisition, share transfer or exchange, spin-off or long-term equity or debt investment, the PRC resident must, within 30 days after the occurrence of such event, register such event with the local SAFE branch. On May 29, 2007, the SAFE issued guidance to its local branches for the implementation of the SAFE Circular No. 75, which guidance provides for more standardized, specific and stringent supervision regarding such registration requirements and requires PRC residents holding any equity interests or options in SPVs, directly or indirectly, controlling or nominal, to register with the SAFE. On May 27, 2011, the SAFE issued SAFE Circular No. 19 which stipulates more detailed implementation for these registrations, including legal basis, materials to be examined, principles for examination and scope of authorization.

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Currently, several of our shareholders who are residents in the PRC and are subject to the above registration or amendment of registration requirements, have applied to SAFE s local branches to make the required SAFE registration with respect to their investments in our company. Because of the current suspension of acceptance of such registrations by the SAFE authorities due to reportedly forthcoming new SAFE regulations, such shareholders applications are still pending. We cannot assure you that these shareholders pending applications will eventually be approved by the authorities. See Item 3. Key Information D. Risk Factors Risks Related to Doing Business in China Recent PRC regulations, particularly SAFE Circular No. 75 relating to acquisitions of PRC companies by foreign entities, 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.

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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.

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C. Organizational Structure

The following diagram illustrates our company s organizational structure, and the place of formation, ownership interest and affiliation of each of our principal subsidiaries and affiliated entities as of the date of this annual report.

Our principal headquarters are located at 18/F, Tower A, Global Trade Center, 36 North Third Ring Road East, Dongcheng District, Beijing, 100013. We occupy and use this office space with a gross floor area of approximately 1,931 square meters, pursuant to lease agreements entered into in January 2012 each with a term of three years started from May 2012. The following table sets forth our other leased properties as of the date of this annual report:

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D. Property, Plant and Equipment

Location	Size (in square meters)	Expiration Date
Beijing	1930	May 2015
Shanghai	24	October 2014
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 obtained the land use rights for properties occupied by Chang an CMS International Cancer Center and 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, 2013, which are located in the various centers across our network:

Number of primary medical equipment owned[1] :	
Linear accelerators[2]	27
Head gamma knife systems	26
Body gamma knife systems	14
PET-CT scanners	16
MRI scanners	35
Others[3]	24
Total	142

(1) Excluding data from eight centers under service-only agreements as of December 31, 2013.

(2) Including a MM50 intensity-modulated radiation therapy system.

(3) 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.

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A. Operating Results

Overview

We operate the largest network of radiotherapy and diagnostic imaging centers in China in terms of revenues and the total number of centers in operation. Most of the centers in our network are established through long-term lease and management services arrangements typically ranging from six 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.

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 131 as of December 31, 2011 to 136 as of December 31, 2012 and 142 as of December 31, 2013. Our total net revenues increased to RMB980.6 million (US$162.0 million) in 2013 from RMB662.3 million in 2012 and RMB450.1 million in 2011, 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.

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Our Ability to Expand Our Network of Centers

As of December 31, 2013, our network comprised 144 centers based in 81 hospitals, spanning 55 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 2011, we added 13 new centers to our network, of which 10 were under lease and management services arrangements, and three were under service-only agreements. We closed one center in 2011 after its contract expired. 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.

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 33,376 and 317,531 in 2013, respectively, representing 12.0% decrease and 32.6% increase from 2012, 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 six 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;

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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.

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Financial Impact of Our Acquisitions

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. After this acquisition, we plan to transform Chang an Hospital into a full-service hospital with a special focus on cancer diagnosis and treatment services. The results of operations of Chang an Hospital were consolidated into our results of operation commencing in the third quarter of 2012.

Revenues

Our revenues consisted of revenues generated from our network and Chang an Hospital. The following table sets forth the breakdown of our total net revenues for the years indicated.

	Year Ended December 31,						
	2011		2012		2013		
	RMB	% of Total Net Revenues	RMB	% of Total Net Revenues	RMB	US$	% of Total Net Revenues
	(in thousands, except percentage)						
Network	450,125	100.0	465,040	70.2	563,124	93,021	57.4
Hospital medicine income			89,813	13.6	180,130	29,755	18.4
Hospital medical service income			107,496	16.2	237,381	39,213	24.3
Total net revenues	450,125	100.0	662,349	100.0	980,635	161,989	100.0

Network

The majority 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, 2013, we managed eight centers under service-only agreements.

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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, as well as Chang an Hospital, 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 RMB16.1 million, RMB3.1 million and RMB3.1 million (US$0.5 million) as of December 31, 2011, 2012 and 2013, 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, 2011, 2012 and 2013, net revenue derived from our top five hospital partners amounted to approximately 33.0%, 22.9% and 24.1%, respectively, of our total net revenues. Our largest hospital partner accounted for 14.3%, 6.9%, and 5.6%, 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.

Chang an Hospital was the largest hospital partner in terms of revenue contribution for the year ended December 31, 2011 and accounted for approximately 14.3% of our total net revenues in 2011.

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

	Number of centers	Aggregate revenues in 2013		Percentage to total revenues
		RMB 000	US$ 000	
2014	3	6,660	1,100	1.2%
2015	8	2,771	458	0.5%
2016	2	16,132	2,665	2.9%
2017	21	93,183	15,393	16.7%
2018	22	88,633	14,641	15.9%
Total	**56**	**207,379**	**34,256**	**37.2%**

Hospital

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

medicine income in connection with sales of medicine in connection with our treatment of patients at Chang an Hospital; and

medical service income in connection with service fees we charged on medical treatments we provided to our patients at Chang an Hospital.

We are subject to business tax, value-added tax and related surcharges on certain of our revenues, except as described in our accompanied consolidated financial statements. Such taxes and surcharges amounted to RMB23.2 million, RMB22.5 million and RMB25.9 million (US$4.3 million) in 2011, 2012 and 2013, respectively, and are deducted prior to deriving our total net revenues.

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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,						
	2011		2012		2013		
	RMB	% of Total Net Revenues	RMB	% of Total Net Revenues	RMB	US$	% of Total Net Revenues
	(in thousands, except for percentages)						
Cost of revenues:							
Network	159.416	35.4	169,905	25.6	224,062	37,012	22.9
Hospital medicine cost			76,590	11.6	151,920	25,095	15.5
Hospital medical service			90,709	13.7	210,967	34,849	21.5
Total cost of revenues	**159,416**	**35.4**	**337,204**	50.9	**586,949**	**96,956**	59.9
Gross profit	290,709	64.6	325,145	49.1	393,686	65,033	40.1
Operating expenses:							
Selling expenses[(1)]	37,453	8.3	53,911	8.1	107,842	17,814	11.0
General and administrative expenses [(1)]	80,628	17.9	71,754	10.8	105,114	17,364	10.6
Asset impairment	333,934	74.2	3,360	0.5			
Other operating income			10,433	1.6			
Total operating expenses	**452,015**	**100.4**	**118,592**	17.9	**212,956**	**35,178**	21.6

(1) Our selling expenses included share-based compensation in the amount of RMB2.4 million, RMB2.3 million and RMB2.3 million (US$0.4 million) in 2011, 2012 and 2013, respectively, which was related to certain share options granted in 2009 and 2011. Our general and administrative expenses included share-based compensation expenses in the amount of RMB6.9 million, RMB6.8 million and RMB6.5 million (US$1.1 million) in 2011, 2012 and 2013, respectively, which was related to certain share options granted in 2009 and 2011. We did not grant any share options under our 2008 share incentive plan in 2010, 2012 and 2013.

Cost of Revenues

Network

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., Chang an Hospital and other businesses was RMB25.1 million, RMB28.7 million and RMB29.7 million (US$4.9 million) in 2011, 2012 and 2013, 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 RMB25.5 million and RMB16.8 million annually between 2014 and 2017.

Hospital

Our cost of revenues for hospital business primarily consists of costs associated with the operations of Chang an Hospital after the consolidation of its financial results. Such costs of revenue included depreciation and amortization of the properties, buildings and equipment that are used by Chang an Hospital, the salaries and benefits associated with its medical and non-medical personnel and overhead costs, which include the cost of materials for medical procedures and utility, repair and maintenance expenses. Our cost of revenues for medicine and medical services for Chang an Hospital in 2013 was RMB151.9 million (US$25.1 million) and RMB211.0 million (US$34.8 million), respectively, representing 15.6% and 21.6% of total net revenues of 2013, respectively. As a result, the gross margin for medicine and medical service income for Chang an Hospital in 2013 was 15.6% and 11.1%, respectively, as compared to the gross margin of 60.2% for network business.

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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 have increased in absolute amount from 2011 through 2013 as a result of increased efforts to expand our network of centers and our specialty cancer hospitals. We expect our selling expenses to continue 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, RMB2.4 million in 2011, RMB2.3 million in 2012 and RMB2.3 million (US$0.4 million) in 2013.

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 2011, 2012 and 2013 that amounted to RMB6.9 million, RMB6.8 million and RMB6.5 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 RMB333.9 million, RMB3.4 million and nil for the year ended December 31, 2011, 2012 and 2013. The significant increase in asset impairment in 2011 was mainly due to a one-time goodwill impairment of RMB300.2 million and a provision of deposits for purchase of property, plant and equipment of RMB20.7 million.

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 have incurred share-based compensation expenses of RMB9.2 million in 2011 RMB9.1 million in 2012 and RMB8.8 million in 2013 related to such options. We did not grant any option under our 2008 share incentive plan in 2010, 2012 and 2013.

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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 2011 and 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.

Hong Kong

We did not have any assessable profits subject to the Hong Kong profits tax in 2011, 2012 and 2013. 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 2011, 2012 and 2013. 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% in 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.

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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

Our revenue consists of network and hospital revenue.

(1) Network revenue

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.

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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, 2011, 2012 and 2013, the revenue from lease and management services amounted to RMB380.5 million, RMB412.3 million and RMB498.6 million (US$82.4 million), respectively. Revenue derived from lease and management services is recorded as network revenue in the consolidated statements of comprehensive income.

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, 2011, 2012 and 2013, revenue from management services amounted to RMB33.6 million, RMB11.9 million and RMB15.7 million (US$2.6 million), respectively. For the years ended December 31, 2011, 2012 and 2013, the revenue from technical services amounted to RMB2.9 million, RMB10.2 million and RMB13.2 million (US$2.2 million), respectively. Revenue derived from management services and technical services is recorded as network revenue in the consolidated statements of comprehensive income.

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, 2011, 2012 and 2013, we had financing lease income of RMB9.2 million, RMB19.7 million and RMB33.6 million (US$5.6 million), net of taxes, respectively. Income derived from direct financing leases is recorded as network revenue in the consolidated

statements of comprehensive income.

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, 2011, 2012 and 2013, we had medical equipment sales of RMB1.6 million, RMB1.5 million and RMB2.0 million (US$0.3 million), respectively. Revenue derived from medical equipment sales is recorded as network revenue in the consolidated statements of comprehensive income.

v. Trial operations of CCICC

Pursuant to the supplemental agreement entered into between us and Chang an Hospital, CCICC recognized revenue amounting to RMB23.7 million and RMB9.9 million, respectively, for the years ended December 31, 2011 and 2012 in relation to the operations of the oncology center of Chang an Hospital during the trial period from July 1, 2010 to the acquisition date of Chang an Hospital. Following the acquisition of Chang an Hospital, the results of Chang an Hospital have been subject to consolidation by us and no such revenue was recognized for the year ended December 31, 2013.

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(2) Hospital revenue

Hospital revenue is classified into medicine income and medical service income. Medicine income includes medicine prescribed to patients during or after treatment by the doctors. Medical service income include revenue generated from outpatients, which mainly consist of activities for physical examination, treatment, surgeries and tests, as well as that generated from inpatients, which mainly consist of activities for clinical examination and treatment, surgeries, and other fees such as room charges and nursing care. Revenue is recognized, in accordance with SAB 104, when the medicine or medical services are delivered.

We are subject to business tax, value-added tax and related surcharges on the revenue earned from network businesses except for that disclosed in note 22. We have recognized revenues net of these taxes and related surcharges. Such taxes and related surcharges for the years ended December 31, 2011, 2012 and 2013 were approximately RMB23.2 million, RMB22.5 million and RMB25.9 million (US$4.3 million), respectively. In the event that revenue recognition is deferred to a later period, the related tax and other surcharges are also deferred and will be recognized only upon recognition of the deferred revenue.

Cost of revenue

Cost of revenues primarily consists of the network and hospital costs.

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.

Hospital costs mainly include medicine costs, medical consumables, labor costs of doctors, nurses and other staff involved in the care or treatment of patients, depreciation, utilities as well as other related costs incurred in the normal business of a hospital.

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.

Network. 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.

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Hospital. Chang an Hospital is involved in the pilot medical insurance plan and as such, we are responsible for seeking reimbursements for Chang an Hospital from the relevant government authorities after the treatments are provided.

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		
Network					
Accounts receivable	203,535	47,630	18,046	6,169	275,380
Allowance for doubtful accounts			(1,581)	(1,510)	(3,091)
Accounts receivable, net	203,535	47,630	16,465	4,659	272,289
Hospital					
Accounts receivable	31,914	6,429	2,941	336	41,620
Allowance for doubtful accounts					
Accounts receivable, net	31,914	6,429	2,941	336	41,620

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. We have determined it has two reporting units, network business and hospital business, which are also its two operating segments. As of December 31, 2012 and 2013, the goodwill included in the consolidated balance sheets was related to the acquisition of Chang an Hospital under the hospital business.

The goodwill testing utilizes a two-step impairment analysis annually as of December 31, whereby the Group compares the carrying value of each identified reporting unit to its fair value. If the carrying value of the reporting unit is greater than its fair value, the second step is performed, where the implied fair value of goodwill is compared to its carrying value. The Company adopted ASU No. 2011-08, *Intangibles Goodwill and Other* (ASU No. 2011-08), in 2012, pursuant to which the Company can elect to perform a qualitative assessment to determine whether the two-step

impairment testing on goodwill is necessary.

We quantitatively assessed the goodwill for the hospital reporting unit for impairment as of December 31, 2013. The fair value of the reporting unit exceeded its carrying amount, and therefore goodwill related to the reporting unit was not impaired and we were not required to perform further testing.

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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 evaluates 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 ASC718, *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.

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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

In accordance with ASC 280, *Segment Reporting*, our chief operating decision maker, or CODM, has been identified as the Chief Executive Officer, who reviews consolidated results when making decisions about allocating resources and assessing performance of us. Previously, we consisted of only one segment relating to network business. Following the acquisition of Chang an Hospital, the CODM reviews the results of the network and hospital businesses when making decisions about allocating resources and assessing performance of us. Our CODM evaluates segment performance based on revenues and profit by the network and hospital segments. The accounting policies used in its segment reporting are the same as those used in the preparation of our consolidated financial statements. Substantially all of our revenues and long-lived assets (mainly include property, plant and equipment) are derived from the PRC.

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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.

	Year Ended December 31						
	2011		2012		2013		
	RMB	%	RMB	%	RMB	US$	%
	(in thousands, except for percentages)						
Summary Consolidated Statements of Comprehensive Income Data							
Revenues, net of business tax, value-added tax and related surcharges:							
Network	450,125	100.0	465,040	70.2	563,124	93,021	57.4
Hospital-medicine income			89,813	13.6	180,130	29,755	18.4
Hospital-medical service income			107,496	16.2	237,381	39,213	24.2
Total net revenues	**450,125**	**100.0**	**662,349**	**100.0**	**980,635**	**161,989**	**100**
Cost of revenues:							
Network	(159,416)	(35.4)	(169,905)	(25.7)	(224,062)	(37,012)	(22.9)
Hospital-medicine cost			(76,590)	(11.6)	(151,920)	(25,095)	(15.5)
Hospital-medical service cost			(90,709)	(13.7)	(210,967)	(34,849)	(21.5)
Total cost of revenues	**(159,416)**	**(35.4)**	**(337,204)**	**(50.9)**	**(586,949)**	**(96,956)**	**(59.9)**
Gross profit	**290,709**	**64.6**	**325,145**	**49.1**	**393,686**	**65,033**	**40.1**
Operating expenses:							
Selling expenses [(1)]	(37,453)	(8.3)	(53,911)	(8.1)	(107,842)	(17,814)	(11.0)
General and administrative expenses [(2)]	(80,628)	(17.9)	(71,754)	(10.8)	(105,114)	(17,364)	(10.6)
Asset impairment	(333,934)	(74.2)	(3,360)	(0.5)			
Other operating income			10,433	1.6			
Operating income (loss)	**(161,306)**	**(35.8)**	**206,553**	**31.2**	**180,730**	**29,855**	**18.5**
Interest expense	(6,454)	(1.4)	(16,255)	(2.5)	(47,027)	(7,768)	(4.8)
Foreign exchange (losses) gains, net	(10,975)	(2.4)	(101)	0.0	767	127	0.0
Loss from disposal of property, plant and equipment			(1,072)	(0.2)	(1,235)	(204)	(0.1)
Interest income	13,357	3.0	5,895	0.9	17,712	2,926	1.8
Share of net profit of equity investee			1,790	0.3	15,521	2,564	1.6
Other income (expense), net	346	0.1	(144)	0.0	608	100	0.0
Income (loss) before income taxes	**(165,032)**	**(36.7)**	**196,666**	**29.7**	**167,076**	**27,600**	**17.0**
Income tax expenses	(46,320)	(10.3)	(62,186)	(9.4)	(75,880)	(12,534)	(7.7)

Net (loss) income	**(211,352)**	**(47.0)**	**134,480**	**20.3**	**91,196**	**15,066**	**9.3**

(1) Our selling expenses included share-based compensation of RMB2.4 million in 2011, RMB2.3 million in 2012 and RMB2.3 (US$0.4 million) in 2013.

(2) Our general and administrative expenses included share-based compensation expenses related to certain share options granted in 2009, 2010, 2011, 2012 and 2013 of RMB0.7 million, RMB7.0 million, RMB6.9 million, RMB6.8 million and RMB6.5 million (US$1.1 million), respectively.

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

Total Net Revenues. Our total net revenues increased by 48.1% to RMB980.6 million (US$162.0 million) for the year ended December 31, 2013 from RMB662.3 million for the year ended December 31, 2012, primarily due to the full year consolidation of Chang an Hospital s revenue.

Cost of Revenues. Total cost of revenues increased by 74.1% to RMB586.9 million (US$97.0 million) for the year ended December 31, 2013 from RMB337.2 million for the year ended December 31, 2012. This increase was largely in line with the increase in our revenues. Cost of revenues as a percentage of our total net revenues increased to 59.9% for the year ended December 31, 2013 from 50.9% for the year ended December 31, 2012, primarily due to the full year consolidation of Chang an Hospital s cost.

Gross Profit and Gross Margin. As a result of the foregoing, our gross profit increased by 21.1% to RMB393.7 million (US$65.0 million) for the year ended December 31, 2013 from RMB325.1 million for the year ended December 31, 2012. Our gross margin decreased to 40.1% for the year ended December 31, 2013 from 49.1% for the year ended December 31, 2012 primarily due to the increase of medicine and medical service costs.

Operating Expenses. Our operating expenses increased by 79.6% to RMB213.0 million (US$35.2 million) for the year ended December 31, 2013 from RMB118.6 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 100% to RMB107.8 million (US$ 17.8 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 meeting and office expense.

General and Administrative Expenses. Our general and administrative expenses increased by 46.4% to RMB105.1 million (US$17.4 million) for the year ended December 31, 2013 from RMB71.8 million for the year ended December 31, 2012. This increase was primarily due to the full consolidation of Chang an Hospital and there was a RMB10.6 million bad debt reversal in 2012.

Operating Income. As a result of the foregoing, our operating income was RMB180.7 million (US$29.9 million) for the year ended December 31, 2013 as compared to RMB206.6 million for the year ended December 31, 2012.

Interest Expense. Our interest expense increased significantly to RMB47.0 million (US$7.8 million) for the year ended December 31, 2013 from RMB16.3 million for the year ended December 31, 2012, mainly due to the increase of bank borrowing.

Foreign Exchange Loss/Gain. Our foreign exchange gain was RMB0.8 million (US$0.1 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 increase of foreign currency bank borrowing in 2013 as well as the decrease of foreign exchange rate.

Interest Income. Our interest income increased significantly to RMB17.7 million (US$2.9 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 RMB179.4 million increase of restricted cash deposited in bank for loans.

Income Taxes. Our income tax expense increased by 21.5% to RMB75.9 million (US$12.5 million) for the year ended December 31, 2013 from RMB62.2 million for the year ended December 31, 2012. This increase was due primarily to the accrual of withholding tax, or WHT and uncertainty in income tax, or FIN 48 tax.

Net Income. As a result of the foregoing, our net income decreased by 32.2% to RMB91.2 million (US$15.0 million) for the year ended December 31, 2013 from RMB134.5 million for the year ended December 31, 2012. This decrease was due primarily to the increase of income taxes.

Year Ended December 31, 2012 Compared to the Year Ended December 31, 2011

Total Net Revenues. Our total net revenues increased by 27.2% to RMB662.3 million for the year ended December 31, 2012 from RMB450.1 million for the year ended December 31, 2011, primarily due to the consolidation of income generated from Chang an Hospital and an increase of approximately 54.1% in patient cases from existing centers and increase in patient cases as a result of the opening of 10 new centers in 2012.

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Cost of Revenues. Total cost of revenues increased by 63.5% to RMB337.2 million for the year ended December 31, 2012 from RMB159.4 million for the year ended December 31, 2011. This increase was largely in line with the increase in our revenues. Cost of revenues as a percentage of our total net revenues increased to 50.9% for the year ended December 31, 2012 from 35.4% for the year ended December 31, 2011, primarily due to the consolidation of financial results of Chang an Hospital and the higher cost of revenues as a percentage of total net revenues associated with the newly-opened centers during their ramp-up period.

Gross Profit and Gross Margin. As a result of the foregoing, our gross profit increased by 7.3% to RMB325.1 million for the year ended December 31, 2012 from RMB290.7 million for the year ended December 31, 2011. Our gross margin decreased to 49.1% for the year ended December 31, 2012 from 64.6% for the year ended December 31, 2011 primarily due to the consolidation of results of operation of Chang an Hospital which had lower gross margins for both its medicine and medical service incomes as compared to the network business.

Operating Expenses. Our operating expenses decreased by 73.8% to RMB118.6 million for the year ended December 31, 2012 from RMB452.0 million for the year ended December 31, 2011 primarily due to (i) a significant decrease in asset impairment, (ii) a reverse of bad debt provision.

Selling Expenses. Our selling expenses increased by 43.9% to RMB53.9 million for the year ended December 31, 2012 from RMB37.5 million for the year ended December 31, 2011. This increase in our selling expenses was primarily due to a significant increase in salary and employee benefit to approximately RMB9.6 million for the year ended December 31, 2012 from RMB2.4 million for the year ended December 31, 2011.

General and Administrative Expenses. Our general and administrative expenses decreased by 11.0% to RMB71.8 million for the year ended December 31, 2012 from RMB80.6 million for the year ended December 31, 2011. This decrease was primarily due to a reverse of bad debt provision in the amount of RMB10.6 million.

Operating Income. As a result of the foregoing, our operating income was RMB206.6 million for the year ended December 31, 2012 as compared to a net loss of RMB161.3 million for the year ended December 31, 2011.

Interest Expense. Our interest expense increased by 151.9% to RMB16.3 million for the year ended December 31, 2012 from RMB6.5 million for the year ended December 31, 2011.

Foreign Exchange Loss. Our foreign exchange loss decreased significantly to RMB0.1 million for the year ended December 31, 2012 from RMB11.0 million for the year ended December 31, 2011. The decrease was primarily due to a lower cash deposit in U.S. dollars in 2012.

Interest Income. Our interest income decreased significantly to RMB5.9 million for the year ended December 31, 2012 from RMB13.4 million for the year ended December 31, 2011. This decrease was due primarily to the decrease of our cash balance.

Income Taxes. Our income tax expense increased by 34.3% to RMB62.2 million for the year ended December 31, 2012 from RMB46.3 million for the year ended December 31, 2011. This increase was due primarily to tax expenses recognized in connection with the acquisition of Chang an Hospital and increase in gross profit for the year ended December 31, 2012 as compared to the year ended December 31, 2011.

Net Income. As a result of the foregoing, our net income was RMB134.5 million for the year ended December 31, 2012 as compared to incurred a net loss of RMB211.4 million for the year ended December 31, 2011.

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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 RMB221.2 million (US$36.5 million) as of December 31, 2013. As of December 31, 2013, we had RMB283.0 million (US$46.8 million) in cash, RMB488.0 million (US$80.6 million) in short-term borrowings outstanding, of which RMB390.5 million (US$64.5 million) was secured by restricted cash deposited in local banks, and RMB598.3 million (US$98.8 million) in long-term borrowings outstanding, including the current portion of such long-term borrowings outstanding of which RMB46.0 million (US$7.6 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, October, November and December 2011, Shanghai Medstar entered into long-term loan agreements with Shanghai Jinqiao Branch of Agriculture Bank of China of RMB12.0 million, RMB24.5 million, RMB29.0 million and RMB42.0 million, respectively. The terms of these loans were three years. These long-term borrowings had a variable annual interest rate equaling the benchmark lending rate of the People s Bank of China, adjusted every 3 months. Shanghai Medstar was required to make monthly or quarterly payments starting from January 2012 or later.

In September 2011, Shanghai Medstar entered into a short-term loan agreement of RMB15.0 million that bearing an interest rate of 6.1% under the agreement with HSBC Bank (China) Company Limited, secured by account receivables of Shanghai Medstar and guaranteed by Aohua Medical and Aohua Leasing. In October 2011, Shanghai Medstar entered into a long-term loan agreement of RMB35.0 million with HSBC Bank (China) Company Limited that matures in October 2014. This long-term borrowing had a variable annual interest rate equaling 110% of the benchmark lending rate of the People s Bank of China, adjusted every 3 months, secured by the respective medical equipment. The borrowings contained restrictive covenants requiring the maintenance of tangible net worth of RMB180.0 million and RMB100.0 million by Aohua Medical and Aohua Leasing, respectively, a total liability to tangible net worth ratio, as calculated based on PRC generally accepted accounting principles, of 0.5 times and 0.36 times at all time by Shanghai Medstar and Aohua Medical, a total liability and contingent liability to tangible net worth ratio, as calculated based on PRC generally accepted accounting principles, of 0.7 times by Shanghai Medstar, and a total loan to tangible net worth ratio, as calculated based on PRC generally accepted accounting principles, of 1.0 times at all time by Aohua Leasing.

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

	Year Ended December 31,			
	2011	2012	2013	
	RMB	RMB	RMB	US$
	(in thousands)			
Selected Consolidated Statements of Cash Flow Data				
Net cash generated from operating activities	137,102	259,515	259,033	42,788
Net cash used in investing activities (1)	(494,867)	(659,290)	(133,540)	(22,059)
Net cash generated from financing activities	41,785	255,932	77,722	12,839
Exchange rate effect on cash	(725)	147	4,436	734
Net (decrease) increase in cash	(316,705)	(143,696)	207,651	34,302
Cash at beginning of the year	535,783	219,078	75,382	12,452
Cash at end of the year	219,078	75,382	283,033	46,754

(1) Net cash used in investing activities in 2011, 2012 and 2013 included acquisitions, net of cash acquired, of RMB20.3 million, RMB223.4 million and nil, respectively.

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 RMB259.0 million (US$42.8 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 generated from operating activities was RMB137.1 million for the year ended December 31, 2011 consisting primarily of cash received from hospital partners, which was reduced by an increase in accounts receivable of RMB94.7 million and increase in deposit for non-current assets for RMB35.2 million.

Net Cash Used in Investing Activities

Net cash used in investing activities for the year ended December 31, 2013 was RMB133.5 million (US$22.1 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 used in investing activities for the year ended December 31, 2011 was RMB494.9 million consisting primarily of (i) deposit paid for purchase of equipments of RMB239.2 million, (ii) investment in held to maturity security of RMB100.5 million at Shanghai Jinqiao branch of the Agriculture Bank of China, (iii) net investment in direct financing leases of RMB74.1 million, (iv) purchase of time deposits of RMB50.4 million and (v) payment of acquisitions, net of cash acquisition of RMB20.3 million.

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Net Cash Generated from (Used in) Financing Activities

Net cash generated from financing activities for the year ended December 31, 2013 was RMB77.7 million (US$12.8 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.

Net cash generated from financing activities for the year ended December 31, 2011 was RMB41.8 million. Net cash generated from financing activities for the year ended December 31, 2011 was due primarily to (i) repayment of our short-term bank borrowings of RMB113.0 million, (ii) decrease in restricted cash of RMB91.5 million as a result of the release of certain time deposit, (iii) repayment of our long-term borrowings of RMB62.3 million, (iv) dividend we paid to ordinary shareholders of RMB55.2 million, partially offset by proceeds from long-term bank borrowings of RMB142.5 million and proceeds from short-term bank borrowings of RMB45.0 million and (v) RMB6.9 million used for the repurchase of our ordinary shares pursuant to our share repurchase program.

Acquisitions and Capital Expenditures

We acquired certain medical equipment located in Chengdu Military Hospital and the related business from a third party for cash consideration of RMB18 million in January 2011.

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 2011, 2012 and 2013, our capital expenditures totaled RMB257.6 million, RMB284.7 million and RMB148.6 million (US$24.5 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 2013 consisted primarily of medical equipment, and decreased by RMB136.1 million as compared to 2012 because of lack of suitable network center projects.

We estimate that our expected aggregate capital expenditures in 2014 will be approximately RMB250.0 million to RMB300.0 million, which we will use mainly for the continued expansion of our network of radiotherapy and diagnostic imaging centers, including for the purchase of medical equipment and for the establishment of our specialty cancer hospitals.

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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.

Recently Issued Accounting Pronouncements

In March 2013, the FASB issued ASU No. 2013-05 (ASU 2013-05), *Parent s Accounting for the Cumulative Translation Adjustment upon De-recognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity*, which is intended to resolve the diversity in practice about whether ASC 810-10, *Consolidation* (ASC 810-10) or ASC 830 applies to the release of the cumulative translation adjustment into net income when a parent either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights) within a foreign entity by requiring a parent deconsolidate a subsidiary or derecognize a group of assets that is a nonprofit activity or a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights) if the parent ceases to have a controlling financial interest in that group of assets. This standard is effective for the first interim or annual period beginning after December 15, 2013, with early adoption permitted. We will adopt ASU 2013-05 on January 1, 2014 and does not expect the adoption to have a material impact on its consolidated financial statements.

In July 2013, the FASB issued ASU No. 2013-11 (ASU 2013-11), *Income Taxes (Topic 740),* to provide guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, similar tax loss, or tax credit carryforward exists. This ASU requires an unrecognized tax benefit, or a portion of an unrecognized tax benefit, to be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, with certain exceptions. The modifications to ASC 740 resulting from the issuance of ASU 2013-11 are effective for fiscal years beginning after December 15, 2013 and interim periods within those years. Early adoption is permitted. We will adopt ASU 2013-11 on January 1, 2014 is currently evaluating the impact on its consolidated financial statements of adopting this guidance.

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 to protect our corporate name. We also own the rights to 120 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, 2011 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.

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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 financials 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, 2013:

	Total RMB	Less than 1 year RMB	1-3 years RMB	More than 3 years RMB
		(in thousands)		
Long-term debt obligations	598,284	273,310	288,483	36,491
Capital lease obligations	400			400
Operating lease obligations	15,748	9,701	6,047	
Purchase obligations	21,054	21,054		
Total	635,486	304,065	294,530	36,891

Our short- and long-term debt obligations as of December 31, 2013 represent bank borrowings obtained by our subsidiaries. Our short-term bank borrowing outstanding as of December 31, 2013 had a weighted average interest rate of 4.64% per annum. Our long-term bank borrowing outstanding as of December 31, 2013 had a weighted average interest rate of 6.02% per annum.

As of December 31, 2013, we had RMB488.0 million (US$80.6 million) in short-term borrowings outstanding, of which RMB422.1 million (US$69.7 million) was secured by restricted cash deposited in local banks, and RMB598.3 million (US$98.8 million) in long-term borrowings outstanding, including the current portion of such long-term borrowings outstanding.

As of December 31, 2013, our operating lease obligations for 2014, 2015, 2016 and 2017 and thereafter are RMB9.7 million (US$1.6 million), RMB5.5 million (US$0.9 million), RMB0.6 million (US$95 thousand) and nil respectively.

As of December 31, 2013, we had purchase obligations for certain medical equipment that amounted to RMB21,054 million (US$3,478 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 si
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;

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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	41	Chairman, chief executive officer
Zheng Cheng	48	Director, president and chief operating officer
Adam Jigang Sun	45	Chief financial officer
Jing Zhang	48	Chief administrative officer
Yaw Kong Yap	48	Senior vice president
Zhe Yin	40	Director
Tian Ji	33	Director
Denny Lee	44	Independent director
Weibo Yin	81	Independent director
Yongjun Li	45	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 has served as chief operating officer since 2008 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.

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Mr. Adam Jigang Sun has served as our chief financial officer since September 2011. 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. Jing Zhang has served as our chief administrative officer since November 2011. 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 has served as a senior vice president since 2008. 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. 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 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).

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Mr. Denny Lee has served as an independent director of our company since December 2009. Mr. Lee is currently a non-executive director of Netease.com, Inc., a company listed on the Nasdaq Global Select Market, and an independent director and chairman of the audit committee of three NYSE listed companies, New Oriental Education & Technology Group Inc., Acorn International, Inc. and Gushan Environmental Energy Limited. Previously, Mr. Lee was the chief financial officer of Netease.com until June 2007 and the financial controller of Netease.com from November 2001 to April 2002. Prior to joining Netease.com in 2001, Mr. Lee worked in the Hong Kong office of KPMG for more than ten years. Mr. Lee graduated from the Hong Kong Polytechnic University majoring in accounting and is a member of The Hong Kong Institute of Certified Public Accountants and The Chartered Association of Certified 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 2013, the aggregate cash compensation to all of our directors and our executive officers was RMB4.0 million (US$0.7 million). For share-based compensation, see Share Incentive Plans. We do not have any amount accrued in 2013 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.

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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. 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.

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The following table summarizes, as of December 31, 2013, the outstanding options granted to our directors and executive officers and other individuals as a group.

Name	Ordinary Shares Underlying Outstanding Options or Restricted Shares	Exercise Price Underlying Outstanding Options (US$/Share)	Grant Date	Expiration Date
Mr. Jianyu Yang	288,700	3.7	November 27, 2009	November 26, 2017
Mr. Zheng Cheng	288,700	3.7	November 27, 2009	November 26, 2017
Mr. Steve Sun	264,400	3.7	November 27, 2009	November 26, 2017
Mr. Jing Zhang	250,000	3.7	November 27, 2009	November 26, 2017
Mr. Yaw Kong Yap	230,000	3.7	November 27, 2009	November 26, 2017
Mr. Denny Lee	130,300	3.7	November 27, 2009	November 26, 2017
Mr. Adam Jigang Sun	355,884	2.2	September 30, 2011	September 30, 2019
Other individuals as group	3,049,300	3.7	November 27, 2009	November 26, 2017

C. Board Practices

Committees of the Board of Directors

Board of Directors

We currently have eight 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;

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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.

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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 472, 616 and 608 employees as of December 31, 2011, 2012 and 2013, respectively. The following table set forth certain information

about our employees by function as of the period indicated:

	As of December 31, 2013	
	Employees	**% of Total**
Management	27	4.4
Administration	23	3.8
Financial control	85	14.0
Operation	16	2.6
Marketing	9	1.5
Business development	8	1.3
Centers	440	72.4
Total	608	100.0

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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 2011, 2012 and 2013 was RMB5.0 million, RMB12.2 million and RMB30.3 million (US$5.0 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

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]	60,059,576	44.4%
Zheng Cheng[4]	60,059,576	44.4%
Jing Zhang[5]	1,779,829	1.3%
Yaw Kong Yap[6]	771,800	0.6%
Zhe Yin		
Tian Ji		
Weibo Yin		
Yongjun Li		
Denny Lee	*	*
Adam Jigang Sun	*	*
All directors and officers as a group	63,208,147	46.4%
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%

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* 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) 288,700 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) 288,700 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 1,529,829 ordinary shares held by and 250,000 ordinary shares issuable upon excise of share options to Thousand Ocean Group Limited, a limited liability company organized under the laws of the British Virgin Islands wholly owned by Mr. Zhang.

(6) Represents 541,800 ordinary shares held by and 230,000 ordinary shares issuable upon excise of share options to Top Mount Group Limited, a limited liability company organized under the laws of the British Virgin Islands wholly owned by Mr. Yap.

(7) Represents (i) 45,787,948 ordinary shares, and (ii) 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 15,379,303 ordinary shares 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.

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None of our existing shareholders has voting rights that differ from the voting rights of other shareholders. 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. As of December 31, 2013, the balance of the loan to New Chang an is RMB 93.4 million (US$15.4 million). In addition, as of December 31, 2013, we had amount due to New Chang an in the amount of RMB1.5 million (US$0.2 million) which is amount paid by New Chang an on behalf of us for settlement of building construction costs. As at December 31, 2013, total loan balance due from New Chang an was RMB101.2 million (US$16.7 million), of which RMB28.7 million (US$4.7 million) was overdue. Pursuant to an agreement entered with New Chang an related to the acquisition of Chang an Hospital, New Chang an had agreed to grant CHM and Cyber, shareholders of CAH and wholly-owned subsidiaries of the Group a second pledge over the equity interest in Chang an Hospital after the bank (the Second Pledge) over the loan to New Chang an. On April 24, 2014, we entered into a pledge agreement (the Pledge Agreement) and effected the Second Pledge to secure the loan to New Chang an. The registration of the Second Pledge has not been completed as at the date of this report as the bank is currently the first pledgee of such equity interest (the First Pledge). In the opinion of the our legal counsel, the Pledge Agreement is legally valid and binding as long as CHM and Cyber become the legal creditors and the second pledge is recorded in the share register of CAH. CHM and Cyber may apply for the registration of such second pledge with the relevant government authorities once the First Pledge is released. We considered the fair value of the 48% equity interest in Chang an Hospital and concluded that the Second Pledge would be sufficient to cover the credit risk and exposure related to the outstanding loan balance. Therefore, we concluded that there was no impairment of the loan. The loan to New Chang an was classified as non-current assets as of December 31, 2013 based on the expected timing of repayment.

Prior to our acquisition of 52% equity interest in Chang an Hospital, Chang an Hospital had account payables to Shaanxi Juntai Real Estate Co., Ltd., or Shaanxi Juntai, a related party of New Chang an, in the amount of RMB19.3 million. Pursuant to an agreement we entered into with Shaanxi Juntai Real Estate Co., Ltd., the outstanding amount will become payable by us in 2014 conditioned upon the settlement of certain outstanding balances due to Chang an Hospital by New Chang an and Shaanxi Juntai.

In 2013, we purchase certain medical supplies in the amount of RMB1.1 million (US$0.2 million) from Xi an Jiangyuan Andike Positron Co., Ltd., of which Shanghai Medstar is a non-controlling shareholder. As of December 31, 2013, we had amount due to Xi an Jiangyuan Andike Positron Co., Ltd. in the amount of RMB1.7 million (US$0.3 million).

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.

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Dividend Policy

On July 26, 2011, our board of directors declared a special dividend of US$0.06 per ordinary share (or US$0.18 per ADS) on our outstanding ordinary shares. The total expense for the special dividend was US$8.8 million, based on the 142,353,532 ordinary shares that were outstanding as of July 28, 2010. We paid the dividends on September 30, 2011, to shareholders of record at the close of business on August 31, 2011. We did not declare any dividend in 2012. On January 7, 2014, our Board of Directors declared a special cash dividend of US$0.24 per ordinary share (or US$0.72 per ADS)) on the Company s outstanding ordinary shares. The total amount for the special dividend is approximately US$32.4 million, based on the number of ordinary shares outstanding as of September 30, 2013.

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 25, 2014 was US$7.12 per ADS.

	Market Price Per ADS	
	High	**Low**
Yearly:		
2011	7.58	2.96
2012	4.95	2.60
2013	5.59	4.00
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
Monthly:		
2013		
October	5.59	5.16
November	5.40	4.95
December	5.50	5.23
2014		
January	6.04	5.20
February	8.96	5.47
March	9.96	7.33
April (through April 25)	8.40	7.12

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As of April 28, 2014, a total of 16,606,332 ADSs representing 49,818,996 ordinary shares were outstanding. Such ordinary shares were registered in the name of a nominee of JPMorgan Chase Bank, N.A., the depositary 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 incorporate by reference into this annual report the description of our third amended and restated memorandum of association contained in our F-1 registration statement (File No. 333-163155), as amended, initially filed with the Commission on November 17, 2009. Our shareholders adopted our third amended and restated memorandum and articles of association by unanimous resolutions upon the completion of our initial public offering on December 11, 2009.

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.

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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 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.

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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 depositary 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.

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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 depositary, 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, 2013, 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.

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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.

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.

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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.

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.

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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, 2013, a 10% change in the exchange rates between the Renminbi and the U.S. dollar would result in an increase or decrease of RMB20.1 million (US$3.3 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 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.

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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 2013, our short-term and long-term bank borrowings, 40% of which were denominated in US Dollar while 60% of which were denominated in Renminbi, had a weighted average interest rate of 4.64% per annum and 6.02% 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, 2013, a 10% change in the interest rates would result in an increase or decrease of RMB4.7 million (US$0.8 million) of our total amount of interest expense for the year ended December 31, 2013. Based on our outstanding interest earning instruments during the year ended December 31, 2013, a 10% change in the interest rates would result in an increase or decrease of approximately RMB1.8 million (US$0.3 million) in our total amount of interest income for the year ended December 31, 2013.

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 5.4% in 2011, 3.3 % in 2012 and 2.6% in 2013. 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;

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);

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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 depository or any reimbursement relating to the ADS facility in the amount of US$376,981 and US$323,398 in 2012 and 2013, 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.

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As of December 31, 2013, 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 Offer 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, 2013, 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 (1992 framework), or COSO. Based on this evaluation, our management has concluded that our internal control over financial reporting was effective as of December 31, 2013 based on the criteria established in Internal Control-Integrated Framework issued by COSO (1992 framework).

Attestation Report of the Registered Public Accounting Firm

The effectiveness of internal control over financial reporting as of December 31, 2013 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, 2013. The attestation report issued by Ernst & Young Hua Ming LLP can be found on page F-3 of this annual report.

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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,			
	2011	2012	2013	
	RMB	RMB	RMB	US$
		(in thousands)		
Audit Fees[1]	8,664	7,000	7,144	1,180
Non Audit Fee[2]		498		
Tax Fee[3]			91	15

(1) Audit fees include the aggregate fees billed in each of the fiscal periods listed for professional services rendered by Ernst & Young 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. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

In September 2011, our board of directors and shareholders approved a share repurchase program, which provided authorization to purchase up to US$20 million worth of our outstanding ADSs. From the inception of the program to December 31, 2013, we have purchased 2,505,744 ADSs, or 7,517,232 common shares, through open-market transactions for an aggregate consideration of approximately US$9,028,165 including transaction fees.

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The following table sets forth certain information related to purchases made by us of our ADSs under the program in 2013:

Period	Total number of ADSs purchased	Average price paid per ADS[1] US$	Total number of ADSs purchased as part of publicly announced program	Approximate dollar value of ADSs that may yet be purchased under program US$ (in thousands)
January 2013	58,746	4.27	2,347,454	11,701
February 2013	25,190	4.19	2,372,644	11,595
March 2013	21,131	4.23	2,392,775	11,505
June 2013	12,524	4.13	2,405,299	11,453
July 2013	11,965	4.17	2,417,264	11,402
Aug 2013	47,115	4.49	2,464,379	11,173
Sept 2013	40,365	4.97	2,504,744	10,972

Note:

(1) Average price paid per ADS represents the execution price for each repurchase and does not include transaction fees.

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.

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;

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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, 2011, 2012 and 2013

Consolidated Statements of Comprehensive Income for the years ended December 31, 2011, 2012 and 2013 for Concord Medical Services Holdings Limited

Consolidated Statements of Cash Flows for the years ended December 31, 2011, 2012 and 2013 for Concord Medical Services Holdings Limited

Consolidated Statements of Changes in Shareholders Equity for the years ended December 31, 2011, 2012 and 2013 for Concord Medical Services Holdings Limited

Notes to the Consolidated Financial Statements for the years ended December 31, 2011, 2012 and 2013.

ITEM 19. EXHIBITS

Exhibit Number	Description of Document
1.1	Third Amended and Restated Memorandum and Articles of Association (incorporated by reference to Exhibit 3.3 from our Registration Statement on Form F-1 (File No. 333-163155) filed with the Securities and Exchange Commission on November 27, 2009)
2.1	Form of American Depository 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 Depository 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)

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Exhibit Number	Description of Document
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)

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Exhibit Number	Description of Document
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)

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Exhibit Number	Description of Document
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)

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Exhibit Number	Description of Document
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

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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 28, 2014

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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, 2013 and 2012, 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, 2013. 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, 2013 and 2012, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2013, 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, 2013, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) and our report dated April 28, 2014 expressed an unqualified opinion thereon.

/s/ Ernst & Young Hua Ming LLP

Beijing, the People s Republic of China

April 28, 2014

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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, 2013, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 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.

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In our opinion, Concord Medical Services Holdings Limited maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, 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, 2013 and 2012 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, 2013 of Concord Medical Services Holdings Limited and our report dated April 28, 2014 expressed an unqualified opinion thereon.

/s/ Ernst & Young Hua Ming LLP

Beijing, the People s Republic of China

April 28, 2014

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CONCORD MEDICAL SERVICES HOLDINGS LIMITED

CONSOLIDATED BALANCE SHEETS

(Amounts in thousands of Renminbi (RMB) and US dollar (US$), except for number of shares)

	Note	As at December 31 2012 RMB	2013 RMB	2013 US$
ASSETS				
Current assets:				
Cash		75,382	283,033	46,754
Restricted cash	5	284,047	422,140	69,733
Accounts receivable (net of allowance of RMB3,091 and RMB3,091 (US$510) as of December 31, 2012 and 2013, respectively)	6	210,307	313,909	51,854
Inventories	8	8,681	19,717	3,257
Prepayments and other current assets (net of reserve of RMB10,270 and RMB9,292 (US$1,535) as of December 31, 2012 and 2013, respectively)	7	67,472	111,480	18,415
Amounts due from related parties	24	1,200	10,265	1,696
Net investment in direct financing leases, current portion	13	89,451	128,814	21,279
Deferred tax assets, current portion	22	16,593	10,652	1,760
Loan to a noncontrolling shareholder of a subsidiary	24	100,000		
Total current assets		**853,133**	**1,300,010**	**214,748**
Non-current assets:				
Property, plant and equipment, net	9	1,522,920	1,492,573	246,555
Goodwill	11	292,885	292,885	48,381
Intangible assets, net	11	146,512	116,843	19,301
Deposits for non-current assets (net of reserve of RMB26,552 and RMB26,552 (US$4,386) as of December 31, 2012 and 2013, respectively)	12	162,938	76,669	12,665
Net investment in direct financing leases, non-current portion	13	171,545	199,467	32,950
Deferred tax assets, non-current portion	22	18,110	17,721	2,927
Equity method investments	14	230,589	217,413	35,914
Other non-current assets	15	114,758	86,847	14,346
Prepaid land lease payments	10	90,124	140,201	23,160
Indemnification assets	4	61,706	59,518	9,832
Loan to a noncontrolling shareholder of a subsidiary	24		93,410	15,430
Total non-current assets		**2,812,087**	**2,793,547**	**461,461**
Total assets		**3,665,220**	**4,093,557**	**676,209**

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CONCORD MEDICAL SERVICES HOLDINGS LIMITED

CONSOLIDATED BALANCE SHEETS (continued)

(Amounts in thousands of Renminbi (RMB) and US dollar (US$), except for number of shares)

	Note	As at December 31 2012 RMB	2013 RMB	2013 US$
LIABILITIES AND EQUITY				
Current liabilities:				
Short-term bank borrowings	16	383,083	487,964	80,606
Long-term bank borrowings, current portion	16	191,473	273,310	45,148
Accounts payable		100,563	149,209	24,648
Accrual for purchases of property, plant and equipment		40,691	49,741	8,217
Obligations under capital leases	19	2,117		
Accrued expenses and other liabilities	17	92,040	146,489	24,198
Income tax payable	22	22,433	48,201	7,962
Deferred revenue, current portion		18,975	15,668	2,588
Amount due to related parties, current portion	24	5,910	3,217	531
Deferred tax liabilities, current portion	22	2,248	860	142
Total current liabilities		**859,533**	**1,174,659**	**194,040**
Non-current liabilities:				
Long-term bank borrowings, non-current portion	16	300,901	324,974	53,682
Deferred tax liabilities, non-current portion	22	35,683	32,891	5,433
Accrued unrecognized tax benefits and surcharges, non-current portion	22	67,719	67,719	11,186
Amounts due to related parties, non-current portion	24	26,828	26,828	4,432
Other long-term liabilities	18	34,646	32,769	5,413
Total non-current liabilities		**465,777**	**485,181**	**80,146**
Total liabilities		**1,325,310**	**1,659,840**	**274,186**
Commitments and contingencies	26			
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, 2012 and 2013; outstanding shares 135,487,408 and 134,836,300 as of December 31, 2012 and 2013, respectively)	20	105	105	17
Treasury stock (6,866,124 and 7,517,232 as of December 31, 2012 and 2013, respectively)		(5)	(5)	(1)
Additional paid-in capital		2,517,496	2,520,338	416,330
Accumulated other comprehensive loss		(16,955)	(15,283)	(2,522)

Accumulated deficit	(469,055)	(383,162)	(63,294)
Total Concord Medical Services Holdings Limited shareholders equity	2,031,586	2,121,993	350,530
Noncontrolling interests	308,324	311,724	51,493
Total equity	**2,339,910**	**2,433,717**	**402,023**
Total liabilities and equity	**3,665,220**	**4,093,557**	**676,209**

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

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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			
		2011 RMB	2012 RMB	2013 RMB	2013 US$
Revenues, net of business tax, value-added tax and related surcharges:					
Network		450,125	465,040	563,124	93,021
Hospital medicine income			89,813	180,130	29,755
Hospital medical service income (including revenue from related parties of nil, RMB637 and RMB1,052 (US$174) for the years ended December 31, 2011, 2012 and 2013, respectively)			107,496	237,381	39,213
Total net revenues		**450,125**	**662,349**	**980,635**	**161,989**
Cost of revenues:					
Network		(159,416)	(169,905)	(224,062)	(37,012)
Hospital medicine cost			(76,590)	(151,920)	(25,095)
Hospital-medical service cost (including cost from related parties of nil, RMB5,249 and RMB805 (US$133) for the years ended December 31, 2011, 2012 and 2013, respectively)			(90,709)	(210,967)	(34,849)
Total cost of revenues		**(159,416)**	**(337,204)**	**(586,949)**	**(96,956)**
Gross profit		**290,709**	**325,145**	**393,686**	**65,033**
Operating expenses:					
Selling expenses		(37,453)	(53,911)	(107,842)	(17,814)
General and administrative expenses		(80,628)	(71,754)	(105,114)	(17,364)
Asset impairment		(333,934)	(3,360)		
Other operating income			10,433		
Total operating expenses		**(452,015)**	**(118,592)**	**(212,956)**	**(35,178)**
Operating (loss) income		**(161,306)**	**206,553**	**180,730**	**29,855**
Interest expense		(6,454)	(16,255)	(47,027)	(7,768)
Foreign exchange (losses) gains, net		(10,975)	(101)	767	127
Loss from disposal of property, plant and equipment			(1,072)	(1,235)	(204)

Interest income (including interest income from related parties of nil, nil and RMB7,839 (US$1,295) for the years ended December 31, 2011, 2012 and 2013, respectively)		13,357	5,895	17,712	2,926
Share of net profit of equity investees			1,790	15,521	2,564
Other income (expenses), net		346	(144)	608	100
(Loss) income before income taxes		**(165,032)**	**196,666**	**167,076**	**27,600**
Income tax expenses	22	(46,320)	(62,186)	(75,880)	(12,534)
Net (loss) income		**(211,352)**	**134,480**	**91,196**	**15,066**
Net income attributable to noncontrolling interests		**3,651**	**3,649**	**5,303**	**876**
Net (loss) income attributable to Concord Medical Services Holdings Limited s shareholders		**(215,003)**	**130,831**	**85,893**	**14,190**
(Loss) earnings per share					
Basic/Diluted	28	(1.51)	0.95	0.64	0.11
Weighted average number of ordinary shares outstanding:					
Basic/Diluted	28	142,251,454	138,211,177	135,077,172	135,077,172
Other comprehensive (loss) income, net of tax of nil					
Foreign currency translation adjustments		(2,760)	640	1,672	276
Total other comprehensive (loss) income		**(2,760)**	**640**	**1,672**	**276**
Comprehensive (loss) income		**(214,112)**	**135,120**	**92,868**	**15,342**
Comprehensive income attributable to noncontrolling interests		3,651	3,649	5,303	876
Comprehensive (loss) income attributable to Concord Medical Services Holdings Limited s shareholders		**(217,763)**	**131,471**	**87,565**	**14,466**

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

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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			
	2011 RMB	2012 RMB	2013 RMB	2013 US$
CASH FLOWS FROM OPERATING ACTIVITIES				
Net (loss) income	(211,352)	134,480	91,196	15,066
Adjustments to reconcile net (loss) income to net cash generated from operating activities:				
Share-based compensation	9,234	9,084	8,804	1,454
Depreciation of property, plant and equipment	94,837	119,919	149,975	24,774
Amortization of intangible assets	25,058	28,658	29,669	4,901
Amortization of prepaid land lease payments	743	1,637	2,801	463
Other noncash income		(2,681)		
Share of net profit of equity investees		(1,790)	(15,521)	(2,564)
Loss from disposal of property, plant and equipment		1,072	1,235	204
Amortization of acquired executory contracts		(412)	(822)	(136)
Deferred tax benefits	(11,684)	1,869	3,361	555
Allowance for doubtful accounts, net	14,626	(12,966)		
Asset impairment	333,934	3,360		
Change in fair value of contingent business acquisition consideration	232			
Changes in operating assets and liabilities net of effects of acquisition:				
Accounts receivable	(94,723)	9,870	(102,187)	(16,880)
Prepayments and other current assets	8,019	(12,622)	11,673	1,928
Inventories		(362)	(11,036)	(1,823)
Amounts due from related parties		(650)	(9,058)	(1,496)
Amounts due to related parties		5,109	(2,693)	(445)
Decrease (increase) of other non-current assets	(35,209)	2,889	7,025	1,160
Deposits for the purchases of land use rights		(25,451)	(27,427)	(4,531)
Accounts payable	(8,162)	(6,966)	48,646	8,036
Accrued expenses and other liabilities	4,689	(1,975)	36,966	6,106
Deferred revenue	(649)	(2,842)	(4,362)	(721)
Lease deposits	6,600			
Income tax payable	(4,465)	1,610	23,024	3,803
Unrecognized tax benefits	4,474	8,675	17,764	2,934
Net cash generated from operating activities	137,102	259,515	259,033	42,788
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of held to maturity securities	(100,466)		(30,000)	(4,956)

Maturity of held to maturity securities		100,466	30,000	4,956
Time deposits placed with banks (Maturity of the time deposit)	(50,372)	50,372		
Payments under arrangements with Beijing proton center	(3,000)			
Investments in equity method investees	(540)	(228,696)	(2,640)	(436)
Acquisitions, net of cash acquired (note 4)	(20,305)	(223,403)		
Purchase of subsidiary shares from noncontrolling interests			(1,500)	(248)
Acquisition of property, plant and equipment	(18,319)	(65,904)	(74,553)	(12,315)
Deposits for the purchases of property, plant and equipment	(239,247)	(218,833)	(85,448)	(14,115)
Refund of deposits for the purchase of property, plant and equipment			11,357	1,876
Proceeds from disposal of property, plant and equipment		4,707	6,500	1,074
Net investment in direct financing leases	(74,108)	(115,425)	(59,289)	(9,794)
Proceeds from principal portion of direct financing leases	11,490	37,426	47,319	7,817
Cash distribution from an equity investee			24,714	4,082
Net cash used in investing activities	(494,867)	(659,290)	(133,540)	(22,059)

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CONCORD MEDICAL SERVICES HOLDINGS LIMITED

CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

(Amounts in thousands of Renminbi (RMB) and US dollar (US$))

	For the Years Ended December 31			
	2011 RMB	2012 RMB	2013 RMB	2013 US$
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from short-term bank borrowings	45,000	258,083	190,692	31,500
Proceeds from long-term bank borrowings	142,500	518,749	407,969	67,392
Repayment of obligations under capital leases	(3,036)	(3,354)	(2,117)	(350)
Repayment of long-term bank borrowings	(62,316)	(112,554)	(302,058)	(49,896)
Repayment of short-term bank borrowings	(113,000)	(2,000)	(79,246)	(13,091)
Decrease (increase) in restricted cash	91,498	(259,523)	(138,093)	(22,811)
Dividends paid to ordinary shareholders	(55,151)			
Repurchase of ordinary shares	(6,911)	(43,469)	(6,015)	(994)
Contributions from noncontrolling interests	3,201			
Increase in loan to a noncontrolling interest of a subsidiary		(100,000)		
Repayment of loan from a noncontrolling shareholder of a subsidiary			6,590	1,089
Net cash generated from financing activities	41,785	255,932	77,722	12,839
Exchange rate effect on cash	(725)	147	4,436	734
Net (decrease) increase in cash	(316,705)	(143,696)	207,651	34,302
Cash at beginning of year	535,783	219,078	75,382	12,452
Cash at end of year	219,078	75,382	283,033	46,754
Supplemental schedule of cash flows information:				
Income tax paid	(58,024)	(50,474)	(6,318)	(1,044)
Interest paid	(6,454)	(16,255)	(37,527)	(6,199)
Supplemental schedule of non-cash activities:				
Acquisition of property, plant and equipment and other intangible assets through utilization of deposits	236,487	221,291	74,267	12,268
Acquisition of property, plant and equipment included in accrual for purchase of property, plant and equipment	2,890		9,050	1,495
Acquisition of net investment in financing lease through utilization of deposits		52,881	27,940	4,615
Consideration of acquisition of CAH due to effective settlement of preexisting balance as a result of the business combination (note 4)		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	4,204

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

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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, 2011	142,353,532	105		2,604,704	(14,835)	(384,883)	96,744	2,301,835
Net loss						(215,003)	3,651	(211,352)
Other comprehensive loss					(2,760)			(2,760)
Share-based compensation				9,234				9,234
Share repurchase	(949,935)		(1)	(6,910)				(6,911)
Dividends				(55,151)				(55,151)
Contributions by noncontrolling interests of GZ Proton (note 1)							3,201	3,201
Balance as of December 31, 2011	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,	135,487,408	105	(5)	2,517,496	(16,955)	(469,055)	308,324	2,339,910

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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, 2013	135,487,408	105	(5)	2,517,496	(16,955)	(469,055)	308,324	2,339,910
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)		(0)	(6,015)				(6,015)
Acquisition of noncontrolling interest of JWYK (note 1)				53			(1,903)	(1,850)
Balance as of December 31, 2013	134,836,300	105	(5)	2,520,338	(15,283)	(383,162)	311,724	2,433,717
Balance as of December 31, 2013 (US$)		17	(1)	416,330	(2,522)	(63,294)	51,493	402,023

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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 and since June 2012, hospital operations following the acquisition of Chang an Hospital Co., Ltd (CAH) (note 4) in the People s Republic of China (PRC). The Group develops and operates its business through its subsidiaries. Details of the Company s subsidiaries as of December 31, 2013 are as follows:

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CONCORD MEDICAL SERVICES HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(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 (continued)

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
	February 21, 2008	PRC	100%	

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))				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

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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
Tianjin Kangmeng Radiology Equipment Management Co., Ltd. (TKM)	April 22, 2010	PRC	100%	Leasing of medical equipment and provision of management services
Xi AnWanjiehuaxiang Medical Technology Development Co., Ltd. (CCICC)	July 06, 2010	PRC	52%	Medical care co-operation with hospital
Shenzhen Lingdun Medical Investment & Management Co., Ltd. (XLD)	August 25, 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.
Guangzhou Jinkangshenyou Investment Co., Ltd. (JKSY)	August 12, 2010	PRC	100%	Leasing of medical equipment
Beijing Jinweiyikang Technology Co., Ltd. (JWYK)	April 26, 2012	PRC	100%	Medical information and technology services
CAH	December 31, 2002	PRC	52%	Hospital medical diagnosis service
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

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CONCORD MEDICAL SERVICES HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(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 (continued)

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, 2013, no services have been rendered as GZ Proton has not commenced operations.

On March 9, 2012, the Group acquired 100% of the equity interest in JKSY for a consideration of RMB3,500. The transaction was accounted for as an acquisition of assets as the assets acquired did not constitute a business.

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, 2013, the conditions have not been fulfilled.

On June 21, 2012, the Group acquired 52% of the equity interest in CAH. The acquisition was accounted for using the purchase method of accounting pursuant to ASC 805, *Business Combinations* (ASC 805).

On June 3, 2013, CCM (HK) was set up as a 100% owned subsidiary of Ascendium. It is an investment holding company and has no business operation of its own.

On August 13, 2013, CMS (USA) was set up as a 100% owned subsidiary of Ascendium. It is an investment holding company and has no business operation of its own.

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CONCORD MEDICAL SERVICES HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Amounts in thousands of Renminbi (RMB) and United States Dollar (US$),

except for number of shares and per share data)

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, recoverability of indemnification assets and the valuation of the Company s acquired equity investments. 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 and CMS (USA) 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 RMB6.0537 to US$1.00 on December 31, 2013 as published on the website of the Federal Reserve Board. No representation is made that the RMB amounts could have been, or could be, converted into US$ at such rate.

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CONCORD MEDICAL SERVICES HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Amounts in thousands of Renminbi (RMB) and United States Dollar (US$),

except for number of shares and per share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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).

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CONCORD MEDICAL SERVICES HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Amounts in thousands of Renminbi (RMB) and United States Dollar (US$),

except for number of shares and per share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 collectibility 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.

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CONCORD MEDICAL SERVICES HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Amounts in thousands of Renminbi (RMB) and United States Dollar (US$),

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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CONCORD MEDICAL SERVICES HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Amounts in thousands of Renminbi (RMB) and United States Dollar (US$),

except for number of shares and per share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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*	6-20 years	
Electronic and office equipment	5 years	5-10%
Motor vehicles	5 years	5-10%
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 6-20 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, 2011, 2012 and 2013 amounted to RMB724, RMB5,599 and RMB2,496 (US$412), 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. The Group has determined it has two reporting units, network business and hospital business, which are also its two operating segments. As of December 31, 2012 and 2013, the goodwill included in the consolidated balance sheets was related to the acquisition of CAH under the hospital business.

The goodwill testing utilizes a two-step impairment analysis annually as of December 31, whereby the Group compares the carrying value of each identified reporting unit to its fair value. If the carrying value of the reporting unit is greater than its fair value, the second step is performed, where the implied fair value of goodwill is compared to its carrying value. The Company adopted ASU No. 2011-08, *Intangibles Goodwill and Other* (ASU No. 2011-08), in 2012, pursuant to which the Company can elect to perform a qualitative assessment to determine whether the two-step impairment testing on goodwill is necessary.

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CONCORD MEDICAL SERVICES HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Amounts in thousands of Renminbi (RMB) and United States Dollar (US$),

except for number of shares and per share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill (continued)

The Company quantitatively assessed the goodwill for the hospital reporting unit for impairment as of December 31, 2013. The fair value of the reporting unit exceeded its carrying amount, and therefore goodwill related to the reporting unit was not impaired and the Company was not required to perform further testing.

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 ranging from 36 to 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.

In accordance with ASC 350, the Group was considered to be a single reporting unit for the year ended December 31, 2011. The Group assessed the fair value of the reporting unit as of December 31, 2011 by reference to the closing price of its publicly traded ADS on that date as well as an assumed control premium. Due to the decline of the price of the ADS during the year ended December 31, 2011, the assessed fair value was below the carrying value of the reporting unit as of year end. The Group then performed a hypothetical purchase allocation using the fair value of the reporting unit and determined that the goodwill was fully impaired. As a result, the Group recognized a goodwill impairment charge of RMB300,163 for the year ended December 31, 2011. For the years ended December 31, 2012 and 2013 the Company recorded impairment on goodwill amounting to nil and nil, respectively.

For the year ended December 31, 2011, the Company recorded impairment on goodwill, property, plant, and equipment, deposits for non-current assets and other current assets amounting to RMB300,163, RMB3,179, RMB20,679 and RMB9,913, respectively. For the year ended December 31, 2012, the Company recorded impairment on deposits for non-current assets amounting to RMB3,360. The total amount of impairment charge amounting to RMB333,934, RMB3,360 and nil, respectively for the years ended December 31, 2011, 2012 and 2013 is included in the caption of Asset impairment in the consolidated statements of comprehensive income.

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CONCORD MEDICAL SERVICES HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Amounts in thousands of Renminbi (RMB) and United States Dollar (US$),

except for number of shares and per share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. The Company did not have any financial investments that were measured at fair value on a recurring basis or non-recurring basis as at December 31, 2012 and 2013. 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.

Revenue recognition

Revenue consists of network and hospital revenue.

(1) Network revenue

The majority of the Group s network 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 6 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.

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CONCORD MEDICAL SERVICES HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Amounts in thousands of Renminbi (RMB) and United States Dollar (US$),

except for number of shares and per share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

(1) Network revenue (continued)

i. Lease and management services (continued)

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, 2011, 2012 and 2013, the revenue from lease and management services amounted to RMB380,457, RMB412,330 and RMB498,556 (US$82,356), respectively. Revenue derived from lease and management services is recorded as network revenue in the consolidated statements of comprehensive income.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

(1) Network revenue (continued)

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, 2011, 2012 and 2013, revenue from management services amounted to RMB33,584, RMB11,874 and RMB15,723 (US$2,597), respectively. For the years ended December 31, 2011, 2012 and 2013, the revenue from technical services amounted to RMB2,854, RMB10,178 and RMB13,243 (US$2,188), respectively. Revenue derived from management services and technical services is recorded as network revenue in the consolidated statements of comprehensive income.

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, 2011, 2012 and 2013, the Company had financing lease income of RMB9,224, RMB19,748 and RMB33,639 (US$5,556), net of taxes, respectively. Income derived from direct financing leases is recorded as network revenue in the consolidated statements of comprehensive income.

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, 2011, 2012 and 2013, the Company had medical equipment sales of RMB1,634, RMB1,520 and RMB1,963 (US$324), respectively. Revenue derived from medical equipment sales is recorded as network revenue in the consolidated statements of comprehensive income.

v. Trial operations of CCICC

Pursuant to the supplemental agreement entered into between the Group and CAH, CCICC recognized revenue amounting to RMB23,742 and RMB9,935, respectively, for the years ended December 31, 2011 and 2012 in relation to the operations of the oncology center of CAH during the trial period from July 1, 2010 to the acquisition date of CAH. Following the acquisition of CAH, the results of CAH have been subject to consolidation by the Group and no such revenue was recognized for the year ended December 31, 2013.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

(2) Hospital revenue

Hospital revenue is classified into medicine income and medical service income. Medicine income includes medicine prescribed to patients during or after treatment by the doctors. Medical service income include revenue generated from outpatients, which mainly consist of activities for physical examination, treatment, surgeries and tests, as well as that generated from inpatients, which mainly consist of activities for clinical examination and treatment, surgeries, and other fees such as room charges and nursing care. Revenue is recognized, in accordance with SAB 104, when the medicine or medical services are delivered.

The Group is subject to business tax, value-added tax and related surcharges on the revenue earned from network businesses except for that disclosed in note 22. The Group has recognized revenues net of these taxes and related surcharges. Such taxes and related surcharges for the years ended December 31, 2011, 2012 and 2013 were approximately RMB23,196, RMB22,455 and RMB25,874 (US$4,274), respectively. In the event that revenue recognition is deferred to a later period, the related tax and other surcharges are also deferred and will be recognized only upon recognition of the deferred revenue.

Cost of revenue

Cost of revenues primarily consists of the network and hospital costs.

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.

Hospital costs mainly include medicine costs, medical consumables, labor costs of doctors, nurses and other staff involved in the care or treatment of patients, depreciation, utilities as well as other related costs incurred in the normal business of a hospital.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2011, 2012 and 2013, the advertising expenses were RMB6,917, RMB5,790, and RMB7,679 (US$1,268), 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.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income taxes (continued)

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.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income (loss) per share

Income (loss) per share is computed in accordance with ASC 260, *Earnings Per Share* (ASC 260). Basic income (loss) per ordinary share is computed by dividing income (loss) attributable to holders of ordinary shares by the weighted average number of ordinary shares outstanding during the period. Diluted income (loss) per ordinary share reflects the potential dilution that could occur if securities or other contracts to issue ordinary shares were exercised or converted into ordinary shares. The dilutive effect of outstanding share-based awards is reflected in the diluted income (loss) per share by application of the treasury stock method.

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 (loss) includes net income (loss) and foreign currency translation adjustments and is presented in the consolidated statement of comprehensive income. The Company has adopted Accounting Standards Update (ASU) No. 2011-05 (ASU 2011-05), *Comprehensive Income (Topic 220), Presentation of Comprehensive Income*, in the year ended December 31, 2012 by presenting items of net income (loss) and other comprehensive income (loss) in one single continuous statement.

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. The CODM reviews the results of the network and hospital businesses when making decisions about allocating resources and assessing performance of the Group. Therefore, the Group s CODM evaluates segment performance based on revenues and profit by the network and hospital segments. The accounting policies used in its segment reporting are the same as those used in the preparation of the Group s consolidated financial statements. Substantially all of the group s revenue and long lived assets (mainly include property, plant and equipment) are derived from the PRC.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Recent accounting pronouncement

In March 2013, the FASB issued ASU No. 2013-05 (ASU 2013-05), *Parent s Accounting for the Cumulative Translation Adjustment upon De-recognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity*, which is intended to resolve the diversity in practice about whether ASC 810-10, *Consolidation* (ASC 810-10) or ASC 830 applies to the release of the cumulative translation adjustment into net income when a parent either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights) within a foreign entity by requiring a parent deconsolidate a subsidiary or derecognize a group of assets that is a nonprofit activity or a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights) if the parent ceases to have a controlling financial interest in that group of assets. This standard is effective for the first interim or annual period beginning after December 15, 2013, with early adoption permitted. The Group will adopt ASU 2013-05 on January 1, 2014 and does not expect the adoption to have a material impact on its consolidated financial statements.

In July 2013, the FASB issued ASU No. 2013-11 (ASU 2013-11), *Income Taxes (Topic 740),* to provide guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, similar tax loss, or tax credit carryforward exists. This ASU requires an unrecognized tax benefit, or a portion of an unrecognized tax benefit, to be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, with certain exceptions. The modifications to ASC 740 resulting from the issuance of ASU 2013-11 are effective for fiscal years beginning after December 15, 2013 and interim periods within those years. Early adoption is permitted. The Group will adopt ASU 2013-11 on January 1, 2014 is currently evaluating the impact on its consolidated financial statements of adopting this guidance.

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 and loan to a noncontrolling shareholder of a subsidiary. The maximum exposure of such assets to credit risk is their carrying amounts as of the balance sheet dates.

As of December 31, 2013, 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 for the network business and from private and public medical insurance institutions for the hospital business. 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. As a percentage of total advances, the top five suppliers accounted for 72% and 80% of the total as of December 31, 2012 and 2013, respectively. 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.

CAH was granted a bank term loan and on lent the proceeds to Xi an New Chang an Medical Investment Co., Ltd. (New Chang an), a noncontrolling shareholder of CAH. The outstanding amount was RMB93,410 (US$15,430) as of December 31, 2013. The bank term loan was secured by the 48% equity interest in CAH held by New Chang an pledged to the bank.

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3. CONCENTRATION OF RISKS (continued)

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 33%, 23% and 24% for the years ended December 31, 2011, 2012 and 2013, 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 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 82%, 73% and 79% of total medical equipment purchases of the Group for the years ended December 31, 2011, 2012 and 2013, 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.

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4. ACQUISITIONS

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.

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4. ACQUISITIONS (continued)

For the year ended December 31, 2012 (continued)

***Acquisition of CAH* (continued)**

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 RMB10,043 with the remaining RMB164,533 pending approval. Accordingly, the indemnification assets decreased to RMB59,518 (US$9,832) 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 CCICC in 2010. This Put Option will expire after 39 months from the date on which the Company legally becomes a shareholder of CAH. Based on the Company s assessment, the fair value of the Put Option was immaterial considering the likelihood of exercising the option and the corresponding expected benefits.

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.

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4. ACQUISITIONS (continued)

For the year ended December 31, 2012 (continued)

***Acquisition of CAH* (continued)**

The following unaudited pro forma consolidated financial information for the years ended December 31, 2011 and 2012 are presented as if the acquisition had occurred at the beginning of the periods presented. These pro forma results have been prepared for comparative purposes only and do not purport to be indicative of what operating results would have been had the acquisition actually taken place on the date indicated.

	Pro forma (unaudited) For the Years Ended December 31,	
	2011 RMB	2012 RMB
Net revenues	653,335	812,178
Net (loss) income	(433,493)	117,104

The results of operations of CAH since the acquisition date included in the consolidated statement of comprehensive income for the year ended December 31, 2012 is as follows:

	For the Years Ended December 31, 2012 RMB
Net revenues	197,309
Net income	13,036

For the year ended December 31, 2011

Acquisition of a medical center in Chengdu Military Hospital

In order to expand the Group s network in cancer radiotherapy and diagnosis, on January 10, 2011, the Group acquired certain medical equipment and the related business located in Chengdu Military Hospital in Chengdu, PRC from a third party for a cash consideration of RMB18,000. These acquired assets and activities were considered to constitute businesses in accordance with ASC 805.

The Group, with the assistance of an independent appraiser, determined the fair value of the intangible assets to be approximately RMB7,963. The Company amortizes acquisition related intangible assets on a straight basis over their estimated economic lives.

Unaudited pro forma consolidated financial information has not been provided due to the overall insignificance of the acquisition relative to the Company s results of operations and financial condition. The results of the operations have been included in the Company s consolidated financial statements since consummation of the acquisition.

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4. ACQUISITIONS (continued)

For the year ended December 31, 2011 (continued)

Acquisition of a medical center in Chengdu Military Hospital (continued)

The purchase price allocation for the acquisition is primarily based on valuations determined by the Group with the assistance of an independent appraiser. The purchase price was allocated to net assets acquired at estimated fair value as follows:

	RMB
Current assets	3,465
Property, plant and equipment	6,600
Contract with hospitals	7,963
Deferred tax assets	1,984
Deferred tax liabilities	(2,012)
Total purchase price allocated	18,000
Cash consideration	18,000

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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 (note 16).

6. ACCOUNTS RECEIVABLE

	As at December 31,		
	2012 RMB	2013 RMB	2013 US$
Accounts receivable	213,398	317,000	52,364
Allowance for doubtful accounts	(3,091)	(3,091)	(510)
Accounts receivable, net	210,307	313,909	51,854

	For the Years Ended December 31,			
	2011 RMB	2012 RMB	2013 RMB	2013 US$
Movement in allowance for doubtful accounts:				
Balance at beginning of the year	1,431	16,057	3,091	510
Provisions for the year	15,377			
Written back during the year	(751)	(12,966)		
Balance at end of the year	16,057	3,091	3,091	510

Accounts receivable with carrying value of RMB65,450 and RMB49,481 (US$8,174) were used to secure bank borrowings of RMB261,051 and RMB136,626 (US$22,569) as at December 31, 2012 and 2013, respectively (note 16).

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7. PREPAYMENTS AND OTHER CURRENT ASSETS

Prepayments and other current assets consist of the following:

	As at December 31,		
	2012 RMB	2013 RMB	2013 US$
Prepayments to suppliers	769	1,141	188
Due from suppliers*	15,120	65,181	10,767
Advances to hospitals**	32,632	21,476	3,548
Advances to employees***	13,442	10,825	1,788
Deferred costs	6,200	6,200	1,024
Others	9,579	15,949	2,635
	77,742	120,772	19,950
Reserve for unrecoverable deposits	(10,270)	(9,292)	(1,535)
	67,472	111,480	18,415

	For the Years Ended December 31,		
	2012 RMB	2013 RMB	2013 US$
Movement in reserve for unrecoverable deposits:			
Balance at beginning of the year	10,619	10,270	1,696
Provisions for the year		1,533	253
Write off of provisions		(1,533)	(253)
Foreign currency translation	(349)	(978)	(161)
Balance at end of the year	10,270	9,292	1,535

Provisions are charged directly to the statement of comprehensive income. The related expense is included in the caption asset impairment .

* 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, 2012 and 2013, respectively. The risk of loss arising from non-performance by or bankruptcy of suppliers is assessed prior to the order of the equipment. To date, the Group has not experienced any loss on amounts due from suppliers.

** 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 Group has provided reserve amounting to RMB10,270 and RMB9,292 (US$1,535) on advances to hospitals as at December 31, 2012 and 2013, respectively.

*** 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.

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8. INVENTORIES

	As at December 31,		
	2012 RMB	2013 RMB	2013 US$
Medicine	6,385	12,255	2,024
Medical supplies	2,011	7,190	1,188
Low-value consumables	285	272	45
	8,681	19,717	3,257

The Group s inventories are mainly derived from hospital business which are returnable if excess or slowing moving, therefore no inventory provision is required.

9. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment consist of the following:

	As at December 31,		
	2012 RMB	2013 RMB	2013 US$
Buildings	376,858	402,671	66,516
Medical equipment	1,138,927	1,324,206	218,743
Electronic and office equipment	34,717	36,458	6,022
Motor vehicles	3,838	3,931	650
Leasehold improvement and building improvements	5,635	5,087	840
Construction in progress	247,708	116,445	19,235
Total	1,807,683	1,888,798	312,006
Less: accumulated depreciation	(281,584)	(393,046)	(64,927)
	1,526,099	1,495,752	247,079
Less: accumulated impairment charges	(3,179)	(3,179)	(524)

	1,522,920	1,492,573	246,555

Depreciation expenses were RMB94,837, RMB119,919 and RMB149,975 (US$24,774) for the years ended December 31, 2011, 2012 and 2013, respectively.

As at December 31, 2012 and 2013, certain of the Group s property, plant and equipment with a total net book value of RMB205,321 and RMB502,575 (US$83,020) were pledged as security for bank borrowings of RMB136,743 and RMB254,308 (US$42,009), respectively (note 16).

As at December 31, 2012 and 2013, the Group held equipment under operating lease contracts with customers with an original cost of RMB949,678 and RMB1,113,934 (US$184,009) and accumulated depreciation of RMB233,539 and RMB305,165 (US$50,410), respectively.

For the years ended December 31, 2011, 2012 and 2013, the Company recorded property, plant, and equipment impairment amounting to RMB3,179, nil and nil, respectively. The total amount of impairment charge is included in the caption of Asset impairment in the consolidated statements of comprehensive income.

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10. PREPAID LAND LEASE PAYMENTS

	As at December 31,		
	2012 RMB	2013 RMB	2013 US$
Prepaid land lease payments	92,814	145,692	24,067
Less: accumulated amortization	(2,690)	(5,491)	(907)
Net carrying value	90,124	140,201	23,160

The prepaid land leases as at December 31, 2012 were obtained through the acquisition of 52% equity interest in CCICC and 52% equity interest in CAH during 2010 and 2012, and are amortized under the straight-line method over remaining useful lives of 38 years and 36 years, respectively. The additions in 2013 represented the land lease prepaid by GZ proton in November 2013, which is amortized under the straight line method over 49 years. Amortization expenses for the years ended December 31, 2011, 2012 and 2013 were RMB743, RMB1,637 and RMB2,801 (US$463), 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$
2014	3,615	597
2015	3,615	597
2016	3,615	597
2017	3,615	597
2018	3,615	597

11. GOODWILL AND INTANGIBLE ASSETS, NET

Goodwill is comprised of the following:

For the Years Ended December 31,

	2011 RMB	2012 RMB	2013 RMB	2013 US$
Balance at beginning of year	300,163		292,885	48,381
Acquisition of CAH (note 4)		292,885		
Less: impairment charge	(300,163)			
Balance at end of year		292,885	292,885	48,381

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11. GOODWILL AND INTANGIBLE ASSETS, NET (continued)

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, 2012	121,644	7,374				129,018
Acquisition of an asset-JKSY	2,456					2,456
Contribution by the noncontrolling shareholder-JWYK					4,900	4,900
Acquisition of a business-CAH			30,000	10,000		40,000
Disposal	(1,204)					(1,204)
Amortization expenses	(24,117)	(1,837)	(1,500)	(714)	(490)	(28,658)
Intangible assets, net at December 31, 2012 and 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	75,880	4,176	25,500	7,857	3,430	116,843
Intangible assets, net at December 31, 2013, in US$	**$ 12,534**	**$ 690**	**$ 4,212**	**$ 1,298**	**$ 567**	**$ 19,301**
At December 31, 2013						
Intangible assets, cost	215,730	15,078	30,000	10,000	4,900	275,708
Less: accumulated amortization	(139,850)	(10,902)	(4,500)	(2,143)	(1,470)	(158,865)
	75,880	4,176	25,500	7,857	3,430	116,843

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11. GOODWILL AND INTANGIBLE ASSETS, NET (continued)

Amortization expenses for intangibles were RMB25,058, RMB28,658 and RMB29,669 (US$4,901) for the years ended December 31, 2011, 2012 and 2013, respectively. The estimated annual amortization expenses for the above intangible assets for each of the five succeeding years are as follows:

	Amortization	
	RMB	US$
2014	25,521	4,216
2015	23,824	3,935
2016	18,432	3,045
2017	16,774	2,771
2018	14,169	2,341

12. DEPOSITS FOR NON-CURRENT ASSETS

Deposits for non-current assets consist of the following:

	As at December 31,		
	2012	2013	2013
	RMB	RMB	US$
Deposits for purchases of property, plant and equipment *	159,890	73,621	12,161
Others **	29,600	29,600	4,890
	189,490	103,221	17,051
Reserve for unrecoverable deposits	(26,552)	(26,552)	(4,386)
	162,938	76,669	12,665

	For the Years Ended December 31,		
	2012	2013	2013

	RMB	RMB	US$
Movement in reserve for unrecoverable deposits:			
Balance at beginning of the year	23,192	26,552	4,386
Provisions for the year	3,360		
Balance at end of the year	26,552	26,552	4,386

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12. DEPOSITS FOR NON-CURRENT ASSETS (continued)

* 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, 2013 the remaining contractual obligations associated with these purchase contracts are approximately RMB21,054 (US$3,478) which is included in the amount disclosed as purchase commitments in note 26.

** 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, 2012 and 2013 pursuant to this arrangement amounted to RMB29,600 and RMB29,600 (US$4,890), respectively. As at December 31, 2013, 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 RMB20,679. RMB3,360 and nil based on its assessment of realizability and financial strength of the counterparties, for the years ended December 31, 2011, 2012 and 2013 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,		
	2012 RMB	2013 RMB	2013 US$
Total minimum lease payments to be received	321,614	396,734	65,536
Initial direct cost	3,963	3,963	654
	325,577	400,697	66,190
Unearned income	(64,581)	(72,416)	(11,961)
Net investment in direct finance leases	260,996	328,281	54,229

Current	89,451	128,814	21,279
Non-current	171,545	199,467	32,950
Total	260,996	328,281	54,229

Net investment in financing leases with carrying value of RMB215,910 and RMB321,602 (US$53,125) and were used to secure bank borrowings of RMB188,310 and RMB117,940 (US$19,482), as of December 31, 2012 and 2013, respectively (note 16).

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13. NET INVESTMENT IN DIRECT FINANCING LEASES (continued)

The future minimum lease payments to be received from such non-cancelable direct financing leases are as follows:

	Future minimum lease payments	
	RMB	US$
2014	136,486	22,546
2015	108,052	17,849
2016	95,317	15,745
2017	57,786	9,546
2018	3,057	505

14. EQUITY METHOD INVESTMENTS

As of December 31, 2012 and 2013, the network business of the Group had the following equity method investments:

		Equity interest owned by the Group As of December 31,	
	Note	2012	2013
Xi an Jiangyuan Andike Ltd(JYADK)	i)	33%	33%
Beijing Proton Medical Center Co. Ltd(BPC)	ii)	25%	25%
PTC Houston Management, LP(DTC)	iii)	45%	45%
Suzhou Chorus Medical Technologies Co., Ltd	iv)	36%	36%

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 RMB13,470 (US$2,193) for the year ended December 31, 2013. Total cash distribution received by the Group from PTC was RMB24,714 (US$4,082) for the year ended December 31, 2013.

iv) On December 17, 2012, the Group acquired 36% of Suzhou Chorus Medical Technologies Co., Ltd , for a consideration of RMB2,400.

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15. OTHER NON-CURRENT ASSETS

Other non-current assets consist of the following:

	As at December 31,		
	2012 RMB	2013 RMB	2013 US$
Deferred costs	2,363	740	122
Deposits long-term*	70,574	62,139	10,265
Deposits for prepaid land lease payments	25,451		
Others	16,370	23,968	3,959
	114,758	86,847	14,346

* On February 26 and March 8, 2010, the Group made interest-free performance security deposits amounting to RMB40,000 to Weifang Hospital, for management services to be rendered to Weifang PET-CT center (RMB30,000) and LAC center (RMB10,000), respectively. The deposit for PET-CT center is refundable in seven annual installments, of RMB3,000 each, starting in 2013, with the remaining RMB9,000 to be repaid at the end of contract term subject to the fulfillment of a profit guarantee under which Weifang Hospital is entitled to an annual profit of RMB3,000. The deposit for LAC center will be refundable at the termination of service contract. As at December 31, 2013, the outstanding balance was RMB37,000 (US$6,112).

On June 21, 2011, the Group made interest-free financing deposits amounting to RMB23,608 to Changhai Hospital, for a robotic radiosurgery system. The deposit for the center is refundable in monthly installments for the following 15 years. As at December 31, 2013, the outstanding balance was RMB19,529 (US$3,226).

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, 2013, the outstanding balance was RMB7,402 (US$1,222), in which the non-current balance amounted to RMB5,610 (US$927).

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16. BANK BORROWINGS

	As at December 31,		
	2012 RMB	2013 RMB	2013 US$
Total bank borrowings	875,457	1,086,248	179,436
Comprised of:			
Short-term	383,083	487,964	80,606
Long-term, current portion	191,473	273,310	45,148
	574,556	761,274	125,754
Long-term, non-current portion	300,901	324,974	53,682
	875,457	1,086,248	179,436

All bank borrowings at December 31, 2012 and 2013 were obtained from financial institutions in both the PRC and overseas. One short term bank borrowing with balance of RMB72,500 (US$11,976) 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 24). Other bank borrowings are secured by equipment with a net carrying value of RMB205,321 and RMB502,575 (US$83,020), accounts receivable with a carrying value of RMB65,450 and RMB49,481 (US$8,174), net investment in financing leases with carrying value of RMB215,910 and RMB321,602 (US$53,125) and total restricted cash with carrying value of RMB284,047 and RMB422,140 (US$69,733), as of December 31, 2012 and 2013, respectively.

As at December 31, 2012 and 2013, the short-term bank borrowing bore a weighted average interest of 4.72% and 4.64% per annum, and the long-term bank borrowings bore a weighted average interest of 6.07% and 6.02% per annum, respectively. As at December 31, 2013, bank borrowings amounting to RMB436,472 (US$72,100) (2012: RMB258,083) and RMB649,776 (US$107,336) (2012: RMB617,374) were denominated in US$ and RMB, respectively.

As of December 31, 2013, the maturity profile of these long-term bank borrowings are as follows:

	RMB	US$

Within one year	273,310	45,148
Between one and two years	221,046	36,514
Between two and three years	67,437	11,140
Between three and four years	31,227	5,158
Between four and five years	5,264	870
	598,284	98,830

As of December 31, 2013, the Company had unutilized short-term and long term bank credit lines totaling RMB260,965 (US$43,108) and RMB1,559,138 (US$257,551), respectively.

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16. BANK BORROWINGS (continued)

As of December 31, 2013, the Group was not in compliance with certain financial loan covenants and the respective cash loans would become callable on demand. In March 2014, the Company obtained a letter of waiver from the bank which waived the breach of such financial loan covenants. The related loan balances due after December 31, 2014 with a total amount of RMB143,507 (US$23,706) were classified as noncurrent liabilities as at December 31, 2013.

As of December 31, 2013, CAH was not in compliance with certain terms of a bank loan. The outstanding loan balance amounting to RMB72,500 (US$11,976) was classified as current liability as at December 31, 2013.

17. ACCRUED EXPENSES AND OTHER LIABILITIES

The components of accrued expenses and other liabilities are as follows:

	As at December 31,		
	2012 RMB	2013 RMB	2013 US$
Accrued expenses	7,856	14,424	2,383
Salaries and welfare payable	29,889	43,687	7,216
Business and other taxes payable	8,804	12,617	2,084
Unrecognized tax positions (note 26)	31,591	49,355	8,153
Other accruals	13,900	25,611	4,231
Notes payable		795	131
	92,040	146,489	24,198

18. OTHER LONG-TERM LIABILITIES

	As at December 31,		
	2012 RMB	2013 RMB	2013 US$

Deferred revenue, non-current portion	3,047	1,992	329
Lease deposits	2,000	2,000	330
Liability arising from an unfavorable contract*	29,199	28,377	4,688
Others	400	400	66
Total	34,646	32,769	5,413

* 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 (US$1,244). This contract had not been executed upon acquisition of CAH by the Group. The excess of the fair value of the prepaid land lease over the consideration was accounted for as an unfavorable contract. As of December 31, 2012 and 2013, the carrying value of related prepaid land lease was RMB36,622 and RMB35,591 (US$5,879), respectively. The Group does not expect the transaction to be completed in 2014.

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19. OBLIGATIONS UNDER CAPITAL LEASES

The Company had one capital lease obligation with an independent financing company, collateralized by medical equipment. The obligation had a stated interest rate of 9.96%, and was repayable in 20 monthly installments by August 2013. The obligations under the capital leases were fully settled in 2013.

As at December 31, 2012, the equipment held under capital lease contracts had an original cost of RMB17,124 and accumulated depreciation of RMB4,768. The depreciation expenses of medical equipment under capital leases were included in cost of revenues in the network business.

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20. 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 September 30, 2011, the board of directors paid a special dividend of US$0.06 per ordinary share to shareholders of record on August 31, 2011, amounting to US$8,541 in total.

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 RMB195,769 (US$32,361), based on the number of ordinary shares that were outstanding as of September 30, 2013 (note 31).

No other dividend has been declared for the years ended December 31, 2011, 2012 and 2013.

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21. 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, CCICC, GZ Proton, JKSY, CAH and CCM(HK) 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. XLD, JWYK and GZ Proton 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 RMB2,067,706 (US$341,561) (US$290,728) as of December 31, 2013.

22. 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.

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22. TAXATION (continued)

Enterprise income tax: (continued)

British Virgin Islands

Under the current laws of the British Virgin Islands, Ascendium, OMS and Proton BVI 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 passthrough 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. No provision for Texas profits tax has been made in the consolidated financial statements as the Company has no assessable profits for the year ended December 31, 2013.

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, 2013. 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 and CCM(HK) 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, 2013. 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%. Specifically, the applicable rates for AMT and MSC would be 24%, 25% and 25% for 2011, 2012, 2013 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.

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22. TAXATION (continued)

Enterprise income tax: (continued)

China (continued)

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 2013 remain subject to examination by the tax authorities.

(Loss) income before income taxes consists of:

	For the Years Ended December 31			
	2011 RMB	2012 RMB	2013 RMB	2013 US$
Non PRC	(31,701)	(22,250)	(24,037)	(3,971)
PRC	(133,331)	218,916	191,113	31,571
	(165,032)	196,666	167,076	27,600

The current and deferred components of the income tax (benefit) expense appearing in the consolidated statements of comprehensive income are as follows:

	For the Year Ended December 31			
	2011 RMB	2012 RMB	2013 RMB	2013 US$
Current tax expense	57,371	59,767	72,411	11,961
Deferred tax (benefit) expense	(11,051)	2,419	3,469	573
	46,320	62,186	75,880	12,534

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22. TAXATION (continued)

Enterprise income tax: (continued)

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,			
	2011 RMB	2012 RMB	2013 RMB	2013 US$
(Loss) income before income taxes	(165,032)	196,666	167,076	27,600
Income tax computed at the statutory tax rate of 25%	(41,258)	49,167	41,769	6,900
Effect of different tax rates in different jurisdictions	7,809	5,506	7,910	1,307
Goodwill impairment	75,041			
Non-deductible expenses	1,839	4,495	1,393	229
Effect of preferential tax rate	(1,699)			
Effect of tax rate changes	(168)			
Interests and penalties on unrecognized tax positions	4,756	7,515	9,822	1,622
Changes of valuation allowance		(4,497)	(921)	(152)
Withholding tax			15,907	2,628
	46,320	62,186	75,880	12,534

The reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	For the Years Ended December 31,		
	2012 RMB	2013 RMB	2013 US$
Balance at beginning of year	16,293	104,480	17,259
Additions based on tax positions related to the current year	8,483	19,182	3,169

Additions arising from business acquisitions	82,780		
Decrease related to prior year tax position	(3,076)	(22,177)	(3,663)
Balance at end of year	104,480	101,485	16,765

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22. TAXATION (continued)

Enterprise income tax: (continued)

At December 31, 2012 and 2013, there were RMB28,262 and RMB21,220 (US$3,505) of unrecognized tax benefits that if recognized would affect the annual effective tax rate. In addition, at December 31, 2012 and 2013, there were approximately RMB76,218 and RMB80,762 (US$13,341) 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. The Company recognized an increase amounting to RMB4,756, RMB30,922, RMB9,822 (US$1,622) in interest and penalties during the years ended December 31, 2011, 2012 and 2013, respectively. As of December 31, 2012 and 2013, the Company recognized RMB43,557 and RMB53,274 (US$8,800), respectively of interest and penalties.

The aggregate amount and per share effect of the tax holidays are as follows:

	For the Years Ended December 31,			
	2011 RMB	2012 RMB	2013 RMB	2013 US$
The aggregate amount	1,699			
-Basic	0.01			
-Diluted	0.01			

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22. TAXATION (continued)

Enterprise income tax: (continued)

The components of deferred taxes are as follows:

	As at December 31, 2013		
	2012 RMB	2013 RMB	2013 US$
Deferred tax assets, current portion			
Accrued expenses	8,746	10,860	1,794
Accounts receivable	177		
Allowance for doubtful accounts	46,565	46,565	7,692
Net of operating losses carry forward	2,846		
Deferred revenue, current	2,673	2,679	443
Others	433	1,223	202
	61,440	61,327	10,131
Valuation allowance	(42,363)	(46,611)	(7,700)
Net deferred tax assets, current portion	19,077	14,716	2,431
Deferred tax liabilities, current portion			
Deferred cost, current portion	(2,230)	(4,924)	(813)
Revenue generated from financing lease	(2,502)		
Total deferred tax liabilities, current portion	(4,732)	(4,924)	(813)
Deferred tax assets, current portion, net*	16,593	10,652	1,760
Deferred tax liabilities, current portion, net*	(2,248)	(860)	(142)
Deferred tax assets, non-current portion			

Depreciation and amortization	47,201	41,244	6,813
Deposits for non-current assets	5,548	5,548	916
Property plant and equipment impairment	795		
Intangible assets	265	1,132	187
Deferred revenue, non-current portion	715	498	82
Long term receivables	432	432	71
Long term investment impairment	10,204	10,204	1,686
Net operating loss**		6,555	1,083
Others	3,874	2,659	440
	69,034	68,272	11,278
Valuation allowance	(20,575)	(15,406)	(2,545)
Net deferred tax assets, non-current portion	48,459	52,866	8,733
Deferred tax liabilities, non-current portion			
Deferred costs	(3,991)	(19,253)	(3,180)
Intangible assets	(10,272)	(7,972)	(1,317)
Property, plant and equipment	(51,769)	(40,811)	(6,742)
Total deferred tax liabilities, non-current portion	(66,032)	(68,036)	(11,239)
Deferred tax assets, non-current portion, net ***	18,110	17,721	2,927
Deferred tax liabilities, non-current portion, net ***	(35,683)	(32,891)	(5,433)

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22. TAXATION (continued)

Enterprise income tax: (continued)

* As at December 31, 2012 and 2013, deferred tax assets, current portion of approximately RMB2,484 and RMB4,064 (US$671) 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, 2013, the Company had net operating losses from several of its PRC entities of RMB26,220, which can be carried forward to offset future taxable profit. The net operating loss carry forwards as of December 31, 2013 will expire in years 2017 to 2018 if not utilized.

*** As at December 31, 2012 and 2013, deferred tax assets, non-current portion of approximately RMB30,349 and RMB35,145 (US$5,806) 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:

	2012 RMB	2013 RMB	2013 US$
Balance at beginning of year		(62,938)	(10,396)
Acquisition of CAH	(67,435)		
Change of valuation allowance in the current year	4,497	921	151
Balance at end of year	(62,938)	(62,017)	(10,245)

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.

Undistributed earnings of certain of the Company s PRC subsidiaries amounted to approximately RMB893 million (US$147.6 million) at December 31, 2013. Those earnings are considered to be indefinitely reinvested; accordingly, no provision for income taxes has been provided thereon. Upon repatriation of those earnings, in the form of dividends or otherwise, the Company would be subject to PRC withholding taxes. Determination of the amount of unrecognized deferred income tax liability is not practicable.

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 RMB14,571 (US$2,407) have been provided under ASC 740-30, *Income Taxes: Other Consideration or Special Areas* as at 31 December 2013. No such provision was made as at 31 December 2012 due to the Company s intention and ability to reinvest the PRC subsidiaries earnings permanently.

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 RMB1,032 (US$171) as at December 31, 2013, and the related provision for withholding tax is RMB103 (US$17).

Undistributed earnings of the Company s subsidiaries in the U.S.A. that are available for distribution at December 31 2013 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 RMB4,110 (US$679) as at December 31, 2013, and the related provision for withholding tax is RMB1,233 (US$204).

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22. TAXATION (continued)

Value-added taxes

Generally revenue earned from the provision of leasing and management services is subject to 5% business tax or 6% value added tax (VAT) 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.

23. EMPLOYEE SHARE OPTIONS

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.

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 based on the following weighted average assumptions:

	September 30, 2011
Risk-fee interest rate	0.96%
Dividend yield	
Expected volatility range	43.98%
Expected term	5.25 years

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 assumed nil, although the Company paid a special dividend in 2011, the Company has not yet developed a long-term dividend policy and does not currently expect to pay dividends on its ordinary shares in the foreseeable future. The volatility assumption was estimated based on the price volatility of ordinary shares of comparable companies in the health care industry. The expected term of options granted in 2011 was calculated based upon the expected term of similar grants of comparable companies. 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.

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23. EMPLOYEE SHARE OPTIONS (continued)

The following table summarizes employee share-based awards activities for the year ended December 31, 2013:

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, 2013	4,643,734	US$ 3.55	US$ 1.25	5.05	
Forfeited					
Outstanding, December 31, 2013	4,643,734	US$ 3.55	US$ 1.25	4.05	
Vested and expected to vest at December 31, 2013	4,643,734	US$ 3.55	US$ 1.25	4.05	
Exercisable at December 31, 2013	4,376,820	US$ 3.55	US$ 1.25	4.05	

There were 1,338,876 and 266,914 nonvested share options as of January 1, 2013 and December 31, 2013, respectively. 1,071,962 share options vested during the year ended December 31, 2013. The weighted average grant date fair value is US$1.18.

The weighted-average grant-date fair value of share options granted for the years ended December 31, 2011, 2012 and 2013 are US$0.29, nil and nil respectively.

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, 2011, 2012 and 2013. The total intrinsic value of the options granted and exercised for the years ended December 31, 2011, 2012 and 2013 was nil for each year.

As of December 31, 2013, there was RMB207 (US$34) unrecognized share-based compensation cost related to share options. That deferred cost is expected to be recognized over a weighted-average vesting period of 1.75 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.

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23. EMPLOYEE SHARE OPTIONS (continued)

The share-based compensation expense of the share-based awards granted to employees for the years ended December 31, 2011, 2012 and 2013 is as follows:

	For the Years ended December 31,			
	2011 RMB	2012 RMB	2013 RMB	2013 US$
General and administrative expenses	6,876	6,776	6,541	1,080
Selling expenses	2,358	2,308	2,263	374
	9,234	9,084	8,804	1,454

24. 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
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, 2011, 2012 and 2013:

	For the Years Ended December 31,			
	2011	2012	2013	2013

	RMB	RMB	RMB	US$
Provision of medical services:				
Shaanxi Juntai		637	1,052	174
Loan to (repayment of a loan from) a noncontrolling shareholder of a subsidiary:				
New Chang an		100,000	(6,590)	(1,089)
Interest income				
New Chang an			7,839	1,295
Purchase of medical supplies:				
JYADK		5,249	805	133

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24. RELATED PARTY TRANSACTIONS (continued)

c) The balances between the Company and its related parties as of December 31, 2012 and 2013 are listed below:

	Note	As of December 31, 2012 RMB	2013 RMB	2013 US$
Due from related parties, current:				
New Chang an*			7,839	1,295
Shaanxi Juntai		1,200	2,426	401
		1,200	10,265	1,696
Loan to a noncontrolling shareholder of a subsidiary, current				
New Chang an*		100,000		
Loan to a noncontrolling shareholder of a subsidiary, non-current				
New Chang an*			93,410	15,430
Due to related parties, current				
JYADK		(4,410)	(1,717)	(283)
New Chang an**		(1,500)	(1,500)	(248)
		(5,910)	(3,217)	(531)
Due to related parties, non-current				
Shaanxi Juntai***		(19,301)	(19,301)	(3,188)
New Chang an**		(7,527)	(7,527)	(1,244)
		(26,828)	(26,828)	(4,432)

* The repayment terms of the loan to New Chang an are the same as the loan granted by a bank (note 16).

** The current balance due to New Chang an was related to building construction costs paid on behalf of CAH. The noncurrent balance represented an advance payment from New Chang an for the acquisition of the prepaid land lease from CAH (note 18).

*** According to the agreement between CAH and Shaanxi Juntai, the amount due to Shaanxi Juntai of RMB19,301 is interest free and will only be settled in 2015 pending the finalization of the outstanding balances among CAH, New Chang an and the related party.

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24. RELATED PARTY TRANSACTIONS (continued)

d) As at December 31, 2013, total loan balance due from New Chang an was RMB101,249 (US$16,725), of which RMB28,749(US$4,749) was overdue. Pursuant to an agreement entered with New Chang an related to the acquisition of CAH, New Chang an had agreed to grant CHM and Cyber, shareholders of CAH and wholly-owned subsidiaries of the Group a second pledge over its equity interest in CAH after the bank (the Second Pledge) over the loan to New Chang an (note 24). On April 24, 2014, the Group entered into a pledge agreement (the Pledge Agreement) and effected the Second Pledge to secure the loan to New Chang an. The registration of the Second Pledge has not been completed as at the date of this report as the bank is currently the first pledgee of such equity interest (the First Pledge). In the opinion of the Company s legal counsel, the Pledge Agreement is legally valid and binding as long as CHM and Cyber become the legal creditors and the Second Pledge is recorded in the share register of CAH. CHM and Cyber may apply for the registration of such Second Pledge with the relevant government authorities once the First Pledge is released. The Company considered the fair value of the 48% equity interest in CAH and concluded that the Second Pledge would be sufficient to cover the credit risk and exposure related to the outstanding loan balance. Therefore, the Company concluded that there was no impairment of the loan. The loan to New Chang an was classified as non-current assets as of December 31, 2013 based on the expected timing of repayment.

25. 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 RMB4,977 and RMB12,189 and RMB30,252 (US$4,997) for the years ended December 31, 2011, 2012 and 2013, 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 RMB97, RMB108 and RMB106 (US$18) for the years ended December 31, 2011, 2012 and 2013, respectively.

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26. 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, 2013:

	RMB	US$
2014	9,701	1,602
2015	5,473	904
2016	574	95
2017 and thereafter		
	15,748	2,601

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, 2011, 2012 and 2013, total rental expenses for all operating leases amounted to RMB6,232, RMB8,986 and RMB10,330 (US$1,706), respectively.

Purchase commitments

The Group has commitments to purchase certain medical equipment of RMB21,054 (US$3,478) at December 31, 2013, which are scheduled to be paid within one year.

Income taxes

As of December 31, 2013, the Group has recognized approximately RMB117,074 (US$19,339) as an accrual for unrecognized tax positions (note 22). 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. As of December 31, 2013, the Group classified the unrecognized tax positions of RMB49,355 (US$8,153) as current liabilities and RMB67,719 (US$11,186) as non-current liabilities.

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27. SEGMENT REPORTING

In accordance with 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. The Group s CODM evaluates segment performance based on revenues, cost of revenues and gross profit by segments. Prior to January 1, 2012, the Group consisted of only one segment relating to network business which mainly comprises leasing of medical equipment. On June 21, 2012, the hospital segment was added with the acquisition of the 52% equity interest in the CAH (note 4). The accounting policies used in its segment reporting are the same as those used in the preparation of the Group s consolidated financial statements. As 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.

The Group s segment information as of and for the years ended December 31, 2011, 2012 and 2013 is as follows:

	For the Years ended December 31,			
	2011 RMB	2012 RMB	2013 RMB	2013 US$
Net revenues				
Revenues from external customers:				
Network	450,125	465,040	563,124	93,021
Hospital		197,309	417,511	68,968
Total revenues from external customers	450,125	662,349	980,635	161,989
Intersegment revenues:				
Network		19,894	2,517	416
Total intersegment revenues		19,894	2,517	416
Total segment revenues	450,125	682,243	983,152	162,405
Reconciling item				
Elimination of intersegment revenues		(19,894)	(2,517)	(416)
Total revenues	450,125	662,349	980,635	161,989
Segment profit				
Network	(161,306)	180,631	148,509	24,532
Hospital		25,922	32,221	5,323

Total segment profit	(161,306)	206,553	180,730	29,855
Foreign exchange losses, net	(10,975)	(101)	767	127
Interest income	13,357	5,895	17,712	2,926
Interest expense	(6,454)	(16,255)	(47,027)	(7,768)
Loss from disposal of property, plant and equipment		(1,072)	(1,235)	(204)
Share of net profit of equity investees		1,790	15,521	2,564
Other expenses (income) , net	346	(144)	608	100
(Loss) income before taxes	(165,032)	196,666	167,076	27,600

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27. SEGMENT REPORTING (continued)

	As at December 31,		
	2012 RMB	**2013 RMB**	**2013 US$**
Segment assets			
Network	2,970,788	3,431,560	566,854
Hospital	750,020	700,344	115,689
Total segment assets	3,720,808	4,131,904	682,543
Reconciling item			
Intersegment elimination	(55,588)	(38,347)	(6,334)
Total assets	3,665,220	4,093,557	676,209

	For the Years ended December 31,			
	2011 RMB	**2012 RMB**	**2013 RMB**	**2013 US$**
Expenditures for additions to long-lived assets				
Network	267,645	284,803	134,150	22,160
Hospital		112,825	57,739	9,538
Intersegment elimination		(57,140)		
Total expenditure for additions to long-lived assets	267,645	340,488	191,889	31,698
Depreciation and amortization expenses				
Network	119,895	133,996	139,764	23,088
Hospital		16,218	42,681	7,050
Total depreciation and amortization expenses	119,895	150,214	182,445	30,138
Impairment loss of long-lived assets and goodwill				
Network	(333,934)	(3,360)		
Hospital				
Total impairment loss	(333,934)	(3,360)		

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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28. (LOSS) INCOME PER SHARE

Basic and diluted (loss) income per share for each of the periods presented is calculated as follows:

	For the Years Ended December 31,			
	2011 RMB	2012 RMB	2013 RMB	2013 US$
Numerator:				
Net (loss) income attributable to ordinary shareholders used in calculating (loss) income per ordinary share basic and diluted	(215,003)	130,831	85,893	14,190
Denominator:				
Weighted average number of ordinary shares outstanding used in calculating basic and diluted (loss) income per share	142,251,454	138,211,177	135,077,172	135,077,172
Basic and diluted (loss) income per share	(1.51)	0.95	0.64	0.11

The share options were not included in the calculation of diluted (loss) income per share under the treasury stock method for the years ended December 31, 2011, 2012 and 2013, because their exercise prices were greater than the average fair value of the ordinary shares and, therefore, the effect would be anti-dilutive.

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CONCORD MEDICAL SERVICES HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Amounts in thousands of Renminbi (RMB) and United States Dollar (US$),

except for number of shares and per share data)

29. 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 805, the Group remeasured a contingent business acquisition consideration at fair value as at December 31, 2011, on recurring basis using significant unobservable inputs (Level 3) which was valued using the income approach based on benchmarking lending interest rate at 6.66%. The contingent business acquisition consideration was settled against the account receivable of RMB10,566 during the year ended December 31, 2012 in connection with a netting agreement entered into with the previous shareholder of a wholly owned subsidiary. The gain from the netting arrangement of RMB1,433 is recorded as Other operating income in the statements of comprehensive income.

The following table presents a reconciliation of the contingent business acquisition consideration measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended December 31, 2012 and 2013:

	For the Years Ended December 31,		
	2012	2013	2013
	RMB	RMB	US$

Balance as of January 1,	11,999
Settlement through netting with receivables	(11,999)
Balance as of December 31,	

There were no assets or liabilities subject to fair value measurement on a recurring or non-recurring basis as of December 31, 2012 and 2013.

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CONCORD MEDICAL SERVICES HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Amounts in thousands of Renminbi (RMB) and United States Dollar (US$), except for number of shares and per share data)

30. PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION

Condensed balance sheets

	As at December 31		
	2012 RMB	2013 RMB	2013 US$
ASSETS			
Current assets:			
Cash	7,301	195,038	32,218
Amounts due from subsidiaries	411,919	386,909	63,913
Total current assets	419,220	581,947	96,131
Non-current assets:			
Investment in subsidiaries	1,945,280	2,063,610	340,886
Total assets	2,364,500	2,645,557	437,017
LIABILITIES AND SHAREHOLDERS EQUITY			
Current liabilities:			
Short-term bank borrowings	205,593	390,464	64,500
Accrued expenses and other liabilities	4,453	6,421	1,061
Amounts due to subsidiaries	122,868	126,679	20,926
Total current liabilities	332,914	523,564	86,487
Total liabilities	332,914	523,564	86,487
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, 2012 and 2013; outstanding shares 135,487,408 and 134,836,300 as of December 31, 2012 and 2013, respectively)	105	105	17
Treasury stock (6,866,124 and 7,517,232 as of December 31, 2012 and 2013, respectively)	(5)	(5)	(1)

Additional paid-in capital	2,517,496	2,520,338	416,330
Accumulated other comprehensive loss	(16,955)	(15,283)	(2,522)
Accumulated deficit	(469,055)	(383,162)	(63,294)
Total shareholders equity	2,031,586	2,121,993	350,530
Total liabilities and shareholders equity	2,364,500	2,645,557	437,017

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CONCORD MEDICAL SERVICES HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Amounts in thousands of Renminbi (RMB) and United States Dollar (US$), except for number of shares and per share data)

30. PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION (continued)

Condensed statements of comprehensive income

	For the Years Ended December 31			
	2011 RMB	2012 RMB	2013 RMB	2013 US$
Revenues				
Cost of revenues				
General and administrative expenses	(30,561)	(19,879)	(24,028)	(3,969)
Selling expenses	(2,298)	(2,296)	(2,231)	(369)
Operating loss	(32,859)	(22,175)	(26,259)	(4,338)
Equity in (loss) profit of subsidiaries	(184,276)	152,691	110,749	18,294
Interest income	2,132	307	1	1
Exchange gain		8	1,402	233
Net income	(215,003)	130,831	85,893	14,190
Net income attributable to ordinary shareholders	(215,003)	130,831	85,893	14,190
Other comprehensive income, net of tax of nil				
Foreign currency translation adjustments	(2,760)	640	1,672	276
Total other comprehensive income	**(2,760)**	**640**	**1,672**	**276**
Comprehensive income	**(217,763)**	**131,471**	**87,565**	**14,466**

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CONCORD MEDICAL SERVICES HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Amounts in thousands of Renminbi (RMB) and United States Dollar (US$), except for number of shares and per share data)

30. PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION (continued)

Condensed statements of cash flows

	For the Years Ended December 31			
	2011 RMB	2012 RMB	2013 RMB	2013 US$
Net cash used in operating activities	(8,418)	(11,493)	(17,599)	(2,907)
Net cash provided (used in) by investing activities	8,108	(153,651)	20,827	3,441
Net cash provided (used in) by financing activities	879	163,177	187,455	30,965
Exchange rate effect on cash	266	399	(2,946)	(487)
Net increase (decrease) in cash	835	(1,568)	187,737	31,012
Cash at beginning of the year	8,034	8,869	7,301	1,206
Cash at end of the year	8,869	7,301	195,038	32,218

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.

31. SUBSEQUENT EVENT

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 RMB195,769 (US$32,361), based on the number of ordinary shares that were outstanding as of September 30, 2013.